ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 1999 - 2000 BUDGET

DEPARTMENT OF LABOR

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

APRIL 1999

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF LABOR

Budget Pages....... C-9, C-17, C-23, C-27, D-243 to D-255, G-2, I-22 to I-23, I-28, I-40 to I-42

Fiscal Summary ($000)

	Expended FY 1998	Adjusted. Appropriation FY 1999	Recommended FY 2000	Percent Change 1999-00
State Budgeted	$92,960	$76,160	$76,170	0.0%
Federal Funds	317,951	356,718	359,975	0.9%
Other	116,681	132,733	136,750	3.0%
Grand Total	$527,592	$565,611	$572,895	1.3%

Personnel Summary - Positions By Funding Source

	Actual FY 1998	Revised FY 1999	Funded FY 2000	Percent Change 1999-00
State	654	664	722	8.7%
Federal	2,953	2,974	3,298	10.9%
Other	7	7	7	0.0%
Total Positions	3,614	3,645	4,027	10.5%

FY 1998 (as of December) and revised FY 1999 (as of September) personnel data reflect actual payroll counts. FY 2000 data reflect the number of positions funded.

Introduction

The Department of Labor is responsible for programs that provide for employment, as well as employment-related training and education for this State's citizens. The Department's specific responsibilities include ensuring safe and equitable working conditions for workers and the public; providing job training and job placement services for employed, underemployed and displaced workers, as well as the unemployed; overseeing income maintenance for unemployed and temporarily disabled persons; adjudicating disability claims under the State's workers' compensation/special compensation statutes and the federal Social Security Act; vocational rehabilitation of persons with disabilities; labor relations; and labor market planning and research.

Key Points

! Most of the department's FY 2000 recommended appropriations are supported by federal (63 percent) and dedicated State and "Other" funds, such as trust funds (32 percent).

! The Governor's FY 2000 budget proposes a shift of $30 million from the Second Injury Fund (SIF) to the General Fund as State revenue. The fund, which is not displayed in the appendix of the Budget proposal, is funded exclusively by an assessment on employers and workers' compensation insurance companies. The SIF provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities and provides cost-of-living adjustments for workers who became totally and permanently disabled before 1980.

! The Second Injury Fund has had a growing balance which far exceeds benefits paid out of the fund. Current law (R.S. 34:15-94) requires the department to assess employers and insurers every year at 150 percent of what is anticipated to be needed for payments from the fund in the following calendar year, less the amount of unexpended balances in the fund over $5 million. On a fiscal year basis, benefits paid from the fund have remained fairly level at approximately $100 million since FY 1995. Yet, on a fiscal year basis, unexpended balances in the fund have grown significantly since FY 1995. In FY 1998, for example, the fund had an unexpended balance of $135.4 million.

! The administration proposes in the "Budget in Brief" that the law governing the Second Injury Fund, R.S. 34:15-94, be amended to reduce the total amount assessed on employers and insurers from 150 percent to 125 percent of total estimated benefits. This would in turn, according to the "Budget In Brief," reduce the assessment rate paid by individual insurance carriers from 8.94 percent in FY 1999 to 8.71 percent in FY 2000.

! Proposed language in the Governor's Budget (page D-231) recommends the transfer of $44.4 million from the Workforce Development Partnership Fund (page I-22) to the Work First New Jersey program in the Department of Human Services for work activity and training related expenses. The Workforce Development Partnership (WDP) Fund, which is funded through employer and employee payroll tax contributions, is used to provide workforce training grants to disadvantaged workers, displaced workers and employers.

! Of the $44.4 million that is to be shifted from the Workforce Development Partnership Fund to the Department of Human Services under the proposed Budget, approximately $40.1 million is in excess of the 6 percent of WDP revenues that must be utilized for grants to "disadvantaged" workers pursuant to P.L. 1992, c.43 (C.34:15D-1 et seq.). $71.7 million in overall revenues is anticipated for the Workforce Development Partnership Fund in FY 2000.

! The Governor's Budget proposal continues language (page D-254) which increases spending of up to $10 million from the Workforce Development Partnership Fund for the Customized Training Program. This amount is in addition to the approximately $32.3 million of fund revenues allocated to Customized Training pursuant to the statutory requirements under P.L. 1992, c.43 (C.34:15D-1 et seq.). The Customized Training Program provides training grants to business to enhance the creation and retention of "high wage, high skill" jobs.

Key Points (Cont'd)

- The Governor's Budget proposes two new special purpose appropriations, $420,000 for Public Employees Occupational Safety and $160,000 for Mine Safety Program Expansion. According to the Office of Management and Budget, this will result in the creation of 15 new positions, 4 for Mine Safety and 11 for Public Employees Occupational Safety, within the Division of Workplace Standards.

- Funding from the Unemployment Compensation Auxiliary Fund (UCAF) to the Grants-In-Aid appropriation for Vocational Rehabilitation is proposed to increase by approximately $10 million in FY 2000. Funding from the UCAF would thus support the full $18.8 million Grants-In-Aid appropriation for Vocational Rehabilitation in FY 2000. In the current fiscal year, only $8.7 million of the $18.6 million Grants-In-Aid appropriation for Vocational Rehabilitation is supported by the UCAF. The UCAF derives revenues from fines and penalties on employers for violations of insurance regulations.

- The Budget Recommendation anticipates an increase of $3.2 million, or about one percent, in federal revenues for the department to approximately $360 million in FY 2000. Divisions anticipating increases in federal aid include Planning and Research ($354,000 or 4.8 percent); Unemployment Insurance ($2.1 million or 2.2 percent); Vocational Rehabilitation Services ($1.4 million or 3.1 percent); and Workplace Standards ($53,000 or 3.2 percent). These increases are offset by reductions in federal assistance to the divisions of Employment Services ($469,000 or 1.2 percent) and Employment and Training Services ($200,000 or .15 percent).

- Proposed Grants-In-Aid funding for the Sheltered Workshop Program includes a cost of living adjustment of $97,000 in FY 2000, as well as $94,000 to fully fund a cost of living adjustment initiated in the current fiscal year. The FY 2000 COLA represents a 1.6 percent increase, according to the Office of Management and Budget. Sheltered Workshops provide long-term employment and rehabilitation services to individuals with severe disabilities who can not be placed in open competitive employment.

- The proposed Budget continues to provide funding for Sheltered Workshops at $4,671 per client, which represents approximately 82.1 of the cost per client in the current year, according to department estimates. The last year the State provided full funding to provider agencies (100 percent reimbursement of the cost per client) was in FY 1988, according to the department.

- The Governor's Budget recommends funding for 4,027 positions in FY 2000, 18% (722 positions) of which are State funded. Position data for FY 1999 indicates that the total number of positions currently on payroll is 3,645, of which 18 percent (664 positions) are State funded.

- The Budget Recommendation anticipates that the Unemployment Compensation Fund will have a $2.90 billion balance at the end of FY 2000, a $41.4 million (1.4 percent) increase over the FY 1999 estimated balance of $2.88 billion. These fund balances reflect the shift of $250 million and $195.5 million, in FY 1999 and FY 2000 respectively, to the Health Care Subsidy Fund for charity care in lieu of payments to the Unemployment Compensation Fund, pursuant to P.L. 1997, c.263.

Key Points (Cont'd)

! Funding for the Public Employment Relations Commission (PERC) remains level at $2.8 million under the Governor's Budget. PERC is an independent agency within the Department of Labor which resolves disputes between public employees and their employers.

Background Papers:

Program Description and Overview

The Department of Labor administers a comprehensive array of programs dealing with employment and the physical and economic well-being of workers in New Jersey, including: workplace standards; unemployment insurance; temporary disability insurance; workers' compensation; the determination of disability claims under the Social Security Act; vocational rehabilitation; job training and placement; labor relations; and planning and research.

Budget Overview

Most of the department's programs are financed by federal, trust or special revenue funds dedicated to the department by statute or budget language for specific purposes. In FY 2000, for example, 78.5 percent, or $43.1 million, of the department's Direct State Service appropriation of $54.9 million is derived from dedicated revenue sources. In addition, all of the recommended Grants-In-Aid appropriation of $18.8 million for Vocational Rehabilitation Services will be financed through the Unemployment Compensation Auxiliary Fund, a special revenue fund supported by penalties and interest imposed on employers for violation of unemployment insurance regulations. The Casino Revenue Fund is also recommended to provide $2.4 million to support Vocational Rehabilitation Services' Sheltered Workshop Transportation program. Overall, of the $76.2 million in State budgeted appropriations for FY 2000, $64.4 million, or 84.6 percent, will be derived from trust or special revenue sources, and dedicated revenues.

The largest part of the department's FY 2000 budget is comprised of $494.8 million in federal and other dedicated revenues appropriated "off-budget" or "below the line." The recommended federal appropriation of $360.0 million will provide most of the department's funding for unemployment insurance, disability determination, job training and employment services operations, while $136.7 million from "All Other Funds" and "Special Revenue Funds" will support the workers' compensation, temporary disability insurance, and special compensation programs. These other funding sources will largely be derived from assessments related to the programs they support. Fee revenue from the workplace standards program, which enforces the State's wage and hour laws and provides for on-site safety inspections of certain public and occupational premises, is also included in this funding category and, like other revenue sources cited, is used for program support.

Thus, of the department's total FY 2000 recommended appropriation of $572.9 million, 2.0 percent, or $11.8 million, is supported by non-dedicated General Fund resources.

In addition to these sums, the department administers more than $2.5 billion in benefit payments which are not included as part of the department's appropriation. During the current budget year, for example, the department will administer $1.2 billion in unemployment insurance benefits, $332 million in temporary disability insurance benefits, and $1.4 billion in federal Social Security disability benefit payments.

Summary of the FY 2000 Recommended Budget

The department's recommended FY 2000 appropriation of $572.9 million represents an increase of $7.3 million (1.3 percent) over the adjusted FY 1999 appropriation of $565.6 million. While State budgeted funds for the department are recommended to remain essentially flat at $76.2 million in FY 2000, federal funds are recommended to increase by $3.3 million (less than one percent) and "other funds," such as special revenue and trust funds, are recommended to increase by $4.0 million, or 3.0 percent.

The Governor's FY 2000 Budget recommends, through budgetary language, the shift of $30

Program Description and Overview (Cont'd)

million from the Second Injury Fund (SIF) to the General Fund as State revenue. Pursuant to R.S. 34:15-94, the Second Injury Fund, also known as the Special Compensation Fund, provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities. Revenue is provided for the SIF through an assessment on employers and workers' compensation insurers. This fund is not displayed in the appendix of the Budget proposal.

The statute governing the SIF mandates that the assessment providing revenue to the fund equal 150 percent of the amount estimated by the Commissioner of Labor as necessary to pay benefits and other costs in the following calendar year, minus any year-end net assets in the fund above $5 million. Thus, the fund is basically designed to take in through assessments and unexpended balances from the previous year a total of 150 percent of what is needed to pay benefits and other costs in the next calendar year. Yet, while fiscal year data shows that benefits paid from the fund have remained fairly level in recent years at slightly over $100 million per fiscal year, the fund has, according to the administration, "generated revenues far in excess of the amount required to pay annual benefits."

Proposed Budget language that would shift SIF revenues to the General Fund indicates that the shift is "subject to the enactment of enabling legislation." The Budget in Brief indicates that such legislation would amend the law governing the SIF to reduce the total amount assessed on employers and insurers from 150 percent to 125 percent of total estimated benefits. This would, in turn, according to the administration, reduce the assessment rate paid by individual insurance companies from 8.94 percent in FY 1999 to 8.71 percent in FY 2000.

The Governor's FY 2000 Budget proposal continues language to shift funds from the Workforce Development Partnership (WDP) Fund to the Department of Human Services. Established in 1992, and made permanent in 1996 pursuant to P.L. 1995, c.422, the WDP Program was intended to provide a stable source of funding for training grants to disadvantaged and displaced workers and to employers. The program is funded through employer and employee payroll tax contributions, which, along with interest income, are anticipated to generate $71.7 million in FY 2000. These annual tax revenues are required by statute to be allocated, proportionally, to specific components of the WDP Program.

The FY 2000 Budget would transfer $46.3 million in WDP revenue from the Department of Labor to the Department of Human Services (DHS) for services to welfare recipients ($44.4 million) and for the New Jersey Youth Corps ($1.85 million). A similar shift of funds has taken place every year since FY 1995, and amounted to $33.4 million in the current fiscal year. The Office of Management and Budget indicates that the funds shifted to DHS will come from unexpended balances in the WDP Fund carried forward from the previous years.

Two new special purpose appropriations in the FY 2000 Budget proposal, $420,000 for Public Employee Occupational Safety and $160,000 for Mine Safety Program Expansion, would result in the creation of 15 new positions within the department. Four positions would be established for Mine Safety and 11 positions would be established for Public Employee Occupational Safety. According to the DOL, the special purpose appropriation for Public Employee Occupational Safety will fund occupational safety training for public employees, including local public employees such as fire or police personnel. The "Budget-In-Brief" indicates that the Mine Safety staff are necessary to meet the statutory mandate of inspecting the State's 210 operating mines at least twice per year.

Sheltered Workshop programs serving individuals with disabilities would receive an

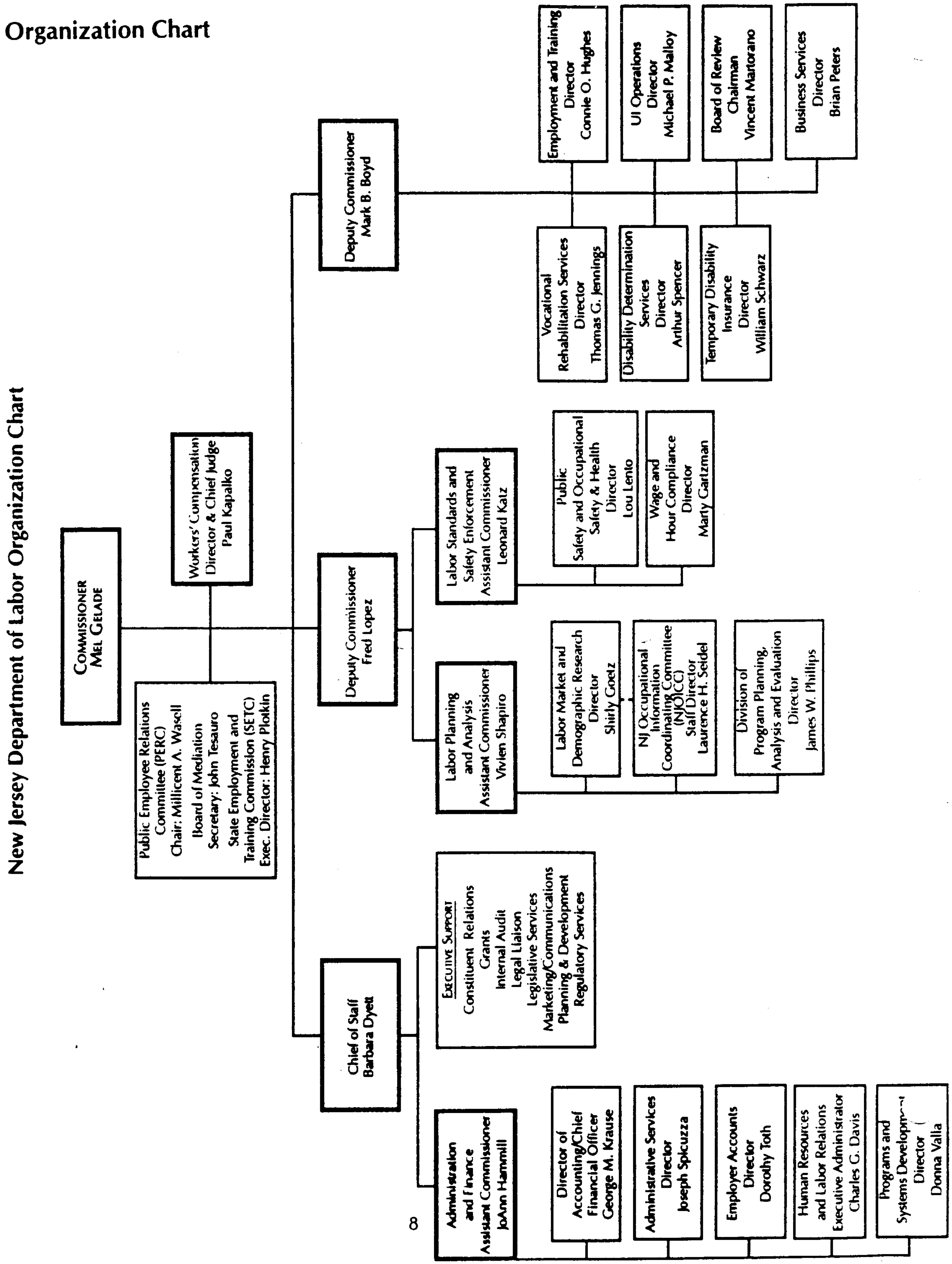
Program Description and Overview (Cont'd)

increase of $191,000 to fund a cost of living increase in FY 2000 ($97,000) as well as to fully fund the FY 1999 cost of living adjustment ($94,000). Sheltered Workshops provide long-term employment and rehabilitation services to individuals with severe disabilities who can not be placed in open competitive employment.

Federal Funds

The Budget Recommendation anticipates an increase of $3.2 million, or about one percent, in federal revenues for the department to approximately $360 million in FY 2000. Divisions anticipating increases in federal aid include Planning and Research ($354,000 or 4.8 percent); Unemployment Insurance ($2.1 million or 2.2 percent); Vocational Rehabilitation Services ($1.4 million or 3.1 percent); and Workplace Standards ($53,000 or 3.2 percent). These increases are offset by reductions in federal assistance to the divisions of Employment Services ($469,000 or 1.2 percent) and Employment and Training Services ($200,000 or .15 percent). Most of the distributions in federal aid are formula based, and these anticipated changes reflect changes in caseloads.

Organization Chart



Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 1998	Adj. Approp. FY 1999	Recom. FY 2000	Percent Change 1998-00	Percent Change 1999-00
General Fund					
Direct State Services	$67,102	$55,086	$54,895	-18.2%	-0.3%
Grants - In - Aid	23,418	18,634	18,835	-19.6%	1.1%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	0	0	0	0.0%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$90,520	$73,720	$73,730	-18.5%	0.0%
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	$0	$0	$0	0.0%	0.0%
Casino Revenue Fund	$2,440	$2,440	$2,440	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$92,960	$76,160	$76,170	-18.1%	0.0%
Federal Funds	$317,951	$356,718	$359,975	13.2%	0.9%
Other Funds	$116,681	$132,733	$136,750	17.2%	3.0%
Grand Total	$527,592	$565,611	$572,895	8.6%	1.3%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 1998	Revised FY 1999	Funded FY 2000	Percent Change 1998-00	Percent Change 1999-00
State	654	664	722	10.4%	8.7%
Federal	2,953	2,974	3,298	11.7%	10.9%
All Other	7	7	7	0.0%	0.0%
Total Positions	3,614	3,645	4,027	11.4%	10.5%

FY 1998 (as of December) and revised FY 1999 (as of September) personnel data reflect actual payroll counts. FY 2000 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	33.1%	34.3%	36.4%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
ECONOMIC PLANNING AND DEVELOPMENT					
DIRECT STATE SERVICES					
Salaries and Wages	$366	$414	$48	13.1%	D-246

The Governor's Budget recommends an increase of $48,000, or 13.1 percent, in the Salaries and Wages appropriation for the Division of Planning and Research. According to the Office of Management and Budget, this increase will result in the creation of one additional position that will focus on preparation and execution of the department's activities as they pertain to the 2000 Census. Pursuant to proposed Budget language, this increase will be paid for from the Unemployment Compensation Auxiliary Fund (UCAF), which provides all Direct State Services funding for the Division of Planning and Research.

DIRECT STATE SERVICES					
Services Other Than Personal	$70	$242	$172	245.7%	D-246

The FY 2000 Budget proposal recommends increasing funding for Services Other Than Personal for the Division of Management and Administration by $172,000 or 245.7 percent. The Office of Management and Budget indicates that this increase will be utilized to reimburse the Office of Information Technology (OIT) in the Department of the Treasury for additional services it will provide to the Department of Labor in FY 2000. OIT, which provides information technology services to State departments, is undertaking three Statewide initiatives in FY 2000, including development of a centralized geographic data management system, improvement of document storage and retrieval, and development of an integrated financial and administrative system. Overall, the Department of Labor will provide $15.7 million in State and federal funds to support OIT's Budget in FY 2000.

FEDERAL FUNDS					
Planning and Analysis	$7,441	$7,795	$354	4.8%	D-246

The Division of Planning and Research anticipates a net increase in federal funds of $354,000, or 4.8 percent, to support its activities in FY 2000. The bulk of this increase is reflected in Employment Services - Covered Employment and Wages ($70,000 increase), Current Employment Statistics ($83,000 increase), Employment Services Related research and planning ($84,000 increase), One Stop Labor Market Information ($116,000 increase), and Job Training Partnership Act related activities ($200,000 increase). These increases are offset somewhat by decreases in other areas of federal funding for the division, such as Cost Reimbursable Grants - Alien Labor Certification ($72,000 decrease), Current Employment Statistics ($60,000 decrease), and Occupational Wage Survey - Alien Certification ($40,000 decrease).

Significant Changes/New Programs ($000 (Cont'd))

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
ECONOMIC ASSISTANCE AND SECURITY					
ALL OTHER FUNDS					
Special Compensation	$113,276	$117,276	$4,000	3.5%	D-249

The Governor's FY 2000 Budget proposal anticipates that special compensation benefits paid to recipients will increase by $4 million, or 3.5 percent in FY 2000. Pursuant to R.S. 34:15-94, special compensation provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities. The Governor's FY 2000 Budget proposes, through budgetary language (page G-2), to shift $30 million from the Second Injury Fund (SIF), which is used to pay special compensation benefits, to the General Fund as State revenue. Revenue is provided for the SIF through an assessment on employers and workers' compensation insurers. The SIF is not displayed in the appendix of the Budget proposal.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
MANPOWER AND EMPLOYMENT SERVICES					
DIRECT STATE SERVICES					
Services Other Than Personal	$757	$192	($565)	(74.6)%	D-253

The Governor's FY 2000 Budget proposes reducing Services Other Than Personal appropriations for the Manpower and Employment Services Statewide program in the Department of Labor by $565,000, or 74.6 percent. Part of this decrease ($70,000) is attributable to the Public Employment Relations Commission (PERC), which would have its Services Other Than Personal funding reduced from $157,000 in FY 1999 to $87,000 in FY 2000. PERC is an independent agency within the department that resolves disputes between public employees and their employers.

In addition, the FY 1999 figure includes a $491,000 supplemental appropriation from the Unemployment Compensation Auxiliary Fund (UCAF) to implement technology improvements in the Workplace Standards program. This supplemental appropriation was provided pursuant to language in the current year budget. Language permitting such an appropriation is continued in the Governor's FY 2000 Budget proposal.

Significant Changes/New Programs ($000 (Cont'd))

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
DIRECT STATE SERVICES					
Special Purpose: Public Employees Occupational Safety	$0	$420	$420	—	D-253
Special Purpose: Mine Safety Program Expansion	$0	$160	$160	—	D-253

According to the Office of Management and Budget (OMB), these special purpose funding increases will result in the creation of 15 new positions, four for Mine Safety and 11 for Public Employee Occupational Safety. The "Budget-In-Brief" indicates that the Mine Safety expansion is necessary for the department to meet its statutory mandate of inspecting the State's 210 operating mines at least twice per year. The appropriation for Public Employees Occupational Safety will fund occupational safety training for public employees, including local public employees such as fire or police personnel. According to the "Budget-In-Brief" this will "enable the program to make a concerted effort to target high hazard areas and help reduce costs to taxpayers" by reducing workplace accidents and illnesses.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
GRANTS-IN-AID					
Deferred Cost of Living Adjustment - Sheltered Workshops	$0	$94	$94	—	D-253
Cost of Living Adjustment - Sheltered Workshops	$0	$97	$97	—	D-253
Cost of Living Adjustment - Independent Living Centers	$0	$10	$10	—	D-253

Proposed Grants-In-Aid funding for the Sheltered Workshop Program includes a cost of living adjustment of $97,000 in FY 2000, as well as $94,000 to fully fund a cost of living adjustment initiated in the current fiscal year. In addition, a $10,000 cost of living adjustment is provided to Independent Living Centers.

Pursuant to P.L. 1971, c.272 (C.34:16-39 et seq.), the Division of Vocational Rehabilitation Services contracts with private and public non-profit agencies which operate "extended employment" program for individuals with severe disabilities. Known as sheltered workshops, these programs offer long-term training and rehabilitation services to individuals with disabilities who can not sustain or achieve competitive employment in their communities, and who might otherwise be confined to their homes or institutions. Extended employment programs provided by sheltered workshops are fully State funded.

Significant Changes/New Programs ($000 (Cont'd))

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page

Twelve independent Living Centers provide independent-living skills training to persons with disabilities across the State. According to Evaluation Data in the proposed Budget, these centers will serve 9,700 persons in FY 1999 at a cost of $93 per person per fiscal year.

Language Provisions

1999 Appropriations Handbook	2000 Budget Recommendations
p. C-28	p. D-231
In addition to the amounts hereinabove for the Work First New Jersey–Work Activity and Work First New Jersey–Training Related Expenses accounts, an amount not to exceed $8,000,000 is appropriated from the New Jersey Workforce Development Partnership Fund, section 9 of P.L. 1992, c.43 (C.34:15D–9).	Notwithstanding any law to the contrary, in addition to the amounts hereinabove for the Work First New Jersey–Work Activity and Work First New Jersey–Training Related Expenses accounts, an amount not to exceed $19,000,000 is appropriated from the New Jersey Workforce Development Partnership Fund, section 9 of P.L. 1992, c.43 (C.34:15D–9).

Explanation

The Governor's FY 2000 Budget recommends a total appropriation of $135.3 million for the Work First New Jersey - Training Related Expenses and Work First New Jersey - Work Activities accounts in the Department of Human Services (DHS). Pursuant to proposed Budget language, an additional $19 million for these Work First New Jersey activities would be provided to DHS from the Workforce Development Partnership (WDP) Fund in the Department of Labor. In the current fiscal year, Budget language appropriated an additional $8 million from the WDP Fund for these Work First New Jersey activities. Overall, the Governor's Budget proposes shifting $44.4 million from the WDP Fund to the Work First New Jersey program.

The Workforce Development Partnership Program, which was made permanent in 1996 pursuant to P.L. 1995, c.422, provides workforce training grants to disadvantaged and displaced workers and to employers. The program is fully funded through employer and employee payroll tax contributions.

Language Provisions (Cont'd)

1999 Appropriations Handbook

p. B-100

The amounts hereinabove for the State Disability Insurance Plan and Private Disability Insurance Plan are payable out of the State Disability Benefits Fund and, in addition to the amounts hereinabove, there are appropriated out of the State Disability Benefits Fund such additional sums as may be required to administer the Disability Insurance Program and to pay disability benefits, subject to the approval of the Director of the Division of Budget and Accounting.

2000 Budget Recommendations

p. D-249

The amounts hereinabove for the State Disability Insurance Plan and Private Disability Insurance Plan are payable out of the State Disability Benefits Fund and, in addition to the amounts hereinabove, there are appropriated out of the State Disability Benefits Fund such additional sums as may be required to pay disability benefits, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The proposed FY 2000 Budget recommends the continuation of language which provides for the payment of certain administrative expenses and benefits for the State Disability Insurance Plan and Private Disability Insurance Plan out of the State Disability Benefits Fund. However, the FY 2000 Budget removes a provision from this language which provided that additional administrative expenses of an unlimited amount may be paid out of the Fund. A new language provision in FY 2000 (see below) caps the amount of additional aid that may be provided for administration of the State Disability Insurance Plan.

The State Disability and Private Disability Insurance Plans provide direct, temporary cash benefits to workers to ensure against loss of earnings due to non-occupational sickness or accident. The cost of benefits is charged against the State Disability Benefits Fund.

Language Provisions (Cont'd)

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-250
No comparable language.	In addition to the amount hereinabove appropriated for administrative costs associated with the State Disability Insurance Plan there is appropriated from the State Disability Fund an amount not to exceed $5,615,000, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The FY 2000 Budget proposes a language provision which caps at $5.6 million the amount of additional administrative costs associated with the State Disability Insurance Plan that may be charged against the State Disability Benefits Fund. Current budget language (see previous explanation) allows an unlimited amount of funds to be appropriated for this purpose, subject to the approval of the director of the Division of Budget and Accounting. The State Disability Insurance Plan (also known as Temporary Disability Insurance or TDI) provides direct, temporary cash benefits to workers to insure against loss of income due to non-occupational sickness or accident.

Language Provisions (Cont'd)

1999 Appropriations Handbook	2000 Budget Recommendations
p. B-102	p. D-254
Notwithstanding the provisions of the "New Jersey Employment and Workforce Development Act" (P.L. 1992, c.44), the Commissioner of the Department of Labor, in consultation with the Director of the Division of Budget and Accounting, <u>shall</u> allocate an additional amount, not to exceed $10 million, from the balance in the Fund to adequately fund the Customized Training program.	Notwithstanding the provisions of the "New Jersey Employment and Workforce Development Act" (P.L. 1992, c.44), the Commissioner of the Department of Labor, in consultation with the Director of the Division of Budget and Accounting, <u>may</u> allocate an additional amount, not to exceed $10 million, from the balance in the Fund to adequately fund the Customized Training program.

Explanation

The Governor's Budget proposal continues language which would authorize increased spending of up to $10 million from the Workforce Development Partnership Fund for the Customized Training Program. While current year Budget language mandates that the commissioner allocate the additional $10 million, proposed language for FY 2000 makes this allocation permissive. This language allocation to Customized Training allows spending in addition to the approximately $32.3 million of fund revenues allocated to Customized Training pursuant to the statutory requirements under P.L. 1992, c.43 (C.34:15D-1 et seq.). The Customized Training Program provides training grants to business to enhance the creation and retention of "high wage, high skill" jobs.

Language Provisions (Cont'd)

1999 Appropriations Handbook

p. C-31

Of the amount hereinabove for the Vocational Rehabilitation Services program classification, an amount not to exceed $8,715,602 is appropriated from the Unemployment Compensation Auxiliary Fund.

2000 Budget Recommendations

p. D-255

Of the amount hereinabove for the Vocational Rehabilitation Services program classification, an amount not to exceed $18,835,000 is appropriated from the Unemployment Compensation Auxiliary Fund.

Explanation

As in prior years, the proposed language provides funding from the Unemployment Compensation Auxiliary Fund (UCAF) to support the recommended Grants-In-Aid appropriation for the Vocational Rehabilitation Services program. In FY 2000, however, the entire Grants-In-Aid appropriation of $18.8 million would be supported by the UCAF. In FY 1999 and FY 1998, only $8.7 million and $8.5 million, respectively, was utilized from the UCAF to support the Vocational Rehabilitation appropriation. Overall, expenditures from the UCAF are expected to increase from $11.7 million in the current fiscal year to $21.9 million in FY 2000. The UCAF is supported by penalties and interest imposed upon employers for violations of unemployment insurance regulations.

Vocational Rehabilitation programs deliver rehabilitation services to individuals with disabilities who would otherwise be unable to secure or maintain employment or live independently.

Language Provisions (Cont'd)

1999 Appropriations Handbook	2000 Budget Recommendations
p. B-100	p. G-2
The State Treasurer is directed to transfer to the General Fund the sum of $50,000 from the excess in the Second Injury Fund over the sum of $1,250,000 accumulated as of June 30, 1998 pursuant to R.S. 34:15-94.	There is appropriated $30,000,000 from the Second Injury Fund for transfer to the General Fund as State revenue, subject to the enactment of enabling legislation.

Explanation

The proposed FY 2000 Budget recommends the replacement of language which allows the transfer of $50,000 from the Second Injury Fund (SIF) to the General Fund with language allowing for the transfer of $30 million. The fund, which is not displayed in the appendix of the Budget proposal, is funded exclusively by an assessment on employers and workers' compensation insurance companies. The SIF provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities and provides cost-of-living adjustments for workers who became totally and permanently disabled before 1980.

The Second Injury Fund has had a growing balance which far exceeds benefits paid out of the fund. The administration proposes in the "Budget in Brief" that the law governing the Second Injury Fund, R.S. 34:15-94, be amended to reduce the total amount assessed on employers and insurers from 150 percent to 125 percent of total estimated benefits. This would in turn, according to the "Budget In Brief," reduce the assessment rate paid by individual insurance carriers from 8.94 percent in FY 1999 to 8.71 percent in FY 2000.

Discussion Points

1a. The Governor's FY 2000 Budget proposal recommends, through budgetary language (page G-2), to shift $30 million from the Second Injury Fund (SIF) to the General Fund as State revenue. The Second Injury Fund, also known as the Special Compensation Fund, was established pursuant to R.S. 34:15-94 and provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities. The fund also provides cost-of-living adjustments for workers who became totally and permanently disabled before 1980. The fund is not displayed in the appendix of the Budget proposal.

Revenue is provided for the SIF through an assessment on self-insured employers and workers' compensation insurers. The total amount of this assessment is required by statute to equal 150 percent of the amount estimated by the Commissioner of Labor as necessary to pay benefits and other costs from the fund in the following calendar year, minus any prior year-end net assets in the fund above $5 million. Thus, the fund is designed to maintain, through assessments and unexpended balances from the previous year, approximately 150 percent of what is needed to pay benefits and other costs in the next calendar year.

! *Question:* Please provide, on a calendar year basis for every year from 1994 to 1998: the total amount expended from the Second Injury Fund for benefits; the total amount expended for other costs, such as administration; the total amount of revenue from assessments; the total amount carried forward in the fund from the previous year; the total amount of other revenues to the fund (including transfers in); and the total amount of unexpended balances at the end of the calendar year.

1b. While the Office of Legislative Services does not have historical data available on a calendar year basis, fiscal year data shows that benefits paid from the SIF have grown by only about $10 million from FY 1995 to FY 1998. Yet, as noted in the "Budget In Brief," the SIF has "generated revenues far in excess of the amount required to pay annual benefits." In fact, the amount of revenue generated by the SIF through assessments and prior year carry-forward, on a fiscal year basis, appears to have grown far beyond 150 percent of the amount necessary to pay benefits and other costs, even though statute requires that the total amount brought into the fund be tied to 150 percent of the amount necessary to pay benefits and other costs. In FY 1998, for example, total expenditures (other than administrative costs) from the fund were approximately $108.1 million, while the amount available in the fund for spending was $243.5 million, 225 percent of FY 1998 non-administrative expenditures.[1] R.S. 34:15-94 would appear to require the total amount in the fund, even on a fiscal year basis, to more closely approximate 150 percent of expenditures.

! *Question:* Please explain why fiscal year data appears to show that the amount available in the fund through assessments and carry-forward from the previous fiscal year has grown far beyond 150 percent of the amount necessary to pay benefits and other costs, considering the statutory requirements of R.S. 34:15-94. Please explain how the department is meeting the statutory requirements of R.S. 34:15-94 using the calendar year data provided for question (a). If the annual assessment for this fund is being set

[1] Data acquired from the NJCFS accounting system for the account, as identified by the Office of Management and Budget (OMB), which is utilized to pay Second Injury benefits. The amounts for expenditure and carry forward do not include those contained in other SIF accounts on the system. Other accounts, which track administrative expenditures, amount to roughly $12.8 million in the current fiscal year. This includes administrative expenses for both the workers' compensation and special compensation programs.

Discussion Points (Cont'd)

accurately every year, why is the assessment generating "revenues far in excess of the amount required to pay annual benefits?"

2a. According to a February 16 article in *The Times* of Trenton, the Department of Labor has been experiencing significant problems with certain computer systems resulting from a sweeping effort to modernize those computers. The effort, known as the "Tax Redesign Project," is intended, according to a letter from the consulting firm involved, to "improve services to employers and employees within the State," "modernize tax operations," and take "advantage of advances in information technology and system design." However, according to the *Times* article, the effort has resulted in dysfunction so significant in the department's computer system that it was unable to determine whether the State's businesses have been correctly paying certain payroll taxes, such as those for Unemployment Insurance (UI) and Temporary Disability Insurance (TDI), for three-and-a-half months prior to the article's publication. The article also indicates that the 65 employees normally involved with the processing of those taxes are "being used to conduct tests on the new system" or "have been temporarily reassigned elsewhere in the department."

! *Question:* Please provide an update on the status of the department's computing systems involved with tax collection. Are they still not functioning correctly? When does the department anticipate that they will be functioning correctly? What is the department doing to ensure that proper amounts are being collected from employers during this period?

2b. The firm with which the department has contracted to modernize its computer system, Deloitte & Touche Consulting Group, indicated in a proposal to the department in 1997 that its redesign efforts would be completed by the end of 1998. The firm also proposed a $7.9 million fee to complete the four phases of the Tax Redesign Project. Yet, according to the *Times*, the Department of the Treasury has now asked the contractor to submit a "corrective action plan" and has declared the contractor in default.

! *Question:* How much has been paid to Deloitte & Touche since the initiation of the Tax Redesign Project? From what sources has this payment been made, such as General Fund, federal funds, special revenue funds, etc?

What efforts are being made to rectify this situation? Has the corrective action plan been submitted, and if so, what does it recommend? Will the department recoup any of the payments it has already made to Deloitte & Touche?

2c. In a July 15, 1998 memorandum to the Office of Management and Budget, the Department of Labor requested an increase in Budget spending authority of $700,000 "due to a receipt of an unanticipated billing for the Tax Redesign Project."

! *Question:* What has the total cost of the Tax Redesign Project been to the Department of Labor thus far? Does this amount include the $700,000 "unanticipated billing" noted in the department's July 15 memorandum? Have there been any other unanticipated bills? If so, what do they amount to, what are they for, and why were they unanticipated?

3a. The Workforce Development Partnership (WDP) Program provides training grants to disadvantaged and displaced workers, as well as to employers to provide training to their employees. The Program, established pursuant to P.L. 1992, c. 42 and 43 (C.34:15D-1 et seq.), is

Discussion Points (Cont'd)

funded through a payroll tax paid by workers and employers on wages subject to unemployment insurance taxes. The Governor's Budget proposal estimates that these payroll tax contributions, as well as interest income, will generate $71.7 million in FY 2000 (page I-22). Without enactment of the WDP law, these tax revenues would have been paid into the unemployment compensation trust fund.

The WDP law requires that the estimated $71.7 million in WDP revenues be allocated as follows: 45 percent, or $32.3 million, for customized training grants to train currently employed workers; 25 percent, or $17.9 million, for individual training grants for permanently laid-off ("displaced") workers; 6 percent, or $4.3 million, for qualified disadvantaged workers; 5 percent, or $3.6 million for youth apprenticeship training; 3 percent, or $2.1 million, to occupational safety and health training; and 10.5 percent, or $7.5 million for administration. Note that only 94.5 percent of revenues are allocated by law.

In response to OLS discussion points for the FY 1998 Budget, the department provided, for each fiscal year from 1993 through 1996, for each of component of the WDP: the amount allocated for the year, the amount spent, and the unexpended balance at the end of the year. Last year, in response to OLS questions for the FY 1999 budget, the department provided the same information for FY 1997 and subsequent years. In its FY 1998 Budget responses, the department reported that the actual balance of WDP funds available at the end of FY 1996 was $27.8 million. This figure is much lower than the $69.4 million which the department reported as the actual WDP balance at the end of FY 1996 in response to the OLS questions for the FY 1999 Budget last year. Moreover, the two successive department reports appear to contradict each other on the actual year end balances in FY 1996 for most of the individual components of WDP. This discrepancy prevents an assessment of unexpended amounts for each component of the WDP Program over the entire period.

! *Question:* Please explain the apparent discrepancy between the FY 1996 year end balances reported for the WDP Fund in the two reports provided by the department for the FY 1998 and FY 1999 Budgets.

For *each* fiscal year from 1993 to 1998, please provide the following information for *each* component of WDP (customized training, displaced worker training, disadvantaged worker training, youth training, occupational safety and health training, program administration, loan repayments, and transfers to programs other than WDP): the amount the department was required to spend under the WDP law's mandated allocations; the amount actually spent; the amount transferred out of the fund (such as moneys shifted to DHS); and the balance at the end of the year, including the amount reserved for future payments of multi-year grants. Please provide estimates of the same information for fiscal years 1999, 2000 and 2001.

3b. The Workforce Development Partnership Fund, according to displays in the Governor's Budget proposal, has shown significant unexpended balances at the end of recent fiscal years. For example, in FY 1999, the fund is anticipated to finish the year with an unexpended balance of $71.2 million, roughly equal to what is collected during the year from payroll taxes for the Fund. In FY 1998, the fund had an actual unexpended balance of $94.1 million and in FY 1997, the unexpended balance was $98.7 million. The FY 2000 Budget proposal anticipates a $36.0 million unexpended balance at the close of FY 2000; however, based upon past years' experience with the manner in which this data is displayed, it is likely that the unexpended balance for FY 2000 will reflect a far higher balance than the department's estimate when actual data become available.

Discussion Points (Cont'd)

The department indicated in recent meetings that a significant portion of the unexpended balance reflected in the Budget proposal is actually set aside in a reserve account for payment of multi-year contracts. In fact, the department stated that $39.3 million was set aside for this purpose within the unexpended balance in the fund at the end of FY 1998. The department indicates that some of the balance is also set aside for currently pending applications for grants.

! *Question:* Please explain why the WDP Fund continues to have sizable unexpended year-end balances. To what degree is this due to underspending in the particular WDP grant programs required by statute?

Of the $71.2 million in WDP funds that are expected to remain unexpended in the current fiscal year, please indicate: how much of this amount is set aside for the payment of multi-year grants the department has contracted for, but will not be paying in the current fiscal year, how much is set aside for grants applied for but not yet approved, and how much is set aside in any other type of encumbrance, pre-encumbrance, or other obligation of that amount? Please provide an estimate of the same data for the unexpended balance anticipated for FY 2000.

3c. Customized Training grants issued from the Workforce Development Partnership Fund are awarded to employers to sustain employment in the State and to make the workforce more competitive through training of current employees. The Governor's FY 2000 Budget proposal continues language (page D-254) which increases permitted spending by up to $10 million from the WDP Fund for the Customized Training Program. This amount is in addition to the approximately $32.3 million of fund revenues allocated to Customized Training pursuant to statutory requirements. This language, which is also in the current year's Budget, continues despite the department's recommendation in its Budget request that this language be deleted as no longer needed.

The department indicated in its response to FY 1999 discussion points that the demand for Customized Training is anticipated to increase significantly, with the addition of 21 new "Business Service Representatives" in February 1998. According to the department, these staff "will be responsible for fostering a strong partnership between Labor and the business community for the purpose of economic development and job creation with a special emphasis on the welfare to work population."

! *Question:* The department indicated in its answers to discussion points last year that it expected to contract with more than 125 businesses for Customized Training grants in FY 1999. Yet, in the "Budget in Brief" the department indicates that it has provided customized training grants to 492 companies in calendar year 1998 and 170 companies in calendar year 1997. How many businesses have actually been contracted with thus far in FY 1999?

How much of the additional $10 million provided through Budget language for Customized Training in the current fiscal year has been obligated to particular grantees? How much of the 45 percent of revenues dedicated by statute to Customized Training has been obligated to particular grantees?

How many businesses does the department anticipate it will contract with for Customized Training in FY 2000?

Discussion Points (Cont'd)

Please provide an update on the activities of the Business Service Representatives to date. What is the total budget for the Business Service Representatives? Are all of the funded Business Service Representative positions currently filled?

4. The Division of Vocational Rehabilitation Services contracts with private and public non-profit agencies to operate sheltered workshops, which offer long-term training and rehabilitation services to individuals with disabilities who can not achieve or sustain competitive employment in their communities, and who might otherwise be confined to their homes or institutions.

Employment programs provided by sheltered workshops are State funded. However, in recent years, it is estimated that funding for the sheltered workshop program has not provided 100 percent reimbursement to providers for their per client costs. For example, the department estimated last year that the FY 1999 budget provides funding to providers sufficient to cover only 82.1 percent of the cost of serving each client. The last year, according to the department, that the State provided full funding (100 percent reimbursement) was in FY 1988.

In addition, there is a portion of the client population for which the State does not provide any reimbursement. For example, in FY 1996, while extended employment services were provided through 2,918 program slots (referred to as "client years" by the department) in the sheltered workshop system, the State only provided funding for 2,573 of these slots, effectively leaving 345 slots unfunded. Note that more than one client may be served in each client slot. In recent fiscal years, the department indicates that it has been able to mitigate this situation somewhat through the carry forward of unused Placement Incentive Program (PIP) funds from previous years. The Placement Incentive Program provides reimbursement to facilities that have successfully placed clients into competitive employment.

While unexpended PIP funds have helped the department to keep the number of unfunded program slots down to 50 in FY 1998 (the latest year available), the department indicated that this source of funds would expire within the next few fiscal years.

! *Question:* What is the revised estimate of the percent reimbursement to providers for their per client costs in the current fiscal year? What does the department estimate it will be in FY 2000?

For the current fiscal year, please indicate how many program slots (or client years) are being funded by the department and how many remain unfunded. For funded slots, please provide the number that are funded through Placement Incentive Program moneys. Please provide an estimate of the same figures for FY 2000.

When does the department anticipate that PIP funds will no longer be available to fund the sheltered workshop program? What will the impact be on the number of program slots that are funded vs. those that are unfunded?

What would be the estimated additional cost be to fund sheltered workshops at 100 percent of the cost per client in FY 2000? What would be the cost to fund all program slots (client years) at the estimated FY 2000 reimbursement percentage? What would be the cost to fund all program slots (client years) at 100 percent of the cost per client?

5. The Governor's FY 2000 Budget proposal recommends a reduction of $500,000, or 2.5%, in the appropriation for the administrative costs of the State Disability Insurance Plan (State Plan).

Discussion Points (Cont'd)

All State Plan expenses, including benefits (more than $320 million annually in recent years) and administrative costs ($20.3 million in FY 1999), are financed exclusively by payroll taxes paid by covered workers and employers into the State Disability Benefit Fund (SDBF). No moneys from the General Fund are used to pay State plan expenses, although $250 million was transferred out of the SDBF into the General Fund during FY 1997.

The annual number of claims filed under the State plan in FY 1995, 165,000, was the same as in FY 1998, even though the number of filled positions for the State plan was reduced from 199 in FY 1995 to 169 in FY 1998 (per evaluation data from the FY 1998 and FY 2000 budgets). This reduction in the number of workers available to process the same number of claims appears to have corresponded with a reduction in the efficiency of claims processing. In fact, the percentage of total claims which were processed in less than seven days following filing declined from 33% in 1995 to 23% in 1997, according to the most recently available DOL report on the disability insurance workload.

! *Question:* Please provide the number of employees currently working for the State Disability Insurance Plan as well as the number of positions funded, and the same data for FY 2000, assuming the proposed $500,000 reduction is made.

What impact will the $500,000 reduction in the appropriation for the State Disability Insurance Plan have on State Plan operations, and what, if any plans are there to sustain or improve the efficiency of State Plan claims processing?

6. The Governor's FY 2000 Budget proposes two new special purpose appropriations for the enforcement of workplace standards: $420,000 for Public Employee Occupational Safety and $160,000 for Mine Safety Program Expansion. According to the Office of Management and Budget, these increases will result in the creation of 15 new positions, four for Mine Safety and 11 for Public Employee Occupational Safety. According to the DOL, the special purpose appropriation for Public Employee Occupational Safety will fund occupational safety training for public employees, including local public employees such as fire or police personnel. Funds are also available for occupational safety and health training from the Workforce Development Partnership Program (WDPP - see discussion point #3). According to previous DOL responses to OLS budget questions, more than $4.3 million remained unspent out of the $10.6 million in WDPP funds available for occupational safety and health training during the period from FY 1993 to FY 1997.

During this period, New Jersey's Public Employee Occupational Safety and Health Act was amended (by P.L.1995, c.186) to bring the State into compliance with requirements necessary to receive funding under the federal Occupational Safety and Health Act (OSHA).

! *Questions:* Please provide the current numbers of inspectors, support staff and other personnel working in the Public Employee Occupational Safety and Health program and the Mine Safety Program, as well as each of the other programs of the Division of Workplace Standards, including the wage and hour, prevailing wage, child labor and apparel industry programs.

What amount of Workforce Development Partnership funds are being used for occupational safety and health training for public sector workers in the current fiscal year, and are there any future plans to make such use of WDP funds? What efforts are underway to obtain federal OSHA funds to assist New Jersey's efforts to promote occupational safety and health among public employees?

Discussion Points (Cont'd)

7. The bulk of job training funded under the federal Job Training Partnership Act (JTPA) and the Workforce Development Partnership (WDP) Program is purchased from training service providers, such as county colleges or proprietary vocational schools. To assure that workers and other trainees receive high-quality training services, the WDP law requires that information be collected to evaluate each training service provider under both WDP and JTPA, based on the long-term success of former trainees in obtaining permanent employment and increasing their earnings. The law requires that this information be used: (1) to assist in determining which service providers to approve to receive WDP and JTPA grant funds; and (2) to provide reliable information on the quality of services providers to prospective trainees.

Of the revenues collected for the WDP each year, 0.5% is allocated to the State Employment and Training Commission (SETC) for WDP program assessment, including the establishment of criteria and procedures for the evaluation and approval of training service providers. This would amount to $358,500 in FY 2000. In past years, the SETC has received funding from a variety of other sources, including the federal School to Work Partnership program and other U.S. Department of Education sources, one stop career center grants, JTPA and other U.S. Department of Labor (USDOL) sources.

! *Question:* What were the total amounts allocated to and spent by the SETC during fiscal years 1997 and 1998 from all sources, including federal funding? For each year, please delineate separately what amount came from each federal and State source, what amount was spent on evaluation of the WDP program, what amount was spent on the development of a system for the evaluation and approval of service providers, and what amount was spent on contracts with outside consultants. Please provide estimates of the same information for fiscal years 1999 and 2000.

8. The SETC is required under the WDP law to establish criteria and procedures for the evaluation and approval of training service providers under WDP and JTPA. Towards that end, from 1993 through 1996, SETC spent $737,000 for a consultant, Abt Associates, to evaluate WDP and establish a method to use unemployment wage records to evaluate training service providers. Finding the work of the consultant inadequate, the SETC terminated the contract early and subsequently entered into a two-year, $300,000 contract with the Bloustein School of Planning and Public Policy at Rutgers University for WDP program evaluation.

The federal "Workforce Investment Act of 1998," (WIA) Pub.L. 105-220, which replaced JTPA upon its enactment in 1998, requires every state to establish systems for the evaluation of training service providers in a manner similar to that required in New Jersey by the WDP law. WIA permits the State of New Jersey to spend more than $1 million in JTPA funds to plan the transition from JTPA to WIA, based on WIA's provision that 1 percent of New Jersey's $108 million in JTPA funds can be used for planning the transition from JTPA to WIA at the State level. This may provide a source of funding for DOL's required evaluation of service providers. Another possible source is the unspent portion of WDP revenues allocated to DOL's administrative expenses, which unspent amount exceeded $1 million per year in FY 1997, 1998, and 1999, according to the DOL response to OLS questions last year.

! *Question:* When will the SETC complete its task of establishing a system to evaluate training service providers? Please indicate the amount that is budgeted to DOL for this activity in FY 2000. How much of this amount will be provided through the 10 percent of WDP revenues dedicated to DOL's administrative costs? How much of this amount will be provided through the 1 percent of JTPA funds allocated under WIA for transition

Discussion Points (Cont'd)

planning?

How will the DOL ensure that long-term follow-up information regarding the effectiveness of all individual service providers is available to prospective trainees throughout the State's network of one stop career centers? When will that information be included in an annual "consumer guide" of training services? When will it be used in the approval of service providers? When will it be used in the approval of service providers?

Background Paper: The Unemployment Insurance Trust Fund

Budget Pages.... D-247 to D-249 and I-42

New Jersey's Unemployment Insurance (UI) system, established in 1937, began paying benefits to laid off workers in 1939. Since 1984, weekly UI benefit amounts have been set by law at 60% of a laid-off worker's weekly wages (plus dependent allowances), but not more than 57% of the State-wide average weekly wage (AWW) for all workers, which set a maximum weekly benefit amount for any worker of $390 in 1998. The actual average weekly benefit in New Jersey in 1998 was $266, an amount that ranks third highest in the nation, but lower than 28 other states as a percentage of average wages.

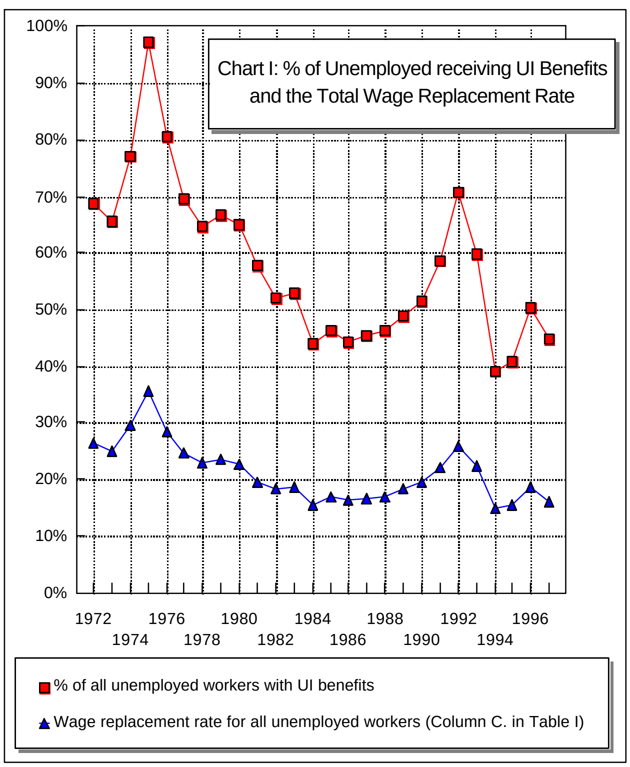
494,940 New Jersey residents filed UI benefit claims in 1998, with a weekly average of 80,200 workers laid off from jobs located in the State receiving benefits during the last quarter of 1998. The average claim lasted 16.5 weeks, but 41.3% of claimants exhausted all benefits, a maximum of 26 weeks, without being able to find work. Benefits totaled $1.1 billion in 1998.

Benefits are financed from taxes paid by employers and workers on the first $20,200 of each worker's annual wages in 1999, with annual adjustments indexed to changes in the AWW. New Jersey employers paid approximately 1% of payroll for UI taxes in 1998, higher than the national average of 0.6%. This State is one of only three that imposes a UI tax on workers.

During the last 30 years, New Jersey's UI system has undergone major changes impacting both the benefits it pays to unemployed workers and the taxes it imposes on workers and employers.

The Long-Term Decline in Total UI Wage Replacement Rates

Since 1971, there has been an overall decline in the degree to which New Jersey's system of regular and extended UI benefits has sustained the incomes of unemployed workers. Chart I, based on the data displayed in Table 1, indicates that the number of workers paid UI benefits when laid off from jobs in New Jersey during an average week in 1972 was 69% of total number of unemployed workers who were seeking work. By 1997, a comparable non-recession year, the number of laid off workers receiving benefits represented only 45% of the total unemployed.



The percent of the total unemployed population receiving UI benefits reached a peak of 97% during the recession year of 1975, but that was an anomaly created by an infusion of federally-funded emergency UI benefits provided on an ad hoc basis for three years. Excluding such emergency funding (which was also significant in 1983, 1992 and 1993), the percentage of the unemployed population receiving State-funded regular benefits or State/federal extended benefits has declined or stagnated in the years since 1972 (see Table I).

Background Paper: The Unemployment Insurance Trust Fund (Cont'd)

TABLE I: Percent of Unemployed Workers Receiving UI Benefits
Adjusted for the Ratio of the Average UI Benefit to the Average Weekly Wage

	Number of Workers on Average Week Receiving the Following UI benefits:						A.Total Workers Receiving	B. Ratio of Average	C. Total UI Benefits as
Year	State funded Regular Benefits	State funded Extended Benefits	State/Fed. funded Extended Benefits*	Federal funded Emergency Benefits**	Total for All Benefits	Total Number of Unemployed Workers***	UI Benefits as % of Total Unemployed Workers	Weekly Benefit to Average Weekly Wage (AWW)	% of Total Wages at AWW Rate (A. times B.)
1972	95,624.7		18,434		114,059	165,840	68.8%	38.5%	26.5%
1973	93,114.8		15,338		108,453	165,098	65.7%	38.1%	25.0%
1974	120,609.6		24,146		144,756	187,893	77.0%	38.5%	29.7%
1975	170,201.9		50,178	79,223	299,602	307,770	97.3%	36.6%	35.6%
1976	133,361.5		41,763	82,877	258,002	320,586	80.5%	35.4%	28.5%
1977	122,350.0		35,686	46,082	204,118	293,313	69.6%	35.6%	24.8%
1978	115,632.7		28,033	4,065	147,731	228,903	64.5%	35.7%	23.0%
1979	123,995.6		25,801		149,797	225,013	66.6%	35.2%	23.4%
1980	131,489.2		23,559		155,048	238,663	65.0%	34.8%	22.6%
1981	123,298.1		18,232		141,530	244,748	57.8%	33.8%	19.5%
1982	133,892.3		12,944	11,543	158,379	304,967	51.9%	35.3%	18.3%
1983	110,434.6		3	31,832	142,270	269,291	52.8%	35.1%	18.5%
1984	91,663.2			4,563	96,226	218,916	44.0%	35.3%	15.5%
1985	90,321.1			4,261	94,582	204,544	46.2%	36.6%	16.9%
1986	81,970.6				81,971	185,167	44.3%	36.9%	16.3%
1987	68,087.2				68,087	150,344	45.3%	36.8%	16.7%
1988	66,810.6				66,811	144,169	46.3%	36.4%	16.9%
1989	77,017.8				77,018	157,197	49.0%	37.5%	18.4%
1990	99,616.0				99,616	193,868	51.4%	38.0%	19.5%
1991	129,393.2	11,735		6,172	147,300	251,485	58.6%	37.9%	22.2%
1992	125,239.8			100,762	226,002	319,440	70.7%	36.6%	25.9%
1993	102,824.9			66,205	169,030	282,416	59.9%	37.4%	22.4%
1994	101,114.1				101,114	259,567	39.0%	38.3%	14.9%
1995	100,383.3				100,383	246,597	40.7%	38.2%	15.6%
1996	104,261.6	16,747			121,009	240,191	50.4%	37.0%	18.6%
1997	90,225.3				90,225	201,570	44.8%	36.0%	16.1%

Sources: "NJ Economic Indicators" for number of unemployed workers (with adjustments indicated below), "Statistical Appendix, 1979 Annual Report," NJDOL, for 1975-1978 Special Unemployment Assistance amounts, "IU Data Summary" and "ET Handbook," USDOL, for all other data.

* "State/Fed.-funded Benefits" means extended UI benefits funded by the State and federal governments on a 50/50 basis,

** "Federal Emergency Benefits include all 100% federally-funded benefits, including extended benefits for all indicated years, and, for 1975-1978, also including Special Unemployment Assistance for laid-off local government employees.

*** Number of unemployed workers from NJ Economic Indicators adjusted for the percentage difference between the New Jersey "Resident Employment" in the workforce (series 1 of the NJ Economic Indicators) and "Nonfarm Payroll Employment (series 7), so that the number of unemployed more closely reflects the changes employed in the State and is more consistent with the other figures in the table, which are based on NJ workplaces.

The impact of joblessness on the unemployed is compounded by the fact that the average weekly benefit amount (AWBA) is much lower than the average weekly wage (AWW), 37%o f the AWW, on average. Coupled with the declining percent of unemployed workers receiving UI benefits, the effect is that total benefits in 1997 were worth only 16% of what all unemployed workers would have earned if they were working at the average wage. That overall "wage replacement rate" had declined from 27% in the comparable non-recession year of 1972.

Causes of the Decline

The declining percentage of the unemployed receiving UI benefits was caused by national and State changes in the UI system which made it more difficult for unemployed workers to obtain UI benefits and shortened the duration of benefits. They include changes in the federal UI law in 1981 (Pub.L.97-35) which made it harder for a state to be eligible for the federal/State extended UI benefit program by basing eligibility on the state's insured unemployment rate instead of its total unemployment rate. As shown in Table I, New Jersey no longer qualified for federal/State extended benefits after 1982 and has not qualified since. The federal "emergency" UI benefits provided in 1992 and 1993 were temporary, and are no longer in effect.

Background Paper: The Unemployment Insurance Trust Fund (Cont'd)

That 1981 federal law also imposed interest charges on state UI programs that borrow from the federal program. This led many states, including New Jersey, to conduct overhauls of their UI programs, most of them making it more difficult for laid off workers to obtain benefits by increasing thresholds for benefit eligibility. New Jersey UI reform legislation, P.L.1984, c.24, indexed all UI benefit eligibility thresholds to the AWW, causing the minimum weekly income and the alternative minimum annual income required for eligibility to more than double from 1984 to 1985. This, together with stronger provisions disqualifying claimants for various misbehaviors, contributed to a continuing decline of wage replacement rates, which reached a low point of 15% in 1994.

The increase made by the 1984 law in the minimum earnings needed to qualify for UI benefits followed an earlier increase in 1975. A worker laid off anytime between 1953 and 1975 could qualify for IU benefits by earning at least $15 during each of at least 17 weeks, a total of as little as $255 earned during the year before the layoff. The minimum was increased to $30 for each of 20 weeks ($600 total) from 1975 until 1984 and then raised that year to $72 a week ($1,440 total) and indexed to the AWW so that it rose steadily to $126 in 1995 ($2,520 total) in 1995.

Measures were taken during the 1990's, however, to mitigate the reduced wage replacement rates. Largest in scale was the federal "emergency" UI program, which provided $2.1 billion in extended benefits in 1992 and 1993 at no cost to the State. Smaller State-funded temporary emergency programs in 1991 and 1996 provided another $346 million in extended benefits. These extended benefits represent a substantial share of the $11.5 billion total UI benefits paid from 1990 to 1997, but, because of their "one shot" nature, their effect has been temporary.

The State initiatives which improved UI benefits on a permanent basis were smaller in scale: (1) a program starting in 1993 to provide up to 26 weeks of extended UI benefits for laid off workers enrolled in job training; (2) the adoption of the "alternative base year" in 1995, making it easier for seasonal workers to get UI benefits; and (3) linking the minimum income thresholds for UI eligibility to the minimum wage, instead of the higher AWW, reducing the minimum weekly earnings for UI benefit eligibility from $126 in 1995 to $101 in 1996. Although the total annual increase in UI benefits from these initiatives has not exceeded $70 million, they represent a turn away from the dominant trend of the 1970's and 1980's of measures which reduced UI benefits.

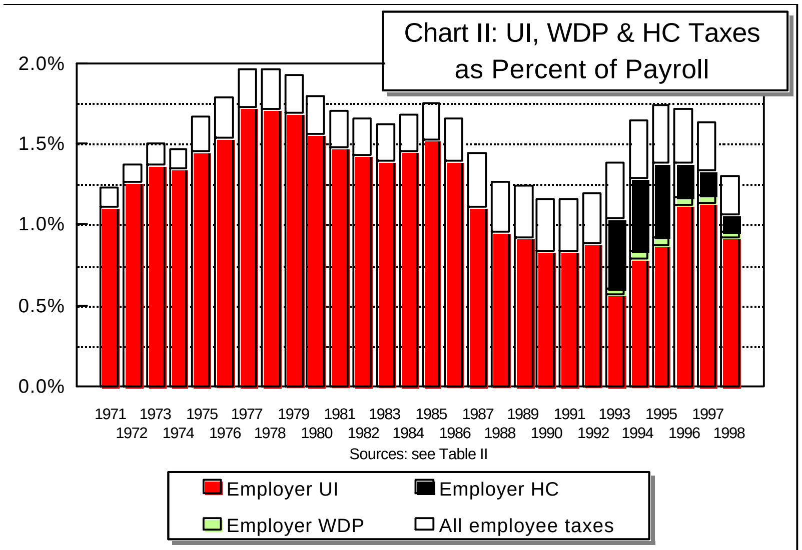
UI Financing and UI Trust Fund Solvency

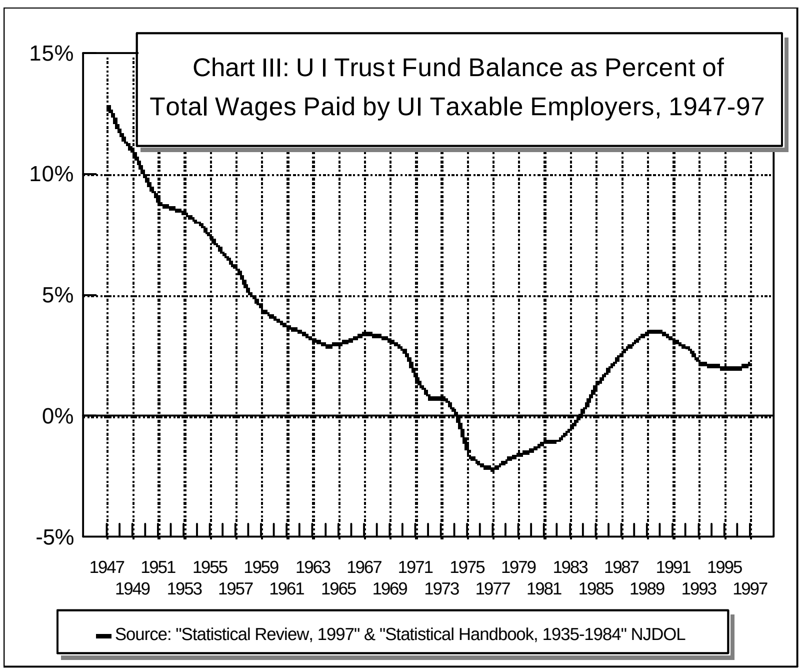
At the end of 1998, the cash balance of New Jersey's UI trust fund was $2.7 billion, a level surpassed only in 1989 ($2.8 billion) and 1990 ($2.9 billion). This balance, more than twice the amount of UI benefits paid during 1998 ($1.1 billion), represents a strong recovery for a trust fund that was in deficit from 1975 to 1983, reaching a low point of a $570 million deficit in 1977 and forcing the State to borrow from the federal government to pay benefits.

The reversal of fund insolvency was achieved mainly through the changes made by P.L.1984, c.24, which not only reduced access to UI benefits as indicated, but also imposed a temporary 10% surcharge on employers and ongoing UI tax increases on employers and workers. These changes enabled New Jersey to repay its debt to the federal UI system by 1986 and eventually resulted in the State UI trust fund having sufficient funds to attain the indicated $2.7 billion balance in 1998, even while $2.5 billion in revenues were shifted from UI taxes into payroll taxes supporting the Health Care (HC) Subsidy Fund (created by P.L.1992, c.160) from 1992 to 1998.

Table II and Chart II show the amounts paid by employers and workers for UI, HC and Workforce Development Partnership (WDP) taxes. The HC tax, which was $600 million in 1992

Background Paper: The Unemployment Insurance Trust Fund (Cont'd)





and $500 million each year in 1993 and 1994, was reduced to $270 million in 1998 and will be phased out entirely by 2003. The shift of payroll tax revenues from UI taxes to HC taxes also resulted in a greater increase in overall employer payroll taxes from 1992 to 1998 than would have otherwise occurred.

Notwithstanding this shift of tax revenue, the level of solvency of New Jersey's UI fund is now almost equal to or better than the national average, using several indicators reported by the U.S. Department of Labor (USDOL). New Jersey's Trust fund had a reserve ratio (trust fund balance divided by total wages paid by UI taxable employers, as shown on Chart III) of 2.26%, in 1998 compared to the national average of 1.50%. New Jersey's high cost multiple (the reserve ratio adjusted for the difference between current UI benefits and their historic high) was 0.68%, exactly the same as the national rate, and New Jersey's total months of current benefits in the trust fund, 28.5 months, was slightly lower than the national average of 29.4 months.

Table II: New Jersey Unemployment Insurance, Workforce Development and Health Care Taxes

	UI taxes in millions			WDP taxes in millions			HC taxes in millions			All taxes in millions		
Year	Employer	Worker	Total	Employer	Worker	Total	Employer	Worker	Total	Employer	Worker	Total
1992	$764.3	$264.8	$1,029.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$764.3	$264.8	$1,029.1
1993	$502.5	$75.5	$578.0	$34.5	$11.1	$45.6	$376.4	$223.6	$600.0	$913.4	$310.2	$1,223.6
1994	$723.6	$223.9	$947.5	$42.5	$12.6	$55.1	$411.8	$88.2	$500.0	$1,177.9	$324.7	$1,502.6
1995	$842.9	$269.2	$1,083.6	$43.9	$13.4	$57.3	$443.5	$56.5	$500.0	$1,330.3	$339.1	$1,640.9
1996	$1,143.1	$240.7	$1,246.2	$45.0	$13.7	$58.7	$212.8	$78.8	$291.6	$1,400.9	$333.2	$1,596.5
1997	$1,244.7	$103.1	$1,347.8	$48.0	$14.5	$62.5	$167.4	$209.8	$377.2	$1,460.1	$327.4	$1,787.5
1998	$1,085.3	$113.6	$1,198.9	$49.7	$15.6	$65.3	$129.4	$140.5	$269.9	$1,264.4	$269.7	$1,534.1
Total	$6,306.4	$1,290.8	$7,431.1	$263.6	$80.9	$344.5	$1,741.3	$797.4	$2,538.7	$8,311.3	$2,169.1	$10,314.3

Source: New Jersey Department of Labor: "Annual Statistical Review," various years and information provided by the department regarding WDP and HC taxes.

Employer UI taxes exclude the taxes of "reimbursable" public employers that do not pay into the UI trust fund. For 1993-97, worker taxes include excess collections of HC tax returned to the UCF, because the returned excess collections were not attributed to employer accounts. All figures for 1998 are department estimates.

Background Paper: The Unemployment Insurance Trust Fund (Cont'd)

New Jersey's UI trust fund and most other state UI trust funds, however, are much less solvent than they have been at most times in the past. The national average high cost multiple, now 0.68%, was always greater than 1.0% before 1974. The national average reserve ratio, now 1.5%, was always higher than 2% before 1974. New Jersey's reserve ratio was 2.8% in 1970 and much higher in earlier years, as shown on Chart III. Yet, by 1975, the State's UI fund had a deficit of $348 million. New Jersey's reserve ratio is now between what it was in 1970 and 1971.

Like New Jersey, most states eliminated their UI fund deficits from the 1970s or 1980s through reduced benefit availability and increased taxes. Like New Jersey, a majority of states continue policies keeping wage replacement rates well below what they were 25 years ago.

States across the nation, rather than restoring previous levels of access to UI benefits for laid off workers, have given greater emphasis to reversing the employer UI tax rate increases of the 1980's. While New Jersey has improved benefit availability more than many other states during the 1990's, it recently has followed the national trend of providing substantial reductions in UI taxes. New Jersey employer UI taxes were reduced twice during the last three years by legislation lowering the minimum UI trust fund reserve ratios (the fund balance divided by taxable wages only[2]) necessary to trigger lower UI tax rates for employers. P.L.1996, c.29 reduced minimum reserve ratios so that employers were taxed under schedule "B" instead of schedule "C" during FY 1998. Then P.L.1997, c.263 reduced reserve ratios so that employers were taxed under schedule "A" during FY 1999. If neither law had been enacted, the taxes would have continued at schedule "C," and employer UI taxes would have been $250 million higher in FY 1998 and more than $450 million higher in FY 1999. The NJDOL estimates that schedule "A" will stay in effect at least through FY 2002. This is the first time that the "A" schedule, which provides the lowest UI tax rates, has been in effect since the current set of schedules was established by P.L.1984, c.24.

The current "A" schedule sets employer UI tax rates which are, on average, about the same as the rates under the pre-1984 schedule based on the same reserve ration at schedule "A" (10%). To attain these lower tax rates under the pre-1984 law, the UI fund reserve ratio would have been required to have been almost twice as high as it was in 1998, requiring a fund balance of $4.8 billion.

Other amendments to the UI law, phased in in two steps during 1997 and 1998, reduced the combined UI/HC taxes on workers from 0.6% to 0.4%, lower than the 0.5% worker tax rate which was in effect before 1984. Based on these changes, worker taxes have been reduced, as of the current year, more than $100 million per year, a reduction of about $40 per year for each worker.

Thus, the UI tax increases which made the State UI fund's return to solvency possible have been in large part effectively repealed, with employers and workers now taxed at rates lower than

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Note the two meanings for the term "reserve ratio." On this page, it refers to the ratio used to determine New Jersey employer UI tax rates, which is calculated by dividing the UI Trust Fund balance by total taxable wages. On page 4 it refers to the ratio used by the USDOL to compare the solvency of trust funds between states, which is calculated by dividing trust fund reserves by all wages paid by taxable employers, a ratio more than twice as high as the other ratio. Chart III displays this "second" reserve ratio for New Jersey over a 50-year period.

Background Paper: The Unemployment Insurance Trust Fund (Cont'd)

they would have been taxed even under the pre-1984 set of schedules (although the highest tax rates would again be triggered if the fund balance falls below $500 million). The current reserve ratio is at the approximate level it was between 1970 and 1971. It remains to be seen whether the reductions in benefit availability will be sufficient to prevent future deficits under changing economic circumstances.

Background Paper: Workforce Development Partnership Program

Budget Pages.... D-231, D-241, D-242, D-251 to D-254, I-22 and I-23

The Workforce Development Partnership (WDP) program was created pursuant to P.L.1992, c.43 and 44 (C.34:15D-1 et seq.) to provide funding for job training grants to upgrade the skills and earning power of employed and unemployed workers. The Governor's FY 2000 Budget Recommendation proposes a $46.3 million transfer from the WDP program to the Department of Human Services (DHS)to provide job training and work activities, principally for welfare recipients. This transfer represents a 31 percent increase over the amount transferred to DHS from the program in the current fiscal year and accounts for almost two-thirds of the $71.7 million in revenues which will be generated for the WDP program in FY 2000 from payroll taxes and interest. The transfer from WDP to DHS far exceeds the six percent of WDP revenues allocated by statute to the training of welfare recipients and other "disadvantaged" individuals. At the same time, substantially less has been expended on WDP program training activities than is allocated by the law that created this program.

Overview

The Workforce Development Partnership (WDP) program was created by legislation that was part of a larger legislative package promoting training and education to upgrade the skills of New Jersey's workforce (P.L.1992, c.43, 44, 45, 46 and 48). This legislation package provided: grants through the WDP program, extended unemployment benefits during training, college tuition exemptions and mandated evaluation of training service providers. The WDP program provides training grants directly to disadvantaged and displaced workers, as well as to employers to provide training to their employees.

A study released in 1999 by the State Employment and Training Commission (SETC) indicates that during its first four years of operation the WDP program provided 604 customized training grants to businesses to train 66,623 of their employees. According to the study, most of these firms reported increases in productivity, which they attributed to their WDP grants. In addition, the total number of jobs was maintained or increased in two thirds of the firms, and wages increased an average of 10% over two years. The WDP program also paid for the training of 20,344 "displaced" (permanently laid off) workers at two and four year colleges and vocational-technical schools, a majority of whom reported finding better jobs and finding them more quickly because of the program, according to the study.

The WDP program is funded through a payroll tax paid by workers and employers on wages subject to unemployment insurance taxes, that is, the first $20,200 of each worker's annual wages in 1999. Without enactment of the WDP law, these tax revenues would have been paid into the unemployment compensation (UI) trust fund. This payroll tax for WDP currently equals up to $25 per year per worker, of which 80 percent is paid by employers and 20 percent is paid by workers. The Governor's Budget proposal estimates that these payroll taxes, plus interest income, will generate $71.7 million in FY 2000 (page I-22), which will be deposited in the WDP Fund. The total amount of payroll taxes deposited in the WDP fund from 1992 to 1998 is $344 million (see Table II in the background paper on the UI Trust Fund). According to data from the Department of Labor, $97.2 million, or 29 percent of the $344 million, was transferred to DHS or otherwise expended for "disadvantaged" individuals. This is much more than the 6 percent of WDP revenues allocated for disadvantaged individuals by the WDP law ($20.6 million).

Background Paper: Workforce Development Partnership Program (Cont'd)

Expenditures of WDP Funds

The WDP law currently requires that all WDP revenues during any on fiscal year be allocated as follows: at least 45 percent for customized training grants to businesses; at least 25 percent to train displaced workers; 5 percent for youth training; at least 3 percent for occupational safety and health training; and not more than 10.5 percent for program administration. Of particular relevance to this discussion, the law also permits six percent of revenues to be used to train "disadvantaged" individuals, who represent the long-term unemployed, usually welfare recipients.

Therefore, the WDP law requires that the estimated $71.7 million in WDP revenues be allocated as follows: 45 percent, or $32.3 million, for customized training grants to train currently employed workers; 25 percent, or $17.9 million, for individual training grants for permanently laid-off ("displaced") workers; 6 percent, or $4.3 million, for qualified disadvantaged workers; 5 percent, or $3.6 million for youth apprenticeship training; 3 percent, or $2.1 million, to occupational safety and health training; and 10.5 percent, or $7.5 million for administration. Note that a minimum of 94.5 percent of revenues are allocated by law.

TABLE I
New Jersey Workforce Development Partnership Fund: Fund balances

	FY95	FY96	FY97	FY98	FY99 (est.)	FY00 (est.)
Fund balance July	12,764	47,663	69,364	98,710	94,057	71,198
Revenues						
Taxes, Services & Assessments	57,627	58,606	62,014	64,055	66,408	68,408
Investment earnings	3,257	4,131	4,540	5,295	4,300	3,300
TOTAL REVENUES	60,884	62,737	66,554	69,350	70,708	71,708
Other Financial Services	21,224	0	0	0	0	0
TOTAL AVAILABLE	84,872	110,400	135,918	168,060	164,765	142,906
Expenditures						
Educational, Cultural & Intellectual Dev't	1,759	3,024	2,056	1,836	1,900	1,960
Econ. Planning, Dev't & Sec.	28,880	30,286	27,264	40,166	57,750	60,000
TOTAL EXPENDITURES	30,639	33,310	29,320	42,002	59,650	61,960
Other Financing uses (or decr.)						
Transfers to other funds	6,407	7,726	7,893	32,001	33,917	44,917
Other	162	0	0	0	0	0
Total other financing uses (or decreases)	6,569	7,726	7,893	32,001	33,917	44,917
Total Expenditures and other decreases	37,208	41,036	37,213	74,003	93,567	106,877
Fund Balance June 30	47,664	69,364	98,705	94,057	71,198	36,029

Source: Governor's Budget Recommendation, Appendix 1A, FY1999 and FY 2000; New Jersey Comprehensive Annual Financial Report, FY 1995-1998.

The WDP Fund, as shown in Table I, has had significant unexpended balances at the end of recent fiscal years. For example, in FY 1999, the fund is anticipated to finish the year with an unexpended balance of $71.2 million, roughly equal to what is collected during the year from payroll taxes for the Fund. In FY 1998, the fund had an actual unexpended balance of $94.1 million and in FY 1997, the unexpended balance was $98.7 million. The FY 2000 Budget proposal anticipates a $36.0 million unexpended balance at the close of FY 2000. However, if past years' experience holds true, it is likely that the unexpended balance for FY 2000 will reflect a higher balance than the budget estimate when actual data become available.

Background Paper: Workforce Development Partnership Program (Cont'd)

During the period from FY 1995 to FY 1998, the actual annual program "expenditures" of WDP funds for training, exclusive of transfers, were never more than two thirds of WDP annual "revenues" (the highest level being $42 million in expenditures out of $69 million in revenues in FY 1998) and were sometimes even less than half of annual revenues ($29 million in expenditure out of $67 million in revenues in FY 1997). This continuing under-expenditure of funds during this period is the basis for the accumulated WDP fund surplus.

Possible reasons for the Under-expenditure of WDP Training Funds

There are a number of policies instituted by the Department of Labor which may have contributed to the under-expenditure of WDP funds for job training services for the program's targeted populations.

1. No increases have been made by DOL in the $4,000 maximum amount for individual training grants set in 1992, even though the WDP law (N.J.S.A. 34:15D-6) authorized the DOL to increase the maximum to take into consideration changes in the prevailing costs of training and education services. Individual training grants are often used to pay tuition at institutions of higher education. Yet, the maximum amount of a WDP grant has remained fixed even as the cost of tuition as increased significantly. From FY 1993 to FY 1999, tuition increased 50% at the average State college, 39% at the average county college, and 35% at the average independent institution. Considering fees and other costs, the average expense of attending any of these institutions, except for county colleges, now exceeds $4,000. Many proprietary vocational technical school training programs are even more expensive.

2. The DOL adopted regulations in November 1997 (N.J.A.C.12:23-3.3) prohibiting the awarding of a WDP individual training grant to any person who has "identifiable marketable skills in a labor demand occupation." This regulation is not supported by any provision of the WDP law (or the related training and employment laws enacted at the same time) which emphasizes the *upgrading* of the skills and earning power - even of employed and unemployed workers who already have skills. The stated purpose of the WDP program itself is "to provide qualified displaced, disadvantaged and employed workers with the employment and training services most likely to provide the greatest opportunity for long-range career advancement with high levels of productivity and earning power" (N.J.S.A.34:15D-4). The law's emphasis on upgrading already-skilled workers is acknowledged with respect to customized training grants for the training of already-skilled employed workers, but for some reason, not in the individual grants part of the WDP program. Other provisions of the WDP regulations that may discourage displaced workers from getting training to upgrade skills or improve opportunities for long term career advancement include restrictions on training for laid off workers if there is any chance of returning to any similar work, even outside of their previous job, and a prohibition against grants to any worker who has received a grant within the preceding four years.

3. In some cases, laid off applicants for WDP training grants have been told that they are not eligible for a grant if they were not in the workforce five out of the last seven years before the layoff or if they are attached to a union hiring hall. These are criteria established under the "worker profiling" system mandated under federal law (Pub.L. 103-152). This profiling system uses these criteria to select laid off workers who are most likely to exhaust their unemployment benefits so that they may be given additional "reemployment services," including added job counseling and placement services. The federal law does not authorize the criteria to be used to prevent anyone from receiving benefits of any sort. The profiling system was established in New Jersey by P.L. 1995, c.394 (C.43:21-4.1). That law specifically required that "no individual shall be excluded from

Background Paper: Workforce Development Partnership Program (Cont'd)

seeking or receiving reemployment services or other services or benefits because the individual is not among those determined to be likely to exhaust benefits, unless the exclusion is specifically required by federal law." It therefore appears that the use of "worker profiling" criteria to prevent laid off workers from receiving job training grants is not permitted under State law.