ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 2002 - 2003 BUDGET

DEPARTMENT OF LABOR

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

APRIL, 2002

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF LABOR

Budget Pages....... C-17, C-21, C-25, C-32, C-35, C-39, D-297 to D-310; H-21, H-26 to H-27, H-38 and H-41.

Fiscal Summary ($000)

	Expended FY 2001	Adjusted. Appropriation FY 2002	Recommended FY 2003	Percent Change 2002-03
State Budgeted	$102,368	$91,624	$94,012	2.6%
Federal Funds	302,802	341,184	349,127	2.3%
Other	131,250	147,440	146,165	(0.9)%
Grand Total	$536,420	$580,248	$589,304	1.6%

Personnel Summary - Positions By Funding Source

	Actual FY 2001	Revised FY 2002	Funded FY 2003	Percent Change 2002-03
State	692	692	741	7.1%
Federal	2,893	2,834	2,798	(1.3)%
Other	7	7	7	0.0%
Total Positions	3,592	3,533	3,546	0.4%

FY 2001 (as of December) and revised FY 2002 (as of September) personnel data reflect actual payroll counts. FY 2003 data reflect the number of positions funded.

Introduction

The Department of Labor is responsible for programs that provide 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 (59.2 percent) and dedicated State and "Other" funds, such as trust funds (32.9 percent).

- The Budget Recommendation anticipates that the Unemployment Compensation Fund will have a $2.5 billion balance at the end of FY 2003, a $500 million decrease over the FY 2002 estimated balance of $3 billion. According to the department's budget overview (page D-297) the balance represents an estimated 17 months of benefit payments, approximating a generally recognized standard of 18 months. The decreased balance reflects the shift of $650 million in FY 2002 and FY 2003 to the Health Care Subsidy (HCS) Fund for charity care in lieu of payment to the Unemployment Compensation Fund, pursuant to P.L. 2002, c. 13 (C.43:21-7b).

- The Governor's Budget proposes new language (page D-305) stating that, of the $242 million in Reed Act funds authorized in the Economic Stimulus legislation in effect as of March 9, 2002 deposited to the Unemployment Compensation Fund, $37 million may be expended by the department to improve service to claimants by modernizing the benefit payment system, continuing development of One-Stop Career Center Offices and further upgrading technology investments to enhance employment opportunities.

- Proposed language in the Governor's Budget (page D-310) again recommends the transfer of funds from the Workforce Development Partnership Fund to the Work First New Jersey Program in the Department of Human Services. According to the department's budget overview (page D-297) $35 million will be transferred, an increase of $30 million over FY 2002. The Workforce Development Partnership Fund, which is funded through employer and employee payroll tax contributions, is used to provide workforce training grants to disadvantaged workers, displaced workers and employers. This increased transfer will contribute to a decrease in the estimated balance in the Workforce Development Partnership Fund from $67.3 million of June 30, 2002 to $57.8 million at June 30, 2003.

- The Governor's Budget recommends a new special purpose $2 million appropriation for the Workforce Literacy and Basic Skills Program, representing a 10 percent administrative allowance, pursuant to the Supplemental Workforce Fund for Basic Skills, P.L. 2001, c.152 (C.34:15D-21 et seq.). The Supplemental Workforce Fund for Basic Skills is financed by the redirection of employer and worker unemployment compensation contributions, estimated to be $22.0 million in FY 2002 and $23.0 million in FY 2003 (page H-26). $15 million from this fund is recommended for transfer to the General Fund for operating aid to County Colleges (Department of the Treasury, page D-460 and 461).

- The Budget Recommendation estimates that federal funds will increase to $349.1 million in FY 2003, up 2.3 percent or $7.9 million, from the FY 2002 adjusted appropriation of $341.2 million.

- No transfer of State Disability Benefits Fund (SDBF) balances for State revenue is recommended in FY 2003. In FY 2002, $83 million was authorized for transfer to the General Fund as State revenue, including $50 million authorized by P.L. 2002, c.7 to assist in the deficit reduction. The SDBF (also known as the fund for Temporary Disability Insurance), which is supported by employee and employer payroll tax contributions, provides wage replacement benefits to workers as a result of unemployment due to sickness or injury which is not job-related. The Budget Recommendation anticipates that

Key Points (Cont'd)

the SDBF will have a $194.6 million balance at the end of FY 2003, a $21.7 million increase from the FY 2002 estimated balance of $172.9 million.

- The Governor's Budget proposes $27.3 million in Grants-In-Aid (GIA) funding to support Vocational Rehabilitation Services, an increase of 2.5 percent or $655,000 over the current year. The increase includes new funding of $395,000 which will be provided to youth with disabilities as they complete high school and move into the job market, vocational training, or attend high school.

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

Approximately 84 percent of the Department of Labor's $589.3 million budget recommendation for FY 2003 is comprised of federal and non-State dedicated revenues appropriated "off-budget" or "below the line." The recommended federal appropriation of $349.1 million will provide most of the department's funding for unemployment insurance, disability determination, job training and employment service operations, while $146.2 million from "other 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, are also included in this funding category and, like other revenue sources cited, are 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 2003, for example, 79 percent, or $47.6 million of the department's Direct State Services appropriation is derived from dedicated revenue sources. In addition, $13 million of the recommended Grants-In-Aid appropriation of $27.3 million for Vocational Rehabilitation Services will be financed by the Unemployment Compensation Auxiliary Fund, a special revenue fund supported by penalties and interest imposed on employers for violation of unemployment insurance regulations. The recommended appropriation to support the Vocational Rehabilitation Services' Sheltered Workshop Transportation program is $3.5 million. Of the $3.5 million, the Casino Revenue Fund is recommended to provide $2.4 million and $1.1 million is a General Fund appropriation. Overall, of the $94.0 million in State budgeted appropriations for FY 2003, $66 million, or over 70 percent, will be derived from trust or special revenue sources and dedicated revenues.

Thus, of the department's total FY 2003 recommended appropriation of $589.3 million, only 4.7 percent or $27.6 million, is supported by non-dedicated General Fund resources.

In addition to these sums, the department administers more than $4.4 billion in benefit payments which are not included as part of the department's appropriation. During FY 2003 for example, the department will administer $1.8 billion in unemployment insurance benefits, $405 million in temporary disability insurance benefits, and $2.2 billion in federal Social Security disability benefit payments.

Summary of the FY 2003 Recommended Budget

State budgeted funds for the department are recommended to increase by approximately $2.4 million or 2.6 percent, for a total of $ 94.0 million in FY 2003.

The FY 2003 Budget recommendation includes an additional $260,000 for FY 2003 to support cost-of-living increases for community service providers. The cost-of-living adjustment

Program Description and Overview (Cont'd)

($138,000), along with the direct care salary supplement ($122,000) will provide third party service providers at the Sheltered Workshops and Independent Living Centers with an increase in wages. In addition, the Governor's budget recommends an increase of $395,000 in the Grants-In-Aid appropriation for Services to Clients (State Share). These additional funds will meet the needs of youth with disabilities as they complete their high school education and move in the job market, vocational training, or attend college. These funds will be utilized for specialized counselors to act as liaisons with local educational programs and provide services to individuals in need of vocational rehabilitation.

The FY 2003 budget recommends that $2 million be appropriated for the Workforce Literacy and Basic Skills Program, representing a 10 percent administrative allowance, pursuant to the Supplemental Workforce Fund for Basic Skills (SWFBS), P.L. 2001, c.152 (C.34:15D-21 et seq.). The budget also recommends that $15 million be transferred to the General Fund and appropriated for operating aid to County Colleges (Department of the Treasury). The SWFBS is financed by the redirection of a percentage of employer and worker unemployment insurance (UI) taxes, estimated to be $22.0 million in FY 2002 and $23.0 million in FY 2003 (page H-26). Because only $6.0 million will be expended in FY 2002, the total amount available in the SWFBS for FY 2003, including investment earnings, is estimated at $39.6 million. This total is allocated by P.L. 2001, c.152 as follows: 24 percent, or $9.5 million, to support basic skills training delivered by State civil service employees at the State's One-Stop Career Centers; 28 percent, or $11.1 million, for Workforce Investment Boards to give grants to individuals needing basic skills training; 38 percent, or $15 million, for the Office of Customized Training to give grants to consortia of labor, business and community groups providing basic skills training; and 10 percent, or $4 million for administrative costs, although only $2 million is appropriated in the FY 2003 Budget Recommendation to cover administrative costs.

A total of $5.9 million is recommended for the Workplace Standards Program for FY 2003. This is a $166,000, or 2.8 percent, decrease from the FY 2002 adjusted appropriation. There is also a reduction of "off budget" funding of $400,000 which reflects reductions in estimated program revenues, and an increase of $140,000 in federal funding for Workplace Standards. The Workplace Standards Program is responsible, in part, for the Prevailing Wage Act, which applies to most publicly funded construction projects including school construction.

No transfer of State Disability Benefits Fund (SDBF) balances for State revenue is recommended in FY 2003. In FY 2002, $83 million was authorized for transfer to the General Fund as State revenue, including $50 million authorized by P.L. 2002, c.7 to assist in the deficit reduction. The SDBF (also known as the fund for Temporary Disability Insurance), which is supported by employee and employer payroll tax contributions, provides wage replacement benefits to workers as a result of unemployment due to sickness or injury which is not job-related. The Budget Recommendation anticipates that the SDBF will have a $194.6 million balance at the end of FY 2003, a $21.7 million increase from the FY 2002 estimated balance of $172.9 million.

Workforce Development Partnership Fund

The proposed FY 2003 budget includes language (pages D-282, D-294 and D-310) transferring $44.9 million from the Workforce Development Partnership (WDP) Fund to the Department of Human Services (DHS). This is an increase of $30 million over the amount appropriated to DHS from the WDP Fund in FY 2002. The increased transfer will contribute to a decrease in the estimated balance in the WDP Fund from $67.3 million on June 30, 2002 to $57.8 million on June 30, 2003. The WDP Fund, which is funded through employer and employee

Program Description and Overview (Cont'd)

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

The $44.9 million transfer to DHS equals almost half of the $93.3 million in WDP revenues estimated for FY 2003. Similar transfers of varying amounts have been made by the appropriation acts of each fiscal year from FY 1995 through FY 2002, transferring a total of $193.3 million from WDP to DHS, fully one third of the total $574.8 million in WDP revenues for that period. In addition to the language noted above transferring $44.9 million from the WDP to DHS, the FY 2003 budget also includes language (page D-310) allowing the use of whatever amounts are needed to "provide a State match to the federal Welfare to Work Program."

Of the $44.9 million transferred from the WDP Fund to the DHS, $1.9 million is for the New Jersey Youth Corps (page D-294). 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 is a program to help break the cycle of limited opportunity by providing youth with a second chance to earn a diploma while developing employment skills through meaningful community service.

The remaining $43 million transferred from the WDP Fund to the DHS is for the WorkFirst New Jersey Program (page D-282), which provides evaluation, referral and training services to participants including those in the Food Stamp Employment and Training and General Assistance programs.

Unemployment Compensation Fund

The Budget Recommendation anticipates that the Unemployment Compensation (UI) Fund will have a $2.5 billion balance at the end of FY 2003, a $500 million decrease from the FY 2002 estimated balance of $3 billion. According to the department's budget overview (page D-297), the balance represents an estimated 17 months of benefit payments, approximating a generally recognized standard of 18 months. The decreased balance reflects the shift of $650 million in FY 2002 and FY 2003 to the Health Care Subsidy (HCS) Fund for charity care in lieu of payment to the UI Fund, pursuant to P.L. 2002, c.13 (C.43:21-7b).

The federal "Job Creation and Worker Assistance Act of 2002," (JCWAA) includes a one-time distribution of $8 billion of previously accumulated federal "Reed Act" funds, the federal funds normally used to support State costs of administering the Employment Service (ES) and UI Programs. Under the JCWAA, the $8 billion may be used by states, not only for ES and UI administration, but also to fund increased unemployment insurance benefits. The New Jersey share of the $8 billion is $242.8 million. The Governor's Budget recommends that $37 million, "or so much as may be necessary," of the indicated "Reed Act" funds be used to improve service to claimants by modernizing the benefit payment system, continuing development of One-Stop Career Center Offices and further upgrading technology investments to enhance employment opportunities (page D-305).

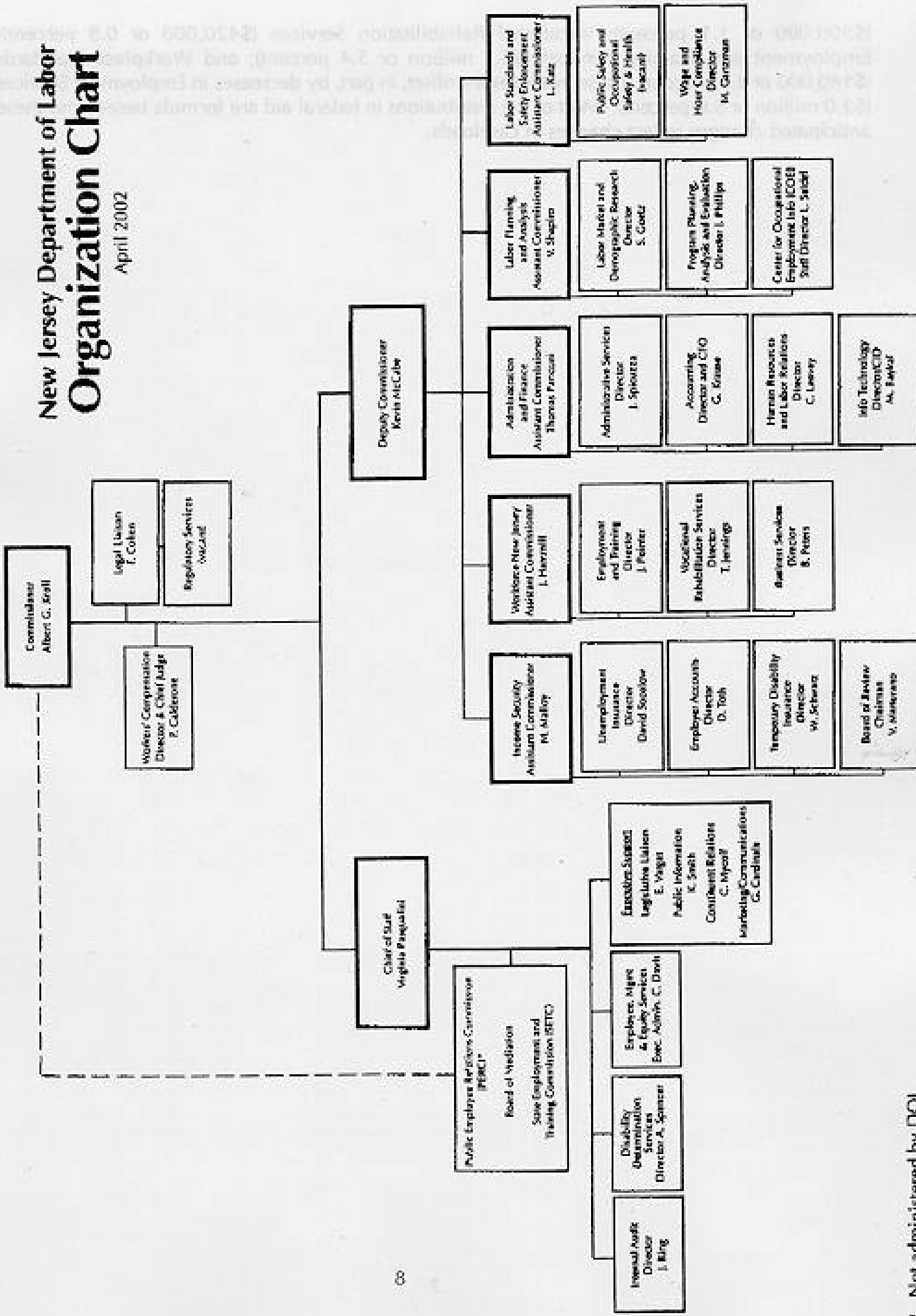
Federal Funds

The Budget Recommendation anticipates federal funds of $349.1 million in FY 2003, an increase of 2.3 percent or $7.9 million above the adjusted appropriation of $341.2 million. The divisions anticipating increases in federal aid include: Planning and Analysis ($1.8 million or 22.6 percent); Unemployment Insurance ($1.4 million or 1.5 percent); Disability Determination

Program Description and Overview (Cont'd)

($500,000 or 1.1 percent); Vocational Rehabilitation Services ($420,000 or 0.9 percent); Employment and Training Services ($5.7 million or 5.4 percent); and Workplace Standards ($140,000 or 3.7 percent). These increases are offset, in part, by decreases in Employment Services ($2.0 million or 5.0 percent). Most of the distributions in federal aid are formula based, and these anticipated changes reflect changes in caseloads.

Organization Chart



* Not administered by DOL

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2001	Adj. Approp. FY 2002	Recom. FY 2003	Percent Change 2001-03	Percent Change 2002-03
General Fund					
Direct State Services	$75,664	$58,560	$60,293	(20.3)%	3.0%
Grants-In-Aid	24,014	30,624	31,279	30.3%	2.1%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	250	0	0	(100.0)%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$99,928	$89,184	$91,572	(8.4)%	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	$102,368	$91,624	$94,012	(8.2)%	2.6%
Federal Funds	$302,802	$341,184	$349,127	15.3%	2.3%
Other Funds	$131,250	$147,440	$146,165	11.4%	(0.9)%
Grand Total	$536,420	$580,248	$589,304	9.9%	1.6%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2001	Revised FY 2002	Funded FY 2003	Percent Change 2001-03	Percent Change 2002-03
State	692	692	741	7.1%	7.1%
Federal	2,893	2,834	2,798	(3.3)%	(1.3)%
All Other	7	7	7	0.0%	0.0%
Total Positions	3,592	3,533	3,546	(1.3)%	0.4%

FY 2001 (as of December) and revised FY 2002 (as of September) personnel data reflect actual payroll counts. FY 2003 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	34.6%	34.9%	35.2%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page

ECONOMIC ASSISTANCE AND SECURITY

FEDERAL FUNDS

Unemployment Insurance	$93,675	$95,100	$1,425	1.5%	D-304

According to the department, the $1.4 million increase in funding is based on projected workloads and the availability of federal funds.

Disability Determination	$43,500	$44,000	$500	1.1%	D-304

According to the department, the $500,000 increase in funding is based on projected workloads and the availability of federal funds.

MANPOWER AND EMPLOYMENT SERVICES

DIRECT STATE SERVICES

Workforce Literacy and Basic Skills Program	$0	$2,000	$2,000	—	D-308

The Governor is recommending that $2 million be appropriated for the Workforce Literacy and Basic Skills Program, representing a 10 percent administrative allowance, from the Supplemental Workforce Fund for Basic Skills, P.L. 2001, c.152 (C:34:15D-21 et seq.). The fund is credited with contributions diverted from the Unemployment Compensation Fund, which are estimated to amount to approximately $22.0 million in FY 2002 and $23.0 million in FY 2003.

GRANTS-IN-AID (Vocational Rehabilitation Services)

Services to Clients (State Share)	$3,891	$4,286	$395	10.2%	D-309
Salary Supplement for Direct Service Workers	$0	$122	$122	—	D-309
Cost of Living Adjustment - Sheltered Workshops	$0	$138	$138	—	D-309

The Governor's Budget proposes $27.3 million in Grants-In-Aid (GIA) funding to support Vocational Rehabilitation Services, an increase of 2.5 percent or $655,000 over the current year.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page

The cost-of-living adjustment ($138,000), along with the direct care salary supplement ($122,000), will provide third party service providers at the Sheltered Workshops and Independent Living Centers an increase in their wages.

The budget recommendation proposes an increase of $395,000 for Services to Clients (State Share). According to the Office of Management and Budget, this is a new Grants-In-Aid appropriation which will be provided to youth with disabilities as they complete high school and move into the job market, vocational training, or attend college. These funds will be utilized for specialized counselors to act as liaisons with local educational programs and provide services to individuals in need of vocational rehabilitation.

FEDERAL FUNDS

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Vocational Rehabilitation Services	$48,260	$48,680	$420	0.9%	D-309
Employment Services	$39,140	$37,185	($1,955)	(5.0)%	D-309
Employment and Training Services	$105,044	$110,700	$5,656	5.4%	D-309
Workplace Standards	$3,775	$3,915	$140	3.7%	D-309

The FY 2003 recommended budget anticipates a total increase in federal funds for Manpower and Employment Services of $4.2 million or 2.2 percent over the FY 2002 adjusted appropriation. While the federal funds for Employment Services are anticipated to decrease, an increase is anticipated in Vocational Rehabilitation Services of $420,000, and in Employment and Training Services of $5.656 million or 5.4 percent, in Workforce Investment Act funds.

ALL OTHER FUNDS

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Workplace Standards	$2,400	$2,000	($400)	(16.7)%	D-309

This decrease in "off budget" funding of $400,000 is due to reductions in anticipated revenues available to the Workplace Standards Program, according to the department.

Language Provisions

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-134	p. D-304
There is appropriated out of the Unemployment Compensation Auxiliary Fund an amount not to exceed $3,000,000 for furniture purchases and renovations of the One Stop Career Centers, subject to the approval of the Director of the Division of Budget and Accounting.	There is appropriated out of the Unemployment Compensation Auxiliary Fund an amount not to exceed $1,000,000 for furniture purchases and renovations of the One Stop Career Centers, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The proposed FY 2003 language in the Governor's Budget (page D-304) recommends an $1.0 million appropriation from the Unemployment Compensation Auxiliary Fund (UCAF) for furniture purchases and renovations of the One Stop Career Centers. This is a $2.0 million or 200 percent decrease in funding from the UCAF. According to the Office of Management and Budget, the decrease is due to the Reed Act federal funds transferred to the State under section 903 of the Social Security Act (42 U.S.C. 1103 et seq.). Federal funds will be used to replace the decrease in State funding for One-Stop Career Centers. These funds are anticipated to be used to upgrade One-Stop equipment, including computers, at the centers.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-130	
There is appropriated from the General Fund an amount not to exceed $1,000,000 to conduct a feasibility study of the Modernization of the Unemployment Insurance Benefit Payment System - Local Online Payment System, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

The current budget language allows for $1.0 million to be appropriated for a feasibility study to determine the department's specific needs and options and to gather additional research for the modernization of the Unemployment Insurance benefit payment system, known as the Local Online Payment System (LOOPS). According to the department, this study is still being performed. However, it is not necessary to repeat last year's budget language because other funds are available in the FY 2003 recommended budget to complete the final phases of the study.

Language Provisions (Cont'd)

2002 Appropriations Handbook	2003 Budget Recommendations
	p. D-305
No comparable language.	Receipts in excess of the amount anticipated for the Special Compensation Fund are appropriated, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The FY 2003 recommended budget proposes language allowing apropriation of receipts in excess of $1.6 million anticipated revenue and the $124.8 million appropriated revenue in the Special Compensation Fund (also known as the Second Injury Fund). This fund receives revenues exclusively from an assessment on employers and worker's compensation insurers. The Second Injury Fund provides workers' compensation benefits to partially disabled workers who experience a second work related injury and are rendered totally disabled by the two work-related injuries taken together. The Governor intends to lapse $20 million from this fund to close the FY 2002 deficit.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-131	p. D-305
From the funds made available to the State under section 903 of the Social Security Act (42 U.S.C. 1103 et seq.), as amended, the sum of $4,500,000, or so much thereof as may be necessary, is to be used for the administration of the Unemployment Insurance Program. These funds shall be made available for obligations until June 30, 2003.	From the funds made available to the State under section 903 of the Social Security Act (42 U.S.C. 1103 et seq.), as amended, the sum of $37,000,000, or so much as may be necessary, is to be used for the improvement of services to unemployment insurance claimants through an improvement and modernization of the benefit payment system and to employment service clients through a continued development of One-Stop Offices throughout the State and other investments in technology and processes that will enhance job opportunities for clients.

Explanation

In March of 2001, $242.8 million was made available to the State Unemployment Compensation Fund under section 903 of the Social Security Act (42 U.S.C. 1103 et seq.), as amended. New Jersey can use these funds, referred to as federal Reed Act funds, to pay compensation or, subject to legislative appropriation, for administrative expenses. The recommended budget language would authorize use of $37 million of Reed Act funds for the improvement and modernization of the benefit payment system, continued development of One-Stop offices and other investments in technology and processes that will enhance job opportunities for clients.

Language Provisions (Cont'd)

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-134	
Notwithstanding the provisions of the "1992 New Jersey Employment and Workforce Development Act" P.L.1992, c.43 (C.34:15D-1 et seq.), an amount not to exceed $500,000 is authorized from the balance in the Workforce Development Partnership Fund to be used by the department to promote training of women and minorities in the construction trades, subject to the approval of the Director of Budget and Accounting.	No comparable language.

Explanation

The current language allows an amount not to exceed $500,000 from the Workforce Development Partnership Fund to be used by the department to promote training of women and minorities in construction trades. According to the Office of Management and Budget, this language was omitted from the FY 2003 budget because this program was not fully implemented by the department.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-135	p. D-310
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.	Of the amount hereinabove for the Vocational Rehabilitation Services program classification, an amount not to exceed $13,000,000 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 budget language for FY 2003 is consistent with use of UCAF resources in budget years prior to FY 2003. In FY 2002 and FY 2001, $9.0 million was supported by the UCAF. In FY 2000, the entire GIA appropriation of about $18 million was supported by the UCAF. Expenditures from the UCAF are expected to increase from $12.5 million in the current fiscal year to $16.4 million in FY 2003. As in previous years, no year-end fund balances are projected.

Language Provisions (Cont'd)

2002 Appropriation Handbook	2003 Budget Recommendations
	p. D-310
No comparable language.	Notwithstanding the provisions of the "Supplemental Workforce Fund for Basic Skills" P.L.2001, c.152 (C.34:15D-21 et seq.), or any other law to the contrary, the unexpended balance in the Supplemental Workforce Fund for Basic Skills as of June 30, 2002 is appropriated, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Supplemental Workforce Fund for Basic Skills was established in the department to provide basic skills training pursuant to P.L.2001, c.152 (C.34:15D-21 et seq.). The Supplemental Workforce Fund for Basic Skills is estimated to have a fund balance of $16.3 million at the end of the current fiscal year. According to the Office of Management and Budget,this proposed language allows that the unspent balance to remain in the fund and carry forward to FY 2003, rather than be redirected to the Unemployment Compensation Fund, as is otherwise required by law.

2002 Appropriation Handbook	2003 Budget Recommendations
p. B-121	p. D-282
Notwithstanding any law to the contrary, of the amounts hereinabove for Work First New Jersey-Work Activity and Work First New Jersey-Training Related Expenses, $5,000,000 is appropriated from the New Jersey Workforce Development Partnership Fund, section 9 of P.L. 1992, c.43 (C.34:15D-9), subject to the approval of the Director of the Division of Budget and Accounting.	Notwithstanding any law to the contrary, of the amounts hereinabove for Work First New Jersey-Work Activity and Work First New Jersey-Training Related Expenses, $35,000,000 is appropriated from the New Jersey Workforce Development Partnership Fund, section 9 of P.L. 1992, c.43 (C.34:15D-9), subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Governor's FY 2003 Budget recommends an increase of $30 million over the amount provided to the Department of Human Services (DHS) from the Workforce Development Partnership (WDP) Fund in FY 2002. The $30 million increase substitutes for general State funds for the WorkFirst New Jersey Program, (WFNJ) which provides evaluation, referral and training services to participants including those in the Food Stamp Employment and Training and General Assistance Program. According to the Office of Management and Budget, the availability of additional WDP

Language Provisions (Cont'd)

Fund resources to support WFNJ results from elimination of "Forward funding" of grants for training non-WFNJ clients.

The WDP Fund provides workforce training grants to disadvantaged workers, displaced workers and employers. The WDP Fund is funded through employer and employee payroll tax contributions. The increased transfer will contribute to a decrease in the estimated balance in the WDP Fund from $67.3 million on June 30, 2002 to $57.8 million on June 30, 2003.

Discussion Points

1. The Governor's Budget identifies approximately $75 million in additional revenues from new or increased fees throughout State government.

- *Question*: Please identify the authority (i.e., legislation, executive order, or agency regulation) for any fee changes or other new State revenue sources reflected in the FY 2003 budget for your department. If legislation is required to implement these changes, what is the status of those bills?

2. The Supplemental Workforce Fund for Basic Skills (SWFBS) was established in the department to provide basic skills training pursuant to P.L. 2001, c.152 (C.34:15D-21 et seq.). The SWFBS is financed by the redirection of a percentage of employer and worker unemployment insurance (UI) taxes, estimated to be $22.0 million in FY 2002 and $23.0 million in FY 2003 (page H-26). Because only $6.0 million was expended in FY 2002, the total amount available in the SWFBS for FY 2003, including investment earnings, is estimated to be $39.6 million. P.L.2001, c.152 requires that any unexpended cash balance at the end of a fiscal year exceeding 20% of contributions deposited in the SWFBS during that year must be deposited in the UI fund, but the proposed budget includes language overriding that requirement (page D-310). The total of $39.6 million that will be available in FY 2003 is allocated by P.L.2001, c.152 as follows: 24%, or $9.5 million, to support basic skills training delivered by State civil service employees at the State's One-Stop Career Centers; 28%, or $11.1 million, for Workforce Investment Boards to give grants to individuals needing basic skills training; 38%, or $15 million, for the Office of Customized Training to give grants to consortia of labor, business and community groups providing basic skills training; and 10%, or $4 million, for administrative costs, although only $2 million is appropriated in the FY 2003 Budget Recommendation to cover administrative costs.

- *Questions*: a. Has the department hired employees to carry out the basic skills training One-Stop Career Centers? If so, how many have been hired to date? What are the plans for hiring for this program in FY 2003? How many personnel are assigned to One-Stop Career Centers for the basic skills training?
- b. Please provide estimates of the number and value of individual and consortia grants distributed from the SWFBS in FY 2002 and FY 2003. Of the consortia grants, specify the amount distributed to each of the following: individual employers, employer organizations, labor organizations, community-based organizations and educational institutions.

3. The Workforce Development Partnership Program (WDP) provides training grants to disadvantaged and displaced workers, as well as to employers to provide training to their employees. The WDP program is funded by worker and employer payroll taxes on wages subject to unemployment insurance (UI) taxes. The proposed FY 2003 budget estimates that these payroll tax revenues, plus investment earnings, will generate $92.2 million in FY 2003 (H-21). Without the WDP law, these tax revenues would have been paid into the UI trust fund.

As amended by P.L.2001, c.152, the WDP law requires that the estimated $92.2 million in WDP revenues be allocated as follows: 45 percent, or $41.5 million, deposited in an account for customized training grants to train employed workers; 25 percent, or $23.1 million, deposited in an account for individual training grants for permanently laid-off workers; 6 percent, or $5.5 million, deposited in an account for "disadvantaged" workers (essentially persons eligible for welfare); 5 percent, or $4.6 million, deposited in an account for youth apprenticeship training; 3 percent, or $2.8 million, deposited in an account for occupational safety and health training; 10.5 percent, or $9.7 million, deposited in an account for administration; and 5.5%, or $5.1 million, in

Discussion Points (Cont'd)

an account to be used at the discretion of the Commissioner of Labor. P.L.2001, c.152 also requires any unexpended cash balance in any of those accounts, exceeding 20% of the contributions collected during the prior fiscal year, to be deposited into the UI trust fund.

The proposed FY 2003 budget includes language (pages D-282 and D-310) transferring $44.9 million for the WDP fund to the Department of Human Services (DHS), of which $1.9 million is for the New Jersey Youth Corps, but most, $43 million, is for the WorkFirst New Jersey Program, which provides evaluation, referral and training services to participants including those in the Food Stamp Employment and Training and General Assistance programs. The $44.9 transferred to DHS equals almost half of the $92.2 million in WDP revenues estimated for FY 2003. Similar transfers of varying amounts have been made by the Budget acts of each fiscal year from FY 1995 through FY 2002, transferring a total of $193.3 million from WDP to DHS, fully one third of the total $574.8 million in WDP revenues for that period. In addition to the language noted above transferring $44.9 million from WDP to DHS, the FY 2003 budget also includes language (page D-310) allowing whatever amounts are needed "to provide a State match to the federal Welfare to Work Grant Program" without any specific limit, in addition to the indicated $44.9 million transfer. Given the historic large scale of the transfer of WDP funds to DHS in the past and the lack of a limit to the amount which may be transferred under the proposed language, data is needed regarding the use of WDP resources for other program components to ascertain the possible impact on them of the transfer of WDP funds to DHS. The department, in its WIA 2000 annual report, recommended that the State consolidate all of its workforce programs, including the Welfare-to-Work program, under one umbrella to end fragmentation and provide a single point of accountability.

- *Questions:* a. For FY 2001, please provide the following actual data 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), and provide estimates of the same information for FY 2002, FY 2003 and FY 2004, based on the assumption that the percentages which are required by P.L.2001, c.152 to be deposited in accounts for each component will remain in effect:
    - The amount the department was required to spend under the WDP law's mandated allocations (from FY 2002 forward, the amounts required to be deposited in the accounts for each allocation), and the amount actually spent;
    - The amount transferred out of the fund for each purpose not indicated in the WDP law (such as the WorkFirst New Jersey and New Jersey Youth Corps programs);
    - The balance at the end of the year; and the amount encumbered as a reserve for future payments of multi-year grants for each WDP program component;
    - From FY 2002 forward, estimates of any amount anticipated to remain in the account at the end of the fiscal year exceeding 20% of the amount deposited for the year and thus required, pursuant to P.L.2001, c.152, to be deposited into the unemployment compensation fund.
- b. Please detail how much of the $193.2 million transferred to DHS from FY 1995 to FY 2002 has thus far been expended on training services, how much on other services? How much more than the specified $44.9 million is expected by the department to be needed to be transferred to provide the required State match to the federal Welfare to Work Grant Program?
- c. What is the department's current position with regard to consolidating the State's workforce programs? How does the department plan to monitor the workforce programs

Discussion Points (Cont'd)

provided through the Department of Human Services as it attempts to avoid the possible sanction of 5 percent of its total WIA formula grant if it fails this year to meet all 17 performance measures, as discussed in discussion point 6, below?

4. The federal "Job Creation and Worker Assistance Act of 2002," (JCWAA) includes a one-time distribution of $8 billion of previously accumulated federal "Reed Act" funds, the federal funds normally used to support State costs of administrating the Employment Service (ES) and UI Programs. Under the JCWAA, the $8 billion may be used by States, not only for ES and UI administration, but also to fund increased unemployment insurance benefits. The New Jersey share of the $8 billion is $242.8 million. The department's FY 2003 budget request directs that $37 million, "or so much as may be necessary," of the indicated "Reed Act" funds be used for "the improvement of services to unemployment insurance claimants through an improvement and modernization of the benefit payment system and to employment service clients through a continued development of One-Stop Offices throughout the State and other investments in technology and processes that will enhance job opportunities for clients."

The department's FY 2002 budget request included a $1 million appropriation to hire a consultant to develop a five-year plan to modernize the UI benefit payment system. Although the $1 million appropriation was not included in the final, enacted form of the FY 2002 appropriations act, the department did indicate, in response to OLS questions, that it anticipated that the plan would cost $17.8 million in the first year, and $66.8 million for the entire five-year period.

- *Questions:* a. Of the indicated $37 million, how much will be spent on modernizing of the UI benefit payment system and how much of that will be spent on consultants or contractors? Please provide any available cost analysis of the possible cost of having the project done by State personnel compared to having it done by outside contractors.
- b. How much of the $37 million will be spent on improvements to employment services? How much will be spent on retraining or upgrading of department personnel?
- c. If the department still envisions a multi-year project, provide a schedule of the anticipated total expenditures on each component for each year, with the expected sources of funding.

5. As noted in the previous discussion point, the one-time distribution to New Jersey of $242.8 million of accumulated federal "Reed Act" funds under the JCWAA, may be used not only for ES and UI administration, but to fund increased unemployment insurance benefits. The increased benefit funding may include the funding of increased weekly UI benefit levels and the funding of measures to make more laid-off workers, such as part-time workers, eligible for benefits. Any portion of the $242.8 million which is not appropriated for ES or UI administrative costs or used in connection with improvements in UI benefits will remain in the unemployment compensation fund.

This $242.8 million federal infusion into the UI fund helps to offset the loss of $650 million in UI revenues caused the redirection to the Health Care Subsidy Fund (HCSF) of $325 million in UI taxes in FY 2002 and another $325 million to the HCSF in FY 2003, pursuant to P.L.2002, c.13. This is particularly important for employers, because the UI tax rates imposed on each employer is calculated on the basis of a combination of the employer's own "reserve ratio" (the amount of UI taxes paid by the employer minus the benefits paid to workers laid off by the employer as a percentage of UI taxable wages paid by the employer) and "reserve ratio" for the entire UI trust fund (the fund balance as a percentage of the total UI taxable wages in the State). As explained at greater length in the background paper on the finances of the UI fund (see page 21), the balance of the State's UI fund ($3.525 billion at the end of FY 2001) has been high enough for the last four years to keep employers in the "A" tax schedule, which provides the lowest UI tax rates for

Discussion Points (Cont'd)

employers.

- *Question:* Please provide an estimate of the combined impact on the UI trust fund balance of the addition of the $242.8 million in "Reed Act" funds, the reduction of UI revenues by $650 million pursuant to P.L.2002, c.13, and the current recession. Provide the actual or estimated fund balances and fund reserve ratios on March 31 of 2002, 2003 and 2004, and the assumptions made regarding unemployment rates as the basis for those estimates. When do you estimate that employers will be subject to the higher "B" schedule UI taxes?

6. The Workforce Investment Act ("WIA") requires states and localities to bring together 17 federally funded employment and training services into a single system, referred to as the one-stop center system, without the consolidation of funding. Three of the 17 programs, whose funding is authorized by WIA under Title I to provide services to adults, dislocated workers and youth, have performance measures that gauge program results in the areas of job placement, employment retention and earnings change, as well as skill attainment and customer satisfaction. New Jersey was required to implement the major provisions of WIA Title I by July 1, 2000. Under WIA, states that meet their performance levels are eligible to receive incentive grants that may range from $750,000 to $3 million. States must achieve a cumulative score of 100 percent or more in each program area and in customer satisfaction and at least 80 percent of the negotiated performance for all 17 measures. Failing to achieve the 80 percent level for any one performance measure disqualifies a state from being considered for an incentive grant.

In addition, states that do not meet their performance levels under WIA are subject to sanctions. States failing to meet performance levels for one year may receive federal technical assistance. If a state fails to meet its performance levels for two consecutive years, it may be subject to up to a 5-percent reduction in its annual WIA formula grant. New Jersey, as outlined in the WIA Title 1B Annual Report dated January 11, 2002, reported exceeding only 10 of the 17 performance measures for program year 2000.

- *Question*: What performance measures were not met? What percent was met in each of these performance measures? What was the negotiated level for these performance measures? Why were these performance measures not met? What has the department done to remedy the situation? What is the likelihood that all 17 performance measures will be met or executed in a year?

7. The proposed budget anticipates an approximate $6.6 million increase in revenue from WIA. However, the U.S. Department of Labor's State Formula Grant Allotments, as provided by the Employment & Training Administration for Program Year 2002 (July 1, 2002 to June 30, 2003), reports a decrease in revenue from Program Year 2001 (July 1, 2001 to June 30, 2002). For example, a 13.06 percent decrease is reported for the WIA Dislocated Worker Activities Program; a 0 percent change in funding is reported for the WIA Youth Activities Program; and a 10 percent decrease is reported for the WIA Adult Activities Program.

- *Question*: Please explain the method in which the department calculated a $6.6 million increase in WIA revenue. In light of the more recent projections from ETA, which include a number of decreases in program funding, what are your current estimates of FY 2003 funding for each of the following: the WIA Youth Activities Program, the WIA Adult Activities Program, the WIA Dislocated Worker Activities Program, the Employment Service Program, and the Unemployment Insurance Program?

Background Paper: The Unemployment Insurance (UI) Trust Fund

Budget Pages.... D-305 and H-41

MAJOR CHANGES AFFECTING THE UNEMPLOYMENT INSURANCE SYSTEM IN FY 2003

There are two major fiscal changes affecting New Jersey's Unemployment Insurance (UI) trust fund during FY 2002 and FY 2003: (1) the distribution to the State's UI trust fund of $242.8 million in federal funds, of which $37 million is allocated by the budget to improving the UI benefit payment system and employment services; and (2) the redirection from the UI fund to the Health Care Subsidy Fund (HCSF) of $650 million worth of UI taxes during FY 2002 and FY 2003.

The federal "Job Creation and Worker Assistance Act of 2002," (JCWAA) includes a one-time distribution of $8 billion of previously accumulated federal "Reed Act" funds, the federal funds normally used to support State costs of administrating the Employment Service (ES) and UI Programs. Under JCWAA, states may use the $8 billion for UI and ES administration or to fund increased UI benefits, including benefits for part-time workers. The New Jersey share of the $8 billion is $242.8 million (see page H-41). Any part of the $242.8 million not appropriated or used for improvements in UI benefits will remain in the UI trust fund.

The department's FY 2003 budget request appropriates $37 million, "or so much as may be necessary," of the indicated "Reed Act" funds to improve services "to (UI) claimants through an improvement and modernization of the benefit payment system and to employment service clients through a continued development of One-Stop Offices throughout the State and other investments in technology and processes that will enhance job opportunities for clients" (see page D-305).

The $242.8 million federal infusion into the UI fund helps to offset the loss of $650 million in UI revenues caused by the redirection to the HCSF of $325 million in UI taxes in FY 2002 and another $325 million to the HCSF in FY 2003, pursuant to P.L.2002, c.13. This is particularly important for employers, because the UI tax rate imposed on each employer is calculated on the basis of a combination of the employer's own "reserve ratio" (the amount of UI taxes paid by the employer minus the benefits paid to workers laid off by the employer as a percentage of UI taxable wages paid by the employer) and "reserve ratio" for the entire UI trust fund (the fund balance as a percentage of the total UI taxable wages in the State). As explained at greater length in the section below regarding UI financing and UI Trust Fund solvency, the fund balance of the State's UI fund ($3.525 billion at the end of FY 2001) has been high enough for the last four years to keep employers in the "A" tax schedule, which provides the lowest UI tax rates for employers.

The $242 million Reed Act distribution and the shifting of $650 million of UI revenues to the HCSF are also important to workers, because of their interest in having UI benefits adequately funded, which is one of the purposes of the Reed Act distribution explicitly stated in the JCWAA. As described below, New Jersey, like other states, made major changes in its UI program during the mid-1980's to eliminate the fund deficit caused by the recessions of the 1970's and 1980's. The changes included large UI tax increases and substantial reductions in UI benefit availability for unemployed workers. More recent changes, here and in other states, have given greater emphasis to tax reductions than to restoring previous levels of benefit availability for the unemployed.

OVERVIEW OF NEW JERSEY'S UI SYSTEM

New Jersey’s 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

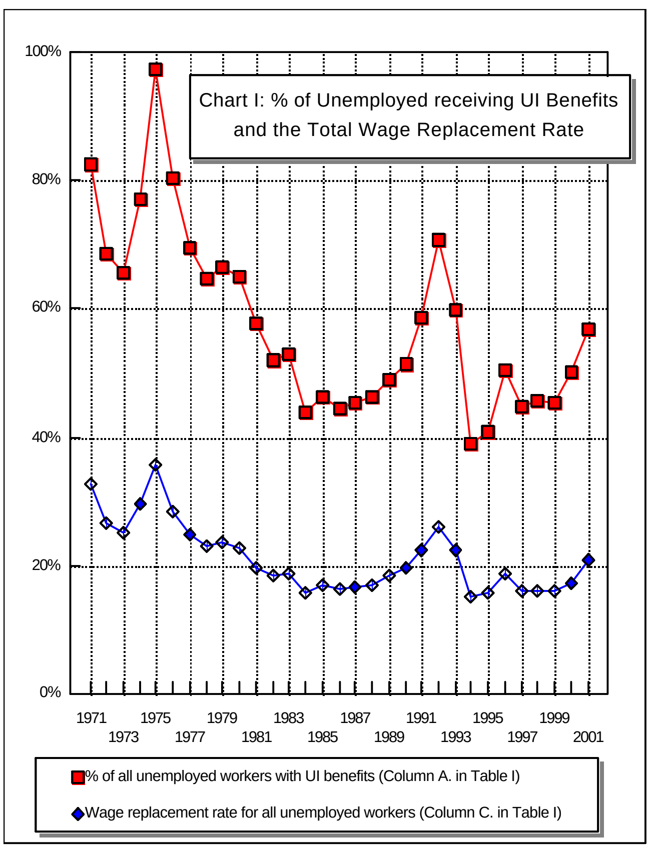
Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)

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 60 percent of a laid-off worker's weekly wages (plus dependent allowances), up to 57 percent of the Statewide average weekly wage (AWW) for all workers, a maximum weekly benefit of $475 in 2002. The average New Jersey weekly benefit was $309 in 2001, second highest in the nation, but lower than 30 other states as a percentage of average wages.

During CY 2001, 555,548 New Jersey residents filed UI benefit claims, with a weekly average of 100,436 workers laid off from jobs in the State receiving benefits. The average New Jersey UI claim lasted 16.7 weeks, 2.9 weeks longer than the average national claim. During that period, 133,631 New Jersey claimants, 50 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 34 percent. That New Jersey benefit exhaustion rate is below its peak level of 57 percent during the early 1990's recession, but remains higher than the exhaustion rates of 47 other states. Benefits to workers laid off from jobs in the State totaled $1.6 billion in CY 2001.

Benefits are financed from taxes paid by employers and workers on the first $23,500 of each worker's annual wages in 2002, an amount adjusted annually to reflect changes in the AWW. During calendar year 2001, New Jersey employers paid 0.7 percent of total payroll for UI taxes (an average of $313 per covered employee), higher than the national average of 0.5 percent. This State is one of only three states that impose a UI tax on workers. A New Jersey worker earning up to $23,500 in 2001 paid $100 in taxes for the UI and health care and workforce development funds.



What follows is a description of major changes in State's UI system in the last 30 years regarding the benefits and taxes, and their impact 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 data from Table I) indicates that the number of workers paid UI benefits when laid off from jobs in New Jersey during an average week in 1971 was 83 percent of the total number of unemployed workers who were seeking work. By 1994, the percentage of laid off

Background Paper: The Unemployment Insurance (UI) 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

Year	Number of Workers on Average Week Receiving the Following UI benefits: 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***	A. Total Workers Receiving UI Benefits as % of Total Unemployed Workers	B. Ratio of Average Weekly Benefit to Average Weekly Wage (AWW)	C. Total UI Benefits as % of Total Wages at AWW Rate (A. times B.)
1971	106,700		23,592		130,292	157,925	82.5%	39.7%	32.8%
1972	95,625		18,434		114,059	165,840	68.8%	38.5%	26.5%
1973	93,115		15,338		108,453	165,098	65.7%	38.1%	25.0%
1974	120,610		24,146		144,756	187,893	77.0%	38.5%	29.7%
1975	170,202		50,178	79,223	299,602	307,770	97.3%	36.6%	35.6%
1976	133,362		41,763	82,877	258,002	320,586	80.5%	35.4%	28.5%
1977	122,350		35,686	46,082	204,118	293,313	69.6%	35.6%	24.8%
1978	115,633		28,033	4,065	147,731	228,903	64.5%	35.7%	23.0%
1979	123,996		25,801		149,797	225,013	66.6%	35.2%	23.4%
1980	131,489		23,559		155,048	238,663	65.0%	34.8%	22.6%
1981	123,298		18,232		141,530	244,748	57.8%	33.8%	19.5%
1982	133,892		12,944	11,543	158,379	304,967	51.9%	35.3%	18.3%
1983	110,435		3	31,832	142,270	269,291	52.8%	35.1%	18.5%
1984	91,663			4,563	96,226	218,916	44.0%	35.3%	15.5%
1985	90,321			4,261	94,582	204,544	46.2%	36.6%	16.9%
1986	81,971				81,971	185,167	44.3%	36.9%	16.3%
1987	68,087				68,087	150,344	45.3%	36.8%	16.7%
1988	66,811				66,811	144,169	46.3%	36.4%	16.9%
1989	77,018				77,018	157,197	49.0%	37.5%	18.4%
1990	99,616				99,616	193,868	51.4%	38.0%	19.5%
1991	129,393	11,735		6,172	147,300	251,485	58.6%	37.9%	22.2%
1992	125,240			100,762	226,002	319,440	70.7%	36.6%	25.9%
1993	102,825			66,205	169,030	282,416	59.9%	37.4%	22.4%
1994	101,114				101,114	259,637	38.9%	38.3%	14.9%
1995	100,383				100,383	246,597	40.7%	38.2%	15.6%
1996	104,262	16,747			121,009	240,285	50.4%	37.0%	18.6%
1997	90,225				90,225	201,735	44.7%	36.0%	16.1%
1998	84,186				84,186	183,959	45.8%	34.7%	15.9%
1999	84,878				84,878	187,850	45.2%	35.3%	15.9%
2000	78,470				78,470	155,994	50.3%	34.0%	17.1%
2001	100,436				100,436	176,600	56.9%	36.5%	20.8%

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 2 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.

workers receiving benefits had fallen to only 39 percent. Since then, there has been some recovery in the share of laid-off workers receiving UI benefits, rising to 57 percent by 2001.

The share of the total unemployed population receiving UI benefits reached a peak of 97 percent in 1975, due to an infusion of federal emergency UI benefits provided on an ad hoc basis for three years. Excluding such emergency funding (also provided in 1983, 1992 and 1993), the percentage of unemployed workers receiving State-funded regular UI benefits or State/federal extended UI benefits tended to decline from 1971 to 1994, but some of that loss has since been

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

recovered (see Table I).[1]

The negative 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), with the AWBA being only 37 percent of the AWW during the period from 1971 to 2001. Column "C" of Table I provides an overall "wage replacement rate," that is, the total amount of UI benefits paid as a percentage of the total amount that unemployed workers would have earned if they were all working at the average wage. That wage replacement rate declined from 33 percent in 1971 to a low of 15 percent in 1994, having since risen to 21% in 2001 (see Table I and Chart I).

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 has been disqualified from federal/State extended benefits from 1983 to date. The federal "emergency" UI benefits provided in 1992 and 1993, as well as the State "emergency" UI benefits in 1991, 1996 and 2002, were temporary, and are no longer in effect. The current federal emergency benefits in effect since March 2002 will expire before the end of 2002.

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 overhauls their UI programs, most of them making it harder for laid off workers to obtain benefits by raising benefit eligibility thresholds. 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 imposed 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 base year earnings needed to be eligible for UI benefits increased eightfold 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, providing laid off New Jersey workers with $2.1 billion in extended benefits in 1992 and 1993 at no cost to the State.

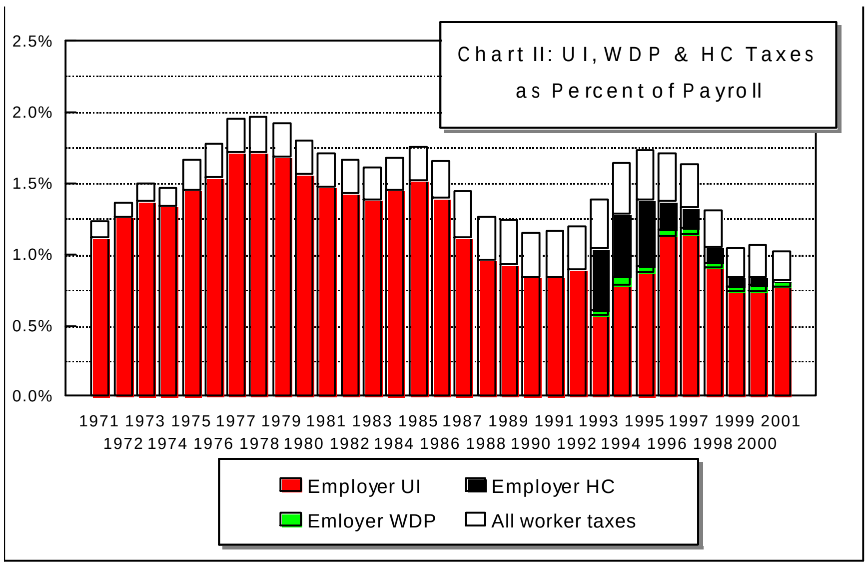
1. "Extended" UI benefits, up to 13 additional weeks, supported by 50/50 State/federal funding, are triggered by unemployment rates set in advance by federal and State law. "Emergency" benefits, usually entirely federally-funded, are of varying lengths and enacted on an ad hoc basis. No extended have been provided since 1983, but, past the time period covered in Table I and Chart I, State emergency benefits were provided during the first three months of 2002 and federal emergency benefits are being provided during the remaining part of 2002.

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

Smaller State-funded temporary emergency programs in 1991 and 1996 provided another $346 million in 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. Figures are not yet available regarding the total benefits which will be paid in separate State and federal emergency benefit programs during 2002, but these, too, are 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 (the "base week") 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). That base week was increased to $103 per week when the minimum wage was increased in 1999, but if the based week had continued to be tied to the AWW, it would have reached $168 by 2001, excluding any minimum wage worker working less than 33 hours per week.

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. The initiatives of the 1990's contributed to the increase of the portion of laid-off workers receiving UI benefits from 39 percent in 1994 to 57 percent in 2001. Another factor in that increase is that UI benefit recipiency rates tend to be higher during the beginning of recessions.



UI FINANCING AND UI TRUST FUND SOLVENCY

At the end of CY 2001, the cash balance of New Jersey's UI trust fund attained a record high of $3.1 billion.[2] This balance, almost twice the amount of UI benefits paid that year ($1.6 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, forcing the State to borrow from the federal government to pay benefits.

2. Note that the "cash balance" of the UI fund is significantly lower than the "fund balance" used to determine employer UI tax rates. The "fund balance" includes UI tax revenues accrued from payrolls but not yet paid (employersare not required to pay UI taxes for a calendar quarter until after the end of the quarter). The cash balance includes only cash actually deposited. The "fund balance" of the UI fund, calculated only for March 31 and June 30 of each year, has exceeded the "cash balance" of the fund by amounts ranging from $300 million to $500 million.

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

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	$1,112.1	$43.9	$13.4	$57.3	$443.5	$56.5	$500.0	$1,330.3	$339.1	$1,669.4
1996	$1,143.2	$240.6	$1,383.8	$45.0	$13.7	$58.7	$212.8	$117.2	$330.0	$1,401.0	$371.5	$1,772.5
1997	$1,244.7	$103.1	$1,347.8	$48.0	$14.5	$62.5	$167.4	$162.6	$330.0	$1,460.1	$280.2	$1,740.3
1998	$1,074.9	$137.4	$1,212.3	$47.2	$14.8	$62.0	$127.2	$160.8	$288.0	$1,249.3	$313.0	$1,562.3
1999	$937.9	$102.5	$1,040.4	$44.6	$14.4	$59.0	$87.1	$146.8	$233.9	$1,069.6	$263.7	$1,333.3
2000	$1,041.7	$185.3	$1,227.0	$59.6	$19.4	$79.0	$82.6	$96.0	$178.6	$1,183.9	$300.7	$1,484.6
2001	$1,135.0	$192.6	$1,327.6	$63.9	$18.0	$81.9	$12.3	$82.6	$94.9	$1,211.2	$293.2	$1,504.4
Total	$9,410.7	$1,794.9	$11,205.6	$429.2	$131.9	$561.1	$1,921.1	$1,134.3	$3,055.4	$11,761.0	$3,061.1	$14,822.1

Source: New Jersey Department of Labor: "Annual Statistical Review," various years and information from NJDOL 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 1993-2001, 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.

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 $3.1 billion balance in 2001, even while more than $3.1 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 2001.

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 being steadily decreased in the following years,declining to $95 million in 2001. That pattern, however, was reversed by P.L.2002, c.13, which increased the HC tax for 2002 and the first half of 2003 from $67 million to $717 million.

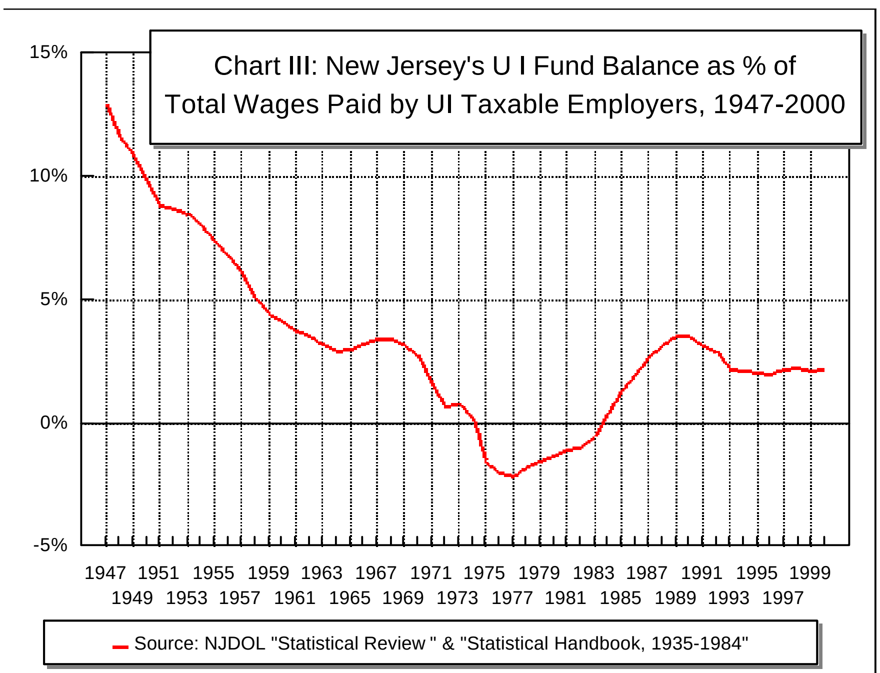
The shift of payroll tax revenues from UI taxes to HC taxes has resulted in a greater increase in overall employer payroll taxes from 1992 to 1998 than would have otherwise occurred. This is because each employer's UI tax rate is determined on the basis of two things: (1) the "reserve ratio" of the UI trust fund as a whole (as 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 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.

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

Notwithstanding this shift of tax revenue, the level of solvency of New Jersey's UI trust fund is now better than the national average, according to U.S. Department of Labor (USDOL) indicators. New Jersey's UI trust fund had a reserve ratio (fund balance divided by total wages paid by UI taxable employers, as shown on Chart III) of 2.15 percent at the end of 2001, compared to the national average of 1.2 percent. New Jersey's high cost multiple (the reserve ratio adjusted for the difference between current UI benefits and their historic high) was 0.65 percent, which is higher than the national rate of 0.54 percent. Even if all UI tax collections stopped, New Jersey would be able to pay 23.8 months worth of benefits from its UI fund balance, compared to a national average of 17.6 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 0.54 percent, was always greater than 1.0 percent before 1974. The national average reserve ratio, now 1.2 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 30 years ago.



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

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 three times during the last seven years by legislation lowering the minimum UI trust fund reserve ratios (the fund balance divided by taxable

Table III: New Jersey Unemployment Insurance Employer Tax Schedules, 1961 to 2003, 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 to June 2002:		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 3.5%**	**3% to 3.5%**	**2.5% to 3%**	**2% to 2.5%**	**1% to 2%**	**Less than 1%**
Employer Tax Rate, July 2002 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 2003 is "A".
The 10% surcharge was in effect from July 1984 until June 1986.

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

wages only[3]) 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. Finally, P.L.2002, c.13 further reduces the minimum ratio for the "A" schedule, with the likely effect of keeping that schedule in effect for the foreseeable future. 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 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 2001, requiring a UI trust fund balance in 2001 of $5.9 billion. Employer UI taxes for 2001 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 up to $47 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.

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 future recession more severe than the current one, 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.

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3. Note the two meanings for the term “reserve ratio.” On this page and on Chart III, “reserve ratio” refers to the ratio used to determine New Jersey employer UI tax rates, which is calculated by dividing the "fund balance" of the UI fund by total taxable wages. On pages 6 and 7 “reserve ratio” refers to the ratio used by the USDOL to compare the solvency of trust funds between states, which is calculated by dividing d "cash balance" of the UI fund by all 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. The difference between the "fund balance" and the "cash balance" is described in footnote 2. of this background paper.

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