Analysis of the New Jersey

Fiscal Year 2000 - 2001 Budget

Department of Labor

Prepared By

Office of Legislative Services

New Jersey Legislature

April 2000

NEW JERSEY STATE LEGISLATURE

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

Robert E. Littell (R), 24th District (Sussex and parts of Hunterdon and Morris), *Chairman*
Peter A. Inverso (R), 14th District (Parts of Mercer and Middlesex), *Vice Chairman*
Martha W. Bark (R), 8th District (Parts of Atlantic, Burlington and Camden)
Wayne R. Bryant (D), 5th District (Parts of Camden and Gloucester)
Anthony R. Bucco (R), 25th District (Part of Morris)
Sharpe James (D), 29th District (Parts of Essex and Union)
Walter J. Kavanaugh (R), 16th District (Parts of Morris and Somerset)
Bernard F. Kenny, Jr. (D), 33rd District (Part of Hudson)
Joseph M. Kyrillos, Jr. (R), 13th District (Parts of Middlesex and Monmouth)

GENERAL ASSEMBLY BUDGET COMMITTEE

Leonard Lance (R), 23rd District (Warren and parts of Hunterdon and Mercer), *Chairman*
Joseph R. Malone, III (R), 30th District (Parts of Burlington, Monmouth and Ocean), *Vice Chairman*
Peter J. Biondi (R), 16th District (Parts of Morris and Somerset)
Francis J. Blee (R), 2nd District (Part of Atlantic)
Barbara Buono (D), 18th District (Part of Middlesex)
Steve Corodemus (R), 11th District (Part of Monmouth)
Marion Crecco (R), 34th District (Parts of Essex and Passaic)
Louis D. Greenwald (D), 6th District (Part of Camden)
Nellie Pou (D), 35th District (Part of Passaic)
Albio Sires (D), 33rd District (Part of Hudson)
Joel M. Weingarten (R), 21st District (Parts of Essex and Union)

OFFICE OF LEGISLATIVE SERVICES

Alan R. Kooney, *Legislative Budget and Finance Officer*
Allan Parry, *Assistant Legislative Budget and Finance Officer*

Glenn E. Moore, III, *Director, Central Staff*
Thomas K. Musick, *Section Chief, Commerce, Labor and Industry Section*

This report was prepared by the Commerce, Labor and Industry Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Kristen A. Calderon, with additional contributions by Gregory L. Williams.

Questions or comments may be directed to the OLS Commerce, Labor and Industry Section (Tel. 609 984-0445) or the Legislative Budget and Finance Office (Tel. 609 292-8030).

DEPARTMENT OF LABOR

Budget Pages...... C-10, C-18, C-24 to C-25, C-27, D-265 to D-277,

Fiscal Summary ($000)

	Expended FY 1999	Adjusted. Appropriation FY 2000	Recommended FY 2001	Percent Change 2000-01
State Budgeted	$103,119	$77,375	$79,367	2.6%
Federal Funds	364,896	363,216	344,786	(5.1)%
Other	122,632	136,996	145,909	6.5%
Grand Total	$590,647	$577,587	$570,062	(1.3)%

Personnel Summary - Positions By Funding Source

	Actual FY 1999	Revised FY 2000	Funded FY 2001	Percent Change 2000-01
State	670	668	769	15.1%
Federal	2,996	2,952	3,151	6.7%
Other	7	7	7	0.0%
Total Positions	3,673	3,627	3,927	8.3%

FY 1999 (as of December) and revised FY 2000 (as of September) personnel data reflect actual payroll counts. FY 2001 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 the 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 programs are supported by federal (60.5 percent) and dedicated State and "Other" funds, such as trust funds (33.3 percent).

- The Governor's Budget proposes $20.6 million in Grants-In-Aid funding to support Vocational Rehabilitation Services, an increase of 8.8 percent, or $1.7 million. Of the additional $1.7 million, $1.3 million will provide supported employment services for an additional 500 disabled clients. An additional $371,000 is recommended in FY 2001 to support cost-of-living increases for community service providers.

- The Budget Recommendation includes a Special Purpose appropriation of $500,000 to implement the recently enacted "Public Works Contractor Registration Act," P.L. 1999, c.238 (C.34:11-56.48 et seq.) that will require public works contractors to register with the department to ensure compliance with certain labor laws. The registration fee has been set at $300 per year. As a result of this program, the department anticipates an increase of $2.1 million in Workplace Standard revenues.

- The Budget Recommendation anticipates that the Unemployment Compensation Fund will have a $3.4 billion balance at the end of FY 2001, a $183 million (5.8 percent) increase over the FY 2000 estimated balance of $3.2 billion. These fund balances reflect the shift of $195.5 million and $120 million, in FY 2000 and FY 2001 respectively, to the Health Care Subsidy (HCS) Fund for charity care in lieu of payment to the Unemployment Compensation Fund, pursuant to P.L. 1997, c.263.

- The Governor is recommending a $260 million reduction in the Unemployment Insurance (UI) tax for both employers and employees during FY 2001. Subject to enabling legislation, employer tax contributions to the UI Trust Fund would be reduced from $930 million to $800 million, a $130 million, or 14 percent decrease. The employee share, the $130 million, or .2 percent annual contribution to the UI Trust Fund by all covered employees, would be suspended. However, employee contribution portions for health care and workforce development would remain intact in order to continue these programs as provided by law. If authorized for a two year period, as proposed, the total reduction would be $520 million. At the end of FY 2002, after the $520 million reduction, the UI Trust Fund balance is projected by the Governor to be $3.3 billion.

- Proposed language in the Governor's Budget (page D-252) recommends the transfer of $38.9 million from the Workforce Development Partnership Fund to the Work First New Jersey program in the Department of Human Services for work activity and training related expenses.

- Of the $38.9 million that is to be shifted from the Workforce Development Partnership Fund to the Department of Human Services under the proposed Budget, approximately $34.0 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.). In FY 2001, $81.4 million in overall revenues are anticipated for the Workforce Development Partnership Fund.

- Proposed language in the Governor's Budget (page D-276) recommends an appropriation, not to exceed $5.5 million, from the New Jersey Workforce Development Partnership Fund, as the State match to the federal Welfare to Work Grant Program. The Welfare to Work Grant Program will support work or work-readiness activities for Work First New Jersey recipients with additional barriers to employment, such as poor work history or deficient

Key Points (Cont'd)

educational skills. This grant will be a part of State "maintenance of effort" funds in the Work First New Jersey welfare reform program.

- Proposed language in the Governor's Budget (page D-264) recommends an appropriation of $1.85 million from the Workforce Development Partnership Fund for the New Jersey Youth Corps, a program in the Department of Human Services. The New Jersey Youth Corps is a year-round, voluntary program designed for young adults, ages 16 to 25, who have left high school before earning a diploma.

- The Governor's Budget includes new budget language that would permit reimbursement to the Department of Labor from the Enterprise Zone Assistance Fund for employer rebate awards it administers pursuant to the "New Jersey Urban Enterprise Zone Act," P.L. 1983, c.303 (C.52:27H-60 et seq.). This proposed language would allow the transfer of the payment of employer rebate awards from the New Jersey Commerce and Economic Growth Commission to the Department of Labor.

- The Governor's proposal continues language (page D-276) which would increase spending from the Workforce Development Partnership Fund for the Customized Training Program by up to $10 million. This amount is in addition to the approximately $37 million in 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.

- The Budget Recommendation indicates that federal funds are expected to decrease to $344.8 million in FY 2001, down 5.1 percent or $18.4 million, from the current adjusted appropriation of $363.2 million. Divisions anticipating decreases in federal aid include: Employment Services ($2.4 million or 6.1 percent); Disability Determinations ($2.4 million or 5.6 percent); Unemployment Insurance ($6.7 million or 6.8 percent); and Employment and Training Services ($8.9 million or 7.2 percent). These decreases are offset by increases in federal assistance for the Division of Vocational Rehabilitation Services ($1.2 million or 2.5 percent), Planning and Research ($811,000 or 10.9 percent) and Workplace Standards ($100,000 or 2.9 percent).

- Proposed language in the Governor's Budget (page D-271) recommends a $6.1 million appropriation from the State Disability Benefits Fund, an increase of $485,000 or 8.6 percent, for administrative costs associated with the State Disability Insurance Plan. 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.

- The proposed Budget continues to provide funding for Sheltered Workshops at $4,776 per client, which represents approximately 84.5 percent of the cost of providing services to clients 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 1998, according to the department.

- The recommended Grants-in-Aid appropriation of $2.4 million from the Casino Revenue Fund for Sheltered Workshop Transportation program remains unchanged from the FY 2000 adjusted appropriation.

- The Governor's Budget recommends funding for 3,927 positions in FY 2001, 19.6 percent

Key Points (Cont'd)

(769 positions) of which are State funded. Position data for FY 2000 indicates that the total number of positions currently on payroll is 3,627, of which 18.4 percent (668) are State funded.

! Funding for the Public Employee Relations Commission (PERC) and the PERC Appeal Board, remains level at $2.9 million. PERC is an independent agency within the Department of Labor which resolves disputes between public employees and their employers.

Background Paper:

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

Eighty-six percent of the Department of Labor's $570.1 million budget recommendation for FY 2001 is comprised of federal and other non-State dedicated revenues appropriated "off-budget" or "below the line." The recommended federal appropriation of $344.8 million will provide most of the department's funding for unemployment insurance, disability determination, job training and employment service operations, while $145.9 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 revenues 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.

Even the department's programs that receive a General Fund appropriation are financed largely by assessments and special revenues dedicated to the department by statute or budget language for specific purposes. In FY 2001, for example, 82.1 percent, or $46.2 million, of the department's Direct State Service appropriation of $56.3 million is derived from dedicated revenue sources. In addition, $9 million of the recommended Grants-In-Aid appropriation of $20.6 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 $79.4 million in State budgeted appropriations for FY 2001, $57.6 million, or 73 percent, will be derived from trust or special revenue sources and dedicated revenues.

Thus, of the department's total FY 2001 recommended appropriation of $570.1 million, 4 percent, or $22.7 million, is supported by non-dedicated General Fund resources.

In addition to these sums, the department administers more than $3.0 billion in benefit payments which are not included as part of the department's appropriation. During FY 2001, for example, the department will administer $1.3 billion in unemployment insurance benefits, $365 million in temporary disability insurance benefits, and $1.4 billion in federal Social Security disability benefit payments.

Summary of the FY 2001 Recommended Budget

State budgeted funds for the department are recommended to increase by approximately $2 million, or 2.6 percent, for a total of $79.4 million in FY 2001.

There are two significant funding initiatives recommended for the Department of Labor. First, the FY 2001 Budget recommendation includes an additional $1.7 million for Vocational

Program Description and Overview (Cont'd)

Rehabilitation Services; of this amount, $1.3 million will enable the department to provide supported employment services for an additional 500 disabled clients, increasing supported employment services by 104 percent. Furthermore, it permits ongoing "follow-along" services needed to maintain and support these individuals at their work sites. An additional $371,000 for FY 2001 is recommended to support cost-of-living increases for community service providers. The cost-of-living adjustment ($198,000,) along with the direct care salary supplement ($173,000), will provide third party service providers at the Sheltered Workshops and Independent Living Centers a 3.6 percent increase in their wages.

The FY 2001 budget also includes a new special purpose appropriation of $500,000 to the Division of Workplace Standards to implement the recently enacted "Public Works Contractor Registration Act," P.L. 1999, c.238 (C.34:11-56.48 et seq.) that will require public works contractors to register with the department to ensure compliance with certain labor laws. Budget language would increase this amount up to $450,000, depending on registration receipts. The registration fee has been set at $300 per year and the department estimates 7,000 to 10,000 businesses will apply for registration under the law that goes into effect in April 2000.

As a result of this program, the department anticipates generating between $2.1 million and $3.0 million in Workplace Standards revenues. The act itself requires that all of this fee revenue be applied toward enforcement and administrative costs of the Public Contracts and Registration sections of the Office of Wage and Hour Compliance. The proposed FY 2001 Budget recommends superseding this requirement by limiting the appropriation for the special purpose of "Public Works Contractor Registration Act" to $500,000 (page D-275), plus the amount of fees collected under the act which exceed $2.1 million, up to $450,000 (page D-277). In other words, only $500,000 out of the first $2.1 million collected will be used to implement the act, having the effect of shifting to the General Fund $1.6 million of the revenues which were supposed to be used for prevailing wage enforcement under the act.

Workforce Development Partnership Fund

Proposed language in the Governor's Budget (page D-276) recommends an appropriation, not to exceed $5.5 million, from the New Jersey Workforce Development Partnership Fund, as the State match to the federal Welfare to Work Grant Program. The Welfare to Work Grant will support work or work-readiness activities for Work First New Jersey recipients with additional barriers to employment such as poor work history or deficient educational skills. This Grant will be a part of State "maintenance of effort" funds in the Work First New Jersey welfare reform program. State funding for the grant will come from the New Jersey Workforce Development Partnership Fund, and will be matched with federal funds.

The Governor's Budget recommends language for an appropriation of $1.85 million from the Workforce Development Partnership Fund for the New Jersey Youth Corps, a program in the Department of Human Services. The New Jersey Youth Corps is a year-round, voluntary program designed for young adults, ages 16 to 25, who have left high school before earning a diploma. The Youth Corps breaks the cycle of limited opportunity by providing youth with a second chance to earn a diploma while developing employment skills through meaningful community service.

Through budgetary language, the FY 2001 Budget (page D-252) recommends the transfer of $38.9 million from the Workforce Development Partnership Fund to the Work First New Jersey program in the Department of Human Services for work activity and training through training related expenses. The Workforce Development Partnership (WDP) Fund, which is funded through

Program Description and Overview (Cont'd)

employer and employee payroll tax contributions, is used to provide workforce training grants to disadvantaged workers, displaced workers and employers.

Of the $38.9 million that is to be shifted from the Workforce Development Partnership Fund to the Department of Human Services under the proposed Budget, approximately $34.0 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.). $84.1 million in overall revenues is anticipated for the Workforce Development Partnership Fund in FY 2001.

Federal Funds

The Budget Recommendation anticipates federal funds to decrease to $344.8 million in FY 2001, down 5.1 percent or $18.4 million over the current adjusted appropriation of $363.2 million. Divisions anticipating decreases in federal aid include Employment Services ($2.4 million or 6.1 percent); Disability Determinations ($2.4 million or 5.6 percent); Unemployment Insurance ($6.7 million or 6.8 percent); and Employment and Training Services ($8.9 million or 7.2 percent). These decreases are offset by increases in federal assistance for the Division of Vocational Rehabilitation Services ($1.2 million or 2.5 percent), Planning and Research ($811,000 or 10.9 percent) and Workplace Standards ($100,000 or 2.9 percent). Most of the distributions in federal aid are formula based, and these anticipated changes reflect changes in caseloads.

Unemployment Insurance Proposal

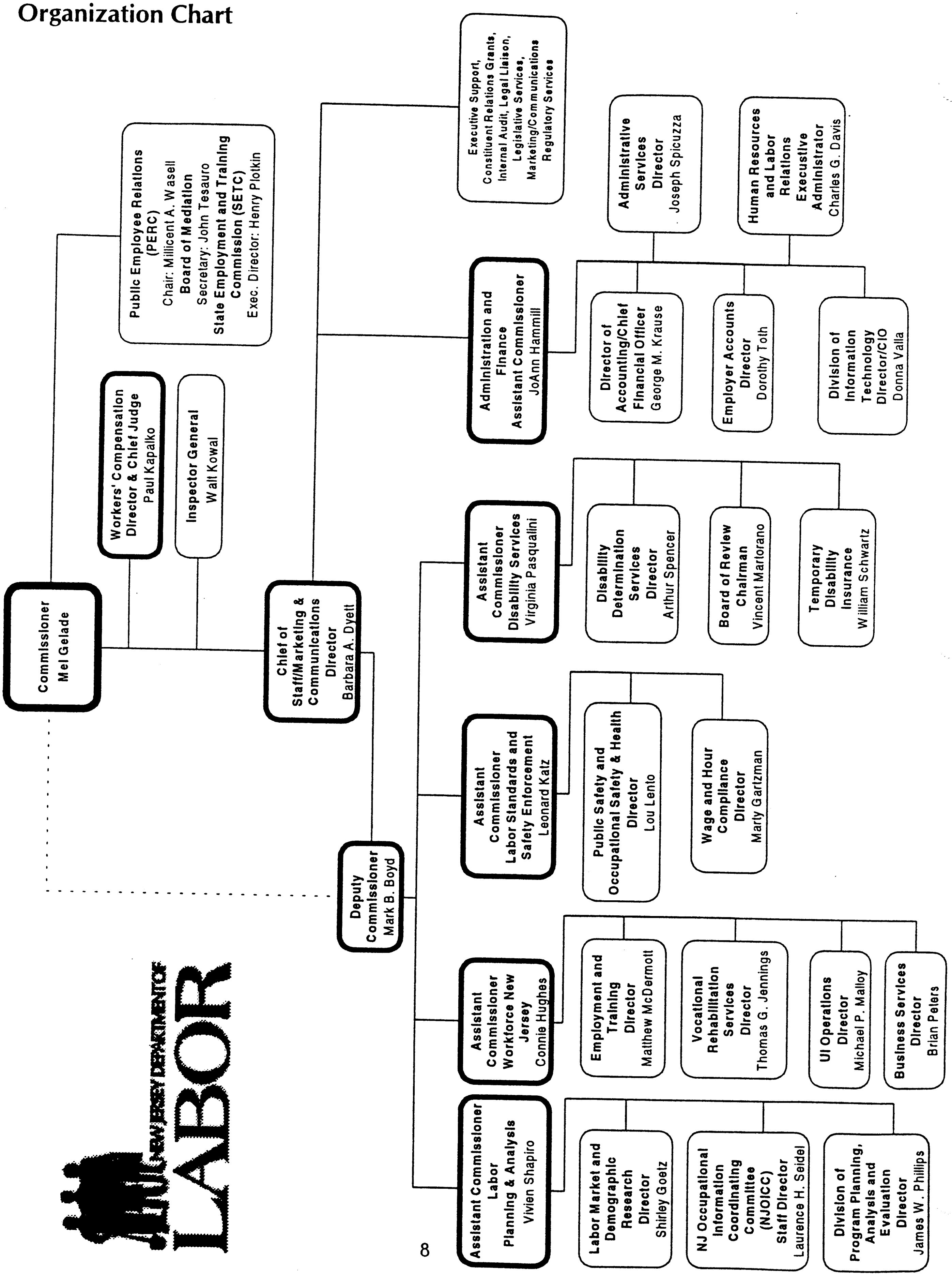
The Governor's has proposed a $260 million annual reduction in the Unemployment Insurance (UI) tax contribution of all covered employers and employees for FY 2001. If the proposal is enacted, through FY 2002, the overall UI tax reduction will total $520 million. At the end of FY 2002, after the $520 million reduction, the UI Trust Fund balance is projected by the Governor to be $3.3 billion.

Subject to enabling legislation, employers' tax contributions to the UI Trust Fund will be reduced from $930 million to $800 million, a decrease of $130 million, or 14 percent. In order to reduce the annual employer UI contributions, a new tax table will be created for a total savings of $260 million over two years. Average annual savings per employer for those in the mid-range of the tax table are estimated to be from $440 for small employers to $44,000 for large employers.

Employees will share equally in the UI tax reduction: the annual UI employee contribution of $42.40 will be eliminated, for a total savings of $130 million for New Jersey wage earners. When fully implemented over the next two years, this reduction will return to working New Jersey taxpayers a total of $260 million. However, the annual $47.70 employee contribution for health care and workforce development will remain intact, in order to continue these programs, established and funded by law.

The Governor's proposal to reduce unemployment insurance taxes is discussed in more detail in an OLS Background Paper on page 32 of this report.

Organization Chart



Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 1999	Adj. Approp. FY 2000	Recom. FY 2001	Percent Change 1999-01	Percent Change 2000-01
General Fund					
Direct State Services	$78,704	$56,015	$56,336	-28.4%	0.6%
Grants - In - Aid	21,975	18,920	20,591	-6.3%	8.8%
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	$100,679	$74,935	$76,927	-23.6%	2.7%
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	$103,119	$77,375	$79,367	-23.0%	2.6%
Federal Funds	$364,896	$363,216	$344,786	-5.5%	-5.1%
Other Funds	$122,632	$136,996	$145,909	19.0%	6.5%
Grand Total	$590,647	$577,587	$570,062	-3.5%	-1.3%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 1999	Revised FY 2000	Funded FY 2001	Percent Change 1999-01	Percent Change 2000-01
State	670	668	769	14.8%	15.1%
Federal	2,996	2,952	3,151	5.2%	6.7%
All Other	7	7	7	0.0%	0.0%
Total Positions	3,673	3,627	3,927	6.9%	8.3%

FY 1999 (as of December) and revised FY 2000 (as of September) personnel data reflect actual payroll counts. FY 2001 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	34.0%	34.4%	34.6%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
DEPARTMENT-WIDE					
DIRECT STATE SERVICES					
Services Other Than Personal: OIT Data Processing Initiative	$0	$496	$496	—	D-265-D-277

Within the department's overall Services Other Than Personal Account is an additional $496,000 appropriation recommended to reimburse the Office of Information Technology for the costs of their services to the department. In FY 2000, all departments participated in an Information Technology (IT) Strategic Planning process to improve the State's information highway, provide online access to State services, and manage State data, with the goal of transforming New Jersey into the Online State.

ECONOMIC PLANNING AND DEVELOPMENT

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
FEDERAL FUNDS					
Planning and Analysis	$7,440	$8,251	$811	10.9%	D-268

The Division of Planning and Analysis, now referred to as the Division of Management and Administrative Services, anticipates a net increase in federal funds of $811,000 or 10.9 percent, to support its activities in FY 2001. The consolidated program, Division of Management and Administrative Services, includes the Office of the Commissioner, the Office of Internal Audit, and the Division of Administrative Services.

ECONOMIC ASSISTANCE AND SECURITY

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
ALL OTHER FUNDS					
State Disability Insurance Plan	$5,615	$6,100	$485	8.6%	D-271
Private Disability Insurance Plan	$673	$985	$312	46.4%	D-271

"Off budget" funding from the State Disability Benefits Fund for the support of the State Disability Insurance Plan and the Private Disability Insurance Plan is recommended to increase by $485,000, or 8.6 percent and $312,000, or 46.4 percent, respectively. The recommended FY 2001 appropriations of $485,000 and $312,000, which is largely allocated for fringe benefits as well as other administrative costs, is in addition to the programs "on-budget" Direct State Services appropriations of $20.3 million and $3.7 million, respectively.

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

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
Workers' Compensation	$5,465	$5,874	$409	7.5%	D-271

"Off budget" funding from the Second Injury Fund for the support of the Workers' Compensation program is recommended to increase by $409,000, or 7.5 percent. Funding is derived from the Second Injury Fund through an assessment against carriers of workers' compensation insurance and self insurers. The recommended FY 2001 appropriation of $5.9 million is in addition to the program's "on-budget" Direct State Services appropriation of $11.5 million.

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
Special Compensation	$117,276	$124,750	$7,474	6.4%	D-271

The Governor's FY 2001 proposal anticipates that special compensation benefits paid to recipients will increase by $7.474 million, or 6.4 percent in FY 2001. 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 Special Compensation Fund, also known as the Second Injury Fund, provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities.

MANPOWER AND EMPLOYMENT SERVICES

DIRECT STATE SERVICES

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
Special Purpose: Public Works Contractor Registration Act	$0	$500	$500	—	D-275

The Budget Recommendation includes a Special Purpose appropriation of $500,000 to implement the recently enacted "Public Works Contractor Registration Act," P.L. 1999, c.238 (C.34:11-56.48 et seq.) that will require public works contractors to register with the department to ensure compliance with certain labor laws. Budget language would increase this amount up to $450,000, depending on registration receipts. The registration fee has been set at $300 per year and the department estimates 7,000 to 10,000 businesses will apply for registration under the law that goes into effect in April 2000.

As a result of this program, the department anticipates generating between $2.1 million and $3.0 million in Workplace Standards revenues. The act itself requires that all of this fee revenue be applied toward enforcement and administrative costs of the Public Contracts and Registration sections of the Office of Wage and Hour Compliance. The proposed FY 2001 Budget recommends superseding this requirement by limiting the appropriation for the special purpose of "Public Works Contractor Registration Act" to $500,000 (page D-275), plus the amount of fees collected under the act which exceed $2.1 million, up to $450,000 (page D-277). In other words, only $500,000 out of the first $2.1 million collected will be used to implement the act, having the effect of shifting to the General Fund $1.6 million of the revenues which were supposed to be used for prevailing wage enforcement under the act.

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

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
Additions, Improvement and Equipment	$700	$200	($500)	(71.4)%	D-275

In FY 2000, all departments participated in an Information Technology Strategic Planning process resulting in the development of departmental strategic plans for technology. According to theOffice of Management and Budget (OMB), the Workplace Standards program is scheduled to receive a supplemental appropriation of $500,000 this year for "technology improvements." As of April 5, 2000, the appropriation had not yet occurred. While this appropriation is not repeated in FY 2001, the budget language that authorized it is contained in the budget document.

GRANTS-IN-AID (Vocational Rehabilitation Services)

Budget Item	Adj. Approp. FY 2000	Recomm. FY 2001	Dollar Change	Percent Change	Budget Page
Supported Employment Services	$1,250	$2,550	$1,300	104.0%	D-275
Salary Supplement for Direct Service Workers	$0	$173	$173	—	D-275
Cost of Living Adjustment-Sheltered Workshops	$0	$198	$198	—	D-266

The Governor's Budget proposes $20.6 million in Grants-In-Aid funding to support Vocational Rehabilitation Services, an increase of 8.8 percent, or $1.67 million. Of the additional $1.67 million, $1.3 million will provide supported employment services for an additional 500 disabled clients, increasing supported employment services by 104 percent.

An additional $371,000 for fiscal year 2001 is recommended to support cost-of-living increases for community service providers. The cost-of-living adjustment ($198,000,) along with the direct care salary supplement ($173,000), will provide third party service providers at the Sheltered Workshops and Independent Living Centers a 3.6 percent increase in their wages.

Language Provisions

2000 Appropriations Handbook	2001 Budget Recommendations
p.B-83	p.D-268
The amount hereinabove for the Planning and Analysis program classification is appropriated from the Unemployment Compensation Auxiliary Fund.	Of the amount hereinabove for the Management and Administrative Services program classification, $265,000 is appropriated from the Unemployment Compensation Auxiliary Fund.

Explanation

As in prior years, in FY 2000 the Unemployment Compensation Auxiliary Fund (UCAF), which is supported by penalties and interest imposed upon employers for violations of unemployment insurance regulations, provided funding for Planning and Analysis. The proposed language for the FY 2001 Budget recommends the replacement of language which allows for the consolidation of Planning and Analysis with Management and Administrative Services.

The Division of Management and Administrative Services provides for all accounting and budgeting functions for the department, including evaluation of operating programs from a financial management viewpoint. The consolidated program, Division of Management and Administrative Services, includes the Office of the Commissioner, the Office of Internal Audit, and the Division of Administrative Services.

Language Provisions (Cont'd)

2000 Appropriations Handbook	2001 Budget Recommendations
	p.D-268
No comparable language.	The amounts necessary to provide employer rebate awards as a result of the "New Jersey Urban Enterprise Zone Act," P.L. 1983, c.303 (C.52:27H-60 et seq.), are appropriated from the Enterprise Zone Assistance Fund, subject to the approval of the Director of the Division of Budget and Accounting. Notwithstanding the provisions of the "New Jersey Urban Enterprise Zone Act," P.L. 1983, c.303 (C.52:27H-60 et seq.), the Department of Labor, based upon the authorization of the Chief Executive Officer and Secretary, New Jersey Commerce and Economic Growth Commission, shall make employer rebate awards.

Explanation

The recommended language for FY 2001 would allow for the transfer of the payment of employer rebate awards from the New Jersey Commerce and Economic Growth Commission to the Department of Labor.

Language Provisions (Cont'd)

2000 Appropriations Handbook	2001 Budget Recommendations
p.B-85	p.D-271
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.	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 $6,100,000, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The State Disability Insurance Plan program has a recommended appropriation of $20.3 million in the FY 2001 budget. This language would allow the program to spend an additional $6.1 million above that amount, subject to OMB approval. This "off-budget" authorization is $485,000, or 8.6 percent higher than the current fiscal year authorization. According to OMB, the change in funding allows for an increase in fringe benefits and indirect costs.

The State Disability Insurance Plan program (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)

2000 Appropriations Handbook	2001 Budget Recommendations
	p.D-271
No comparable language.	The funds appropriated for Second Injury Fund benefits are available for the payment of obligations applicable to prior fiscal years.

Explanation

The language recommendation for FY 2001 allows for the payment of claims from prior fiscal years within the current fiscal year.

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.

Language Provisions (Cont'd)

2000 Appropriations Handbook	2001 Budget Recommendations
p.B-85	
The Director of the Division of Budget and Accounting is hereby authorized to transfer such sums as are necessary between the Department of Labor and the Department of Treasury for the administration of revenue collection and processing functions related to Unemployment Insurance, Temporary Disability Insurance, Workers' Compensation, and Special Compensation programs.	No comparable language.

Explanation

The current language allows for the transfer of the department's Wage and Reporting functions to the Department of the Treasury. Specifically, the revenue collection and processing functions related to Unemployment Insurance, Temporary Disability, Workers' Compensation and Special Compensation were transferred. As a result, a central collection point for all tax collections was created. Since the consolidation of revenue functions occurred last year, this language is no longer needed.

Language Provisions (Cont'd)

2000 Appropriations Handbook	2001 Budget Recommendations
	p.D-276
No comparable language.	Notwithstanding any law to the contrary, an amount not to exceed $5,500,000 is appropriated from the New Jersey Workforce Development Partnership Fund, section 9 of P.L. 1992, c.43 (C.34:15D-9) as the state match to the federal Welfare to Work Grant Program, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Welfare to Work Grant will support work or work-readiness activities for Work First New Jersey recipients with additional barriers to employment such as poor work history or deficient educational skills. This appropriation will be a part of State "maintenance of effort" funds in the Work First New Jersey welfare reform program. State funding for the grant will come from the New Jersey Workforce Development Partnership Fund, and will be matched with federal funds.

The department is the State administrative agency for the federal Welfare to Work program. According to the department, it will work with the Department of Human Services to provide technical assistance in developing Welfare to Work programs that leverage federal and State welfare reform funding.

Language Provisions (Cont'd)

2000 Appropriations Handbook	2001 Budget Recommendations
	p.D-277
No comparable language.	In addition to the amount appropriated hereinabove, receipts received pursuant to the "Public Works Contractor Registration Act," P.L. 1999, c.238, in excess of $2,100,000, not to exceed $450,000, are appropriated for administration of the Public Works Contractor Registration Program, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The FY 2001 Budget recommends an appropriation of $500,000 to the Division of Workplace Standards to implement a recently enacted law, the "Public Works Contractor Registration Act." In addition to the $500,000 appropriation, this language provides for an additional appropriation, not to exceed $450,000, for the administration of this act.

The purpose of the "Public Works Contractor Registration Act" is "to establish a registration system for contractors and subcontractors engaged in public works projects in order to better enforce existing labor laws and regulations in the public works industry." Under the act, no contractor or subcontractor will be permitted to bid on or engage in any contract for public work, as defined in section 2 of P.L. 1963, c.150 (C.34:11-56.26), unless that person is registered with the New Jersey Department of Labor. The registration fee has been set at $300 per year. The department estimates 7,000 to 10,000 businesses will apply for registration under the law that goes into effect in April 2000.

As a result of this program, the department anticipates generating between $2.1 million and $3.0 million in Workplace Standard revenues. The act itself requires that all of this fee revenue be applied toward enforcement and administrative costs of the Public Contracts and Registration sections of the Office of Wage and Hour Compliance.

The proposed FY 2001 Budget recommends superseding this requirement by limiting the appropriation for the special purpose of "Public Works Contractor Registration Act" to $500,000 (page D-275), plus the amount of fees collected under the act which exceed $2.1 million, up to $450,000 (page D-277). In other words, only $500,000 out of the first $2.1 million collected will be used to implement the act, having the effect of shifting to the General Fund $1.6 million of the revenues which were supposed to be used for prevailing wage enforcement under the act.

Language Provisions (Cont'd)

2000 Appropriations Handbook	2001 Budget Recommendations
p.C-35	p.D-277
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.	Of the amount hereinabove for the Vocational Rehabilitation Services program classification, an amount not to exceed $9,000,000 is appropriated from the Unemployment Compensation Auxiliary Fund.

Explanation

As in prior years, the proposed language provides funding of the recommended Grants-In-Aid (GIA) appropriation for the Vocational Rehabilitation Services program from the Unemployment Compensation Auxiliary Fund (UCAF), which is supported by penalties and interest imposed upon employers for violations of unemployment insurance regulations. The full GIA appropriation to which the proposed language appropriates funds is recommended to increase from $18.8 to $20.6 million in FY 2001.

The budget language for FY 2001 is comparable to appropriations from the UCAF in budget years prior to FY 2000. In the current fiscal year, the entire GIA appropriation of $18.8 million is 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 decrease from $21.9 million in the current fiscal year to $13.8 million in FY 2001. 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)

2000 Appropriations Handbook	2001 Budget Recommendations
p.C-35	p.D-277
The amount hereinabove for Salary Supplement for Direct Service Workers shall only be expended for direct service workers' cost of living adjustments throughout the Department of Labor.	The amount hereinabove for Salary Supplement for Direct Service Workers shall only be used to fund, at a minimum, an additional 2.0% direct service workers' cost of living adjustment throughout the Department of Labor, effective July 1, 2000.
Of the amounts hereinabove for cost of living adjustments throughout the Department of Labor, 70% shall be expended only on direct service workers' salaries, effective July 1, 1999.	From the amounts provided hereinabove for Cost of Living Adjustments-Sheltered Workshops, it is intended that these monies shall be used to fund, at a minimum, a 1.6% cost of living increase for direct service workers' salaries, effective July 1, 2000.

Explanation

The amended language provisions are intended to provide Vocational Rehabilitation Community Service Providers, also known as direct service workers, with a 3.6 percent cost of living adjustment. The recommended budget provides $173,000 in Salary Supplement Funds; this is equal to a 2.0 percent salary adjustment. The recommended budget also provides $198,000 for agency Cost of Living Adjustments (COLA). A portion of the $198,000 is to be used to provide direct service workers with sufficient funds for an additional 1.6 percent salary adjustment. Any remaining COLA funds can then be used for other agency expenses, such as providing non-direct workers with a salary increase.

Discussion Points

1. Under the "Public Works Contractor Registration Act," P.L. 1999, c. 238, which goes into effect on April 11, 2000, all contractors and subcontractors bidding on contracts for public works projects (other than highway, utility or environmental projects) are required to register with the State Department of Labor, paying an annual registration fee of $300. The department anticipates between 7,000 and 10,000 businesses will register, generating between $2.1 million and $3.0 million in revenues.

The stated purpose of the act is "to establish a registration system for contractors and subcontractors engaged in public works projects in order to better enforce existing labor laws and regulations in the public works industry." To implement this purpose, the act itself requires that *all* of this fee revenue be applied toward enforcement and administrative costs of the Public Contracts and Registration sections of the Office of Wage and Hour Compliance. But the proposed FY 2001 Budget supersedes this requirement by limiting the appropriation for the special purpose of "Public Works Contractor Registration Act" to $500,000 (page D-275), plus the amount of fees collected under the act which exceed $2.1 million, up to $450,000 (page D-277). In other words, only $500,000 out of the first $2.1 million collected will be used to implement the act, having the effect of shifting to the General Fund $1.6 million of the revenues which were supposed to be used for prevailing wage enforcement under the act. The actual number of personnel assigned to prevailing wage enforcement was increased from 19, including 15 inspectors, in FY 1998 to 21, including 17 inspectors, in FY 1999.

! *Question:* Please state what amount of money, if any, will be allocated in FY 2001 to prevailing wage enforcement, other than the $500,000 appropriated for the special purpose of "Public Works Contractor Registration Act" and the amount from fees in excess of $2.1 million, not to exceed $450,000, collected pursuant to that act? What was the total amount available for prevailing wage enforcement in FY 2000?

How many personnel are assigned to prevailing wage enforcement in the current fiscal year and how many will be assigned in FY 2001? State any increase in the total number of all personnel in the Division of Wage and Hour Compliance in FY 2001. Will the number of personnel in the division assigned to issues other than prevailing wage enforcement change?

Does the department think the fees set by the law are too high, given that the FY 2001 budget proposes to spend substantially less on enforcement than the amount collected? Has any consideration been given to returning any of the $1.6 million or more in registration fees which will not be used to implement the act to the contractors and subcontractors who paid them?

2. The Governor is recommending a $260 million annual reduction in Unemployment Insurance (UI) taxes, to be divided evenly between employers and workers during FY 2001 and FY 2002. The administration estimates that, subject to the enactment of enabling legislation, annual employer UI taxes would be reduced from $930 million to $800 million, a $130 million, or 14 percent, decrease (see page 97, "Budget in Brief"). The proposal would reduce worker UI taxes during calendar years 2001 and 2002 by 0.2 percent of UI-taxable wages, which are currently the first $21,200 earned annually by a worker, resulting in an annual tax reduction of as much as $42.40 for each worker. The total tax reduction would be $520 million over a two-year period. The administration estimates that at the end of FY 2002, after the $520 million tax reduction is taken into account, the UI Trust Fund balance will be $3.3 billion.

Discussion Points (Cont'd)

The Governor's proposal would establish a new tax schedule for employers, which would, on average, reduce the UI taxes of most employers by about 0.2 percent of UI-taxable wages. This new schedule would apply whenever the UI fund reserve ratio (the total amount of money in the UI fund divided by total UI-taxable wages) is higher than a specified percent. Under the Governor's proposal, the UI tax reduction for employers would go into effect in FY 2001 and, depending on what reserve ratio is used as the trigger for the reduction and on actual future UI fund ratios, may stay in effect for some number of years after FY 2002, unless the proposed legislation sets a specific date for the reduction to end. No estimate is available of how many more years the employer UI tax reduction would stay in effect if no ending date is specified or what the total reduction in UI revenues would be for those subsequent years.

! *Question:* In the Governor's proposal, what is the UI fund reserve ratio which will trigger the new schedule of reduced employer UI tax rates? Will the proposed legislation set a specific date for the tax reductions to end? If not, how many years is it expected that the proposed new UI tax schedule would remain in effect and what would be the total reduction in UI revenues for those subsequent years? Please include all assumptions regarding unemployment rates used to make the estimate of the length of time the new schedule would be in effect. Please explain how the department determined that the UI trust fund balance will be $3.3 billion at the end of FY 2002, after a $520 million UI tax reduction.

3. The federally-funded Unemployment Insurance (UI) program is administered by the New Jersey Department of Labor. UI benefits, financed through employer and employee taxes, provide financial support during the time a worker is laid off. According to the department, their main priority is to assist the person in becoming re-employed. They anticipate that UI claimants will be able to begin the job search faster if technology is used to simplify the process of obtaining benefits so the focus can remain on re-employment.

Currently, there are 33 local offices Statewide where citizens can register in person for unemployment benefits. In response to the request of the U.S. Department of Labor (USDOL) that states begin filing claims remotely, the department opened its first Re-Employment Call-In Center (RCC) in Freehold, New Jersey in July, 1998. Two more RCCs have opened since then, enabling more laid off workers to file their initial claims for UI benefits by telephone. This is being done even as federal funding for NJ's UI program is being reduced to $77.7 million in FY 2001, down 4.7 per cent, or $3.8 million, from its FY 1999 level.

As noted in the OLS background paper on the UI Trust Fund (see page 32), most workers in this State who are unemployed and seeking work are not receiving UI benefits. Many of them are not receiving UI benefits because they have exhausted their benefits, but are still not able to find work, or because their earnings before being laid off were not high enough for them to qualify for benefits. But the USDOL gives another major reason: many who are eligible do not apply. Using national studies, the USDOL estimates that, on average, only 60 percent to 65 percent of eligible laid-off workers actually apply for and receive UI benefits. USDOL finds, however, that telephone claims systems boost the number of eligible workers who apply for and receive benefits by about 15 percent.

! *Question:* Has the department taken any measures to monitor the efficiency of the Re-Employment Call-In Centers (RCCs) compared to traditional UI offices, with respect both to how quickly initial UI claims are processed and how quickly laid off workers find new employment? Please provide data on both issues, or if such data does not yet exist,

Discussion Points (Cont'd)

describe any department plans to collect it. Provide any evidence concerning whether the RCCs are increasing the share of eligible laid-off workers who apply for and receive UI benefits.

Describe the initial startup costs of a RCC and the change in ongoing operating costs, compared to a traditional UI office. When is the conversion to RCCs throughout the State expected to be complete?

4. According to the department's FY 2000 Annual Report, the completion of the Tax Redesign Project is a priority. The purpose of this project is to redesign and implement a new Tax System to improve services to New Jersey employers. The new system will replace the Wage Reporting System, Employer Tax System, Combined Annual Assessment and Reporting System (CAARS) and the Disability Assessment System for the collection and recording of contributions, wage records and the billing of unemployment and disability insurance contributions. This system will save time by reducing and eliminating manual processes, increase on-line availability of information, consolidate reports, bills and processes, and reduce costs associated with tax processing.

The firm with which the department 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 original contract amount awarded to Deloitte & Touche was $7.9 million for the completion of the Tax Redesign Project.

The department reported that most of the core function was completed by the vendor in FY 2000, including statistical and management reports, experience rating assessment, Y2K certification, Federal Unemployment Tax Act (FUTA) certification and system acceptance and transfer from vendor to agency operational responsibility. However, shortly after the vendor's effort, the department reported a malfunction within the department's computer system. The computer system was unable to determine whether the State's businesses have been correctly paying certain payroll taxes. Therefore, the Department of Treasury asked the vendor to submit a "corrective action" plan and declared the vendor in default.

According to the department, Deloitte Consulting submitted a "corrective action" plan on January 29, 1999. Some of the assumptions on which the plan was based were unacceptable and the department determined that the time frame was unrealistic. The vendor was then asked to develop a "short-term project" plan for tasks that needed to be completed in order to have a system with basic function. The vendor submitted a three-phase "short-term project" plan for the completion of the project.

! *Question:* Please provide an update on the status of the department's computing systems involving tax collection. In what phase of the "short-term project" plan is Deloitte & Touche? Please provide a copy of the "short term project" plan the vendor submitted.

How much has been paid to Deloitte & Touche since the initiation of the Tax Redesign Project? From what funding source has this payment been made? What has the total cost of the Tax Redesign Project been to the Department of Labor thus far? Have there been any more unanticipated bills? If so, what do they amount to, what are they for, and why were they unanticipated?

How many employer records had to be corrected or are still in need of correction, as a

Discussion Points (Cont'd)

result of the system malfunction? Were affected employers notified? Are all employer accounts up-to-date regarding payroll taxes? Could employers face any legal implications, under federal or State law, as a result of their payroll taxes being incorrectly reflected in the system? Will the problems that occurred last quarter create FUTA compliance problems for employers?

5a. 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 cannot 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 2000 budget provides funding to providers sufficient to cover only 84.1 percent of the cost of serving each client. According to the department, the last year 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 1999, while extended employment services were provided through 2,778 program slots (referred to as "client years" by the department) in the sheltered workshop system, the State only provided funding for 2,617 of these slots, effectively leaving 161 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 PIP provides reimbursement to facilities that have successfully placed clients into competitive employment.

! *Question:* What is the revised estimate of the percentage that providers will be reimbursed for client costs in the current fiscal year? What does the department estimate it will be in FY 2001?

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.

Please list those contract facilities, by county, that are anticipated to exceed their contracted level of service for the current fiscal year. Please list those contract facilities, by county, that are not expected to meet their contracted level of service for the current fiscal year.

5b. The department indicated that PIP funding is not expected to be available for funding extended employment programs in sheltered workshops, since the department anticipates that prior year funding for the PIP program will eventually be fully utilized.

! *Question:* Has the number of individuals receiving extended employment services in sheltered workshops with no corresponding State support increased during FY 2000? Does the department anticipate the number of unfunded positions to increase in FY 2001?

Are PIP funds still available to fund the sheltered workshop program in FY 2000? If yes, please provide the number that are funded through Placement Incentive Program moneys.

Discussion Points (Cont'd)

Please provide an estimate of the same figures for FY 2001. If no, how many slots remain unfunded?

5c. The Sheltered Workshop Transportation program in the Department of Labor's Division of Vocational Rehabilitation Services supports transportation expenses for individuals with severe disabilities. These individuals, many of whom require special transportation to get to and from work, cannot be absorbed in the regular labor market and have become extended employees of community rehabilitation programs.

The transportation program received a $2.4 million dollar appropriation through the Casino Revenue Fund for Fiscal Year 2001. The appropriation is pro rated among the 32 agencies Statewide at a rate equal to, on average, 81 percent of the agencies' costs. The rate is based on the agencies' transportation costs as reported to the department; therefore, the rate does vary for each agency.

! *Question:* What would the estimated additional cost be to fund the sheltered workshop transportation program at 100 percent of the cost per client in FY 2001?

5d. During FY 1998 and FY 1999, the Division of Vocational Rehabilitation Services served a total of 25,485 and 25,550 persons, respectively. The estimate of the total number of persons to be served in FY 2000 and FY 2001 is 26,050 and 26,550, respectively. The division is also projecting that the total number of persons rehabilitated will increase from 4,041 in FY 1999 to 4,100 in FY 2000 and 4,200 in FY 2001. The average cost per rehabilitation has increased from the FY 2000 level of $12,293 to the FY 2001 estimate of $12,357.

! *Question:* In FY 2000, please provide the number of eligible individuals for each of the following programs: vocational rehabilitation basic services; sheltered workshops; sheltered workshop transportation; supported employment services; programs for the deaf; and independent living centers. Please provide the number of eligible individuals expected to receive services from each of the above mentioned programs in FY 2001.

6. The Workforce Development Partnership Program (WDP) provides training grants to individual workers and to employers to train their employees. It is funded through a payroll tax on wages subject to unemployment insurance taxes. The proposed FY 2001 budget estimates that these payroll tax contributions, and interest income, will generate $81.4 million in FY 2001 (H-22). The WDP law requires that those revenues be allocated as follows: 45 percent, or $36.6 million, for customized training grants to train currently employed workers; 25 percent, or $20.4 million, for individual training grants for permanently laid-off ("displaced") workers; 6 percent, or $4.9 million, for qualified "disadvantaged" workers (essentially welfare recipients or persons qualified for welfare); 5 percent, or $4.1 million for youth apprenticeship training; 3 percent, or $2.4 million, to occupational safety and health training; and 10.5 percent, or $8.5 million for administration.

Notwithstanding that the combined total of these percentage allocations commits a minimum of 88.5 percent of total WDP revenues to training and services for populations other than welfare recipients or persons eligible for welfare, the proposed FY 2001 budget transferring $40.8 million (which equals about half of the $81.4 million in WDP revenue estimated for FY 2001) from the WDP fund to the Department of Human Services (DHS)(see pages D-252 and D-264).

Similar transfers have been made by the appropriation act of each fiscal year from FY 1995 through FY 2000, transferring a total of $137.5 million from WDP to DHS, 33.4 percent of the total

Discussion Points (Cont'd)

$410.7 million in WDP revenues for that period. Given the large scale transfer of WDP funds to DHS proposed in the FY 2001 budget, data is needed regarding the use of WDP resources for other program components to ascertain the possible impact on the transfer of WDP funds to DHS.

! *Question:* For FY 2000, FY 2001 and FY 2002, provide estimates of the following information for each component of the WDP program (customized training, displaced worker training, disadvantaged worker training, youth training, occupational safety and health training, program administration, and transfers to programs other than WDP):

- the amount required to be spent under the WDP statutory allocations and the amount actually spent;
- the amount transferred out of the WDP fund for each purpose not indicated in the WDP law, for example, the amounts shifted to DHS for the Temporary Assistance to Needy Families (TANF) and New Jersey Youth Corps programs;
- the balance of each component at the end of the fiscal year;
- and the amount encumbered as a reserve for future payments of multi-year grants.

Please detail how much of the $137.5 million transferred to DHS from FY 1995 to FY 2000 has thus far been expended on training services and how much has been expended on other services. Of the $40.8 million to be transferred in FY 2001, how much will be expended on training services, and how much on other services?

7a. From January 1, 1994 to December 31, 1999, $152 million worth of WDP customized training grants has been awarded to employers to upgrade the skills of approximately 191,000 workers employed by 1,523 New Jersey firms (see pages 98-99 in the "Budget in Brief"). Those employers made commitments to provide $253 million in matching training dollars.

In contrast, the department reported that the amount of WDP funds actually expended on customized training since the program's inception in FY 1992 through the end of FY 1999 was $103.7 million or about 58 percent of the $180 million which was statutorily allocated to customized training.

! *Question:* How much of the $253 million which employers committed to provide as matching funds has actually been expended to date? How does the department monitor whether employers fulfil their obligations to pay matching funds?

7b. The "Budget in Brief" makes reference to a John J. Heldrich Center survey of businesses receiving WDP customized training grants from 1994 to 1996. According to the results of the survey, 62 percent of the businesses currently receiving grants have long-term human resources development plans and only 36 percent of the businesses had such plans to develop their workforces before receiving customized training grants. However, the survey indicated that only 38 percent of the respondents failed to comply with the WDP law requirement, mandating each business receiving a customized training grant must put into effect "a comprehensive long-term human-resource development plan which...extends significantly beyond the period of time in which the services are funded..." (N.J.S.A. 34:15D-4).

! *Question:* Does the department monitor whether grantees are complying with the WDP law requirement that mandates grantees to have long-term human resources development plans? Has any action been taken in cases of noncompliance?

Discussion Points (Cont'd)

7c. According to the John J. Heldrich Center survey, a number of customized training grants awarded from 1994 to 1996 exceeded $1 million each, the largest being the $5.2 million grant awarded to the New York Daily News in 1995, which comprised more than a quarter of all funds granted that year. The results of the survey indicate that larger firms tend to provide a larger proportion of matching funds than smaller firms. However, a number of firms, of all sizes, use grant money exclusively for on-the-job training without associated classroom or other outside activities; that is, wage subsidies for workers who are supposed to learn new skills as they work.

Considering that many employer grantees have not established the required long-term human resource development plans, as indicated above, it may be difficult to ascertain whether any training has actually occurred under a grant, that would not have occurred without the grant, particularly if the grant is used only for wage subsidies.

! *Question:* Please provide a list of every customized training grant awarded during FY 1997, FY 1998, FY 1999 and FY 2000 which exceeded $300,000.

Indicate: the amount and time-span of each grant; the name, location and industry of the facility; the number of employees whose training was paid directly from funds from the grant; how much of the grant was spent on the wages of employees while working; the amount of the employer match and how much of the match was spent on wages of employees while working.

Indicate, for each fiscal year listed, the total amount of money awarded in customized training grants exceeding the $300,000 threshold and the total amount of money awarded for all customized training grants; and the total number of such grants compared to the total number of all grants.

When evaluating a grant application, how does the department determine that the grant is needed because the training would not occur without it, especially in cases where funds from the grant are to be expended exclusively on wage subsidies?

8a. New Jersey's unemployment rate declined to 4.6 percent in 1999, not much higher than the national 4.2 per cent rate and lower than any annual unemployment rate the State has had since 1970 (except for the 4.1, 3.8 and 4.0 per cent rates in 1987, 1988 and 1989). Nonetheless, many permanently laid off ("dislocated" or "displaced") workers are still unable to find new jobs. For example, 115,470 New Jersey workers exhausted all unemployment insurance (UI) benefits during the year ending September 1999 without being able to find new employment, which means that 43.7% of all claimants in New Jersey exhausted their UI benefits, giving this State the third highest benefit exhaustion rate of any state in the nation. The hardship this may cause is suggested by the State's home mortgage foreclosure rate, which, at 1.52 percent in the third quarter of 1999, is the third highest state rate in the nation and higher than New Jersey's rate was for any year during the 1970's or 1980's. That employment could be so hard to obtain for so many displaced workers at the same time that 78% of employers surveyed by the New Jersey Business and Industry Association are experiencing difficulty in finding skilled labor, lends support to the policy of providing individual grants to enable displaced but experienced workers to get the retraining they need for new careers.

But there have been serious fiscal constraints on both major programs to retrain permanently laid off New Jersey workers: (1) the federally-funded Workforce Investment Act's (WIA) dislocated worker program (continuing Title III of the predecessor Job Training Partnership Act); and (2) the

Discussion Points (Cont'd)

State-funded displaced worker training grant component of the WDP program.

After reaching an annual funding level of more than $40 million in FY 1998 and FY 1999, the federal dislocated worker training funding was reduced to $36.3 million in the current fiscal year (page C-24 of the FY 2001 budget), causing a temporary suspension of the training grants of approximately 400 laid off workers in January 2000. The U.S. Labor Department has since announced that WIA dislocated worker retraining funds for New Jersey will again be reduced in FY 2001, to $30.8 million, the lowest level in five years.

! *Question:* How many of the workers who had their training grants interrupted this year were later able to resume training? How have WIA dislocated worker funds been distributed among the State's counties? How quickly were these funds exhausted during the current fiscal year and in FY 1999 in each county? Have large unexpended balances of WIA funds for dislocated workers or for other WIA program target populations accumulated during the last decade, like the large unexpended balances of WDP funds? If not, why not?

How much of the WIA dislocated worker funds were actually expended on training grants for individual dislocated workers and how many workers actually received the grants in FY 1998 and FY 1999? How much is estimated to be expended for individual worker grants and how many workers will receive the grants in FY 2000 and FY 2001? Provide the same actual and estimated figures for the adult activities component of WIA as well.

Does the department have any plans to better coordinate WIA and WDP efforts to ensure that as many displaced workers as possible are able to make successful transitions to new careers?

8b. There has also been difficulty with the availability of WDP displaced worker retraining grants. Despite the $78 million unexpended WDP fund balance at the end of FY 1999, some county Workforce Investment Boards (WIBs) report having exhausted available FY 2000 WDP funds for new displaced worker training grants even before January 2000. This may be because the total amount of WDP funds allocated to the WIBs for displaced worker training has been substantially lower than the amount required by the WDP law.

For example, in April 1999, the department, in response to OLS budget questions, estimated the FY 1999 WDP total allocation for displaced worker training to be $17.8 million. But in May 1999, the department reported that the total amount allocated to the counties for FY 1999 was only $9.5 million.

! *Question:* Give the amount of WDP funds allocated for displaced worker training grants in each county at the beginning of FY 1999 and FY 2000. Indicate, for each county, when the entire initial allocation was expended or awarded as grants. Indicate how much, if any, additional WDP funding was provided to each county that exhausted its initial allocation and when it was provided. Give the amount of the allocations that are planned for each county in FY 2001. Describe any formula or other means the department uses to make the initial and subsequent allocations.

8c. Other State Department of Labor policies which may hinder the use of WDP funds for job training include the regulation adopted by the department in 1997 (N.J.A.C. 12:23-3.3) prohibiting individual training grants for anyone with “identifiable marketable skills in a labor demand

Discussion Points (Cont'd)

occupation," even though the WDP law emphasizes the upgrading of the skills and earning power of workers, including the unemployed workers who already have skills. The stated purpose of the WDP program is to provide workers with those employment and training services which are "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). WDP regulations also include restrictions on training if a laid off worker has any chance of returning to any similar work, even outside of their previous job, and a prohibition against grants to any worker who received a grant within the preceding four years. There are no limits on the number of customized training grants that an employer may receive during a period of time. In addition to these regulations, the department has issued directives to reject WDP training applicants for not being in the workforce five out of the last seven years or for being attached to a union hiring hall.

! *Question:* Provide the number of laid off workers who were denied WDP training grants during FY 1999 and FY 2000 for the following reasons: because they were deemed to already have identifiable skills; because they were deemed to have a chance of returning to any similar work; because of receiving a grant within the preceding four years; because they had not been in the workforce for five out of the last seven years; and because they had been attached to a union hiring hall. Is the department considering policy changes to make it easier for displaced workers to get WDP training grants, in light of the growing demand for skilled labor, the need of displaced workers for retraining, and the large unexpended balance of WDP funds?

8d. The department has also chosen not to increase the $4,000 maximum amount for individual training grants set in 1992, as it is authorized to do by N.J.S.A. 34:15D-6, to cover increases in training and education costs, even though costs have increased substantially. For example, between FY 1993 and FY 1999, tuition increased 50% at the average State college, 39% at the average county college, and 35% at the average independent institution. Including fees and other costs, the average expense for attending any of these institutions other than county colleges now exceeds $4,000. Many proprietary vocational technical schools, which are the other major group of training and educational providers under WDP, are even more expensive.

! *Question:* Describe any plans that the department has to review the increased cost of education and training services, or to modify the $4,000 limit on grants.

9. According to budgetary language, the department is authorized to utilize $500,000 from the WDP Fund to promote training of women and minority group members in the construction trades. However, the Office of Management and Budget indicated that the department has failed to utilize any of this additional money since the inception of the program.

Question: Please indicate why the department has not used this money. What, if any, plans does the department have to use it in FY 2001? How many individuals would be trained under the program? How will individuals be selected? How are employers, unions or both involved in the training?

Describe any roles the department envisions in the program for the State Department of Education, the federal Bureau of Apprenticeship and Training and the New Jersey Apprenticeship Policy Committee established pursuant to P.L. 1993, c.268. Indicate any amounts which will be provided from any other sources for the program in addition to the $500,000 from the WDP fund.

Discussion Points (Cont'd)

10. The Budget Recommendation indicates that appropriations of federal funds, which support 60.5 percent of the department's overall budget, are expected to decrease to $344.8 million in FY 2001, down 5.1 percent, or $18.4 million, from the current adjusted appropriation of $363.2 million. Despite the anticipated reduction in federal funds, the Budget Recommendation indicates that the number of federally-supported positions will increase by 6.7 percent, from 2,952 filled positions in FY 2000 to 3,151 funded positions in FY 2001. Moreover, the evaluation data contained in the Budget Recommendation does not indicate a reduction in services within any of the affected programs.

! *Question:* Please explain how the reduction in federal funding supports an increase in the number of federally-funded positions in FY 2001.

11. Under the federal "Migrant and Seasonal Agricultural Worker Protection Act," which created national minimum standards for wage and hour laws (as well as for field sanitation and housing), the State has the authority to establish policy governing the working conditions of migrant farm workers. While farm work has been widely recognized as one of the most hazardous occupations both within the State and nationally, due to the physical demands of the work, and the workers' exposure to pesticides and unhealthy water, agricultural inspections by the Office of Wage and Hour Compliance have declined dramatically.

According to published department data, the number of field inspections performed annually has fallen from 330 in 1990 to 149 in 1997, while the number of annual pre- and post-occupancy inspections of worker camps has plummeted from approximately 300 in 1990 to just 16 over the same period. The data also reflect that the number of violations cited from 1990 to 1997 has increased from almost 1,300 to more than 2,000 per year. Moreover, a recent article in the *New Jersey Reporter* (see "Bitter Season: New Jersey's Migrant Farm workers," August 1999) details the limited enforcement activities of the department, and cites a department inspector as saying that following the high profile of media reports on television talk show host Kathy Lee Gifford's encounters with sweatshop labor problems, department dollars were shifted from migrant workers to garment workers.

! *Question:* Please provide an explanation for the decline in the number of agricultural inspections by the Office of Wage and Hour Compliance (OWHC). For the period 1998 - 2000, and estimated for 2001, please provide annual data, by county, indicating the number of agricultural inspections conducted by the OWHC, including the number of: pre and post occupancy worker camp inspections, camps approved; field sanitation inspections, and violations cited. How many positions, by title, are currently filled within OWHC? What percentage of time does each position allocate to agricultural inspections versus other inspections, such as garment facility inspections? What additional resources are needed for the department to provide adequate oversight of both agricultural and garment industry work sites?

Background Paper: The Proposed Unemployment Insurance (UI) Tax Reduction and the UI Trust Fund

Budget Pages.... D-269, D-271 and H-43

THE PROPOSED UNEMPLOYMENT INSURANCE TAX REDUCTION

The Governor is recommending a $260 million annual reduction in Unemployment Insurance (UI) taxes, to be divided evenly between employers and workers during FY 2001 and FY 2002. The administration estimates that, subject to the enactment of enabling legislation, annual employer UI taxes would be reduced from $930 million to $800 million, a $130 million, or 14 percent, decrease (see page 97, "Budget in Brief"). The proposal would reduce worker UI taxes during calendar years 2001 and 2002 by 0.2 percent of UI-taxable wages, which are currently the first $21,200 earned annually by a worker, resulting in an annual tax reduction of as much as $42.40 for each worker. The total tax reduction would be $520 million over a two-year period. The administration estimates that at the end of FY 2002, after the $520 million tax reduction is taken into account, the UI Trust Fund balance will be $3.3 billion.

The Governor's proposal would establish a new tax schedule for employers, which would, on average, reduce the UI taxes of most employers by about 0.2 percent of UI-taxable wages. This new schedule would apply whenever the UI fund reserve ratio (the total amount of money in the UI fund divided by total UI-taxable wages) is higher than a specified percent. Under the Governor's proposal, the UI tax reduction for employers would go into effect in FY 2001 and, depending on what reserve ratio is used as the trigger for the reduction and on actual future UI fund ratios, may stay in effect for some number of years after FY 2002, unless the proposed legislation sets a specific date for the reduction to end. No estimate is available of how many more years the employer UI tax reduction would stay in effect if no ending date is specified or what the total reduction in UI revenues would be for those subsequent years.

This proposed UI tax reduction would be the third such reduction in five years. The first two, enacted in 1996 and 1997, reduced employer UI taxes in this State by about $450 million per year, effectively reversing the UI tax increases which were imposed in the 1980's to help eliminate the UI fund deficit caused by the recessions of the 1970's and 1980's. As described below, New Jersey, like many other states, made major changes in its UI program to eliminate the fund deficit. In addition to UI tax increases, changes were made to substantially reduce UI benefit availability for unemployed workers. Changes in recent years in New Jersey and other states have given greater emphasis to tax reductions than restoring previous levels of benefit availability for the unemployed.

OVERVIEW OF NEW JERSEY'S UI SYSTEM

New Jersey's Unemployment Insurance (UI) system, established in 1937, began paying benefits to laid off workers in 1939. The main goals of the UI system have been to alleviate the hardship of involuntary unemployment on workers and their families and to stabilize the economy. As stated in R.S.43:21-2, the system is designed to meet those goals by facilitating "the systematic accumulation of funds during periods of employment to provide benefits for periods of unemployment, thus maintaining purchasing power and limiting the serious social consequences of poor relief assistance."

Weekly UI benefits are set by law at 60 percent of a laid-off worker's weekly wages (plus dependent allowances), but not more than 57 percent of the Statewide average weekly wage (AWW) for all workers, making the maximum weekly benefit amount for any worker $407 in 1999 and $429 in 2000. The actual average weekly benefit in New Jersey in 1998 was $266, ranking

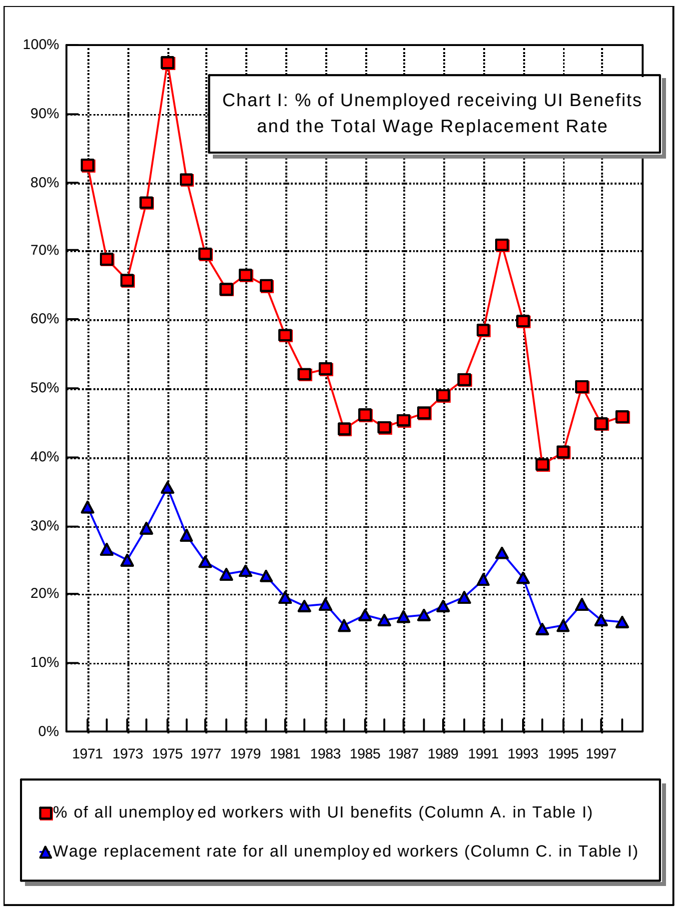
Background Paper: The Proposed Unemployment Insurance (UI) Tax Reduction and the UI Tax Trust Fund (Cont'd)

third highest in the nation, but lower than 28 other states as a percentage of average wages.

During the 12 months ending in September 1999, 483,562 New Jersey residents filed UI benefit claims, with a weekly average of 85,321 workers laid off from jobs in the State receiving benefits. The average New Jersey UI claim lasted 16.9 weeks, 2.6 weeks longer than the average national claim. During that same period, 115,470 New Jersey claimants, or 43.7 percent of all claimants, exhausted all UI benefits, a maximum of 26 weeks, without being able to find work, compared to a national UI benefit exhaustion rate of 31.4 percent. That New Jersey regular UI benefit exhaustion rate is below its peak level of 55.6 percent during the recession year of 1992, but remains higher than the exhaustion rates of 45 other states. Benefits to workers laid off from jobs in the State totaled $1.2 billion in 1999.

Benefits are financed from taxes paid by employers and workers on the first $21,200 of each worker's annual wages in 2000, an amount adjusted annually to reflect changes in the AWW. During the 12 months ending in September 1999, New Jersey employers paid 0.8 percent of total payroll for UI taxes (an average of $384 per covered employee), higher than the national average of 0.6 percent.

This State is one of only three states that impose a UI tax on workers. In 1999, any New Jersey worker earning $21,200 or more paid $90 in UI and related taxes, such as assessments for the health care subsidy and workforce development funds.



What follows is a description of major changes New Jersey's UI system has undergone in the last 30 years regarding the benefits it pays to unemployed workers and the taxes it imposes on workers and employers, and the impact of those changes on the solvency of the UI trust fund.

THE LONG-TERM DECLINE IN TOTAL UI WAGE REPLACEMENT RATES

Since 1970, 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 I) 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 percent of the total number of unemployed workers who were seeking work. By 1998, a comparable non-recession year, the number of laid off workers receiving benefits represented only 46 percent of unemployed workers.

Background Paper: The Proposed Unemployment Insurance (UI) Tax Reduction and the UI Tax Trust Fund (Cont'd)

TABLE I: Percent of Unemployed Workers Receiving UI Benefits in New Jersey
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.)
1971	106,700.3		23,592		130,292	157,925	82.5%	39.7%	32.8%
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%
1998	84,186.1				84,186	183,941	45.8%	34.7%	15.9%

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 number of workers employed in the State and is more consistent with the other figures in the table, which are based on NJ workplaces.

The percentage of the total unemployed population receiving UI benefits reached a peak of 97 percent 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 unemployed workers receiving State-funded regular UI benefits or State/federal extended UI benefits has tended to decline in the years since 1971 (see Table I).[1]

The impact of joblessness on workers is compounded by the fact that the average weekly benefit amount (AWBA) is much lower than the average weekly wage (AWW), 37 percent of the AWW. Coupled with the declining percentage of unemployed workers receiving UI benefits, the effect is that total benefits in 1998 were worth only 16 percent 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 percent in the comparable non-recession year of 1972 (see Chart I).

1. "Extended" UI benefits, up to 13 additional weeks, supported by 50/50 State/federal funding, are triggered by unemployment rates set in advance by federal and State law. "Emergency" benefits, usually entirely federally-funded, are of varying lengths and enacted on an ad hoc basis. No extended or emergency benefits are now being provided.

Background Paper: The Proposed Unemployment Insurance (UI) Tax Reduction and the UI Tax Trust Fund (Cont'd)

CAUSES OF THE DECLINE IN UI BENEFIT COVERAGE

The declining percentage of the unemployed receiving UI benefits was caused by national and State changes which made it more difficult for unemployed workers to obtain UI benefits and shortened the duration of benefits. They included changes in the federal UI law in 1981 (Pub.L.97-35) making 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, as well as the State "emergency" UI benefits provided in 1991 and 1996, were temporary, and are no longer in effect.

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, raised UI benefit eligibility thresholds and indexed them 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 change, 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 percent in 1994.

The increases in the earnings needed to qualify for UI benefits made by the 1984 law followed an earlier increase in 1975. A worker laid off between 1953 and 1975 could qualify for benefits by earning $15 or more during each of at least 17 weeks, a total of as little as $255 earned during the "base year" preceding 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 per week ($1,440 total) and indexed to the AWW, so that it rose steadily to $126 per week ($2,520 total) in 1995. In sum, the minimum base year earnings needed to be eligible for UI benefits increased almost tenfold from 1975 to 1995.

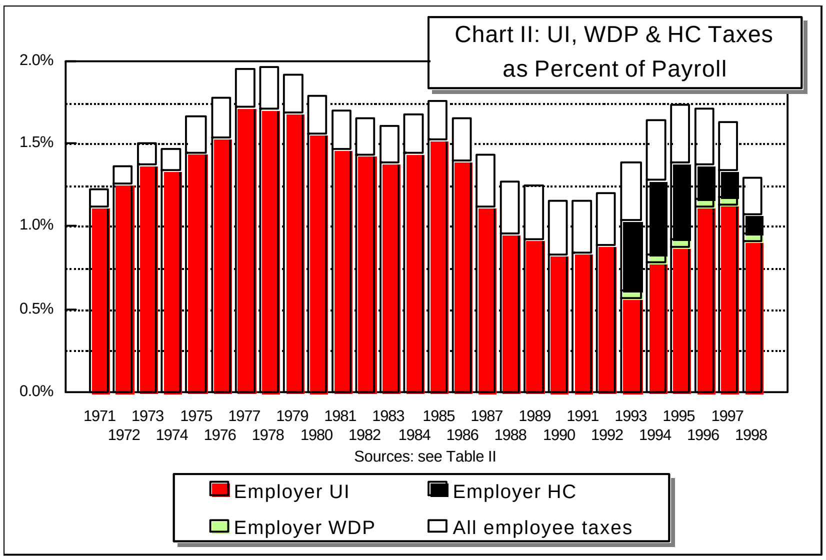
Measures were taken during the 1990's, however, to mitigate the reduced wage replacement rates. Largest in scale was the federal "emergency" UI program, which provided laid off New Jersey workers $2.1 billion in extended benefits in 1992 and 1993 at no cost to the State. Smaller State-funded temporary emergency programs in 1991 and 1996 provided another $346 million in extended benefits. These extended benefits represent a substantial share of the $12.7 billion total UI benefits paid from 1991 to 1998, 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 (P.L.1992, c.47); (2) the adoption of the "alternative base year" in 1995, making it easier for seasonal workers to get UI benefits (P.L.1995, c.394); 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 (P.L.1995, c.394). Although the increase in UI benefits from these initiatives has not exceeded $70 million per year, they represent a turn away from the dominant trend during the 1970's and 1980's of measures which reduced UI benefits.

Background Paper: The Proposed Unemployment Insurance (UI) Tax Reduction and the UI Tax Trust Fund (Cont'd)

UI FINANCING AND UI TRUST FUND SOLVENCY

At the end of 1999, 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 1999 ($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, which forced the State to borrow from the federal government to pay benefits.



The reversal of fund insolvency was achieved largely through the changes made by P.L.1984, c.24, which not only reduced access to UI benefits as discussed, but also imposed a 10 percent 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 and remove the surcharge by 1986. The 1984 charges also eventually resulted in the indicated $2.7 billion balance in 1999, even while more than $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.

Chart II and Table 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 and $500 million each year in 1993 and 1994, was, by 1998, reduced to $270 million 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. This is because each employer's UI tax rate is determined on the basis of two things: (1) the "reserve ratio" of the UI trust fund as a whole (discussed later); and (2) the employer's own "reserve ratio," which is the UI taxes paid by the employer, minus benefits paid to workers laid

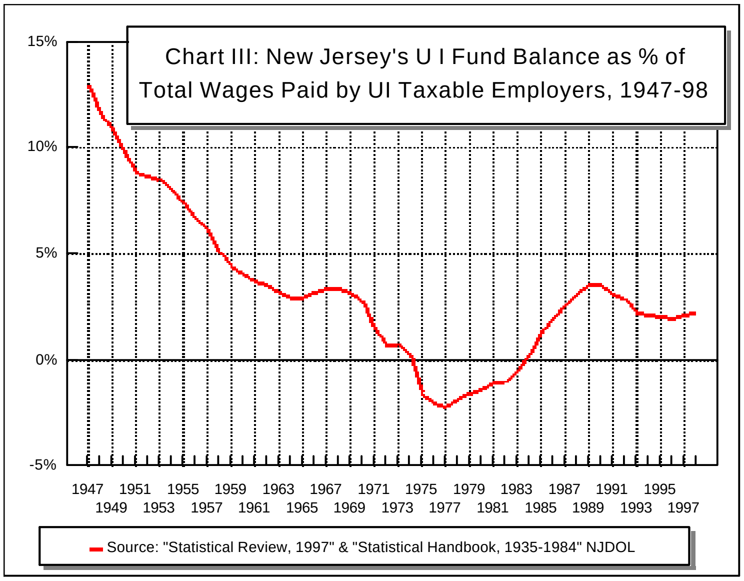
Table II: New Jersey Unemployment Insurance, Workforce Development and Health Care Taxes

	U I 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 Proposed Unemployment Insurance (UI) Tax Reduction and the UI Tax Trust Fund (Cont'd)



off by the employer, as a percentage of the employer's taxable wages. Consequently, the shifting of payroll tax revenues from UI to HC taxes reduces the amount of UI taxes paid, reducing an employer's reserve ratio and leading to higher UI tax rates.

Notwithstanding this shift of tax revenue, the level of solvency of New Jersey's UI trust 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 UI trust fund had a reserve ratio (trust fund balance divided by total wages paid by UI taxable employers, as shown on Chart III) of 2.13 percent in September 1999, compared to the national average of 1.51 percent. New Jersey's high cost multiple (the reserve ratio adjusted for the difference between current UI benefits and their historic high) was 0.68 percent, exactly the same as the national rate, and New Jersey's total months of current benefits in the trust fund, 27.4 months, was slightly lower than the national average of 29.6 months.

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 0.64 percent, was always greater than 1.0 percent before 1974. The national average reserve ratio, now 1.51 percent, was always higher than 2 percent before 1974. New Jersey's reserve ratio was 2.8 percent in 1970 and much higher in earlier years, as shown on Table III. Yet, by 1975, the State's UI trust fund had a deficit of $348 million. New Jersey's reserve ratio is now between what it was in 1970 and 1971, only four years before the UI trust fund went into deficit.

Like New Jersey, most states eliminated their UI trust 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

Background Paper: The Proposed Unemployment Insurance (UI) Tax Reduction and the UI Tax Trust Fund (Cont'd)

Table III: New Jersey Unemployment Insurance Employer Tax Schedules, 1961 to 2000, including the UI Fund Reserve Ratios Determining the Schedules and Range of Tax Rates in Each Schedule

Tax Schedule Name (after June 1986):	None	"A"	"B"	"C"	"D"	"E"	"Solvency Tax"
UI Fund Reserve Ratio:	**More than 12.5%**	**10% to 12.5%**	**7% to 10%**	**4% to 7%**	**2.5% to 4%**	**Less than 2.5%**	**Less than 0%**
Employer Tax Rates:							
July 1961 to June 1971	0.4% - 3.0%	0.4% - 3.3%	0.4% - 3.6%	0.7% - 3.9%	1.0% - 4.2%	2.8%-4.2%	None
July 1971 to December 1972	0.4% - 3.7%	0.4% - 4.0%	0.4% - 4.3%	0.7% - 4.6%	1.0% - 4.6%	2.8%-4.6%	None
January 1973 to June 1975	0.4% - 3.7%	0.4% - 4.0%	0.4% - 4.3%	0.7% - 4.6%	1.0% - 4.6%	1.2%-5.5%	None
July 1975 to June 1984	0.4% - 4.0%	0.4% - 4.3%	0.4% - 4.6%	0.7% - 4.9%	1.0% - 5.2%	1.2%-6.2%	None
July 1984 to June 1986	0.4% - 4.0%	0.4% - 4.3%	0.4% - 4.6%	0.7% - 4.9%	1.0% - 5.2%	1.2%-6.2%	1.3% - 6.8%
UI Fund Reserve Ratio:		**More than 10%**	**7% to 10%**	**4% to 7%**	**2.5% to 4%**	**0% to 2.5%**	**Less than 0%**
Employer Tax Rate, July 1986 to June 1997:		0.3% - 5.4%	0.4% - 5.4%	0.5% - 5.8%	0.6% - 6.4%	1.2%-7.0%	1.3% - 7.7%
UI Fund Reserve Ratio:		**More than 6%**	**4% to 6%**	**3% to 4%**	**2.5% to 3%**	**1% to 2.5%**	**Less than 1%**
Employer Tax Rate, July 1997 to June 1998:		0.3% - 5.4%	0.4% - 5.4%	0.5% - 5.8%	0.6% - 6.4%	1.2%-7.0%	1.3% - 7.7%
UI Fund Reserve Ratio:		**More than 4.5%**	**3.5% to 4.5%**	**3% to 3.5%**	**2.5% to 3%**	**1% to 2.5%**	**Less than 1%**
Employer Tax Rate, July 1998 and after:		0.3% - 5.4%	0.4% - 5.4%	0.5% - 5.8%	0.6% - 6.4%	1.2%-7.0%	1.3% - 7.7%

Source: R.S.43:21-7.

The ranges of taxes displayed for each schedule show minimum and maximum employer UI tax rates based on each employer's individual reserve ratio, with the highest tax rates imposed on employers with the most benefit payments per taxes paid as a percentage of total wages. These tax rates cover all employer taxes for UI, Workforce Development and Health Care combined.

Employer UI tax schedule in effect:
- From July 1974 until June 1986 was "E";
- From July 1986 until June 1987 was "D";
- From July 1987 until June 1989 was "C";
- From July 1989 until June 1993 was "B";
- From July 1993 until June 1997 was "C";
- From July 1997 until June 1998 was "B";
- From July 1998 until June 2000 is "A".

The 10% surcharge was in effect from July 1984 until June 1986.

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 UI trust fund 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 schedule "A," 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. Table III summarizes these changes and their impact on the range of UI tax rates charged to employers.

The current schedule "A" sets employer UI tax rates which are, on average, about the same as the employer UI tax rates under the pre-1984 schedule which applied only if the UI trust fund

2. 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 <u>taxable</u> wages. On pages 4 and 5 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 <u>all</u> wages paid by taxable employers, a ratio more than twice as high as the other ratio. Table III displays this "second" reserve ratio for New Jersey over a 50-year period.

Background Paper: The Proposed Unemployment Insurance (UI) Tax Reduction and the UI Tax Trust Fund (Cont'd)

reserve ratio exceeded 10 percent. To have triggered those lower average UI tax rates under the pre-1984 law, or to have triggered schedule "A" tax rates at any time between 1984 and 1996, the UI trust fund reserve ratio would have to have been almost twice as high as it actually was in 1998, requiring a UI trust fund balance in that year of $4.8 billion. Annual employer UI tax revenues for 1999 are not only $450 million less than they would have been under the law in effect between 1984 and 1996, they are also more than $200 million less than they would be if the pre-1984 law was still in effect.

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 percent to 0.4 percent, lower than the 0.5 percent 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 trust fund's return to solvency possible have, in large part, been effectively repealed, with employers and workers now taxed at rates lower than 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 reserve ratio falls below 1.0 percent, which would occur if the fund balance fell below $500 million).

The current reserve ratio is at the approximate level it was between 1970 and 1971, only four years before the UI trust fund went into deficit. It remains to be seen whether the reductions in UI benefit availability will be sufficient to offset the reduced UI tax rates and prevent future deficits under changing economic circumstances. It may also be that, in the event of a major slowdown of business activity, such reduced UI benefit availability may hinder the UI system in meeting its long-standing, stated objectives of alleviating the hardship of involuntary unemployment on workers and their families and stabilizing the economy.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services provides nonpartisan assistance to the State Legislature in the areas of legal, fiscal, research, bill drafting, committee staffing and administrative services. It operates under the jurisdiction of the Legislative Services Commission, a bipartisan body consisting of eight members of each House. The Executive Director supervises and directs the Office of Legislative Services.

The Legislative Budget and Finance Officer is the chief fiscal officer for the Legislature. The Legislative Budget and Finance Officer collects and presents fiscal information for the Legislature; serves as Secretary to the Joint Budget Oversight Committee; attends upon the Appropriations Committees during review of the Governor's Budget recommendations; reports on such matters as the committees or Legislature may direct; administers the fiscal note process and has statutory responsibilities for the review of appropriations transfers and other State fiscal transactions.

The Office of Legislative Services Central Staff provides a variety of legal, fiscal, research and administrative services to individual legislators, legislative officers, legislative committees and commissions, and partisan staff. The central staff is organized under the Central Staff Management Unit into ten subject area sections. Each section, under a section chief, includes legal, fiscal, and research staff for the standing reference committees of the Legislature and, upon request, to special commissions created by the Legislature. The central staff assists the Legislative Budget and Finance Officer in providing services to the Appropriations Committees during the budget review process.

Individuals wishing information and committee schedules on the FY 2001 budget are encouraged to contact:

Legislative Budget and Finance Office
State House Annex
Room 140 PO Box 068
Trenton, NJ 08625

(609) 292-8030 Fax (609) 777-2442