Treasurer David Rousseau
Departmental Testimony
Assembly Budget Committee
April 15, 2008

Good morning. Mister Chairman. Members of the Assembly Budget Committee. It is a pleasure to be here for the third of my four scheduled appearances.

I am joined today here by Deputy Treasurer Debra Bell, Associate Deputy Treasurer Chuck Chianese, Charlene Holzbaur, the Director of the Office of Management and Budget, and other senior staff from the Treasurer's Office and many Division directors. Also present are representatives of the agencies in, but not of, the Treasury Department.

Although today marks the beginning of my first full week without the "acting" part of the title, it seems like much longer. After four budget committee appearances this year to date and two more scheduled this week alone, I also feel like I am the personification of the term "government redundancy."

While my focus is the past has been on the big picture of the budget, this perspective has broadened dramatically with oversight responsibility of one of the state's major departments.

Treasury is a multi-function state agency that serves a broad and diverse range of public and private constituencies. We interface with businesses and government;

Employees and retirees;

Architects and builders,

Vendors and lottery agents,

Bankers and bond buyers.

We are the state's landlord and real estate agent;

We balance the state's books;

We cut checks for payroll, pensions…rebates, and refunds.

We make sure that state agencies have the equipment, supplies and other support Services they need to function effectively.

Above all, we put taxpayers first – in everything we do.

As I stated on opening day, this budget marks a turning point to help reset state finances and bring true balance to the budget without raising taxes and resorting to short term fixes. The public's message has been crystal clear: Cut government spending and cut spending on government.

The proposed budget includes $2.7 billion in reductions to bring overall spending more than $500 million below the current year. While the task is unpleasant, the cuts in this budget are what times demand. The Governor has made his priorities clear --- education, public safety and protecting the most vulnerable.

Preserving resources for these priorities means that reductions must be found everywhere else.

Each department has been cut and hundreds of programs have been eliminated or trimmed. As we evaluate each proposed reduction and how much we would like to be able to restore it, we must confront the stark reality that any restoration of funding requires a commensurate reduction in spending in another area.

With these efforts, the FY 2009 budget helps to reverse the effects of past decisions that have made present-day budgeting so painful, and move New Jersey closer to eliminating its chronic structural imbalance.

The budget for the Treasury Department and the interdepartmental accounts is a significant portion of the actions taken to balance this budget.

The Treasury department’s total recommended budget for FY 2009 is $3.55 billion.

As you know, the vast majority of this amount-- $2.7 billion -- passes through Treasury and is provided as property tax relief, State aid and grants in aid.

What remains is the Direct State Services appropriation for meeting the Treasury department’s operational needs. Within this amount is operational funding for the in, but not of agencies, which are housed under Treasury.

This Direct State Service funding includes operational costs for the BPU, OIT, State Comptroller, the Inspector General, the Science and Technology Commission, the Public Defender, the Office of Administrative Law and the GSPT.

After removing these offices -- over which I as Treasurer have no direct control -- the core functions of Treasury and its operating divisions are supported by a $220 million appropriation from the General Fund. This amount reflects a $21 million reduction from the current year appropriation of $241.5 million.

The core functions of Treasury are delivered by a workforce of approximately 3,600 full-time employees. Most of these employees – about 3,200 -- are supported through either the General Fund or the pension fund, while the rest are supported by fee based or revolving funds.

Like state government as a whole, Treasury's workforce has contracted over the last two years.

When Governor Corzine first took office, Treasury's FTE count was 3,710. As of January of this year, that count stood at 3,566. This reduction of 144 employees has been achieved through attrition and strict adherence to the Governor's hiring freeze.

We have since assumed employees who were transferred to Treasury from the Office of Economic Growth, including the Division of Minority and Women Business Development, and added about 50 new hires in revenue-producing positions for the Division of Taxation. The net effect of these changes on our total count will hinge on how many employees avail themselves of the Early Retirement Incentive, the continuation of an aggressive attrition program, and what determinations we make to refill vacated positions.

It is safe to say that when the actual number of those who take advantage of the ERI is determined, the department will need to re-prioritize its activities, programs and services.

As we have said, the State budget contains $350 million in cuts to the operations of government. Every department is reduced.

And as Governor Corzine indicated in his budget address…we will all have to do more with less, and in some cases, we will do less.

No matter what we do -- or decide not to do -- our decisions revolve around the reality that we must re-prioritize our activities, programs and services.

Treasury's choices reflect this reality.

Treasury will streamline human resource functions, eliminating redundancies and redundant staff positions.

While we propose ending the delivery of some services and streamlining others, we are also implementing common sense efficiencies.

For example, we're cutting the use and production of paper and postage wherever we can. Right now, State-supplied paper receipts and paid postage are received for acknowledgments of certified mail.

We're changing this requirement to accept e-mail confirmations, which will save Treasury and user departments about $150,000.

As you may know, with on-line access of budget documents, we've also significantly reduced the number of printed copies of the budget book itself.

Reductions in the number of bound copies of the budget book and Budget in Brief translate to a meaningful savings of $23,000.

We're also keeping a tight rein on attrition, assuming $2 million savings.

In all we do, we continue to identify ways to work more efficiently, help peer state departments and agencies conserve resources, save taxpayers money and build a better mousetrap.

The Division of Purchase and Property is the primary driver of statewide procurement savings.

Key efforts that will lead to savings in FY 2009 include: analyzing spending to identify high impact and quick win savings opportunities; leveraging spending with other states; establishing cross-agency standards and consolidating contract requirements; improving planning and requirements forecasting; process simplification; and strategic sourcing and supplier management.

Due to a combination of new legislation and strategic sourcing efforts, the Division in FY 2008 achieved a savings of $31 million to be realized over several years. The Division has been charged with instituting another $25 million in savings in FY 2009 alone. We expect to accomplish this through a savings plan that includes among other items: a new auto supplies contract; consolidation of advertising contracts; and consolidation of furniture and office supply contracts.

In the area of analyzing spending, we will review statewide and agency specific data to identify "low hanging fruit" as targets for quick savings. We have already begun to leverage spending with other states.

Three co-operative initiatives involving other states are either complete or close to completion and they will provide New Jersey with better pricing and services. As you may recall, cooperative arrangements such as this are made possible through 2005 legislation, which was approved with unanimous bipartisan support.

The new auto-parts contract is a prime example of putting this national buying power to work. By joining the U.S. Communities Government Purchasing Alliance, we will save 20 percent – or about $2 million per year -- on auto parts purchases for the state fleet. The 20 percent savings will also be available to the local government participants in New Jersey's cooperative purchasing program. It will also be much easier to provide oversight on one contract rather than the multiple contracts that were previously in place.

The Attorney General's Office and the Treasury Department have worked diligently to strengthen the Division of Contract compliance and EEO's authority to ensure equal employment opportunity in public contracting.

Our Division of Property Management and Construction continues to focus on space utilization efficiencies and lease renegotiations. A group charged with finding lease reduction savings has identified $3 million in FY 2009 for Mercer County alone. It is expected that savings in excess of $40 million will be achieved through FY 2013 and additional plans are being developed to expand those savings outside the Capital region. We're pleased with the results thus far, but we still need to do better.

During the past few years the work of Senator Sweeney and Assemblyman Cryan on the State Leasing Committee has been an invaluable asset to the Administration.

At a time when fuel prices are soaring beyond comprehension, we are holding our own and endeavoring to get the longest mileage possible for every energy dollar spent.

The Office of Energy Savings continues to pursue its objective of purchasing power as cost effectively as possible while increasing the use of renewable energy.

The Office has restructured existing gas supply contracts to take advantage of lower prices in the futures markets, a move that will save the State $4.1 million over the next three years. The Office also participated in the first online, reverse energy auction to purchase electricity for a consortium of 16 state entities, which will save $2 million over the three years of the contract.

The office is working with all state agencies to reduce energy consumption in some 4,000 state offices. While energy prices seem to rise overnight, we unfortunately cannot get to all office buildings as quickly.

The Energy Savings office is but an "army" of three, led by Director John Rhodes.

Our Division of Administration continues to take the lead for us in finding prudent and effective ways to lower costs and increase efficiency in all operations of the Treasury Department.

The Division is working with OIT to reduce postage costs and consolidate mailing services to reduce repetitive operations in State agencies, in addition to the certified mail efficiencies outlined earlier. The effort involves housing all mail operations under one roof at the Capitol Post Office, which will also save considerable rent costs.

The motor pool is also under this division, and again, we walk a fine line between operating efficiently in this area and struggling to maintain our edge.

Our overall sedan fleet is down, from 10,552 in January of 2006 to about 10,046 today, despite requirements to equip a greater number of Children and Families caseworkers with vehicles. Under Governor Corzine, we re-called 835 vehicles, most of which have been sold at auction, with a revenue to the State of $1.2 million.

We work hard to keep existing vehicles on the road to defer the need to purchase new ones.

The Division of Pensions and Benefits continues to emblemize how state government is doing more with less.

With the recent enactment of several new major laws, the Division workforce is constantly challenged to ensure that the community of 700,000 active and retired workers, and 1,700 participating employers are kept current on the scope and meaning of the changes. Chapter 92 created a sea change of reform for retirement plans and health coverage, and pensions has met the challenge with remarkable effectiveness.
It is equally challenged to process more enrollments, retirements, transfers, purchases, claims, pension checks, pension loans and many other activities.

With the growing integration of technology, Pensions and Benefits has turned thousands of formerly manual, paper-based administrative processes into on-line transactions through their EPIC and M-BOS systems. This technology has accelerated the turnaround time for transactions – to the benefit of clients, while also reducing phone call volume.

Truth be told, these technological advances come with an IT infrastructure that is several decades old. Without proper investment in this critical function, pensions and many other parts of state government, will be ill-equipped to meet the growing demand for information and automation.

Despite a reduction in volume, however, wait times are significantly longer because of a perfect storm of sorts – which is that phone inquiries are taking more time and getting more complicated due to questions over new and changing rules, and hiring restrictions have limited the back filling of call center positions to handle the calls.

Technology has also greatly enhanced the operations of the Division of Revenue.

The division estimates that 1.9 million paper returns and 2.4 million electronic returns will be processed for tax year 2007. That would be a record for electronic returns, and an increase of about 8 percent over last year.

Revenue also intends to build on the success of the State's innovative One-Stop Business Gateway Service on the Internet by adding in FY 2009 a new registration and information service for Small, Women and Minority Owned Business enterprises.

Also, for the general business community, Revenue has successfully implemented a new online certificate of standing service that allows registered businesses to obtain official statements regarding their legal status for use in contract closings and other vital commercial transactions, and this month, will implement an online system that will greatly accelerate the reinstatement of businesses that have been revoked or placed on the state's inactive list.

Importantly, online services such as these significantly enhance New Jersey State government's responsiveness to the business community, without increasing our cost of operations.

The Division of Taxation continues efforts to maximize compliance efforts. Approximately $1.5 billion was collected last year. We are working hard to maintain this level of collection, and growth during the last few years has been largely attributable to the efforts of all of our staff.

Data Systems Activity in Taxation also continues its efforts to automate tax filing processes. The filing of six different taxes is required to be made electronically. Data Systems is moving toward full electronic filing of four additional tax returns, and is discussing with OIT the requirements for electronic filing of four other tax returns.

As a practical matter, if you have yet to file you have a couple of "FastFile" options for submitting paperless returns via the Internet or through the use of a computer software package -- NJ WebFile or NJ E-File. **NJ No-File** is not an option. I will take this opportunity to remind you and others listening that today is the tax filing deadline.

The Division of Lottery is, and remains, a high volume, high efficiency operation. FY 2007 marked the sixth consecutive year the lottery surpassed $2 billion in gross revenues. During the first eight months of FY 2008, ticket sales had increased by more than 11 percent over the previous fiscal year.

Our Lottery is recognized throughout the national lottery community as one of the most efficiently operated State Lotteries in the nation. The cost to run New Jersey's Lottery averages approximately 11 percent of its gross sales.

The Lottery ranks 6th in the nation in per capita sales for instant and on-line games.

We will not rest on our laurels, however, we will continue to find ways to increase revenue for the State's fourth largest source of revenue.

I would like to take a moment to discuss the challenges facing two of Treasury's smallest divisions – Investment and the Office of Public Finance.

After a calendar year in which overall returns surpassed nine percent, the last several months have been difficult on all investors, including the State's pension fund.

Our pension portfolio has an estimated market value of $77.7 billion as of February, 2008, down from $82.1 billion as of the beginning of the fiscal year.

The pension fund's investment return during this difficult market environment was -1.9 percent for the fiscal year through February 2008.

While this number is obviously well below the expected long-term return assumption for the plan, we are pleased to report that decisions made by the State Investment Council and the Division of Investment, have helped to reduce the impact on the pension from the major declines in the public equity markets and in certain segments of the bond market -- particularly in mortgage-backed securities.

In 2005, the State Investment Council began to adjust the asset allocation of the pension plan away solely from public equity and fixed income securities into a variety of new alternative asset classes. While it may be imperfect to evaluate the appropriateness of these changes over a short period of time, we note that had these changes not been made, the portfolio's return would have been an estimated -3.2 percent and the portfolio would be worth $1.1 billion less than it is today.

Although New Jersey's pension fund is now the 10^{th} largest public fund in the nation, staffing levels – 65 employees – have remained unchanged since 1984, when the Soviets boycotted the Los Angeles Olympic Games and Bruce Springsteen released the Born in the USA album.

The same market disruptions that gripped our investment portfolio created turmoil with our bonded debt.

Through the leadership of Nancy Feldman, the Office of Public Finance is navigating through the sub-prime shockwave and its ripple effect on Wall Street. Like hundreds of other public issuers, New Jersey several years ago issued bonds through the auction rate market.

As bond insurers in this market encountered their own problems through sub-prime exposure, the resulting effect was a loss of investor confidence at the auction, forcing issuers to pay higher than normal interest rates to sell bonds.

Though a series of remarketing transactions, New Jersey will be leaving this market over the next several weeks, minimizing future exposure and mitigating state costs associated with the market turmoil.

Like investments, New Jersey is not making the kind of commitment to a highly important and specialized discipline of work.

While only a staff of 65oversee the $77 billion pension portfolio, a public finance office staff of only five professionals oversee a debt portfolio of $32 billion.

Mister Chairman, while we are presented with challenges and problems at all times, we concurrently are focused on our most important core missing – which is to make a difference in the lives of New Jersey citizens.

One of our shining examples of putting this mission into practice is our Office of Supplier Diversity.

The Office of Supplier Diversity is a new tool to improve education and outreach to the women and minority-owned small business community.

Working hand in hand with the Division of Minority and Women Business Development, the office is seeking to improve education and outreach, and proactively identify more business opportunities for small, minority and women-owned businesses.

For FY 09, the Office plans to begin an incubating/mentoring program .We will seek the participation of Chambers of Commerce and minority trade groups from around the state in identifying both mentors and protégés.

The office is initiating forums to solicit information from industry specific small businesses, will be organizing training and technical assistance for the RFP process and doing everything possible to open new doors of opportunity to the engine that drives New Jersey’s economy.

In closing, the issues that I have presented today related to the Treasury budget are a microcosm of the overall FY 2009 budget that has been presented. We face the significant challenge of changing the fiscal direction of this State by living within our means and not reverting back to the past actions to push decisions off to the future.

Last Thursday, Governor Corzine again laid out his vision for turning the fiscal ship around and making it clear that success will be defined in June when a budget is passed by this Legislature and signed by the Governor that achieves these goals

1) Staying within the parameters of the revenue that can responsibly be projected
2) Spending limited to no more than the $33 billion proposed in February
3) Not reverting back to past methods of relying on non-recurring revenues and gimmicks, and
4) No new or increased taxes

At this time, I would welcome questions from the committee.