

ASSEMBLY BILL NO. 5608

To the General Assembly:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Assembly Bill No. 5608 with my recommendations for reconsideration.

This bill is part of the Legislature's Fiscal Year 2020 spending plan. More specifically, the legislative majority has anticipated that enactment of this bill would allow them to spend \$25 million more on priority programs and services in the State Budget while still making the planned seven-tenths pension contribution in Fiscal Year 2020. Unfortunately, this bill and the budget itself do not accomplish that goal, but rather jeopardize the amount of the contribution to be made in Fiscal Year 2020 as set forth in my budget recommendations.

In 2017, the State enacted P.L.2017, c.98, which authorized the contribution of the State Lottery Enterprise to the Teachers' Pension and Annuity Fund ("TPAF"), the Public Employees' Retirement System ("PERS"), and the Police and Firemen's Retirement System ("PFRS") for a term of 30 years. Upon the contribution and in accordance with the act, the TPAF, PERS, and PFRS receive the net proceeds of the Lottery Enterprise, based upon their members' past or present employment in schools and institutions in the State.

The act provides for an adjustment of the State's annual required contribution based on the amount of the special asset adjustment set forth in the act. Importantly, however, the Lottery Enterprise contribution and the State's annual required contribution do not vary based upon the performance of the State Lottery Enterprise within any given fiscal year. If the Lottery Enterprise outperforms the special asset adjustment amount set

forth in the act, which for Fiscal Year 2020 is \$1,070,451,102, then the pension funds benefit, but not the State as the pension contribution amount is not lowered. If the Lottery Enterprise does worse than the special asset adjustment amount, then the pension funds suffer, but the State is not required to make up that difference.

Assembly Bill No. 5608 permits Lottery sales agents to accept decoupled debit as a form of payment from patrons for the purchase of Lottery tickets. The Legislature estimated that the enactment of Assembly Bill No. 5608 would result in the State Lottery Enterprise earning \$25 million more in revenue during Fiscal Year 2020. As a result, the Legislature reduced the appropriations made to the TPAF, PERS, and PFRS from the General Fund and Property Tax Relief Fund by a combined \$25 million. As noted above, additional Lottery net proceeds do not offset the State's required contribution. Consequently, the legislative budget does not appropriate sufficient funds to meet the planned seven-tenths pension contribution to the pension funds for Fiscal Year 2020. Because that is an unacceptable result, I am returning this bill with my recommendations to eliminate this deficiency.

I am proposing changes to Assembly Bill No. 5608 to allow for the appropriation of the money necessary to achieve a pension contribution of \$3,792,013,000 in Fiscal Year 2020. Failure to appropriate these additional funds could have a negative impact on the State's credit rating and the unfunded accrued liability of the State-administered pension systems. Absent this supplemental appropriation, the State will need to disclose in bond offering documents that the State will not be making its planned seven-tenths payment to the State-administered retirement systems, which may have an adverse impact on the State's costs to borrow funds

necessary for the operation of government, and the construction of schools, roads, and bridges.

Therefore, I herewith return Assembly Bill No. 5608 and recommend that it be amended as follows:

Page 2, Title, Line 2: Delete "and" and insert ","
Page 2, Title, Line 3: After "(C.5:9-1 et seq.)" insert ", and making an appropriation"

Page 2, Line_22: Insert new section:
"2. In addition to the amounts appropriated to the retirement systems, as defined in section 2 of P.L.2017, c.98 (C.5:9-22.7), for the fiscal year ending June 30, 2020 pursuant to P.L. , c. , there is appropriated an amount, subject to the approval of the Director of the Division of Budget and Accounting, to such retirement systems as necessary to ensure that the aggregate contribution to all retirement systems administered by the Division of Pensions and Benefits and the Division of Investments equals \$3,792,013,000."

Page 2, Section 2, Line_23: Delete "2." and insert "3."

[seal]

Respectfully,
/s/ Philip D. Murphy
Governor

Attest:
/s/ Matthew J. Platkin
Chief Counsel to the Governor