

SECTION I
COMMISSION ACTIVITIES
Fiscal Year 2008

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Commission Activities

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Role of the New Jersey Commission on Capital Budgeting and Planning

The New Jersey Commission on Capital Budgeting and Planning, established in 1975, provides the State with a systematic and concentrated focus on the investment of limited capital resources and preservation of capital assets. Acting in an advisory role to the Governor and the Legislature, the Commission's specific responsibilities are:

- To develop and maintain, on an ongoing basis, short and long-range capital spending plans for the State;
- To analyze and report on the impact of capital spending programs on future operating budgets;
- To develop a State Capital Improvement Plan for short and long-range capital investments;
- To recommend to the Governor and the Legislature capital projects for inclusion in the annual budget;
- To recommend the means by which capital projects should be funded;
- To comment on capital projects recently completed or under construction;
- To make recommendations as to the maintenance of State facilities.

Comprised of four public members, four legislative members, and four members from the Executive Branch, the Commission is designed to be a permanent and bipartisan body. The Commission's staff consists of an executive director and staff from the Capital Planning Unit of the Office of Management and Budget.

Enabling Legislation

In 1996, the Legislature amended the statute (P. L. 1975, c.208) that created the Capital Planning Commission (*Appendix A, Commission Legislation*). The 1996 amendment expanded the Commission's responsibilities to include:

- A report on the State's overall debt
- An assessment of the State's ability to increase its overall debt
- A recommendation on the amount of increase in the debt, if any

In addition, the manner of appointing the four public members, who were previously selected by the Governor, was changed. Under the new legislation, the Governor appoints two members while the President of the Senate and the Speaker of the Assembly each appoints one member. The chairperson of the Commission, previously selected to serve at the pleasure of the Governor, is now annually elected from the four public members.

NJ Capital Planning Process

In addition to the Capital Planning Commission, the Office of Management and Budget (OMB) and the Treasurer (who is a member of the Capital Planning Commission) determine the amount of funding available and provide target figures for the up-coming fiscal year's capital recommendations. The Governor's office, as the final arbiter of all requests and recommendations, provides guidance to ensure capital recommendations meet policy goals and objectives. Consequently, a member of the Governor's Office is also represented on the Capital Planning Commission. By statute, the capital process also includes participation of the New Jersey State Planning Commission, the Council of Economic Advisors, and the Office of Public Finance. This ensures a comprehensive and exhaustive review at all levels of government of the capital needs and funding requirements necessary to meet the most crucial capital needs of the State.

The state agencies are responsible for evaluating the condition of their facilities, determining the priorities, estimating the cost for construction, and preparing a seven-year capital plan. They appear before the Capital Planning Commission to present testimony on their capital needs, and provide additional information as requested by the Commission.

Capital Data Base

To provide a consistent and integrated system for capital requests and information, New Jersey uses a computerized database program. The program is the foundation for all capital requests submitted annually to the Capital Planning Commission and to the Office of Management and Budget. Designed in-house, it meets the specific need for information and includes such items as project descriptions and justifications, priorities, costs and source of funding, phases, project categories (new construction, rehabilitation, roof replacements, etc.). It resides on the State's information network and is accessible to all participating agencies. Based on the information submitted in the capital projects requests, the program generates specific reports, which then are reviewed and analyzed by the Capital Planning Commission and OMB.

In addition to their annual capital requests, the agencies are required to present their capital needs over short range, (three years) and long-range (seven years) periods. This permits the preparation and publication of the State's annual capital improvement plan.

Capital: Definition and Funding Methods

A capital project includes the acquisition of land, new structures and equipment, and other projects whose cost of land, planning, furnishing and equipment is estimated over \$50,000. Projects or acquisitions under \$50,000 are appropriated in the maintenance accounts in the Direct State Services Section of the Budget.

New Jersey funds capital projects by means of four methods:

- Through general obligation bonds approved by voters and guaranteed by the State;
- Through bonds issued by semi-autonomous authorities, usually repaid over the life-expectancy of the project repaid by annual appropriation of the legislature;
- Annual pay-as-you-go capital appropriations and;
- A master lease program.

In the master lease program, debt service on projects cannot exceed three years and the useful life must be at least five years. The types of projects funded through the master lease include automobiles, computers, and telecommunication systems. This is in contrast to new construction, major rehabilitation of buildings, land acquisition, with a useful life of at least 20 years, undertaken by semi-autonomous authorities or paid through general obligation bonds. The pay-as-you-go capital projects are funded through annual appropriations. These projects include roof replacements, building equipment acquisition, renovations, life/safety improvements, and mandated programs such as open space acquisition, shore protection, remediation of hazardous waste and industrial sites, and transportation programs.

Funding Criteria

Because of the large number of capital requests, the Commission to applied strict criteria to ensure that only the most necessary and worthwhile projects were recommended for funding. New Jersey, like many other states, faced major budget shortfalls in fiscal 2006 and 2007, which are projected to continue into 200. The Commission, therefore, centered its attention on projects that were mandated by statutes, projects for which dedicated funds were available, requests that generated federal matching funds, proposals essential to protection of life/safety and preservation of State assets, and capital needs critical for continuance of essential programs and services.

Consultations with Other Agencies

Capital investments can have either a positive or negative effect on the environment, population, and employment growth. Consequently, to prevent negative impacts the Commission interacted with the Office of Smart Growth and the Council of Economic Advisors on proposed capital requests.

Fiscal 2008 Capital Recommendations

For fiscal year 2008, the Commission was presented with \$3.3 billion in General Fund capital requests from State departments and agencies. After holding public hearings from September through December of 2006, the Commission recommended a \$1.164 billion capital program to be financed from the General Fund. In recommending the capital program, the Commission applied strict evaluation criteria to ensure the inclusion of only the most urgent and necessary projects.

Of the \$1.164 billion recommended for capital construction, approximately \$1.08 billion was for programs funded by dedicated revenue in the State Budget. Of the dedicated revenues, the Commission recommended \$895 million for transportation infrastructure improvements, \$25 million for shore protection, \$15.5 million for park development, \$25.9 million to clean up contaminated industrial sites, \$21.3 million for mitigation of hazardous waste sites, and \$98 million for open space preservation,. The balance of \$83.8 million was for discretionary projects for departments and agencies. A summary of the recommendations by department is displayed in Table 1.

Table 1
FY 2008 Capital Recommendations (\$000's)

| <u>Department</u> | <u>Recommended</u> |
|--|--------------------|
| Agriculture | \$50 |
| Corrections | 14,496 |
| Education | 2,800 |
| Environmental Protection | 93,441 |
| Health and Senior Services | 400 |
| Human Services | 19,000 |
| Law & Public Safety | 2,100 |
| Juvenile Justice Commission | 4,550 |
| Military & Veterans' Affairs | 340 |
| Department of State | 110 |
| Higher Education Institutions | 0 |
| Thomas Edison College, The State Library | 360 |
| Transportation | 895,000 |
| Treasury (OIT) | 11,800 |
| Interdepartmental Accounts | 119,960 |
| The Judiciary | 0 |
| Total | \$1,164,407 |

In addition to the \$1.16 billion capital recommendation, funds derived from the proceeds of the sale of surplus State property may be used to repair, renovate, demolish and construct facilities, and provide funding to comply with building codes and environmental regulations. Major construction projects

proposed in the annual Seven-Year Capital Improvement Plan may also be funded through sources other than the General Fund that include the New Jersey Building Authority, the Economic Development Authority, general obligation bond funds, and other funding sources.

Highlights -- Recommendations by Departments and Programs

Environmental Protection

For fiscal 2008, the Commission recommended \$93.5 million for the Department of Environmental Protection. Of this amount, the legislatively mandated projects include \$21.3 million was for eliminating hazardous waste sites, \$25.9 million for remediation of brownfields, \$15.5 million for state parks, \$25 million for shore protection. In addition, the Commission recommended \$5.8 million for flood control programs. The Commission's recommendations will leverage an additional \$66 million in federal funds and \$7.2 million in local funds.

Department of Transportation

New Jersey lies at the heart of a giant metropolitan area stretching from Boston to Washington, D.C. To take advantage of this unique position, New Jersey's highways, buses, and rail service must provide businesses with a responsive and reliable transportation system that moves people and goods effectively. To ensure such a system's effectiveness, the fiscal 2008 recommendation for the Transportation Trust Fund (TTF) is \$895 million, an increase of \$90 million over fiscal 2007. The funds are derived from the constitutional dedications of motor fuel taxes, the petroleum products gross receipts tax, and a portion of the sales tax. Such funds will pay for debt service on bonds issued by the Transportation Trust Fund Authority and for capital improvements to the State's highway and mass transit systems. When combined with available federal and other funds, the TTF will generate over \$3.2 billion, the largest program ever, for transportation improvements in fiscal 2008.

Interdepartmental Accounts

For fiscal 2008, \$119.9 million is recommended in the Interdepartmental budget to preserve the buildings in the Trenton Capital Complex, remove hazardous materials in State buildings, install energy efficient equipment, provide access to people with disabilities, improve security, and to preserve and secure open space, farmlands, parks, and historic sites. A breakdown of the recommendation is presented below.

The Commission recommends \$7.9 million to maintain and preserve the various buildings in the Capital Complex. The funds will be used for critical repairs, energy projects, and fire and life/safety projects.

To comply with federal and State mandates, \$2.5 million was recommended. Of this amount, \$1.5 million is to remove hazardous materials such as asbestos, PCBs, and lead paint from State facilities, and \$1 million to remove physical barriers in State buildings. Removal of such barriers is required by the Americans with Disabilities Act.

Because of the September 11 terrorist attack, security issues remain a major concern. Consequently, the Commission recommends \$1.5 million to upgrade security systems in the Capital Complex. Projects include installation of special locks, video cameras, anti-ram barriers, and other protective measures.

As part of the mandated programs from a constitutional dedication of the sales tax, the Commission recommended \$98 million for acquisition of open space, development of parks, and preservation of farmlands and historic sites -- with the goal of preserving one million acres from development.

The Commission also recommended \$10 million to institute a roof replacement and repair program for all state facilities. This is the first year of a new program, which will be centrally managed by the Treasury Department, criteria will be established for roof replacement and repairs at all state facilities.

Other Capital Recommendations

Other funding recommended for various departments totaled \$XXX million for preservation, life/safety, compliance, and critical projects.

A total of \$14.5 million is recommended for the Department of Corrections. Of this amount, \$6.5 million is for new modular trailer units, \$4 million for fire/life safety compliance, and \$4 million to replace the hot water line at South Woods prison.

The recommendation for the Department of Human Services is \$19 million. This includes \$6 million for HVAC improvement at various facilities, \$6.7 million to Ancora Psychiatric hospital to connect to the municipal sewer authority, \$3.5 million to replace underground steam lines at North Jersey Developmental Center, and \$2.8 million to replace the steam and chilled water lines at the Hunterdon Developmental Center.

For the Juvenile Justice Commission, \$4.6 million is recommended. This will fund critical repairs (\$.5 million), fire/safety improvements at the Training School for Boys (\$1.3 million), and \$2.8 million to connect the Training School to the municipal sewer authority.

To ensure that the Office of Information Technology has the capability to provide necessary and essential functions, \$11.8 million is recommended. Of this amount, \$1.5 million is to detect and eliminate intrusions into the State databases, \$2.3 million to replace HVAC's and uninterruptible power supply systems, \$5 million to continue phase three of the OIT Availability and Recovery Site program, and \$3 million for data storage and expansion. Such funds are necessary to protect key data processing functions, provide data backup capabilities, improve e-mail connectivity, and provide more efficient access to online services.

The Commission also recommends capital funding for other departments, specifically:

- For the Department of Military and Veterans Affairs, \$340,000 is recommended for installation of fire suppression systems and HVAC replacements at the Paramus Veterans' Home.
- For the Department of Agriculture, \$50,000 is recommended to retrofit an existing laboratory to detect Avian flu.
- For the Department of Education, \$2.8 million is recommended. Of this amount, \$400,000 is for installation of a fire sprinkler system at the Morris Regional Day School and \$2.4 million for a phased upgrade of a fire alarm system at the Marie Katzenbach School for the Deaf.
- For the Department of Law and Public Safety, \$2.1 million is recommended to upgrade electrical systems at various locations.
- For the Department of State, \$110,000 is recommended to replace a public address system at the State Museum.
- For the State Library for the Blind, \$360,000 is recommended to provide audio/visual equipment for digital broadcasting.
- And for the Department of Health and Senior Services, \$400,000 is recommended to replace outdated laboratory equipment.

Maintenance of State Facilities

As part of its mission, the Commission is required to comment on the maintenance of State buildings and building systems. The Commission recommends that State departments and agencies review their facility maintenance operations to ensure that they adhere to the principles, practices and techniques of maintenance management. Because proper maintenance is critical to the protection and preservation of

New Jersey's capital assets, each facility's maintenance operation should, at a minimum, incorporate a set of management practices that include:

- An inventory of maintenance significant items, such as HVACs, pumps, motors, and other electrical and mechanical systems;
- A preventive maintenance program;
- A work order system that distinguishes the various types of maintenance work performed;
- A work control center responsible for planning, estimating, scheduling, and tracking work;
- A materials inventory system;
- A maintenance management information system that determines what has been accomplished with the available work force, time, and material resources.

The Commission strongly believes that adherence to such principles, practices, and techniques will preserve the State's capital investments in buildings, equipments and building systems, and prevent premature deterioration and replacements.

Long-term Debt Recommendations

The Capital Planning Commission is required to report on the overall State debt, assess the State's ability to increase such debt, and to recommend the amount of increase, if any. In November 2006, the Commission reviewed the *Debt Report* submitted by the Office of Public Finance and voted to accept the *Report's* findings, which included financial management goals to:

- Maintain and enhance the State's long-term credit rating;
- Maintain and enhance the State's short-term credit rating;
- Authorize new general obligation debt in an amount equivalent to the amount retired;
- Continue a policy of minimizing debt subject to appropriation;
- Continue a balanced approach to the mix of pay-as-you-go capital and bonded debt;
- Balance the implementation of capital improvements with the need to minimize debt.

The Commission advocates a prudent policy of debt management to ensure fiscal responsibility. Projects undertaken by means of long range financing, whether through general obligation debt or debt subject to appropriation, must be essential to the citizens of the State and critical to State operations.

The Commission endorses the concept that pay-as-you-go capital funds should be used primarily for repairs, renovations, and additions to State-owned facilities. Projects funded with pay-as-you-go capital are relatively small, less costly, and can be funded through annual appropriations. General obligation debt and debt incurred by autonomous authorities, however, should be used to finance costly capital construction projects that yield substantial benefits to present and future generations. Such projects should have a useful life equal to, or exceeding, the time required to retire the debt.