NEW JERSEY

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1999

CHRISTINE TODD WHITMAN
Governor

ROLAND M. MACHOLD
State Treasurer

CHARLENE M. HOLZBAUR
Acting State Comptroller

Kathy A. Steepy
Assistant Director
Financial Management

Robert L. Peden
Deputy State Comptroller

James F. Kelly
Manager
Financial Reporting

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STATE OF NEW JERSEY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1999
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INTRODUCTION

" BIG J"

Keel was laid at the Philadelphia Shipyard on September 16, 1940. She was sponsored by the wife of New Jersey Governor Charles Edison. She was commissioned for the first time on December 7, 1942; and decommissioned for the last time on February 8, 1991.

State of New Jersey
DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
PO Box 221
TRENTON NJ 08625-0221

CHRISTINE TODD WHITMAN
Governor

ROLAND M. MACHOLD
Acting State Treasurer

November 29, 1999

Governor Christine Todd Whitman
Members of the State Legislature
Citizens of New Jersey

In accordance with the provisions of N.J.S.A. 52:27B-46, we are pleased to transmit to you the Comprehensive Annual Financial Report of the State of New Jersey for the year ended June 30, 1999. This report is prepared by the Office of Management and Budget, Department of the Treasury, which is responsible for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

This Financial Report, which has earned an unqualified audit opinion, presents the financial position and operating results of the State under generally accepted accounting principles as established by the Governmental Accounting Standards Board as well as the traditional budgetary basis presentations. We are confident that the data is accurate in all material respects, that it is presented in a manner designed to set forth fairly the financial position and results of the State's operations as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

As presented in this report, the State ended the year in a sound fiscal position, with an Undesignated Fund Balance (surplus) of $1.3 billion in the major budgeted funds (General Fund, Property Tax Relief Fund, Casino Revenue Fund, and Surplus Revenue Fund).

The Comprehensive Annual Financial Report is organized in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter with summary financial data and narrative commentary on matters of interest to the reader, the State organization chart, and the 1998 Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the general purpose financial statements and footnotes, the combining and individual fund and account group financial statements, and the State Auditor's report on the financial statements. The statistical section includes the budgetary basis schedules, as well as selected financial and demographic information.

This report includes all funds, account groups, and component units of the entity called the State, which provides support for a full range of services including education, health and social services, transportation, law and public safety, justice, recreation, public improvements, and general administrative services. The criteria utilized to determine the entity for the State of New Jersey are those prescribed by the Governmental Accounting Standards Board (see Note 1 to the Financial Statements).

BUDGETARY CONTROLS, ACCOUNTING SYSTEMS, AND INTERNAL CONTROLS

The State's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable to state governments as prescribed by the Governmental Accounting Standards Board. The governmental funds, expendable trust funds, and agency funds are presented on the modified accrual basis of accounting whereby revenues are recognized when measurable and available, and expenditures are recognized when goods and services are received and the related liabilities are incurred. The proprietary, nonexpendable trust, and pension trust funds are presented on the accrual basis of accounting whereby all revenues and expenses are recognized when the transactions occur, regardless of when the related cash is received or disbursed. The college and university funds are reported in conformance with GAAP as prescribed by the American Institute of Certified Public Accountants (AICPA) audit guide, "Audits of Colleges and Universities."

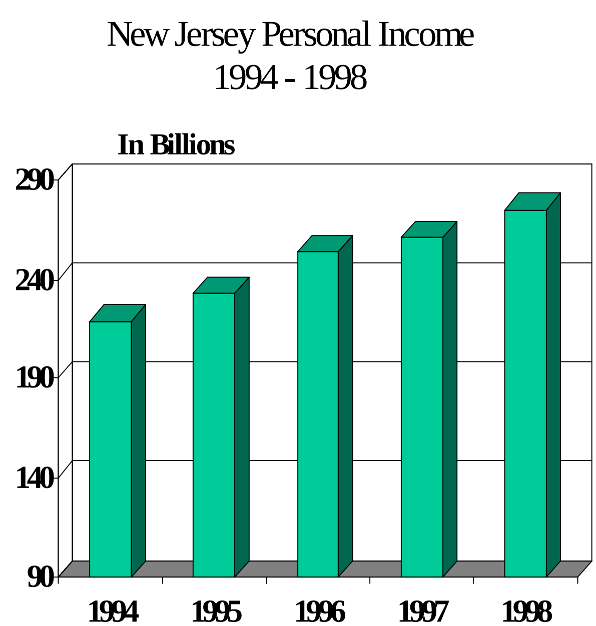
Encumbrance accounting is employed to ensure that expenditures do not exceed appropriations and allocations. Under encumbrance accounting, purchase orders, contracts, and other commitments involving the expenditure of monies are recorded in estimated amounts in order to reserve a portion of an appropriation until an actual liability is incurred. Total encumbrances and expenditures are monitored so as not to exceed amounts appropriated and/or allocated. Encumbrances outstanding at the end of a fiscal year are reported in the financial statements as reservations of fund balance. Any unencumbered and unexpended non-continuing appropriations lapse at the end of the fiscal year.

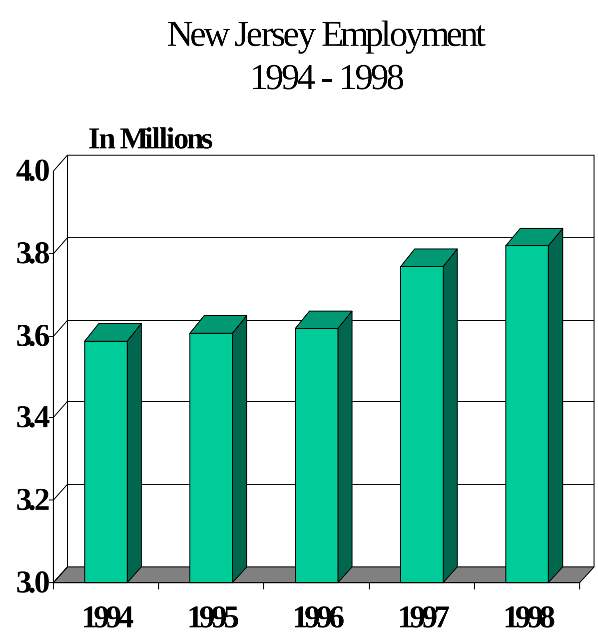
The accounting records of the various State departments are maintained on a central accounting system. The operations of this system are directed and supervised by the Office of Management and Budget. Separate accounting systems are maintained by those component units of government that are included in the State's reporting entity. The State's annual budget is comprised of individual appropriations to departments for specific programs and purposes. Budgetary control is exercised at the department level by individual appropriations and allocations within appropriations to various programs and major objects of expenditure.

In developing and maintaining the State's accounting system, consideration is given to the adequacy of internal controls. Internal accounting controls are designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from its use, and that the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework.

ECONOMIC CONDITION

The New Jersey economy enjoyed another outstanding year in 1998, making 1997-1998 the best two year period since 1987-1988. Personal income growth continued to accelerate in 1998. Wages and salaries grew from 6.4 percent in 1997 to 8.1 percent in 1998. Employment continued strong growth of more than 2 percent for the second year. For the year, retail sales grew by 5 percent and total employment expanded by 2.1 percent. The State employment reached a record level of 3.8 million, while personal income grew by 5.6 percent. This represents the fourth consecutive year of growth in excess of 4.9 percent.





It is expected that the New Jersey economy in Calendar Years 1999 and 2000 will continue to grow at a moderate pace with little or no inflation. High levels of employment, steady income growth, and low interest rates will continue to support consumer and business spending. New Jersey's economy, by virtue of its educated, high-technology labor resources, has benefited from newly emerging information-based fields. Employment is projected to grow by 1.7 percent in 1999 before easing in 2000 to 1.4 percent. Personal income growth is expected to remain around 5.5 percent. Retail sales growth is expected to strengthen in 1999 to over 7 percent before moderating to 5 percent in 2000. Real New Jersey Gross State Product, the most complete measure of economic activity, experienced a 4 percent increase in 1998 and is projected to experience stronger growth in 1999 before slowing to under 3 percent in 2000.

FISCAL YEAR 1999 REVENUE SUMMARY

The following revenue discussion encompasses the activity of the State's General Fund and four Special Revenue Funds--the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The amounts included in this section are the actual anticipated revenues realized in support of the annual appropriations and do not include federal grants.

Fiscal Year 1999 revenue collections totaled $18.2 billion, $1.1 billion above Fiscal Year 1998 revenue. Revenue changes in the State's three major taxes over Fiscal Year 1998 levels were as follows: the Sales Tax increased by $288.2 million or 6.0 percent, the Gross Income Tax increased by $733.3 million or 13.1 percent, and the Corporation Business Tax increased by $171.3 million or 13.9 percent. Overall, Fiscal Year 1999 revenue growth for the State's three major taxes totaled $1.2 billion. Increased revenue over Fiscal Year 1998 levels reflect the higher level of employment within the State as evidenced by the large increase in Gross Income Tax and Sales Tax revenues.

Collections for the State's three major taxes, as a percentage of Fiscal Year 1999 total receipts, were as follows: the Gross Income Tax represented 34.7 percent; the Sales Tax equaled 27.8 percent; and the Corporation Business Tax represented 7.7 percent. The State's three major taxes represented 70.3 percent of Fiscal Year 1999 total receipts, as compared to 67.6 percent for Fiscal Year 1998. Even with major reductions in tax rates, the total revenues have grown over the past four years by $3.2 billion.

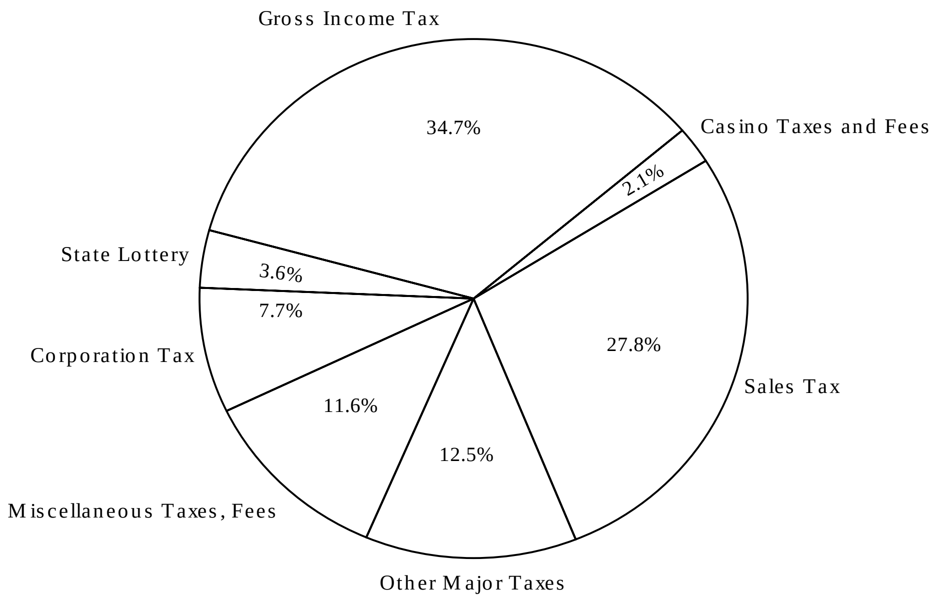
REVENUE SUMMARY BY MAJOR TAX
1995-1999
(Expressed in Millions)

	1999	1998	1997	1996	1995
Gross Income Tax	$ 6,323.9	$ 5,590.6	$ 4,825.4	$ 4,733.8	$ 4,540.0
Sales Tax	5,054.4	4,766.2	4,415.4	4,318.3	4,133.3
Other Major Taxes	2,282.5	2,305.0	2,297.2	2,276.1	2,215.4
Miscellaneous Taxes, Fees	2,107.9	2,226.4	2,320.9	2,121.1	2,016.8
Corporation Tax	1,402.9	1,231.6	1,286.4	1,171.5	1,085.5
State Lottery	652.3	642.8	650.0	662.1	647.8
Casino Taxes and Fees	382.5	369.8	359.6	358.6	355.4
Total	$ 18,206.4	$ 17,132.4	$ 16,154.9	$ 15,641.5	$ 14,994.2

REVENUE COMPARISONS

Source of Revenue ($000)	Fiscal Year 1999	Fiscal Year 1998	Increase/Decrease Amount	Percent
Gross Income Tax	$ 6,323,893	$ 5,590,579	$ 733,314	13.1 %
Sales Tax	5,054,438	4,766,195	288,243	6.0
Other Major Taxes	2,282,468	2,304,982	(22,514)	(1.0)
Miscellaneous Taxes, Fees	2,107,902	2,226,410	(118,508)	(5.3)
Corporation Tax	1,402,907	1,231,629	171,278	13.9
State Lottery	652,343	642,830	9,513	1.5
Casino Taxes and Fees	382,514	369,806	12,708	3.4
	$ 18,206,465	$ 17,132,431	$ 1,074,034	6.3 %

FISCAL YEAR 1999
MAJOR REVENUE CATEGORY COLLECTIONS
AS A PERCENT OF TOTAL REVENUE COLLECTIONS



FISCAL YEAR 1999 REVENUE SUMMARY:
PERCENT DISTRIBUTION OF REVENUE COLLECTIONS

Gross Income Tax	34.7%
Sales Tax	27.8
Other Major Taxes	12.5
Miscellaneous Taxes, Fees	11.6
Corporation Tax	7.7
State Lottery	3.6
Casino Taxes and Fees	2.1
Total	**100.0%**

FISCAL YEAR 1999 EXPENDITURE SUMMARY

Expenditure Category Descriptions

The following discussion of expenditures encompasses the activity of the State's General Fund and four Special Revenue Funds--the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The amounts listed in this section are on a budgetary basis and do not include federal grants.

State expenditures based upon the annual Appropriations Act are divided into five major categories. They are State Aid, Direct State Services, Grants-in-Aid, Debt Service, and Capital Construction. Each expenditure category is described below.

State Aid represents funds that are distributed to municipalities, counties, and school districts. Most of the Gross Income Tax revenue is apportioned to State Aid, as is certain other revenue that is collected in the State's General Fund. By far the largest portion of expenditures in this category is for elementary and secondary school aid. This category also provides funding for the various public assistance programs and county psychiatric hospitals, as well as municipal property tax relief programs.

Direct State Services represent those functions operated directly by State government. Funding is largely for the salary and benefits of State employees and supports the operation of the State's departments, the Executive Office, several commissions, the State Legislature, and the Judiciary. Public services offered by State government, such as testing laboratories, social services, legal services, State Police services, and the operation of prisons, psychiatric hospitals, and developmental disability centers are included in this grouping.

Grants-in-Aid represent programs and services provided to the public on behalf of the State by a third party provider. Grants-in-Aid payments are made to individuals and public or private agencies for benefits to which a recipient is entitled by law, or for the provision of services on behalf of the State. These payments include the Homestead Rebate program and the Medicaid program, which reimburses hospitals, nursing homes, and physicians for services rendered to the State's needy population. Community programs for the developmentally disabled, pharmaceutical assistance to the aged and disabled, support for the State colleges and universities, Lifeline utility credits to senior citizens, financial aid grants to college students, and bus and railroad subsidies to New Jersey Transit are programs which also are included under the Grants-in-Aid umbrella.

Debt Service represents payments of interest and principal on capital projects funded through the sale of State General Obligation Bonds. Projects that have been funded through State General Obligation Bonds include prisons, bridges, roads, human services facilities, and various environmental protection projects.

Capital Construction represents pay-as you-go allocations for various construction projects. Included in this expenditure category is the appropriation to the Transportation Trust Fund Authority.

EXPENDITURE COMPARISONS

Expenditure Category ($000)	Fiscal Year 1999	Fiscal Year 1998	Increase/Decrease Amount
State Aid	$ 7,475,165	$ 6,847,567	$ 627,598
Direct State Services	4,792,198	5,343,201	(551,003)
Grants-in-Aid	5,160,616	4,047,224	1,113,392
Debt Service	495,544	478,894	16,650
Capital Construction	608,273	496,982	111,291
	$ 18,531,796	$ 17,213,868	$ 1,317,928

Fiscal Year 1999 Expenditures

Fiscal Year 1999 expenditures of $18.5 billion are $1.3 billion more than the expenditures of the prior fiscal year.

State Aid represented 40.3 percent of total Fiscal Year 1999 expenditures. State Aid expenditures increased between Fiscal Year 1999 and Fiscal Year 1998 by $627.6 million. State Aid includes aid to public schools, teachers' pensions and social security costs, municipal aid for over 14 different programs, reimbursement to counties for welfare programs, and other miscellaneous programs.

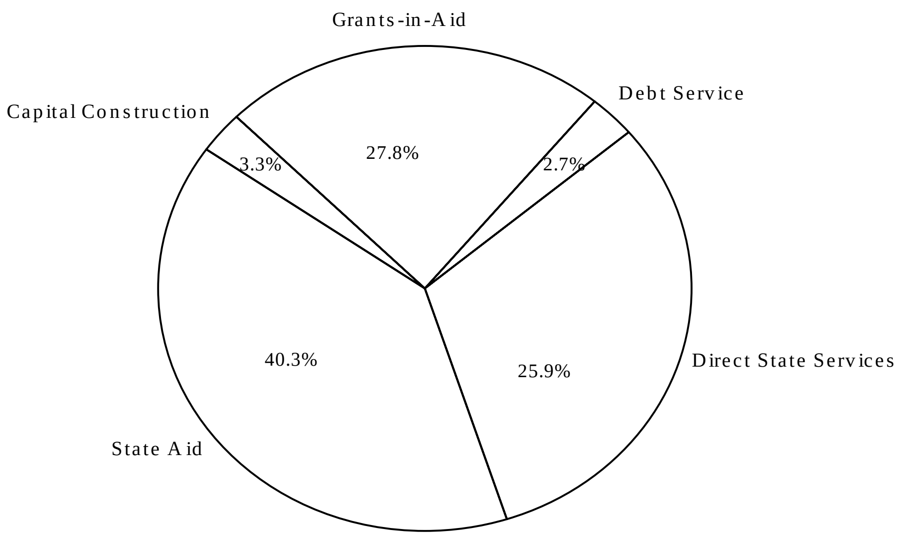
Direct State Services accounted for 25.9 percent of total Fiscal Year 1999 expenditures. Direct State Services expenditures decreased between Fiscal Year 1999 and Fiscal Year 1998 by $551.0 million.

Grants-in-Aid accounted for 27.8 percent of total Fiscal Year 1999 expenditures. This is a $1.1 billion increase from the prior fiscal year.

Debt Service represented 2.7 percent of total Fiscal Year 1999 expenditures. Debt Service expenditures increased by $16.6 million.

Capital Construction represented 3.3 percent of total Fiscal Year 1999 expenditures. Construction for capital projects grew by $111.3 million as compared to the prior fiscal year. The primary areas of focus for these increases centered on transportation and environmental projects.

PERCENTAGE OF FISCAL YEAR 1999 EXPENDITURES
BY MAJOR EXPENDITURE CATEGORY



EXPENDITURE DOLLAR
Fiscal Year 1999

State Aid	40.3%
Direct State Services	25.9
Grants-in-Aid	27.8
Debt Service	2.7
Capital Construction	3.3
Total	**100.0%**

The following table details expenditures by department for Fiscal Year 1999:

EXPENDITURES BY DEPARTMENT
STATE FUNDS
(Expressed in Thousands)

Department	State Aid	Direct State Services	Grants In-Aid	Debt Service	Capital Construction	Total
Legislative	$ -	$ 60,784	$ -	$ -	$ 1,617	$ 62,401
Executive	-	5,474	-	-	-	5,474
Judicial	-	402,529	-	-	-	402,529
Agriculture	7,004	9,249	910	-	18	17,181
Banking & Insurance	-	59,260	-	-	-	59,260
Commerce & Economic Dev.	-	3,755	19,112	5,568	5	28,440
Community Affairs	849,731	35,668	87,342	-	-	972,741
Corrections	-	719,419	134,862	-	9,284	863,565
Education	5,888,990	41,315	1,838	-	799	5,932,942
Environmental Protection	9,662	200,609	2,534	104,630	79,672	397,107
Health and Senior Services	25,447	55,770	1,065,445	-	1,381	1,148,043
Human Services	427,195	547,615	2,209,049	-	4,564	3,188,423
Labor	-	78,707	24,414	-	-	103,121
Law & Public Safety	3,600	437,853	13,974	-	11,496	466,923
Military & Veterans' Affairs	-	62,049	947	-	1,652	64,648
Personnel	-	32,033	833,846	-	-	865,879
State & Public Defender	16,810	12,920	-	-	9,589	39,319
Transportation	22,506	216,736	194,379	-	465,231	898,852
Treasury	224,220	367,079	571,964	385,346	10,693	1,559,302
Miscellaneous	-	1,310	-	-	-	1,310
Inter-Departmental	-	1,442,064	-	-	12,272	1,454,336
Total	**$ 7,475,165**	**$ 4,792,198**	**$ 5,160,616**	**$ 495,544**	**$ 608,273**	**$ 18,531,796**

FUND BALANCES

The State ended Fiscal Year 1999 with an undesignated fund balance of $1.3 billion for the major governmental funds. The Surplus Revenue Fund is used to account for revenues reserved for appropriation, a) in the event that anticipated revenues in the General Fund are estimated to be less than those certified by the Governor upon approval of the annual Appropriations Act, b) in the event that the State Legislature finds that an appropriation from this fund is preferable to raising revenue through a modification of the tax structure, or c) to meet an emergency which requires an immediate response in the protection of the life, safety, or well-being of the citizens of the State as determined by the Governor and approved by the Joint Budget Oversight Committee of the State Legislature. The Surplus Revenue Fund was established by P.L. 1990, c. 44. The significant increase in the Surplus Revenue Fund was the result of revenues realized in excess of the Appropriations Act anticipation and interest. The Property Tax Relief Fund accounts for revenues from the New Jersey Gross Income Tax. Appropriations from this fund must be used exclusively for the purpose of reducing or offsetting property taxes. The Fiscal Year 1999 expenditures from this fund exceeded the revenue realized, thereby reducing the fund balance by $131.1 million. The Casino Revenue Fund accounts for the tax on gross revenues generated by casinos. Appropriations from this fund must be used for reductions in property taxes, utility charges and other specified expenses of eligible senior citizens.

The following table presents a comparison of the components of the undesignated fund balances at the end of Fiscal Year 1999 and Fiscal Year 1998:

FUND BALANCES

Fund	**Fiscal Year 1999**	**Fiscal Year 1998**	**Increase/Decrease**
General Fund	$ 276,145,144	$ 228,263,668	$ 47,881,476
Surplus Revenue Fund	626,866,844	534,109,930	92,756,914
Property Tax Relief Fund	363,801,670	494,937,261	(131,135,591)
Casino Revenue Fund	--	--	--
Total	$ 1,266,813,658	$ 1,257,310,859	$ 9,502,799

Fiscal Year 2000 Revenue Projections

The Fiscal Year 2000 revenue projections are based on estimates of moderating economic growth. Although the underlying economic indicators are strong, forecasters anticipate a slowing in the growth of the country.

Fiscal Year 2000 revenues are projected to be $19.3 billion, $1.1 billion above Fiscal Year 1999 revenue. Projected revenue changes in Fiscal Year 2000 for the State's three major taxes over Fiscal Year 1999 are as follows: the Sales Tax is expected to increase by $278.1 million or 5.5 percent, the Gross Income Tax is expected to increase by $496.1 million or 7.8 percent, and the Corporation Business Tax is expected to increase by $36.8 million or 2.6 percent. While there is a projected increase in revenues over Fiscal Year 1999 level, the percentage increase is expected to be less than prior years. This reflects the anticipated moderation of the economy and decreases in capital gains income growth.

Fiscal Year 2000 resources, including the Fiscal Year 2000 opening balance, are projected at $20.3 billion. The State's three major taxes as a percent of total resources are as follows: Gross Income Tax represents 33.5 percent; Sales Tax represents 26.1 percent; and Corporation Business Tax represents 6.9 percent. The State's three major taxes are projected to represent 66.5 percent of total resources.

Projected Fiscal Year 2000 revenue anticipates the receipt of $92.8 million from the Tobacco Settlement. This represents the initial payment from the Master Settlement Agreement (MSA) reached in November 1998 between 46 states and the major tobacco companies. New Jersey is expected to receive payments totaling $7.459 billion over the next 25 years. These payments are subject to inflation and changes in national smoking trends as well as other offsets and credits outlined in the MSA. The Fiscal Year 2000 budget plans to use all of the $92.8 million for health related programs.

Projected Fiscal Year 2000 revenue also anticipates an increase of $62 million from the State Lottery due to the introduction of the Big Game. The Big Game is a multi-state on-line lottery game which can afford jackpots in excess of $100 million. The game was introduced in May 1999 and within a few months had a jackpot of over $110 million. The proceeds from this game are expected to be used to fund school construction projects.

Fiscal Year 2000 Appropriations

The total Fiscal Year 2000 appropriation is $19.6 billion. Of the $19.6 billion appropriated in Fiscal Year 2000 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, $7.9 billion (40.4%) is appropriated for State Aid to Local Governments, $6.0 billion (30.5%) is appropriated for Grants-in-Aid, $4.3 billion (22.1%) for Direct State Services, $0.5 billion (2.6%) for Debt Service on State General Obligation Bonds, and $0.9 billion (4.4%) for Capital Construction.

State Aid to local governments constitutes the most important aspect of fiscal year 2000 appropriations. These funds are essential in the funding of local government operating costs as well as property tax relief. In Fiscal Year 2000, $7.9 billion will be distributed to municipalities, counties, and school districts. Major State Aid programs are: Aid to School Districts ($6,096.5 million), Unrestricted Aid to Municipalities and Counties through the Department of Community Affairs ($898.4 million), Aid to Municipalities and Counties through the Department of the Treasury ($248.4) and Aid to County Colleges ($174.4 million).

The Grants-in-Aid represent the second largest portion of the State's Fiscal Year 2000 appropriation. In Fiscal Year 2000, $6.0 billion has been appropriated. These funds are distributed to individuals, public agencies, or private agencies as direct benefits or to provide services. The largest grants-in-aid programs are: Human Services programs ($2,296.0 million), Higher Education ($1,472.3 million), Health and Senior Services programs ($1,127.3 million), Property Tax Relief Programs ($518.3 million), and Public Transportation ($149.2 million).

The Direct State Services Fiscal Year 2000 appropriation is $4.3 billion. These funds support the operating costs of the Executive Departments, the Judiciary and the State Legislature. The largest appropriations are for the following departments: Corrections ($749.3 million), Human Services ($524.6 million), and Law and Public Safety ($391.3 million).

Debt Service for General Obligation Bonds is $0.5 billion. This amount reflects the cost of financing various infrastructure and environmental projects that have been approved through prior voter referenda.

Capital Construction appropriations for Fiscal Year 2000 total $0.9 billion. Of this amount, $477.8 million is the appropriation to the New Jersey Transportation Trust Fund Authority, $98.0 million is for open space preservation, $66.3 million is for hazardous substance remediation and underground tank remediation, and $25.0 million is for shore protection.

SERVICE EFFORTS AND ACCOMPLISHMENTS

The following sections highlight various service efforts and accomplishments the State has achieved during Fiscal Year 1999 as well as some of the goals the State hopes to achieve for Fiscal Year 2000.

Fiscal Year 1999

Governor Whitman delivered on her promise to cut auto insurance as sweeping auto reform legislation was signed into law on May 19, 1998. During Fiscal Year 1999, the Office of the Insurance Fraud Prosecutor was established within the Department of Law and Public Safety in the Division of Criminal Justice in order to provide more effective investigation and prosecution of insurance fraud matters. The Division of Fraud Prevention formerly in the Department of Banking and Insurance was consolidated into the newly established Office of the Insurance Fraud Prosecutor. Auto insurance rates have been reduced during 1999 through the implementation of the following new regulations: medical protocols, personal injury protection limits, named driver exclusion, lawsuit threshold, arbitration system, buyers' guide and coverage selection form, and basic automobile insurance policy.

As a result of recent regulatory developments at the State and Federal level, legislation has been enacted to begin the transition of utilities into a competitive, free market environment. The manner in which energy producers conduct business in New Jersey and the way consumers buy and consume energy products in the State is expected to be altered dramatically. The legislation addresses the need to restructure energy taxation rates so that the continual erosion of tax revenue for annual distribution to municipalities and the State's General Fund is prevented. In its place, electric, gas, and telecommunications utilities are subject to the State's Corporation Business Tax. The State's existing Sales and Use Tax, with certain exceptions, is applied to retail sales of electric and natural gas, and a transitional energy facility assessment will be applied for a limited time on electric and gas utilities. The five year phase out of the assessment began in Fiscal Year 1999 and continues in Fiscal Year 2000. Under companion legislation, municipalities were guaranteed an annual State Aid distribution of at least $745.0 million from these replacement revenues. This amount reflects an increase of $5.0 million over Fiscal Year 1998.

The Property Tax Deduction Act was fully implemented in Fiscal Year 1999. The property tax payments assessed for calendar year 1998 up to $10,000 can be deducted from State income tax returns, reducing net tax burdens by $250 million.

State School Aid to local districts in Fiscal Year 1999 totaled $5.937 billion; this included $5.012 billion in direct aid and an additional $925.0 million in aid to local districts for the employers' share of teachers' pensions and social security payments. The key item of funding was Core Curriculum Standards Aid, which is geared to support the newly adopted core curriculum standards. This includes seven areas of measurable, grade-appropriate levels of accomplishment: Language Arts/Literacy, Mathematics, Science, Social Studies, Visual and Performing Arts, Physical and Mental Health Education, and World Languages. The total ($2.748 billion) was distributed based on a measure of local districts' property wealth and per capita income. Core Curriculum Standards Aid represented approximately five percent of the formula aid amount distributed in Fiscal Year 1999.

The State School Aid appropriations for Fiscal Year 1999, includes significant funding for specific initiatives including $302.7 million for Early Childhood Education, $187.7 million for Demonstrably Effective Programs, and $52.3 million for the development of a statewide Distance Learning Network. On May 14, 1997, the State Supreme Court ruled that the new school funding law did not provide sufficient funding for the plaintiffs in the Abbott v. Burke case. As a result, the Fiscal Year 1999 Budget contains $255.3 million to provide additional parity aid to these districts. On May 21, 1998, the State Supreme Court accepted the State's plan to use a nationally acclaimed reading-based program called "Success for All" and other "whole-school reforms" to assure the "thorough and efficient" education required by the State constitution.

The State successfully completed the refinancing of its pension obligations at the end of Fiscal Year 1997. This was accomplished through the issuance of pension obligation bonds that were used to finance the former unfunded accrued liability. The Pension Security Plan of 1997 resulted in significant cost avoidance for Direct State Services, State Aid, and local employers participating in the Public Employees Retirement System and Police and Firemen's Retirement System. The following chart reflects combined actual and projected savings of normal and unfunded accrued liability contributions for these three groups from Fiscal Year 1997 through 2000. The total cost avoidance for this period is in excess of $1.6 billion.

Pension Security Plan Cost Avoidance
for Direct State Services, State Aid and Local Employers
(Expressed in Millions)

	Actual			Projected	
	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 97-00
Direct State Services and State Aid:					
Normal Contributions	$ 193	$ 354	$ 225	$ 496	$1,268
Unfunded Accrued Liability Contributions	60	---	---	---	60
Direct State Services and State Aid Cost Avoidance	253	354	225	496	1,328
Local Pension Contribution Savings	---	88	102	118	308
Total Pension Security Plan Cost Avoidance	$ 253	$ 442	$ 327	$614	$1,636

On November 5, 1996, the voters of the State, through voter referendum, amended the New Jersey Constitution to provide that an amount equivalent to 4.0 percent of the revenue annually derived from the Corporation Business Tax be deposited in a special account for appropriation for the following purposes and in the following manner: 1) a minimum of 1/2 for funding State costs relating to hazardous discharge remediations; 2) a minimum of 1/3, dedicated until December 31, 2008, for funding loans and grants for underground storage tank upgrades and replacements; and 3) a minimum of 1/6 or $5.0 million, whichever is less, for funding costs related to water quality monitoring, watershed planning, and nonpoint source water pollution prevention. The total dedicated for Fiscal Years 1997 through 1999 from the Corporation Business Tax revenues was $151.3 million.

Fiscal Year 2000

State School Aid to local districts in Fiscal Year 2000 totals $6.209 billion, an increase of $272.0 million. A new $112.0 million appropriation for a school construction and renovation fund is included. This fund is supported through the dedication of a portion of the $.40 increase per pack in the cigarette tax and the dedication of revenues from the "Big Game" Lottery. The total for formula aid programs for Education is $5.337 billion, including $2.845 billion for core curriculum standards aid, $682.3 million for special education, $312.7 million for early childhood aid, and $265.8 million for pupil transportation aid. There is an appropriation of $710.4 million for the employer's share of teachers' pensions and social security payments.

Funding in the amount of $98.0 million is constitutionally dedicated for open space as follows: $85.4 million for pay-as-you-go open space acquisition and farmland preservation, $6.2 million for local park development, $6.0 million for historic preservation and $.4 million for various projects. Over the next ten years one million acres of open space and farmland will be saved through this program. In addition, over this same period, $100 million of this funding will be used for urban, suburban and rural park development and $63 million to preserve historic sites.

The New Jersey Transportation Trust Fund Authority, with the consent of the legislature will increase its annual spending authorization by $200.0 million in Fiscal Year 2000. Of the $200.0 million increase, the majority will be allocated to State highway and bridge projects. Total available funding for this program, when factoring in Federal dollars (including NJ Transit) will grow to $1.9 billion making this the largest annual construction program in the Department of Transportation's history.

There is $92.8 million from the recent settlement with the tobacco industry which will be used to fund the following programs: $18.6 million for anti-smoking initiatives, $7.3 million media campaign, $2.6 million for cessation programs for addicted adults and children, $1.7 million for research, surveillance, evaluation and assistance for anti-smoking programs, $2.2 million for a school based prevention program, $4.8 million for a community based tobacco control program, $36.4 million for state employees' health benefits, $10.3 million for ElderCare initiatives $8.7 million for Pharmaceutical Assistance to the Aged claims, $3.0 million for substance abuse initiatives and $2.7 million for cancer screening.

Beginning in Fiscal Year 2000 a new program will be implemented to provide direct school property tax relief. This program, know as the NJ SAVER, will be phased in over five years. This program will offset the school taxes on the first $45,000 of assessed value on homes. After completion of the five year phase in, it will provide $1 billion per year of property tax relief to homeowners, with the New Jersey homeowner receiving, on average, a check in the amount of $600 each year.

This budget also appropriates $23.7 million to provide a homestead rebate tax reimbursement ("Property Tax Freeze") to over 200,000 senior and disabled homeowners, whose property taxes are effectively frozen under recently enacted legislation. Claimants must be age 65 or older, or disabled residents, with incomes below $17,918, if single, or $21,970, if married. The eligible homeowners under the property tax freeze receive a check from the State, which reimburses them for the difference between their current year property taxes paid and their 1997 property taxes paid. The effect is to freeze their property taxes at the 1997 amount.

There is a $74.8 million appropriation for KidCare, a program that provides health insurance for children whose parents cannot afford to purchase it. This expansion coverage is 35% State funded and 65% Federally funded. The NJ KidCare program provides a comprehensive array of health services to qualified children who have been without medical coverage for six months and are not eligible for Medicaid.

In October 1999, legislation was enacted (the Emergency Disaster Relief Act of 1999) which appropriated $80 million from the state's surplus revenue fund for disaster relief for victims of Hurricane Floyd and the farmers hurt by the drought of 1999.

COMPONENT UNITS

The component units include the accounts of the various public authorities, colleges, and universities. These authorities are legally separate entities that are not operating departments of the State. Governing boards are vested with the power to independently manage the component units. Each component unit is established for a specific purpose for the benefit of the State's citizenry, such as economic development, public transportation, subsidized housing, environmental protection, and capital development for health and education purposes.

Authorities

Casino Reinvestment Development Authority
Hackensack Meadowlands Development Commission
Higher Education Student Assistance Authority
New Jersey Building Authority
New Jersey Commerce and Economic Growth Commission
New Jersey Development Authority For Small Business, Minorities' And Women's Enterprise
New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Environmental Infrastructure Trust
New Jersey Health Care Facilities Financing Authority
New Jersey Highway Authority
New Jersey Housing And Mortgage Finance Agency
New Jersey Redevelopment Authority
New Jersey Sports and Exposition Authority
New Jersey Transit Corporation
New Jersey Transportation Trust Fund Authority
New Jersey Turnpike Authority
New Jersey Water Supply Authority
South Jersey Port Corporation
South Jersey Transportation Authority

Colleges And Universities

The College of New Jersey
Thomas Edison State College
Kean University
Montclair State University
New Jersey City University
New Jersey Institute of Technology
The William Paterson University of New Jersey
Ramapo College of New Jersey
Rowan University
Rutgers, The State University of New Jersey
The Richard Stockton College of New Jersey
University of Medicine And Dentistry of New Jersey

Combined operating revenues and expenses for the State's authorities amounted to $2.8 billion and $3.5 billion, respectively, for Fiscal Year 1999. Total operations along with other financing sources and uses contributed to a total combined fund balance at fiscal year end of $13.7 billion.

For Fiscal Year 1999, combined revenues for the state colleges and universities were $2.9 billion. Combined expenditures totaled $3.6 billion. Total operations along with other financing sources and uses contributed to a total combined fund balance at fiscal year end of $3.4 billion.

GENERAL FIXED ASSETS

The general fixed assets of the State are used in the performance of general governmental functions and exclude the fixed assets of the component units. As of June 30, 1999, the general fixed assets of the State amounted to $2.6 billion. This amount represents the actual or estimated cost of the assets. Depreciation of general fixed assets is not recognized in the State's accounting system. Infrastructure assets, consisting primarily of highways, roads, and bridges, are not recorded in the general fixed assets.

DEBT ADMINISTRATION

As of June 30, 1999, outstanding General Obligation Debt totaled $3.6 billion. General Obligation Debt must be approved by voter referendum and is used primarily to finance various environmental projects, transportation infrastructure, and correctional and institutional construction.

The State's Master Lease Program is used primarily to finance various departmental equipment needs at tax-exempt rates by issuing Certificates of Participation. Beginning in Fiscal Year 1996 the State modified the Master Lease Program and began using a line of credit as the preferred method of financing various departmental equipment needs. As of June 30, 1999, outstanding Certificates of Participation totaled $115.7 million and the State's outstanding balance on its line of credit totaled $52.7 million.

The State first began issuing Tax and Revenue Anticipation Notes during Fiscal Year 1992, in order to provide effective cash flow management of imbalances which occur in the timing of collections and disbursements of State revenues and expenditures. The State Treasurer is authorized to issue these types of instruments without constituting a general obligation of the State, or a debt, or a liability within the meaning of the State Constitution. All short-term notes that are issued must be retired within twelve months of their issuance date. The State has issued and retired short-term notes in prior fiscal years that have ranged from a high of $1.8 billion in Fiscal Year 1992 to a low of $450 million in Fiscal Year 1996. Beginning in Fiscal Year 1996, the State began issuing commercial paper as the sole instrument for meeting its cash flow needs. During Fiscal Year 1999, the State issued $700.0 million in commercial paper. The entire amount was retired on June 15, 1999.

The State funds its capital appropriations by authorizing the issuance of long-term bonds. The following table sets forth the trend of the State’s tax-supported long-term indebtedness for the last five years:

LONG TERM DEBT
(Expressed in Billions)

Fiscal Year	Authorized-Unissued	Principal Amount of Outstanding Long-Term Debt
1999	$ 1.1	$ 3.6
1998	1.5	3.6
1997	1.9	3.4
1996	1.6	3.7
1995	1.5	3.6

As of June 30, 1999, Standard and Poor’s Corporation, Moody’s Investors Service and Fitch Investors Service rate the State’s long-term general obligation debt AA+, Aa1 and AA+, respectively. The State’s Certificates of Participation are rated AA- by Standard and Poor’s and by Moody’s.

CASH MANAGEMENT

The State's Division of Investment was created by law in 1950 in order to centralize all functions relating to the purchases, sales, or exchanges of securities for the State's diverse funds under experienced and professional management. The statute provides investment authority to the State Investment Council and to the Director of the Division. The State Treasurer appoints the Director from a field of candidates selected by the State Investment Council. The role of the State Investment Council is to formulate investment policies and procedures to be followed by the Director. State legislation provides that the State Investment Council may issue regulations, which specifically approve and authorize any form of investment. The State Investment Council has taken the position that the Division of Investment is bound by law to make prudent investments for the sole and direct financial benefit of the beneficiaries of the various funds under its supervision, and that the Division of Investment may not make any concession as to the rate, risk, or terms which would benefit any other party at the expense of the beneficiaries of the funds.

Unused cash is invested primarily in the New Jersey Cash Management Fund. The fund provides the State, its authorities and agencies, local municipalities, and school districts with a vehicle for short-term investment. For the fiscal year ended June 30, 1999, the New Jersey Cash Management Fund's average daily annualized rate of return for participating state accounts was 5.15 percent. For "Other-than-State" participants the average daily annualized rate of return, which includes charges for administrative and operating expenses, was 4.98 percent for the fiscal year ended June 30, 1999.

RISK MANAGEMENT

New Jersey's risk management function is performed within the Department of the Treasury and operates to reduce the adverse impact of catastrophic loss on State operations and budgets through a combination of risk management and loss prevention techniques. The Office of Risk Management administers claims against the State and its employees under the Tort Claims Act, Workers Compensation statute, and various Federal laws, as well as claims on behalf of the State against others responsible for damage to the State, its employees, and its property.

YEAR 2000

A major challenge confronting most government officials is the Year 2000 data processing problem. In order to address this problem and ensure the continuation of government operations into the Year 2000 and beyond, the State established a committee to work with the departments to identify and address Year 2000 renovation efforts and funding needs. A moratorium was imposed in February 1998 on all non Year 2000 related data processing activities to ensure availability of resources for Year 2000 compliance.

The State Office of Information Technology and the various departments are utilizing both in-house and vendor resources in renovating lines of code and in-house applications. While there can be no guarantee that all the State's mission-critical and high-priority computer systems will be Year 2000 compliant, the State is concentrating efforts so that there will not be an adverse impact upon State operations or State finances as a result. As of June 30, 1999, the testing, validation, and implementation phases of approximately 96 percent of all critical centrally maintained systems was completed. For a more complete description of this matter, refer to the required supplementary information on Year 2000.

AUDIT INFORMATION

The principal auditor of the State's reporting entity is the legislative Office of the State Auditor. Their examination was conducted in accordance with generally accepted auditing standards and their opinion precedes the General Purpose Financial Statements. Outside public accounting firms have been used for the audits of separately issued component units and college and university fund financial statements. In addition, the Office of the State Auditor conducts periodic financial and expanded scope audits of the various State agencies. This audit received an unqualified opinion for all funds contained in this Comprehensive Annual Financial Report.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada has awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of New Jersey for its Comprehensive Annual Financial Report for the year ended June 30, 1998.

In order to qualify for the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe our current report continues to conform to the Certificate of Achievement Program requirements.

ACKNOWLEDGMENTS

Finally, we would like to express our appreciation to the many people in the Office of Management and Budget and the Office of the State Auditor whose dedicated efforts made possible the preparation of this report. We believe that their combined efforts have produced a report that will provide a means for government, the financial community, decision makers, and concerned citizens to better understand and evaluate the State's financial condition.

Sincerely,

Roland M. Machold
State Treasurer

Charlene M. Holzbaur
Acting State Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of New Jersey

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

ORGANIZATION OF NEW JERSEY STATE GOVERNMENT