

State of New Jersey

The Governor's FY 2015 Budget Detailed Budget



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February 25, 2014



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July 1, 2013

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The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the State of New Jersey, for the Annual Budget beginning July 01, 2013.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

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Governor's Message

**CHRIS CHRISTIE
GOVERNOR OF NEW JERSEY
TRANSMITTED TO THE FIRST ANNUAL SESSION
OF THE TWO HUNDRED AND SIXTEENTH LEGISLATURE
FEBRUARY 25, 2014**

Lieutenant Governor Guadagno, Speaker Prieto, President Sweeney, members of the Legislature, fellow New Jerseyans: I am pleased to present to you my Budget for Fiscal Year 2015. This is the fifth time I have come before this Legislature to deliver a budget message. It is one of the most important obligations of any governor.

Today, I present to you a budget that is balanced, and, for the fifth year in a row, requires no new taxes on the people of New Jersey. Total spending in this budget for the next fiscal year is \$34.4 billion, with a responsible surplus of over \$300 million.

Here is more important news. This budget, when you take out pension and health care costs and debt service, is \$2.2 billion smaller than Fiscal Year 2008. Over the last five years, we have cut discretionary spending by \$2.2 billion. This has truly been an era of fiscal restraint.

But even with strong fiscal restraint, we continue to fund what matters most to New Jerseyans: the budget proposes making the largest pension payment ever at \$2.25 billion. This is an increase of almost \$670 million from last year. This budget is faithful to the bipartisan pension legislation we enacted together. How groundbreaking is a \$2.25 billion payment in one budget? That payment is nearly the equivalent of the total payments made in the ten years before we arrived by five different governors. We've kept faith with our pensioners.

The budget I put before you today provides the most funding in New Jersey history for education for a fourth year in a row -- we are committing more than \$12.9 billion. We are providing a record-setting \$9 billion in direct aid to schools, nearly \$40 million more than the previous year. And we will ensure that every one of our nearly 600 school districts receives an increase, helping districts to implement the new Common Core Standards.

In my State Of The State Address, I proposed that we explore increasing the length of both the school day and the school year to boost our competitiveness. This budget includes \$5 million for a new Education Innovation Fund -- a competitive "Race to the Top" style program, which will call on school districts to put forward proposals for the best way to implement approaches to increase students' learning time. We can then scale the most effective approaches on a state-wide basis.

The budget includes an additional \$5 million to support preschool initiatives in New Jersey. This brings the total aid to preschool education in the state to \$653 million, which supports pre-K education for more than 53,000 students in 143 districts. And importantly, the budget includes funding to continue the path of education reform on which we have set out together. I am proposing increasing funding for the Interdistrict Public School Choice Program by \$4.8 million to almost \$54 million, and protecting \$12 million in charter school funding.

In higher education, the voters of New Jersey in 2012 approved a new \$750 million bond issue to help build, equip and expand our colleges and universities. Those bonds will support 176 projects on 46 campuses around New Jersey. Over \$100 million in bonds have already been issued -- so we can get started right away.

This budget includes a total of \$2.3 billion for higher education, an increase of \$159 million, or almost 8%, above last year. The largest increases will cover debt service on the "Building our Future" bonds and related bond programs which will provide additional fringe benefit support for more than 22,000 faculty and staff for New Jersey's senior public institutions -- our state colleges and universities. The budget also includes an increase of \$14 million for tuition assistance grants. This comes on top of the \$47 million increase in TAG grants that we have provided over the past two years to expand resources for students in need who want to attend college.

When it comes to our taxpayers, this budget delivers more than \$1.2 billion in direct property tax relief to New Jersey homeowners, seniors, and disabled residents. This budget also helps create a level playing field for our middle-class taxpayers, closing corporate loopholes to promote tax fairness. At the same time, the budget includes an increase of over \$600 million in tax relief for New Jersey businesses, representing the fourth year of the phase-in of business tax cuts that will make New Jersey more competitive and create jobs.

Finally, the budget enables us to provide vital support for programs that help our citizens when they need it most: an additional \$4.5 million in funding to expand New Jersey's mandatory drug court program and funding for an innovative substance abuse treatment program that integrates employment services.

While this budget continues the fiscal discipline and pro-growth policies that we brought to Trenton four years ago, the budget doesn't do everything we all might have wanted. Not even close. Even though this \$34.4 billion budget represents an increase of 3.5% over what we spent last year, 94% of that increase -- virtually all of it -- is taken up by three things: pensions, health benefits, and debt. Nine out of every 10 dollars of new spending this year goes to fund these three entitlements. Just these three things. The looming crisis is clear.

GOVERNOR'S MESSAGE

Due to our pension, health benefit, and debt obligations, only 6% of new spending can be focused on the areas where we really want to dedicate our resources: education, tax relief, public safety, higher education, drug rehabilitation, health care. We are in danger of having these costs overwhelm our budget, monopolize our resources, and threaten our ability to continue to fund the priorities we care about most. This is the challenge we are currently facing even though we have confronted this challenge before.

Four years ago, our state was nearly bankrupt. The budget was in deficit. We were weeks away from being unable to meet the state's payroll. We had borrowed as much as we could. The state's debt had increased tenfold in the prior two decades. Taxes had been raised over and over, and people and businesses were voting with their feet. Seventy billion dollars in wealth had left the state in the prior five years according to an independent study by Boston College. The unemployment rate had doubled in the prior four years. We knew we had to fundamentally reform the way things work. The problem we were facing was systemic.

So together, we made the choice to touch the third rail of politics and do what everyone else said was impossible. We chose to do what was hard and politically unsafe by putting the future of our state and the prosperity of our people first. Together, we worked to achieve a sweeping, bipartisan plan to deal with our state's pension and benefit system. We raised the ages of early and regular retirement for the pension systems, increased employee contributions, ended mandated cost-of-living adjustments until funds are healthy, and are better managing the individual pension systems while mandating a healthy level of funding for each system that cannot be violated once it is reached.

We did this while still keeping our promise to the people -- making the largest state payment to the pension fund in history -- \$2.25 billion. Remember, in the ten years before we arrived in office, governors of both parties put a total of \$2.4 billion into the pension program. In our five years in office, half the time, we have put more than double that in the pension program -- \$5.3 billion. The reforms we enacted together are going to save New Jersey's state and local governments \$122 billion in the 30 years from 2011 to 2041. Together, we are cleaning up the mess of the past. But this simply is not enough.

While New Jersey's economy has been improving and revenue has increased by nearly 20% from Fiscal Year 2012 to Fiscal Year 2015, it is impossible for any economy to grow at the rate needed to cover our ever mounting pension, health, and debt service costs. More than 60% of the increased revenue during that time is being eaten up by these costs. On the spending side, outside of pension, health, and debt service, our discretionary spending is actually 2.2 billion dollars lower in this budget than it was seven years ago.

Five years of fiscal restraint and common sense have led us to significantly smaller government without sacrificing the quality of services we provide. Now, there will be some that would advocate that the answer is to raise taxes. Not only is this an unfair solution, but it isn't really a solution at all. We just can't raise taxes enough to pay for the exploding costs of public employee pensions and benefits. Not to mention the burden it would place on our already overburdened taxpayers.

Though the historic 2011 reforms we enacted together immediately reduced New Jersey's state and local unfunded pension liabilities by 32%, it just doesn't go far enough. Without additional reforms, New Jersey taxpayers still owe \$52 billion to fully fund the pension system. With our long-term obligations only set to increase in the coming years, the problem isn't going away by itself. We must do what we were sent here to do by the people -- lead and act decisively once again. The reality is that the aggressive reforms we enacted together have only bought us time.

And New Jersey is not alone in facing these twin dilemmas. Look around us. In the newspapers, we read about the bankruptcy of the city of Detroit. Detroit reportedly had \$11 billion in debt, and \$2 billion in cash. But here is what the debt was composed of: \$6.5 billion, or more than half, in retiree health benefits; \$3 billion in retiree pension obligations; and \$530 million of general obligation debt -- against \$2 billion of cash. The problem for Detroit was poor management and an explosion of employee health and pension costs for promises made by politicians that they knew they could not keep.

This is the problem across the country. It squeezes out other essential functions of government: public safety, education, higher education and research. In California, the newspapers report that funding for the University of California, one of the world's great research universities, declined by 27% in four years. Tuition went up more than 60% in three years as well. Despite this pain and loss, politicians refused to reform pensions and health care benefits and allowed our students to suffer instead.

Across the country, we are sacrificing university research, support for K-12 education, funding for the environment and energy and infrastructure of all kinds on the altar of these three things: pensions, health costs, and debt.

We have made investments in this budget, but they are constrained. We have provided for some key investments this year, but as time goes on, pension payments will take a larger and larger share of the budget. An astounding 78% of this year's \$2.25 billion payment goes to making up for the legacy of years of irresponsibility from governors and legislatures who paid little or nothing into the system. We are paying today for their past sins.

So let us pause today, and plan not to repeat those sins. Let us remember the difficult choices we made together and choose to go further. We have done it before and we must do it again. Our children are counting on us to not shrink from this responsibility. We know these tough decisions and common sense reforms work. We are surrounded by examples of how our hard work over the last four years is yielding benefits for our taxpayers.

The latest actuarial reports have now shown that the bipartisan 2% property tax cap we enacted, the pension funds' solid investment performance, and our agreement to increase the state's pension payment have combined to cut local governments' future pension bills. Additionally, local pension payments can be reduced by \$135 million this year.

We shouldn't stop there. It is time to consolidate our more than 600 units of local and county governments to share services, increase efficiencies, and pass on savings to the taxpayer. In this budget, I am proposing \$8.5 million to reimburse local governments engaged in consolidation and shared services.

I once again call on this Legislature to pass the remaining components of the property tax "tool kit" to bring more property tax savings to local taxpayers. I have put 20 bills before you. You have passed six. It is time to pass the other 14.

The other area we can innovate is health care – specifically Medicaid, Family Care, and those programs designed to help provide health care for those in need. I am proud to have made the decision to expand Medicaid and provide greater access to healthcare for New Jerseyans in need. But greater access necessitates larger reforms as well.

This year, New Jersey will spend over \$12 billion in federal and state funds on Medicaid and Family Care to cover 1.4 million people in the state -- children, senior citizens, those with disabilities, and some newly eligible adults.

By opting for Medicaid expansion, New Jersey will receive more than \$100 million in additional federal funding, while at the same time, beginning to reform Medicaid to make it possible for more individuals to live in their communities. My philosophy is to allow older New Jerseyans to maintain their independence and receive care in the community for as long as possible. This means better and more affordable care.

We have also secured a Medicaid waiver, which allows us to put this philosophy into action by pursuing a managed care approach in which home and community-based care are emphasized. At the same time, we are looking at ways we can innovate to provide the best health care services for those who rely on these programs the most while also reining in escalating health care costs.

The highest costs in Medicaid and Family Care come from individuals with chronic emergency room visits, repeat inpatient stays, and those who face complex medical conditions. More than 16,000 Medicaid recipients visited emergency rooms six or more times last year. Last year, 5% of Medicaid recipients accounted for 50% of the costs.

We must take on the challenge of making the system more cost-effective in order to protect Medicaid and Family Care for New Jerseyans who rely on them. We have been pursuing a three-year accountable care organization pilot program to look at how care management and coordination can help lower costs for this population while still improving care.

Today, I want to broaden that challenge. I am calling on New Jersey's most important medical and research institutions -- Rutgers Biomedical and Health Sciences, University Hospital, and Rutgers Camden -- to join with our Medicaid managed care organizations to help us devise a program to innovate and improve health care delivery under Medicaid and Family Care.

Rutgers is already showing leadership in this area, studying how to improve care for these "super-utilizers" for the federal government. I ask them to expand the scope of their research to specifically evaluate New Jersey. I am proud to be joined today by Rutgers president and physician, Dr. Robert Barchi, who has promised me that this will be a primary focus of Rutgers leadership in 2014. Thank you, Dr. Barchi.

This budget reinforces our philosophy -- improving access, for example by increasing funding for children in Family Care by \$21 million; advancing prevention, by protecting increased funding for cancer screening and increasing funds for newborn screening under Emma's Law.

As this budget clearly reflects, our choices in the future will not get easier. We cannot be like some prior governors and legislatures and ignore the long-term implications of spending and taxing decisions. We need to understand the impact of our decisions and find a path to a better future.

To do that, we must create an attitude of choice. Due to these exploding entitlement costs, we are failing our taxpayers when we refuse to honestly address these problems and try to fool them into believing that choices do not need to be made. We are better than that. New Jersey is clearly better than that. Mahatma Gandhi once said that, "the future depends on what you do today." Gandhi was a visionary. And while you wouldn't think of him as a budget expert, he was right about this, too: if we want a better future tomorrow, we must prepare today.

We must make good choices now. And we must make certain sacrifices. This is not only a budget issue, or a policy issue -- it is a moral issue. I ask you to join me in choosing. Choosing to do what is hard. Choosing to do what others will actively try to stop. Choosing to do what is right by the people of this state. Let our attitude of choice not be selfish and backward-looking, but generous to future generations and aimed at building a better New Jersey in the years ahead.

Thank you, God bless you, and God bless the great state of New Jersey.

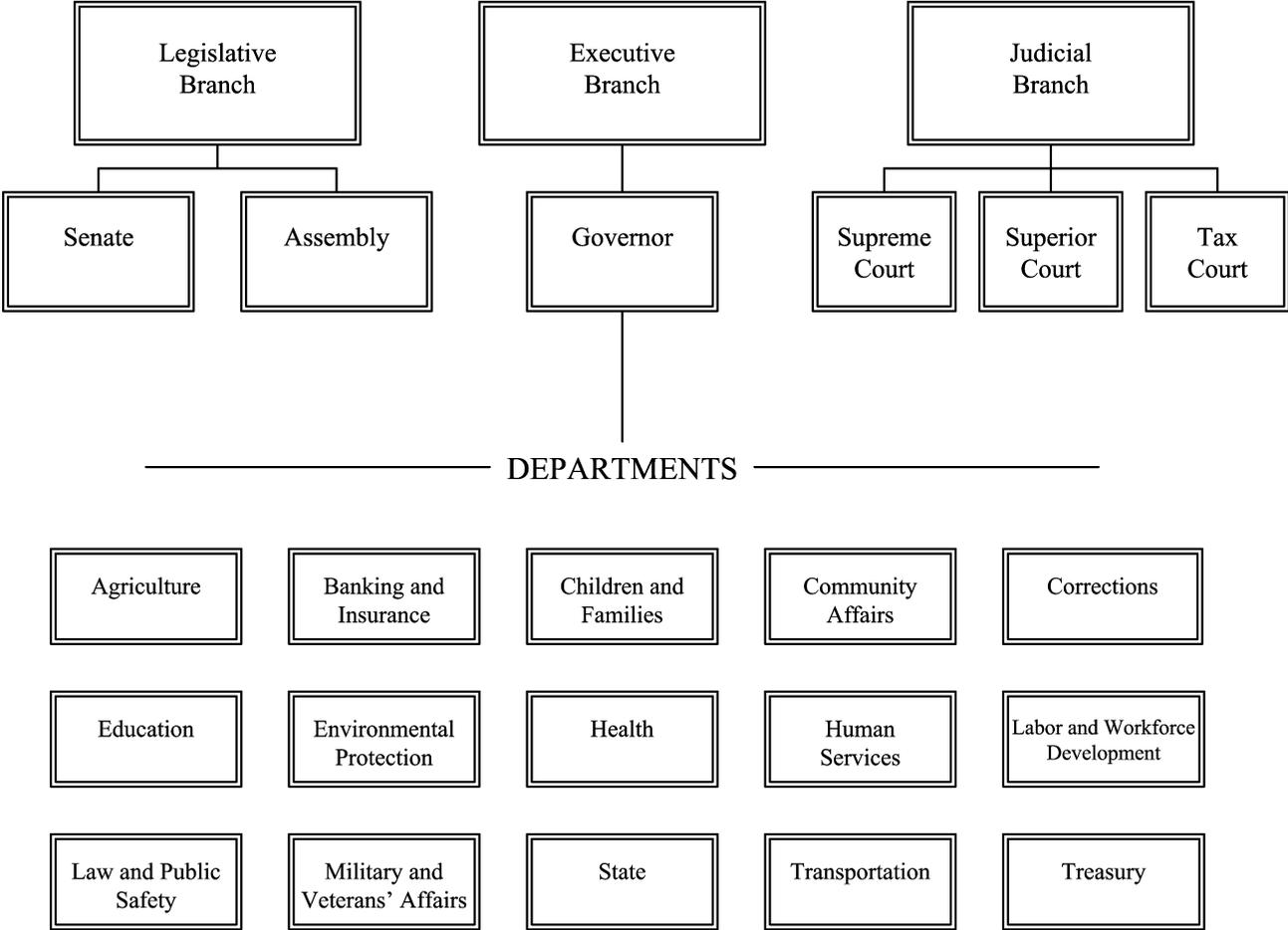


General Information

More information can be found in the Reader's
Guide to the Budget on the Treasury/OMB
website:

www.state.nj.us/treasury/omb

ORGANIZATION OF NEW JERSEY STATE GOVERNMENT



GENERAL INFORMATION

GLOSSARY OF BUDGET TERMS

TERM	DESCRIPTION
ADDITIONS, IMPROVEMENTS AND EQUIPMENT	Additions and improvements which are less than \$50,000 in cost and the purchase of equipment such as vehicles, office equipment and information processing equipment.
ADJUSTED APPROPRIATION	The total of an original appropriation, all supplemental appropriations, certain allotments from interdepartmental appropriations, and other budgetary adjustments.
ALL OTHER FUNDS	Revenues, other than federal, that are not anticipated as resources to support the annual State budget. Upon receipt, these funds become appropriated, as provided by the language of the Appropriations Act.
ALL OTHER POSITION	A position specifically approved and funded by non-state, non-federal sources in a salary object account.
ALLOTMENT	An allocation of a portion of an appropriation to make it available for encumbrance or disbursement by the agency to which appropriated, and usually applying to a period of time; e.g., a calendar quarter.
ANTICIPATED RESOURCES	The sum of the estimated surplus at the end of the prior fiscal year, together with all estimated revenues for the General Fund from all sources, including taxes and license fees, other miscellaneous departmental and interfund transfers.
ANTICIPATED REVENUE	Estimated revenues to be realized in any fiscal year that have been anticipated as General Fund resources to support the appropriations made, or undesignated fund balance projected, in the annual Appropriations Act.
APPROPRIATED REVENUE	Revenues not previously anticipated or budgeted, which upon receipt increase appropriation balances as authorized in the Appropriations Act, and from which agencies may incur obligations or make expenditures for specific purposes.
APPROPRIATION	The sum of money authorized by an act of the Legislature for expenditure for a particular fiscal year.
BLOCK GRANT	An amount allotted by the federal government to the State to be allocated to a particular program area within general guidelines as the State determines.
BOND	A funding tool representing a written promise to pay a specific sum of money in the future plus interest.
BOND FUND	A fund that receives proceeds from the issuance of bonds, and from which all proper expenditures for the purposes for which the bonds were authorized are paid.
BUDGET REQUEST	The request of each spending agency for an appropriation or permission to spend during the next ensuing fiscal year.
CAPITAL CONSTRUCTION	Funds budgeted for: (1) Acquisition of or option to buy land and right-of-way and existing improvements therein, regardless of cost, (2) New buildings and structures not attached to or directly related to any existing structures, regardless of cost, (3) Projects whose estimated cost, including land, planning, furnishing, and equipping, is usually \$50,000 or more, regardless of the construction involved, with a useful life of at least ten years, (4) Any addition or improvement that is \$50,000 or more.
CATEGORICAL GRANT	An amount allotted by the federal government to the State to be allocated to a particular program area for a specific purpose or mandate of the federal government.
CONTINGENCY APPROPRIATION	An appropriation to provide for unforeseen expenditures or for anticipated expenditures of uncertain amounts.
DEBT SERVICE	Resources to finance payment of general long-term debt principal and interest.
DEDICATED FUND	A fund normally contained in the General Fund, consisting of resources owned by the State, the use of which is constrained, either by statutory specification, dedication or other restriction, or a particular purpose or program.
DIRECT STATE SERVICES	General operating costs of State government, including programs providing services directly to the public.
DISBURSEMENT	Payment of money out of any public fund or treasury (See also EXPENDITURE).
ENCUMBRANCE	A reservation of funds for future payment (disbursement) to liquidate an obligation incurred, usually supported by the issuance of a purchase order or the execution of a contract calling for payment in the future.
ENDING BALANCE	The amount of funds remaining in an account or fund at the end of the fiscal year.
EVALUATION DATA	The quantitative expression of the end products produced or other elements involved in the work of an organization.
EXCESS RECEIPTS	Any receipts collected by an agency in excess of anticipated resources in the annual Appropriations Act. Such excess receipts may either be appropriated for the agency's use or credited to the General Fund undesignated fund balance.
EXPENDITURE	Denotes charges incurred, whether paid or unpaid, thus including both disbursements and liabilities.

GENERAL INFORMATION

TERM	DESCRIPTION
FEDERAL POSITION	A position specifically approved and funded by federal funds in a salary object account.
FRINGE BENEFITS	Payments made by the State for retirement, social security, health and dental insurance contributions, workers' compensation, unemployment, survivors' and disability insurance.
FUND BALANCE -- DESIGNATED	Unexpended and unencumbered appropriations that are authorized to continue into the subsequent fiscal year (See also REAPPROPRIATION).
FUND BALANCE -- UNDESIGNATED	Fund equity unrestricted and available for appropriation.
GRANTS-IN-AID	All payments besides State Aid made to individuals, public agencies, or private agencies for benefits entitled by law or regulation, services for which the State has primary responsibility, or subsidies and services the State elects to provide.
ITEM OF APPROPRIATION	The spending authority identified by an organization code, appropriation source, and program code, unique to the item, and may include a number of object accounts within a program.
INTERDEPARTMENTAL ACCOUNTS	A group of accounts to which are appropriated funds for payment for or on behalf of all State agencies of rent, employee benefits, and contingency funds or for certain specified purposes.
LANGUAGE RECOMMENDATIONS	Language located at the end of a statewide program, department or in the General Provisions section, that provides specific spending or budget authority and/or places limitations on such authority.
LAPSE	The automatic termination of an appropriation. At the end of the Appropriation period, any unexpended or unencumbered balances revert to the fund from which it was originally appropriated.
LINE OF CREDIT	Competitively bid, low interest cost funding for the procurement of the State's short term (three years) equipment needs, specifically computers, furniture, and vehicles.
LINE ITEM	Any single line account for which an appropriation is provided. Includes appropriations made to specific object accounts.
MAINTENANCE AND FIXED CHARGES	Routine repair and maintenance of buildings, property, and equipment required to keep them in operation and prevent deterioration.
MATCHING FUNDS	Provisions in a grant agreement that require the government or agency receiving the grant to commit a certain amount of funding to a program before funding is made available by the granting authority.
MATERIALS AND SUPPLIES	Tangible consumable items used for operations but not for the maintenance of machinery or equipment.
NON-STATE FUND (ACCOUNT)	Any fund or account with proceeds arising from a source other than the General Fund, typically from federal or foundation grants, pooled inter-governmental funds, or service charges.
OBJECT CATEGORY	A group of objects of similar character categorized for classification purposes.
OBJECTIVE	A statement of specific, intended, measurable accomplishments related directly to the need, problem or opportunity the services to the client are designed to address.
OBLIGATION	An amount the State may be required legally to meet out of its resources, including actual liability and unliquidated encumbrances.
ORIGINAL APPROPRIATION	An appropriation made in the annual Appropriations Act.
PERSONAL SERVICES	An appropriation supporting State employee salaries and wages and other employee benefits.
PROGRAM	A group of related activities directed toward the accomplishment of an identifiable objective; it is established by statute, executive order, or departmental order; it is distinguishable by its clientele, organization, subject matter or process.
PROGRAM CLASSIFICATION	An operating program function, consisting of closely related activities with an identifiable objective or goal.
REAPPROPRIATION	The appropriation in any fiscal year of funds remaining unexpended at the end of the preceding fiscal year that are specifically appropriated in the succeeding fiscal year (See also FUND BALANCE).
RECEIPTS	A general term for cash received, which may either satisfy a receivable, be a conversion of another asset or a refund of a prior expenditure; it may also represent revenues earned or realized.
RECEIVABLE	An anticipated sum of money that is treated as revenue because it has been earned and is due. Such sums are available for expenditure by State agencies when properly authorized.
REVENUES	Funds received from taxes, fees or other sources that are treated as state income and used to finance expenditures.
REVOLVING FUND (ACCOUNT)	A fund or account established to finance (1) State activities of a business or commercial nature or (2) the operation of an intragovernmental service agency or enterprise that generates receipts from the sale of commodities or services.

GENERAL INFORMATION

TERM	DESCRIPTION
SERVICES OTHER THAN PERSONAL	The cost of purchased services that are primarily non-personal or of a contract nature under which no employer-employee relationship is established.
SPECIAL PURPOSE APPROPRIATION	A type of appropriation that includes monies for personal services, non-personal services, maintenance, etc., but which is appropriated as a single amount and which does not specify amounts for individual objects of expenditure.
SPECIAL REVENUE FUNDS	Funds used to account for resources legally restricted to expenditure for specified purposes.
STATE AID	Monies paid by the State to a local government or to a nongovernmental agency, or expenses incurred by a State department or agency on behalf of a local unit of government.
STATE POSITION	A position specifically approved and funded by a State appropriation in a salary object account.
STATE TREASURY	All funds deposited to the credit of the State. It includes the General Fund and funds from all other sources.
STATEWIDE PROGRAM	A functional grouping of related program classifications that contribute to satisfaction of some broader objective.
STATUTE	A written law enacted by a duly organized and constituted legislative body.
SUPPLEMENTAL	An appropriation made in addition to the annual Appropriations Act.
SURPLUS	Revenue exceeding expenditures over a given period of time. (See also FUND BALANCE).
TRANSFER	A transaction that reallocates all or part of any item of appropriation to another item of appropriation.
TRUST AND AGENCY FUNDS	Funds used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

THE STATE BUDGET PROCESS

The State Budget Process is designed to produce budget decisions based on performance, with a focus on furthering agency core missions. The State budget cycle is on a fiscal year basis, extending from July 1 to June 30 of the following year.

New Jersey's budget process is comprehensive and inclusive, involving every department and agency in the Executive Branch, the Legislature, the Judicial Branch, and through a series of public hearings, the citizens of the State. The budget process begins in the summer prior to the following fiscal year with preliminary projections of revenues and expenditures, which are the basis for development of budget and performance targets for each branch, department and agency. Individual departments and agencies are required to prepare a funding plan or strategy for operating within the established preliminary budget level in the following fiscal year, which funding plan or strategy includes an analysis of the costs, benefits and priorities of every program. The funding plans and strategies are the foundations for revenue and spending decisions that are ultimately incorporated into the Governor's budget recommendations.

The New Jersey Statutes contain provisions concerning the budget and appropriations process. On or before October 1 in each year, each Department, Board, Commission, Office or other Agency of the State must file with the Director of the Office of Management and Budget (Budget Director) a request for appropriation or permission to spend specifying all expenditures proposed to be made by such spending agency during the following fiscal year. The Budget Director then examines each request and determines the necessity or advisability of the appropriation request. On or before December 31 of each year, or such other time as the Governor may request, after review and examination, the Budget Director submits the requests, together with his or her findings, comments and recommendations, to the Governor. It is then the responsibility of the Governor to examine and consider all requests and formulate his or her budget recommendations.

The Governor's budget message is presented by the Governor during an appearance before a joint session of the State Legislature which, by law, is convened on or before the fourth Tuesday in February in each year. The Governor's budget includes the proposed complete financial program of the State government for the next ensuing fiscal year, sets forth in detail each source of anticipated revenue and the purposes of recommended expenditures for each spending agency (N.J.S.A. 52:27B-20). The financial program included in the Governor's budget is then subject to a process of legislative committee review. After completion of the legislative committee review process, the budget, in the form of an appropriations bill, must be approved by the Senate and Assembly and must be submitted to the Governor for review.

Upon submission of the appropriations bill enacted by the State Legislature, the Governor may approve the bill, revise the estimate of anticipated revenues contained therein, delete or reduce appropriation items contained in the bill through the exercise of his or her line-item veto power, or veto the bill in its entirety. As with any gubernatorial veto, such action may be reversed by a two-thirds vote of each House of the State Legislature. In addition to anticipated revenues, the annual Appropriations Act also provides for the appropriation of non-budgeted revenue, including primarily federal funds, to the extent such revenue may be received and permits the corresponding increase of appropriation balances from which expenditures may be made.

During the course of the fiscal year, the Governor may take steps to reduce State expenditures if it appears that revenues have fallen below those originally anticipated. There are additional means by which the Governor may ensure that the State does not incur a deficit. Under the State Constitution, no supplemental appropriation may be enacted after adoption of an Appropriations Act except where there are sufficient revenues on hand or anticipated, as certified by the Governor, to meet such appropriation.

If a general appropriation law is not enacted prior to the July 1 deadline, under Article VIII, Section 2, para. 2 of the State Constitution, no monies can be withdrawn from the State Treasury.

Capital Budgeting Process

The annual review process for capital spending requests and recommendations, which runs somewhat parallel to the process described above, has several stages. All State departments requesting capital funding must submit a seven-year Capital Improvement Plan to the New Jersey Commission on Capital Budgeting and Planning. Each capital project request must include an operating impact statement. The Commission schedules public hearings, analyzes the capital requests and recommends projects to the Governor. The Governor, in turn, recommends projects in the proposed budget.

More detailed information may be found on OMB's website at <http://www.state.nj.us/treasury/omb/>.

GENERAL INFORMATION

STATE FINANCIAL POLICIES

Basis of Budgeting

The basis of budgeting in New Jersey is in accordance with generally-accepted accounting principles (GAAP) for governments as it applies to fund financial statements prescribed by the Governmental Accounting Standards Board (GASB). The State's budgetary basis differs from that utilized to present financial statements such as the State's audited Comprehensive Annual Financial Report (CAFR) in that encumbrances are recognized as expenditures and transactions are only for the current fiscal year. In accordance with Governmental GAAP, revenues are estimated and recognized when they can be accrued; that is, when they become both measurable and available to finance expenditures of the fiscal period for governmental funds. Appropriations are recommended at a level sufficient to recognize all accrued expenditures applicable to the fiscal period.

Budgetary Control

Pursuant to Article VIII, Section II, para. 2 of the State Constitution, no money may be drawn from the State Treasury except for appropriations made by law. In addition, all monies for the support of State government and all other State purposes, as far as can be ascertained or reasonably foreseen, must be provided for in one general appropriations law covering one and the same fiscal year. No general appropriations law or other law appropriating money for any State purpose may be enacted if the amount of money appropriated therein, together with all other prior appropriations made for the same fiscal year, exceeds the total amount of revenue on hand and anticipated to be available for such fiscal year, as certified by the Governor.

Budgetary control is maintained at the item of appropriation level, meaning the spending authority associated with an organization, appropriation source and program classification. Internal transfers within programs are permitted subject to certain constraints, while transfers between programs or above designated levels require the approval of the Legislature. When appropriations are based on anticipated revenues, spending authority is reduced by the amount of any deficiency in actual revenues. Other budget changes not authorized by specific language provisions must be approved by the Legislature.

Appropriations are authorized for expenditures during the fiscal year and for a period of one month thereafter. Unencumbered appropriations lapse at year end, unless otherwise specified. Non-lapsing balances are considered automatically reappropriated as authorized by statute or by the Appropriations Act.

Balanced Budget

A balanced budget must be established at the start of the fiscal year (July 1) and be maintained at the end of the fiscal year. New Jersey's Constitution states: "No general appropriation law or other law appropriating money for any State purpose shall be enacted if the appropriation contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of revenue on hand and anticipated which will be available to meet such appropriations during such fiscal period, as certified by the Governor."

The determination of a balanced budget is based on the revenues and expenditures for all funds according to GAAP. The official revenue estimate for the fiscal year is established and certified by the Governor. If the Appropriations Act enacted by the Legislature exceeds the revenue estimates plus any available surplus, the Governor has the authority and the duty either to veto the entire appropriations bill or to reduce the amount of appropriations to produce a budget that is balanced against the total resources available.

The long term goal is to achieve a structural balance between ongoing operating expenditures and revenues. The rate of growth in direct services provided by the State should be constrained, both in total appropriations and in its relative portion of the State Budget. The overarching goal is to identify the most efficient way to provide current services or to expand services within the current budgeted resources. Fund balances may be used to support unforeseen or unpredictable expenditures that require supplemental appropriations. If budget adjustments are necessary to maintain balance during a fiscal year, actions are typically implemented by OMB acting at the direction of the State Treasurer and the Governor.

HOW THE BUDGET IS ORGANIZED

The budget is divided into major sections as described below:

The **Governor's Budget Message** describes in general terms the policies and new initiatives, as well as the reductions and efficiencies, in the Governor's budget. The Governor's Message generally includes a description of the state's economic situation and the expected impact of projected economic trends on the state's fiscal condition. The Governor's Message may also include broad programmatic goals for each of the individual State departments or major segments of the government, as well as policy directions for the upcoming fiscal year.

The **Summaries of Appropriations** section includes a selection of tables and charts designed to summarize the Governor's recommendations.

The **Summaries of Revenues, Expenditures and Fund Balances** section provides information on the revenue and expenditure assumptions incorporated in the Governor's budget recommendations, and the resulting fund balances for all funds maintained by the State.

The **Department and Branch Recommendations** section is the largest section of the budget and includes the greatest detail on proposed appropriations. It is divided into categories based on the source and use of appropriations which is then organized by governmental branch, and sorted in alphabetical order by agencies or executive departments. The major subdivisions of this section are described in detail in the Reader's Guide to the Budget, found at www.state.nj.us/treasury/omb.

The **Debt Service** section of the budget depicts the amounts necessary to pay principal and interest due on capital projects financed by general obligation bonds of the State. The primary method for financing capital projects is through the sale of bonds. No debt can be issued by the State without approval by a majority of the legally qualified voters. This section also includes a brief description of the active bond issues financed by current debt service appropriations.

The **General and Federal Funds Language Provisions** subdivision of the budget establishes authority beyond the specificity of the detailed line-item budgets for both general and federal funds. These provisions apply to broad areas of the budget, such as entire funds, or appropriations in general, and in some cases mandate additional administrative requirements related to the enactment of the budget. These language provisions also authorize adjustments for reorganizations and corrections to the Appropriations Act after its enactment.

NOTES