

SECTION I
COMMISSION ACTIVITIES
Fiscal Year 2013

Commission Activities

Role of the New Jersey Commission on Capital Budgeting and Planning

The New Jersey Commission on Capital Budgeting and Planning was established in 1975 (P.L.1975, c. 208) and 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 a State Capital Improvement Plan and submit it to the Governor and the Legislature.
- To recommend capital projects for inclusion in the annual budget.
- To analyze and report on the impact of capital spending programs on future operating expenses.
- To develop and prioritize short and long-term capital spending plans and the means to fund them.
- To comment on capital projects recently completed or under construction.
- To make recommendations as to the maintenance of State facilities.
- To consider the annual State of New Jersey Debt Report.

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. Of the four public members, 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 is annually elected from the four public members. The Commission's staff consists of an executive director and staff from the Office of Management and Budget, (OMB).

New Jersey's Capital Planning Process

In addition to the Capital Planning Commission, the Treasurer or his/her designee, who is a member of the Capital Planning Commission determines the amount of funding available and provides target figures for the upcoming 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. Accordingly, a member of the Governor's Office is also represented on the Capital Planning Commission.

State agencies are responsible for evaluating the condition of their facilities, determining their priorities, estimating capital costs, and preparing a seven-year capital request. These agencies have the opportunity to appear before the Capital Planning Commission to present testimony on their capital requirements and provide additional information as requested by the Commission.

Capital Data Base

To provide a consistent and integrated system for capital requests and information, the State of New Jersey uses a database that resides on the State's information network and is accessible to all participating agencies. In addition to their annual capital requests, agencies are required to input their capital needs over short-range (three years) and long-range (seven years) periods. The Capital Data Base is the foundation for all capital requests submitted annually to the Capital Planning Commission and includes such items as project descriptions and justifications, priorities, costs and source of funding, impact on future operating costs, phases and project categories (new construction, rehabilitation, roof replacements, etc.). The information submitted in agencies' capital project requests is reviewed and analyzed by OMB and the Commission, culminating in the generation of the annual State 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, normally repaid over the life-expectancy of the project and funded by annual appropriation of the Legislature;
- Annual pay-as-you-go capital appropriations; and
- A master lease program.

The debt service term for the master lease program is usually three years, and the life of the asset must be greater than the term. The types of projects funded through the master lease program 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 applies strict criteria to ensure that only the most urgent and necessary projects are recommended for funding. The Commission centers its attention on projects that are focused on life-safety requirements, critical to essential programs, mandated by statute, or rely on non-State funding sources.

Fiscal 2013 Capital Recommendations

For fiscal year 2013, the Commission was presented with \$3.4 billion in General Fund capital requests from State departments, agencies, and the State's higher education institutions. After holding public hearings from October through December of 2011, the Commission recommended a \$1.499 billion State Capital Improvement Plan to be financed from the General Fund.

Of the \$1.499 billion recommended for capital construction, approximately \$1.342 billion was for programs funded by dedicated revenue in the State Budget. Of the dedicated revenues, the Commission recommended \$1.134 billion for transportation infrastructure improvements, \$25.0 million for shore protection, \$25.0 million for underground storage tank remediation efforts, \$15.3 million for park development, \$19.6 million to clean up contaminated industrial sites, \$25.0 million for mitigation of hazardous waste sites, \$98.0 million for open space preservation, \$43.4 million for discretionary projects for departments and agencies and \$114.0 million for New Jersey Building Authority Debt Service. A summary of the recommendations by department is displayed in Table 1.

Table 1
FY 2013 Capital Recommendations (\$000's)

<u>Department</u>	<u>Recommended</u>
Agriculture	\$ ---
Children & Families	260
Corrections	5,979
Education	500
Environmental Protection	118,900
Health	---
Human Services	14,200
Law & Public Safety	1,200
Juvenile Justice Commission	800
Military & Veterans' Affairs	---
Department of State	---
Higher Education Institutions	---
Thomas Edison College, the State Library	---
Transportation	1,134,198
Treasury (OIT)	---
Interdepartmental Accounts*	223,458
The Judiciary	---
Total	\$1,499,495

*Includes New Jersey Building Authority Debt Service

In addition to the \$1.499 billion capital recommendation, funds derived from the proceeds of the sale of surplus State real property may be used to fund capital improvement projects. Major construction projects proposed in the 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 the Department of Environmental Protection, \$118.9 million is recommended, including \$19.6 million for Cleanup of Hazardous Substance Discharges, \$25.0 million in loans and grants for Brownfields Redevelopment projects, \$25.0 million for Shore Protection, \$25.0 million for Underground Storage Tank remediation, and \$15.3 million for Parks Development and Conservation projects. These four mandated programs are funded through dedicated sources. In addition, \$9.0 million is recommended for the HR-6 flood prevention program. Both the HR-6 and Shore Protection programs will generate substantial federal matching 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 2013 recommendation for the Transportation Trust Fund (TTF) is \$1.134 million.

The funds are derived from the constitutional dedications of motor fuel taxes and the petroleum products gross receipts tax, as well as a portion of the sales tax, toll road authority contributions and certain motor vehicle and insurance surcharge fees. Such funds, in combination with federal 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.

Interdepartmental Accounts

For fiscal 2013, \$223.5 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.

Funding of \$98.0 million is recommended for the constitutionally-mandated Open Space, Farmland, Parks and Historic Preservation programs. A total of \$10.0 million will be made available for critical energy related projects statewide that will be offset by revenue from the Clean Energy Fund. Recommended funding for New Jersey Building Authority Debt Service is \$114.0 million, while \$1.0 million is recommended for roof replacements and \$500,000 is recommended for flood avoidance measures at the State House parking garage.

Other Capital Recommendations

Other funding recommended for various departments totaled \$22.9 million for preservation, life/safety, compliance, and other critical projects including:

- \$260,000 for asbestos abatement at Children and Families day schools;
- \$3.9 million for roofing repairs at two prisons and \$2.0 million for fire code compliance projects;
- \$500,000 to replace air conditioning at the Katzenbach Vocational School;
- \$14.2 million for roofing, security, fire code, and HVAC projects at seven Human Services facilities;
- \$1.2 million for bulkhead repairs at the New Jersey State Police Point Pleasant station and;
- \$800,000 for fire suppression system at the New Jersey Training School for Boys.

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 items that require periodic maintenance, 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, equipment and building systems, and prevent premature deterioration and replacements.

Long-term Debt

The State Capital Improvement Plan is required to include a report on the overall State debt, assessing the State's ability to increase such debt and recommending the amount of increase, if any. In December 2011, the Commission reviewed the fiscal 2011 *State of New Jersey Debt Report* submitted by the Office of Public Finance and voted to accept the report's findings.

The Commission advocates a prudent policy of debt management to ensure fiscal responsibility. Capital projects that are undertaken utilizing 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.