

Fiscal Year 2021 Revised Budget Proposal
Questions for the Department of Labor and Workforce Development

Unemployment Insurance

1. The three month extension of the FY2020 budget provided resources to improve the UI technology system: how was that utilized?

Response: The department has been evaluating the portfolio of mission critical systems in need of modernization, as per EO225 since early 2019. Developing a sustainability roadmap for these systems is a key component of our strategy, which will result in a path forward for the UI system's long term support and a well-planned approach to creating a modern, flexible, reliable system which is customer centric and that will improve service delivery exponentially. At the core of this plan is the Unemployment Insurance system and the enterprise data it hosts. The Unemployment Insurance application is the system of record for much of the shared data in use throughout the department. Creating a master data governance strategy and implementing a data management and integration solution is the hub of all system modernization. This layer will enable cross system and agency data sharing and reusability as well as flexible integration with backend legacy systems. The extended FY2020 appropriation will be used to bring on experienced, skilled resources to manage the initiative, assist with the design and implementation of the technical solution, technical analysts to develop business rules and requirements and evaluation of the software and tools needed to support the end product.

To date, part of the strategy to replace the legacy systems of record has been aimed at risk mitigation. Several of the Unemployment Insurance supporting applications were built on 1st generation web technologies and have not been upgraded as technology has changed. These systems run on unsupported hardware using outdated software products. A project to replace the UI agent system for processing claims is in progress. Adding resources to this initiative will expedite the implementation timeline producing a robust system that will reduce the time it takes for an agent to process a claim. In conjunction with this initiative is the upgrade of the UI web claim filing application. Building a contemporary web system designed with the claimant experience at the forefront will provide an easier to use, less prone to error experience, reducing the need for agent intervention to process claims. Adding more self-service functions to this application will also reduce the need for claimants to contact the department for assistance. Resources will be brought on to assist in the design, development, and testing of these solutions.

Communication between the web front end legacy backend is the most critical piece of an integrated solution and customer experience. Upgrading the hardware and software used in this integration layer is the 3rd component of our plan.

Upgrading the software used for account management is required to support the nearly ten-fold increase in the number of user accounts provisioned since the beginning of the pandemic.

Lastly, procurement of software and cloud services will be required to deploy all of the above solutions.

UI modernization – Extended FY20 appropriation expenditure plan. (estimated costs subject to change):

- USDS – assisting with roadmap
- FY19 funding for modernization remaining balances available to augment plan
 - data architect, enterprise arch, strategist
- Build data integration layer/esb and data warehouse; ETL developers, DBA BA, PM, software, hardware licensing and services
 - \$1,650,000 - \$2,000,000
- CLAIMS project – replace RCC and SSI – hire additional resources
 - \$750,000
- Access Manager upgrade and services
 - \$150,000
- Testing automation tool and testers
 - \$250,000
- Data Analytics tool -Tableau, services to configure, consultant to admin, hosting environment
 - \$175,000
- Business Process Management – automation for eforms, services
 - \$100,000
- Hardware upgrades – SAC to HUB migration; new servers, storage, services, licensing and circuits
 - \$200,000
- Cloud hosting services for new app
 - \$100,000
- Employer Accounts Modifications – requirements documentation
 - \$500,000

2. Supermarket employees, healthcare workers and first responders, among other essential workers, have rightly earned the praise and thanks of the Administration, the Legislature, and the public at large. Given that 1.4 million New Jersey workers have filed for unemployment benefits vital to their well-being, should State employees that staff unemployment offices have been deemed essential and those offices kept open?

Response:

Opening in person services will slow down claims processing and cause less residents to be served. UI staff in the One-Stops were determined to be essential and have been

working uninterrupted throughout the pandemic to assist claimants either from one of the department's Call Centers or working remotely.

Whereas all of the aforementioned essential workers (e.g., supermarket employees and healthcare workers) must do their work in the place of business, the work of assisting UI claimants can be done over the phone or online. In fact, anything that a UI staff member can do to assist a claimant in person can be done over the phone or online. In light of the foregoing, in the midst of a global pandemic; where gatherings of people were discouraged and even prohibited due to the high risk of spreading COVID-19 through in-person contact, it was advisable from a public health perspective not to expose claimants (and by extension their families and those their families may come in contact with) to the risks associated with long lines of people at One-Stop Centers, and not to expose UI staff members (and by extension their families and those their families may come in contact with) to in-person contact with thousands of claimants. Prior to the pandemic ten One-Stop Centers were staffed with UI staff.

3. How does this budget (begin to) address the outdated unemployment insurance (UI) system?

Response:

The initiatives described in response to question #1 would provide a foundation for creation of a system that is more user friendly, flexible, and informative. However, for real change to occur, we need a solution from the Federal government.

New Jersey has been selected as the first partner state by the United States Digital Service (USDS), a federal government agency housed within the Executive Office of the President of the United States, working together to build the future of unemployment insurance in America.

No state's system, even those systems that were recently modernized, were able to handle the enormous amount of claims filed in such a short period of time, nor was any state able to quickly reprogram for Pandemic Unemployment Assistance (PUA), a program with components that are totally foreign to how UI systems work; that is, a program (PUA) that calls for the payment of benefits to self-employed individuals, where there is no traditional employment relationship and where the department has no record of "wages" paid.

4. How much would you estimate it would cost to modernize the unemployment infrastructure? How much time?

Response: The only certainty is that modernization is a multi-year initiative, implemented in carefully managed segments representing specific functions, maintaining data integrity between both new and legacy systems. \$200 million over

five years is a conservative estimate, and all states have tried to modernize their systems (some more than once). The department believes this is most appropriately funded at the federal level.

5. How much would you estimate new IT infrastructure would have saved, or would save in the future, by eliminating those hires and expediting claims?

Response: There is no way to estimate this.

6. What progress toward modernization has been made with the \$22 million appropriation from the federal excess UI funds made available to the State since 2016 for this purpose?

Response: That \$22 million dollars is the remaining balance of monies provided to New Jersey by the Federal government under the Reed Act.

The administration has been working with the Information Technology System Center (ITSC), a sub-division of the National Association of State Workforce Agencies (NASWA), evaluating the modernization efforts of other States in order to determine what might work best for New Jersey. As we consider various modernization strategies, the department has implemented a number of “pocket solutions” to address deficiencies in the UI system until such time as sufficient funds are available for implementation of a complete modernization project.

7. The appropriation from these federal funds to modernize the UI system was requested to be cut \$3,000,000 in the initial proposal for the FY21 budget to instead support auditing and collecting obligations. Does the department feel it has been making sufficient progress on modernization to begin reducing funds received for that purpose? Would a new system make claims more easily audited?

Response: No funds allocated to modernization were cut. The reallocation of the \$3M would allow for the hiring of 20 auditors and 15 tax collectors. Based on 2019 data, an auditor can expect annually to conduct 114 audits, identify \$35M in underreported taxable wages, determine 4,600 misclassified individuals. It is estimated that increasing the audit and collection staff could potentially realize an additional \$100M in UI Trust Fund payments and \$8M in Aux Fund revenue.

This strategic investment was implemented to allow for substantial increases in audits of employers for purposes of collecting UI contributions for the Trust Fund and therefore revenue to assist in the funding of modernization with an ongoing and sustained source.

8. Many states called in the National Guard to help process unemployment claims. Since coronavirus-related deployment is currently covered under federal funding, was this considered as a cost effective way to expedite processing the surge in unemployment claims? If so, why did the department ultimately decide against taking that action?

Response: The DOL response to staffing issues was a strategic call for staff from within the department and from across other state agencies. We began within our ranks to identify, train-up, and place those LWD staff with UI experience. From there we reached out to non-UI experienced staff and created impact teams formed of quickly trained staff from around the state to perform some of the more routine functions which then allowed our most experienced UI agents to focus on the more complex claimant issues.

In addition, the department recruited many retirees to utilize their experience and return to assist in processing claims during the crisis. The department also contracted with an outside vendor to provide staffing for a call center.

The specific reasoning for the utilization of the National Guard in other states was varied. In Washington State, which is known to have one of the few modernized UI systems in the nation, the National Guard was not brought in to assist UI claimants and “clear the backlog,” but rather to verify the identities of those 200,000 suspended accounts, which helped the state keep their experienced UI agents free to work on the more complicated cases -- not dissimilar to New Jersey's approach. The 200,000 suspended accounts were a result of vulnerabilities in Washington's modernized payment system that led to the state becoming a target of an international fraud ring. This fraud incident forced the state to abruptly stop paying 200,000 claimants.

However, it should be noted, the Garden State was not affected by this particular fraud ring because we had additional layers of protection in place, and did not require the National Guard's assistance in triaging claims for our more experienced agents, outside of the on-boarded call center.

9. How much was spent hiring additional help, paying for overtime, etc. due to the surge in claims as a result of coronavirus? Does the department expect to receive funding from the Coronavirus Relief fund or other federal sources to offset it?

Response: The impact of the Coronavirus on the department's Unemployment Insurance (UI) operations resulted in additional staffing costs of \$17.8M as of September 8, 2020. Of this amount, \$7.6M was related to overtime salaries. These additional costs are being offset by grants from the USDOL for the implementation and administration costs related to the various CARES UI benefit programs totaling \$49M thus far.

10. The department recently requested a \$1.7 billion loan to supplement the UI fund so it can continue funding unemployment claims. The loan is interest free until the end of

the year. Do you expect to pay the loan back before interest payments begin? If not, how much is this loan projected to cost the State?

Response: The department requested the ability to borrow up to \$2 billion, in the form of cash advances from the federal government, for the months of August, September, and October 2020. We began taking cash advances on August 24, 2020. As of September 10, the existing loan balance is \$188.4 million. We anticipate the loan balance to increase through the end of the calendar year. Therefore, it will not be paid off before interest begins accumulating unless the Federal Government extends the provisions in the CARES act which currently allows for interest free borrowing until December 31. Our strategy is to borrow as little as possible by repaying a portion of the loan whenever there is a balance available in the trust fund from the collection of employer and employee contributions. Until the loan is paid in full, the trust fund's daily available balance will be zero. This strategy will minimize the amount of interest due to the federal government. When interest begins accumulating, the interest owed would be assessed to businesses.

Furloughs

1. Why didn't the department support implementing the furlough program as initially proposed by the legislature?

Response: The department's role in the furlough program was to provide as much information to all parties involved in the decision-making process as to the complex requirements for individuals to successfully file UI claims and certify for benefits. It is not the department's role to take positions on any legislation.

2. What amount of savings and enhanced unemployment benefits were forgone as a result of delaying the implementation of furloughs?

Response: There is not enough information provided to answer this hypothetical question.

Workforce Development

1. Appropriations of \$8.1 million for the NJ BUILD program, which encourages minority participation in the trades industry, were de-appropriated as recommended in the Governor's plan to close the FY 2020 budget deficit. In a 2019 department report on NJ BUILD covering 2011 to 2018, roughly \$31.2 million in receipts were reported. Why was approximately a quarter of the funds left unspent?

Response:

NJBUILD is an important program that recognizes the disparity in opportunity for women and minorities in the construction industry. NJBUILD addresses this disparity in two ways:

- providing training and career support by providing the necessary skills for women and minorities to be competitive in the construction industry labor market; and
- monitoring construction sites to ensure that skilled women and minorities are hired to do the work for which they have been trained.

For FY 18 and 19, the NJBUILD program effectively obligated and expended 94% of the NJBUILD available funding. While the period of FY 2011 – 2018 proved challenging in expending NJBUILD funds, the current administration has proactively created an infrastructure that provides the best possible conditions for supporting training and career services in the construction industry.

The department has created the Office of NJBUILD with staff to disburse NJBUILD funding, monitor funded projects, and provide technical assistance to funded initiatives ensuring quality outcomes such as job placement, credential acquisition, and job retention.

This infrastructure was not in place during prior administrations, which likely contributed to previous administrations' inability to consistently disburse NJBUILD funding.

2. Given the variability of receipts in a given year (\pm \$1.5 million, on average, over the covered period) is there concern over maintaining uninterrupted funding for the program's grants?

Response: The expectation for any NJBUILD program is that they are able to achieve established programmatic objectives within the obligated grant year. Only after funding is established does the department make new awards. The department neither has the authority nor the ability to maintain uninterrupted funding in accordance with the statute (N.J.S.A. 52:38-7.).

3. The listed expenditures from 2011 to 2018 in the report total roughly \$6.4 million. Combined with the \$8 million de-appropriation this still accounts for only \$14.4 million. Where was the other \$16.4 million directed? Is it part of the \$18.9 million in reversions to the General Fund? Why are these funds not being spent on the program?

Response: From the time of the issuance of the report, additional information became available for reported expenditures from FY 2011 to 2018 totaling \$8.4 million, which is an additional \$2 million. For FY 2020, \$8.1 million was de-appropriated (reversion),

and for FY 2011 to 2020, the total de-appropriation (reversion) was \$27 million. For FY 2020, total revenues were \$6.9 million and expenditures/obligations were \$1.7 million. From FY 2011 to 2020, total revenues were \$42.1 million, expenditures/obligations were \$11.3 million and de-appropriations were \$27 million leaving an ending unspent balance of \$3.8 million. The department has funding opportunities ready for release to the public as revenue become available. See also the above question.

4. Why are opioid recovery support initiatives being defunded? Is it expected funding will be restored in future budgets?

Response: The funding the department received in FY 2019 allowed us to begin ground-breaking work in NJ, acknowledging that employment is a significant social determinant of health and recovery. As part of the Governor's \$100 million plan, the \$5-million-dollar allotment seeded the work that allowed us to coordinate health, recovery specific human services with employment, in 6 counties. With its demonstrated success, USDOL awarded the department up to \$9 million in funding to expand the state's opioid initiative, called "Pathways to Recovery."

The desired outcomes of the State's opioid recovery support initiatives at the department are to: Increase unsubsidized employment and retention opportunities for opioid use disorder (OUD) impacted individuals; and provide training to participants and engage employers to increase unsubsidized employment opportunities to mitigate the crisis; and promote retention and sobriety.

The department, with its state and local partners, provides support and training to eligible participants who have become separated from employment due to the opioid crisis and promotes successful and sustainable reentry into the workforce. The work of Pathways to Recovery continues and is expanding, having served around 1,000 workers since inception.

FY 2020 state opioid funds were never made available to the department. Fortunately, the federal USDOL agreed to provide funding which has been utilized for limited program implementation. The department will be ready to act on any state funding awarded in 2021 and in future budgets.