

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 3874
STATE OF NEW JERSEY
221st LEGISLATURE

DATED: JUNE 19, 2024

SUMMARY

Synopsis: Establishes fringe benefit rate for State colleges and universities.

Type of Impact: Annual impact on State revenues.

Agencies Affected: State colleges and universities; Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual beginning with FY 2025</u>
State Revenue Impact	Indeterminate

- The Office of Legislative Services (OLS) finds that this bill will affect fringe benefit recoveries from the State colleges and universities, which are recorded as general State revenues.
- Given that the bill does not provide the specific manner in which a new fringe benefit rate for the State colleges and universities would be calculated, the impact on State revenues is indeterminate.
- Currently, the State funds the employer share of fringe benefits for public employees at the State's colleges and universities. The number of employees for which the State pays the employer share of fringe benefit costs is determined in the annual appropriations act by each college or university's number of State-funded positions. The colleges or universities reimburse the State for the fringe benefit costs of employees beyond the number authorized in the annual appropriations act, whether funded from State or non-State sources.

BILL DESCRIPTION

This bill directs the Department of the Treasury to establish, beginning in FY 2025, a separate fringe rate for the State's colleges and universities that reflects the actual cost of employee fringe benefits. The separate fringe benefit rate is to apply to all federal, dedicated, and non-State funded programs.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

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Current Fringe Benefit Recovery Practice

Currently, the State funds the employer share of fringe benefits for public employees at the State's senior public colleges and universities. The State senior public colleges and universities that currently receive fringe benefit funding include: Rutgers, The State University; the New Jersey Institute of Technology; Rowan University; Montclair State University; Kean University; Thomas Edison State University; New Jersey City University; William Paterson University of New Jersey; The College of New Jersey; Ramapo College of New Jersey; and Stockton University. The fringe benefit costs that the State pays on behalf of these colleges and universities include retirement, social security, health and dental insurance contributions, workers' compensation, unemployment, and survivors' and disability insurance.

The number of employees for which the State ultimately pays the employer share of fringe benefit costs for each of the colleges or universities is determined through language in the annual appropriations act that sets each college or university's number of State-funded positions. All employee fringe benefits are initially funded by State funds. However, the colleges or universities reimburse the State for the fringe benefit costs of employees beyond the number authorized in the annual appropriations act, whether funded from State or non-State sources. The reimbursements made by the senior public colleges or universities to the State for fringe benefit costs beyond the costs for the number of State-funded positions authorized in the annual appropriations act are recorded as general State revenues.

Information from the Office of Management and Budget indicates that the total amount of fringe benefits paid by the State to the senior public institutions of higher education are as follows: \$990.5 million in FY 2023; an estimated \$973.0 million in FY 2024; and a projected \$998.7 million in FY 2025. According to the FY 2025 Governor's Budget, fringe benefit recoveries from State senior public colleges and universities, as well as University Hospital, totaled \$343.7 million in FY 2023, are estimated at \$437.8 million in FY 2024, and are projected at \$512.4 million in FY 2025. According to responses from the Office of the Secretary of Higher Education to follow-up questions posed during the FY 2025 budget process, the applicable fringe benefit rate for the State's senior public colleges and universities in FY 2024 is 77.15 percent, which includes a separate rate for the employer's share of the Federal Insurance Contributions Act (FICA) and Medicare taxes.

According to testimony received during recent State budget processes, the State senior public colleges and universities reimburse the State at a fringe benefit rate that incorporates a blended average pension component reflecting the overall State workforce and not that of the colleges and universities. According to the testimony, the blended State average reflects a State workforce in which most employees are enrolled in defined benefit retirement plans (primarily the Public

Employees Retirement System), compared to the smaller number of employees who are enrolled in less costly defined contribution retirement plans (primarily the Alternate Benefit Program). However, it is estimated that the vast majority of the employees at the State senior public colleges and universities are enrolled in the Alternate Benefit Program.

Section: Education

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).