

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
COMMISSIONER DAVID J. SOCOLOW
FISCAL YEAR 2008 TESTIMONY
BEFORE THE SENATE BUDGET AND APPROPRIATIONS COMMITTEE
APRIL 18, 2007

Chairman Kenny, Vice-Chairman James, distinguished members of the committee, good afternoon. I am David Socolow, Commissioner of the New Jersey Department of Labor and Workforce Development.

While the Department accounts for a small portion of New Jersey's state budget, our services, programs and partnerships touch millions of people in our state, from employers to workers to job seekers and students preparing for success in the workplace.

Governor Jon S. Corzine's strategic plan for economic growth strongly emphasizes the efforts of our Department to develop a world-class workforce in New Jersey, by helping workers build careers that pay good wages and by helping employers attract qualified workers and upgrade the skills of their workforce. The Department of Labor and Workforce Development also is the state's authoritative source of key demographic and labor market information and enforces crucial worker protection laws. Through work-related social insurance programs that support workers and their families during times of economic distress, we deliver nearly \$2.5 billion in benefit payments that have an even larger ripple effect in our economy.

We all know how difficult it was to develop a balanced budget for 2007 that met the vital needs of our citizens, and the budget situation for fiscal year 2008 is equally challenging. As we worked with the Governor to develop our budget request for 2008, we looked at the impact that reductions of up to 20 percent in our state-funded program areas would have on our ability to serve our customers. We analyzed the impact of reductions in our Workers' Compensation program that would have required the elimination of 14 judicial positions. We also reviewed the potential impact of reductions in the State's direct support to workshops that provide employment services to our citizens with disabilities as well as reductions in the state match for the largely-federally funded Vocational Rehabilitation program. Any of these reductions would have had a disastrous effect on vulnerable New Jersey workers who are most in need of our services and, in consultation with the Governor, we chose not to implement any of them.

In addition to the challenge of constrained State resources, we are simultaneously facing significant reductions in federal funding for the workforce development and employment security system. As you know, we receive approximately 77% of our funding through federal grants. Those grants were reduced from \$412 million in 2005 to \$376 million in federal fiscal year 2007, which is in addition to prior reductions earlier in this decade. These reductions have resulted in fewer resources available for employment services, including job training, to our citizens and to our employers. I recently wrote to New

Jersey's U.S. Senators to urge their support of efforts in Congress to at least restore funding for workforce development programs to 2005 levels, noting that, in an economy where competition is global and advanced skills are essential for both workers and employers, this is not an appropriate time to reduce resources for our public workforce system.

On a positive note, Governor Corzine's budget, for the second year in a row, recommends no diversion of employers' unemployment insurance tax contributions to pay for state health care programs. This Governor has strongly endorsed the importance of maintaining a fiscally sound unemployment insurance trust fund, which provides a secure source of benefits for eligible workers while avoiding triggering a tax increase on employers.

New Jersey's Economy

The Department of Labor and Workforce Development plays an active role in implementing Governor Corzine's Economic Growth Strategy to build a stronger and more vibrant economy for the Garden State. Just today we released the latest data on our economy for the month of March. Our estimates show that New Jersey added nearly 5,000 jobs between February and March, all but 100 of them in the private sector. The state's unemployment rate also remained low, at a rate of 4.3% compared with the national rate of 4.4 percent in March.

While our economy maintained solid job growth over the past year, and our unemployment rate remains below the national average, we continue to come to grips with critical workplace issues that will impact New Jersey's employers, workers and economy in the near and longer terms. New Jersey's economy, like the nation's, faces challenges from global competition, the impending retirement of members of the Baby Boom generation, the emergence of a modern, knowledge-based economy, and a changing role for traditional social safety net programs that have protected American workers and their families for generations.

The Department of Labor and Workforce Development is working to meet those challenges. We are using our resources in innovative ways, pursuing federal grants for regional workforce development efforts, sharing data across state government, implementing technology and new business practices to improve customer service and reduce costs, and making labor market information more accessible to enable New Jersey to benefit from data-driven decisions.

The programs of the Department fall within three broad categories: services to aid workers with the greatest barriers to employment success; workforce development efforts to foster economic growth and build an innovation economy; and programs to protect workers and employers from economic dislocation and unfair labor practices.

Serving Workers with Barriers to Career Success

Although New Jersey has one of the nation's most highly educated and productive workforces, we cannot lose sight of the need to assist our state's less-skilled workers so that they can succeed in the workforce. Workforce literacy remains one of our greatest challenges. Nearly one-fourth of recent high school graduates can barely read a training manual and employers tell us that as many as one-half of their workers cannot effectively communicate in writing.

New Jersey's One-Stop Career Centers are the entryway to our workforce development system and we provided services to more than 300,000 individuals in our One-Stop centers last year. We maintain a focus on helping the state's most vulnerable workers to adapt and gain the knowledge and skills they need to achieve family-supporting jobs. Our programs helped train more than 63,000 workers in basic workplace skills last year, including GED preparation, reading, basic math and computer skills, and English as a Second Language.

These services are provided through Workforce Learning Links at our One-Stop Career Centers and through 98 partnerships including 38 community-based organizations that provide adult basic education services at the grass-roots level.

We are helping New Jerseyans prepare for the workforce, by partnering with the State Employment and Training Commission to develop a national work readiness credential that is recognized by businesses. This credential will enable a job seeker to demonstrate with high validity that he or she has the skills required for entry-level positions.

We also help recipients of welfare benefits move into the workforce. One of the greatest challenges New Jersey faces is meeting the new federal mandate for work participation by recipients of Temporary Assistance to Needy Families (TANF), which requires that 50 percent of TANF participants must be engaged at least 30 hours per week in work activities. In partnership with the Department of Human Services, our local One-Stop Career Centers and county welfare agencies, the Department of Labor and Workforce Development has done much to increase the work participation of this population. We have streamlined client flow and engaged recipients earlier in their welfare application process. We also have developed programs to teach the "soft skills" needed by recipients while meeting federal work mandates, and we have implemented enhanced outreach to bring welfare recipients into the One-Stop Career Centers. Governor Corzine's budget for FY 2008 provides our Department with \$14 million for enhanced work activities and \$11 million for case management required to achieve this work participation goal.

In addition, we need help from you and your colleagues in the Legislature to enact urgently-needed legislative reforms to the state's WorkFirst New Jersey program. One of these reforms would increase the earned income disregard, so that TANF recipients have a smoother and more successful transition from welfare to work; the other would streamline the sanctions process. Both of these reforms require legislative action by the

end of the fiscal year, and together, these changes will allow New Jersey to meet this federal TANF work participation standard and avoid risking the loss of significant federal funding. We look forward to working with you on this urgent priority.

Building a World-Class Workforce for the Innovation Economy

High-Growth Customized Training Grants

The largest source of good-paying job opportunities is in New Jersey's emerging innovation economy, which requires higher-skill knowledge workers. As part of Governor Corzine's Economic Growth Plan, we have targeted the Department's partnerships with employers to train incumbent workers through customized training grants for skills required by the innovation economy. Through these grants, New Jersey invests in employers who invest in their own workers. The program identifies real market demand for specific skills because employers are willing to invest their own dollars in this training.

In the past, Customized Training grants were awarded on a first-come, first-served basis. In September 2006, the Department shifted this paradigm to award certain customized training grants in targeted high-growth industries through a competitive process. Our goal is to direct most of our limited resources to the best training grant applications that provide higher-level skills to enable workers to prosper in the global innovation economy, including such industries as Life Sciences, Financial Services, Information Technology, Logistics, and Science and Technology. By focusing our resources in these key sectors, we aim to increase New Jersey's capacity for innovation through workforce development, affording our businesses a global competitive advantage and engaging more of our higher education facilities in workforce development.

Last fall, the Department awarded \$5.5 million in the first round of high-growth workforce development grants to help 21 companies in seven key industry sectors to increase the skill levels of nearly 18,000 workers, including approximately 2,400 new workers the companies expect to hire. We will soon make awards from the next round for which we received nearly 100 applications.

New Training to Meet Industry-Specific Skill Needs

To better prepare workers for a changing innovation economy, the Department, in partnership with the Governor's Office of Economic Growth and the State Employment and Training Commission, has established Industry Workforce Advisory Councils to learn more about the talent needs of specific industries and to articulate the emerging skills required by these sectors for occupational competence. The first Industry Workforce Advisory Councils, in the Financial Services, Life Sciences, and Information Technology industries, will provide information that can be used throughout the workforce development and educational systems to amend current curricula or to develop new curricula that better meets industry needs.

To foster the development of cutting-edge, industry-specific curricula, our Department in partnership with the Department of Education and the Commission on Higher Education,

has invested a total of \$450,000 in Innovation Partnership Institutes in the Financial Services, Life Sciences and Information Technology sectors. These collaborations among our state's education institutions and businesses will deliver industry-specific curricula that not only keep pace with changing workplace needs, but that also will be shared across our entire education system to improve the competitiveness of New Jersey's high-skill, high-tech workforce. As technology continues to improve and knowledge expands, workers at all skill levels will require lifelong learning to keep pace. The Institutes will also explore creating specialized training platforms for New Jersey's incumbent high-skill workers and job seekers to refresh their education and gain updated knowledge in their field.

Workforce Innovation in Regional Economic Development

Labor markets are regional and are not constrained by boundaries on a map. We are pleased that the U.S. Department of Labor has invested in our efforts to meet regional labor market needs through two recent Workforce Innovation in Regional Economic Development (WIRED) grants.

In northern New Jersey, the Northeast Regional Economic Innovation Alliance (NREIA) will use a \$5.1 million WIRED Grant to help mesh the workforce development systems, educational institutions and businesses within Bergen, Essex, Hudson, Morris, Passaic, Sussex, Union and Warren counties and focus on diversifying the region's economy. This initiative will provide training for health services, transportation and logistics, and will support small business development to produce growth in good-paying jobs over the next decade.

In southwestern New Jersey, the Delaware Valley Innovation Network (DVIN) was created as part of a \$6.6 million WIRED initiative. The governors of New Jersey, Pennsylvania and Delaware established a tri-state, thirteen-county WIRED consortium, including Burlington, Camden, Gloucester, Mercer and Salem counties. This initiative will focus on developing a workforce prepared to succeed in the life sciences industry and supporting technologies.

New Opportunities for Workers with Disabilities

As the baby boom generation transitions out of the workforce into retirement, New Jersey has a golden opportunity to increase the workforce participation of individuals with disabilities. Many of the vacancies that will open up as a result of this generational shift were originally filled at a time when attitudes were less welcoming of workers with disabilities and when the workplace did not have access to current modern technologies that can facilitate the success of workers with a disability.

The Department will meet this challenge by continuing our efforts to help individuals with disabilities achieve their employment goals, so that New Jersey can tap the talents of all of our workers. Last year, our Division of Vocational Rehabilitation Services (DVRS) helped place nearly 4,300 individuals with disabilities into jobs. In addition, programs and partnerships supported through DVRS provide opportunities in sheltered work sites for workers to gain good-paying jobs that enable them to participate in the economy.

Social Insurance and Worker Protections

The Department is committed to providing protection for workers through our social insurance programs, and to ensuring a level playing field for all workers and employers through equitable enforcement of New Jersey's labor laws.

To succeed throughout their careers and to cope with individual challenges, workers continue to need not only reemployment assistance and job training, but also vital social insurance benefits, such as unemployment insurance, temporary and long-term disability insurance, and workers compensation. Our Department is working to modernize the programs we operate and to improve the services that form this crucial safety net.

Unemployment Insurance

With \$1.8 billion in benefit payments to 500,000 claimants last year, unemployment insurance is the largest of the Department's social insurance programs. In order to improve this program, we are implementing new technology and new business practices to provide a more user-friendly and more cost-effective unemployment insurance delivery system, to be known as the New Jersey State Unemployment Compensation Claimant and Employer Service System (NJ SUCCESS).

NJ SUCCESS will provide more convenient customer service with around-the-clock agent-less claims, thus saving claimants time in applying for benefits that they can more productively apply to their search for work. We will use NJ SUCCESS to improve linkage of our reemployment services to unemployment insurance claims to help claimants return to work sooner and collect new paychecks rather than unemployment insurance checks. New technology to enable bi-directional electronic communication with employers and automatic error detection will improve customer service while reducing improper benefit payments due to inaccurate wage records or wage-benefit conflicts. The new system will also improve collection of debts owed to the UI Trust Fund by cross-matching information with the New Hire database and through the identification and notification of overpayments earlier in the life of a claim.

Temporary Disability Insurance

Last year, 168,000 workers filed claims and the Department paid out \$432 million in temporary disability insurance (TDI) benefits, which provide partial wage replacement income when workers are unable to work due to illness or injury. We will soon begin re-engineering the technology and business practices of the TDI system. After nearly 20 years, this main-frame-based system has reached the point where it will be cost-effective to upgrade in order to provide better and more efficient service.

Social Security Disability Determination Services

The Department's Division of Disability Determination Services (DDS), funded entirely by the federal Social Security Administration (SSA), makes disability and blindness determinations that are used by SSA to process applications for long-term Social Security disability benefits by New Jersey citizens. Over the past year, our DDS program has greatly improved the quality of service provided to New Jersey's citizens who file for

Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) Disability benefits. We have achieved significant increases in productivity, reductions in the number and percentage of aged cases, reductions in processing time, and reductions in initial pending workload. Overall, staff productivity improved from a ranking of 39th among the 52 Social Security Disability agencies to our current ranking of 13th in the nation. These improvements have been accomplished despite a considerable increase in case receipts, a reduction in staff and relatively constant budget levels.

Wage and Hour Enforcement

Through fair and even-handed enforcement of New Jersey's labor laws, the Department provides important workplace protection for workers and fair competition for law-abiding employers.

Last year our Office of Labor Standards and Safety Enforcement recovered approximately \$8.1 million in back wages and overtime pay owed to more than 10,500 workers in New Jersey. We recently increased penalties for Child Labor Law violations and implemented a Child Labor Law Advisory Board, which meets quarterly to advise the Department on the effectiveness of the law. These and other enforcement efforts depend on sanctions, including penalties and fines to be effective.

The Department enforces the Prevailing Wage Act and Public Works Contractor Registration Act for contractors working on publicly funded projects. Even with these laws in place, there remain public works contractors who attempt to reduce costs and make up the difference at the expense of their workers. New legislation recently passed by the legislature will give the Department new tools to bring contractors into compliance, thus protecting workers and providing safer and higher-quality public construction projects.

In cases of egregious violators of these laws, the Department will be empowered to suspend a contractor's registration pending revocation of the registration or a final order to debar the contractor from performing public works. This will help to prevent contractors from banking work for the period of their revocation or debarment by bidding on new contracts while they are being afforded due process.

While debarment is the last recourse in our efforts to bring a contractor into compliance, the Department took that step and debarred 66 contractors in 2006 and revoked the Public Works Contractor Registrations of 29 contractors who violated our laws in an attempt to gain an unfair advantage over legitimate, law-abiding contractors.

Recently-passed legislation also will help the Department combat the "alter-ego" manipulations that some contractors use to circumvent the penalty of debarment, by taking on a new name and bidding on public contracts. This legislation will place the burden of proof on a contractor with certain factors in common to show that it is not an alter ego of the debarred company.

In addition, new legislation will prevent government entities from skirting the prevailing wage law during renovations or construction of publicly-owned buildings. The new law will ensure that qualified workers who are paid the prevailing wage are hired to perform construction jobs on government-owned properties that are leased or rented to private entities.

Employee Misclassification

One year ago, Governor Corzine launched an initiative to reduce the prevalence of misclassification of workers as independent contractors. This effort was reinforced through legislation enacted last summer that created a single definition to determine whether a worker is an employee or an independent contractor for gross income tax and unemployment and temporary disability insurance payroll tax purposes.

This will improve coordination between the Division of Taxation in Treasury and our Department. With a common definition of employee, the Division of Taxation is able to use the findings of our compliance audits to pursue taxes owed to the state and our Department can use Taxation audits to ensure that employees are properly paid and covered for UI and TDI benefits. Since the legislation was signed, our Department has shared our findings in 42 audits with Taxation involving \$41 million in unreported wages and \$1.46 million owed for unemployment and disability insurance withholding. These audits found almost 1,000 workers who either were not reported or were misclassified by their employers.

We have also begun a cross match of these data with Workers' Compensation data to identify employers who are not properly providing Workers' Compensation coverage for their employees. This data sharing procedure has led to more than 75 investigations of employers involving more than 1,300 workers.

Conclusion

Thank you for this opportunity to appear before you. I will be happy to answer any questions you may have.