ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 2003 - 2004 BUDGET

DEPARTMENT OF LABOR

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

APRIL 2003

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF LABOR

Budget Pages....... C-11; C-15; C-18 to C-19; C-26; C-29; D-281 to D-296; F-7; F-8; H-26; H-29; H-32; H-33 and H-44.

Fiscal Summary ($000)

	Expended FY 2002	Adjusted Appropriation FY 2003	Recommended FY 2004	Percent Change 2003-04
State Budgeted	$116,086	$96,611	$93,737	(3.0)%
Federal Funds	309,760	331,487	367,022	10.7%
Other	134,160	147,096	150,584	2.4%
Grand Total	$560,006	$575,194	$611,343	6.3%

Personnel Summary - Positions By Funding Source

	Actual FY 2002	Revised FY 2003	Funded FY 2004	Percent Change 2003-04
State	729	670	695	3.7%
Federal	2,830	2,804	2,865	2.2%
Other	7	5	6	20.0%
Total Positions	3,566	3,479	3,566	2.5%

FY 2002 (as of December) and revised FY 2003 (as of September) personnel data reflect actual payroll counts. FY 2004 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

- The FY 2004 recommendation for the Department of Labor totals $93.7 million in State funding, a decrease of $2.9 million, or 3.0 percent, from FY 2003. However, most of the department's programs are supported by federal (60 percent) and dedicated State and "Other" funds, such as trust funds (32.5 percent).

- The Budget Recommendation anticipates that the Unemployment Compensation Fund (page H-44) will have a $1.8 billion balance at the end of FY 2004, a $409 million decrease over the FY 2003 estimated balance of $2.2 billion. The decreased balance reflects the extension of unemployment benefits and the shift of $325 million in both FY 2003 and FY 2004 to the Health Care Subsidy Fund for charity care in lieu of payment to the Unemployment Compensation Fund.

- The Governor's Budget proposes language (page D-290) stating that, of the $242 million in Reed Act funds authorized in the Federal Economic Stimulus legislation and deposited in the Unemployment Compensation Fund, $30 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. In FY 2003, $37 million in Reed Act funds were authorized for these purposes.

- Proposed language in the Governor's Budget (page D-268 and D-279) recommends the transfer of $62.4 million from the Workforce Development Partnership (WDP) fund to the Department of Human Services (DHS) for Work First New Jersey and the New Jersey Youth Corps. The WDP fund, which is funded through employer and employee payroll tax contributions, is used to provide workforce training grants to disadvantaged workers, displaced workers and employers. Upon approval of this recommendation, a total of $318 million will have been transferred from the WDP fund to DHS since FY 1995.

- The Budget Recommendation estimates that federal funds will increase to $367 million in FY 2004, up 10.7 percent or $35.5 million, from the FY 2003 adjusted appropriation of $331.5 million. Divisions anticipating increases in federal aid include: Unemployment Insurance ($34.9 million or 35.5 percent) and Disability Determination ($1.4 million or 3 percent).

- The Budget Recommendation anticipates that the State Disability Benefits Fund (SDBF) will have a $199.3 million balance at the end of FY 2004, a $29.3 million decrease from the FY 2003 balance of $228.6 million. The decreased balance is a result of the proposed transfer of $30 million from the SDBF to the General Fund as State revenue. 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 Administration intends to lapse $20 million from the Second Injury Fund (SIF) in FY 2003 to offset revenue shortfalls. The SIF, which is projected to receive $124.5 million in appropriated revenue in FY 2004, is funded exclusively by an assessment on employers and workers' compensation insurance companies. The SIF provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities and provides cost-of-living adjustments for workers who became totally and permanently disabled before 1980.

- The Governor's Budget reflects the reallocation of $561,000 from the Department of

Key Points (Cont'd)

Community Affairs (DCA) to the Department of Labor as a result of Reorganization Plan 002-2002 which became effective during FY 2003. The Plan involves the transfer of the enforcement of the asbestos control and licensing laws and the transfer of the Mechanical Inspection Bureau from the DCA to the department.

- The Governor's Budget recommends another $4 million for the John J. Heldrich Center for Workforce Development. If this recommendation is approved, the Heldrich Center project will have received $15.4 million in State appropriations since FY 2000. Budget language proposes that the Center receive funding from the Economic Recovery Fund rather than from State resources. The Center is a university-based organization which works towards transforming the workforce development system at local, State and federal levels. The Center is also a component of a major redevelopment project in New Brunswick.

- The Governor's Budget continues a special purpose appropriation of $2 million 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 $23 million in FY 2003 and $25 million in FY 2004 (page H-32). $5 million from this fund is recommended for transfer to the General Fund for operating aid to County Colleges (Department of Treasury, page D-443), a decrease of $10 million, or 67 percent, from the FY 2003 transfer of $15 million.

- In a press release from the Governor's office dated December 18, 2002, it was reported that the State's workforce development programs are to be consolidated under the Department of Labor. Specifically, these job training programs include the transfer of welfare-to-work training and adult literacy program to the Department of Labor, which are currently administered by the Department of Human Services and the Department of Education. The Governor's proposed FY 2004 budget does not appear to reflect any changes that would be expected to result from the proposed consolidation.

<u>Background Paper:</u>

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 85 percent of the Department of Labor's $611.3 million budget recommendation for FY 2004 is comprised of federal and non-State dedicated revenues appropriated "off-budget" or "below the line." The recommended federal appropriation of $367 million will provide most of the department's funding for unemployment insurance, disability determination, job training and employment service operations, while $150.6 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 2004, for example, 80 percent, or $48.3 million of the department's Direct State Services appropriation, is derived from dedicated revenue sources. In addition, $14.4 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 $93.7 million in State budgeted appropriations for FY 2004, $65.2 million, or over 69 percent, will be derived from trust or special revenue sources and dedicated revenues.

Thus, of the department's total FY 2004 recommended appropriation of $611.3 million, only 4.7 percent or $28.5 million, is supported by non-dedicated General Fund resources.

In addition to these sums, the department administers more than $4.7 billion in benefit payments which are not included as part of the department's appropriation. During FY 2004 for example, the department will administer $2.0 billion in unemployment insurance benefits, $417 million in temporary disability insurance benefits, and $2.3 billion in federal Social Security disability benefit payments.

Summary of the FY 2004 Recommended Budget

State budgeted funds for the department are recommended to decrease by approximately $2.9 million or 3.0 percent, for a total of $93.7 million in FY 2004.

The FY 2004 budget again 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.).

Program Description and Overview (Cont'd)

The budget also recommends that $5 million be transferred to the General Fund and appropriated for operating aid to County Colleges (Department of Treasury). The SWFBS is financed by the redirection of a percentage of employer and worker unemployment insurance (UI) taxes, estimated to be $23 million in FY 2003 and $25.2 million in FY 2004 (page H-32). Because $32.8 million will be expended in FY 2003, the total amount available in the SWFBS for FY 2004, including investment earnings, is estimated at $27.4 million. This total is allocated by P.L. 2001, c.152 as follows: 24 percent, or $6.6 million, to support basic skills training delivered by State civil service employees at the State's One-Stop Career Centers; 28 percent, or $7.8 million, for Workforce Investment Boards to give grants to individuals needing basic skills training; 38 percent, or $ 10.4 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 $2.7 million for administrative costs, although only $2 million is appropriated in the FY 2004 Budget Recommendation to cover administrative costs.

A total of $5.2 million is recommended for the Workplace Standards Program for FY 2004. This is a decrease of $982,000, or 15.8 percent, from the FY 2003 adjusted appropriation. There is an increase in "off-budget" funding of $1.3 million, which reflects increases in estimated program revenues. The federal funding is unchanged from the FY 2003 appropriation 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.

The Governor's Budget recommends another $4 million for the John J. Heldrich Center for Workforce Development. If this recommendation is approved, the Heldrich Center project will have received $15.4 million in State appropriations since FY 2000. Budget language proposes that the Center receive funding from the Economic Recovery Fund rather than from State resources. The Center is a university-based organization which works towards transforming the workforce development system at local, State and federal levels. The Center is also a component of a major redevelopment project in New Brunswick.

The FY 2004 budget reflects the reallocation of $561,000 from the Department of Community Affairs (DCA) to the Department of Labor as a result of Reorganization Plan 002-2002 which became effective during FY 2003. The Plan involves the transfer of the enforcement of the asbestos control and licensing laws and the transfer of the Mechanical Inspection Bureau from the DCA to the Department of Labor.

In a press release from the Governor's office dated December 18, 2002, it was reported that the State's workforce development programs are to be consolidated under the Department of Labor. Specifically, these job training programs include the transfer of welfare-to-work training and the adult literacy program, which are currently administered by the Department of Human Services and the Department of Education to the Department of Labor. However, none of the changes that would be expected to result from the proposed consolidation are reflected in the Governor's proposed FY 2004 budget.

State Disability Benefits Fund

The proposed budget appropriates $30 million from the State Disability Benefits Fund (SDBF) for transfer to the General Fund as State revenue (page F-8). The SDBF supports the State's Temporary Disability Insurance (TDI) program to provide partial wage replacement for workers who become disabled due to injury or illness unrelated to work and pays for the administration of the benefits. The fund balance in the SDBF was $210.4 million on June 30, 2002 (page H-29). It is estimated to be $199.3 million on June, 30, 2004.

Program Description and Overview (Cont'd)

Workforce Development Partnership Fund

The proposed FY 2004 budget again includes language (pages D-268, D-279, and D-296) transferring $62.4 million from the Workforce Development Partnership (WDP) Fund to the Department of Human Services (DHS). The WDP Fund, which is funded through employer and employee payroll tax contributions, is used to provide workforce training grants to disadvantaged workers, displaced workers and employers.

The $62.4 million transfer to DHS comprises nearly two-thirds of the $97.6 million in WDP revenues estimated for FY 2004. Similar transfers of varying amounts have been made by the appropriation acts of each fiscal year from FY 1995 through FY 2003, transferring a total of $318 million from WDP to DHS. In addition to the language noted above transferring $62.4 million from the WDP to DHS, the FY 2004 budget also includes language (page D-296) allowing the use of whatever amounts are needed to "provide a State match to the federal Welfare to Work Program."

Of the $62.4 million transferred from the WDP Fund to the DHS, $1.9 million is for the New Jersey Youth Corps (page D-279). 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 designed 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 $60.5 million transferred from the WDP Fund to the DHS is for the Work First New Jersey Program (page D-268), 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 $1.8 billion balance at the end of FY 2004, a $500 million decrease from the FY 2003 estimated balance of $2.3 billion. The decreased balance reflects the extension of unemployment benefits and the shift of $325 million in both FY 2003 and FY 2004 to the Health Care Subsidy Fund for charity care in lieu of payment to the Unemployment Compensation Fund.

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 $30 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-290).

Federal Funds

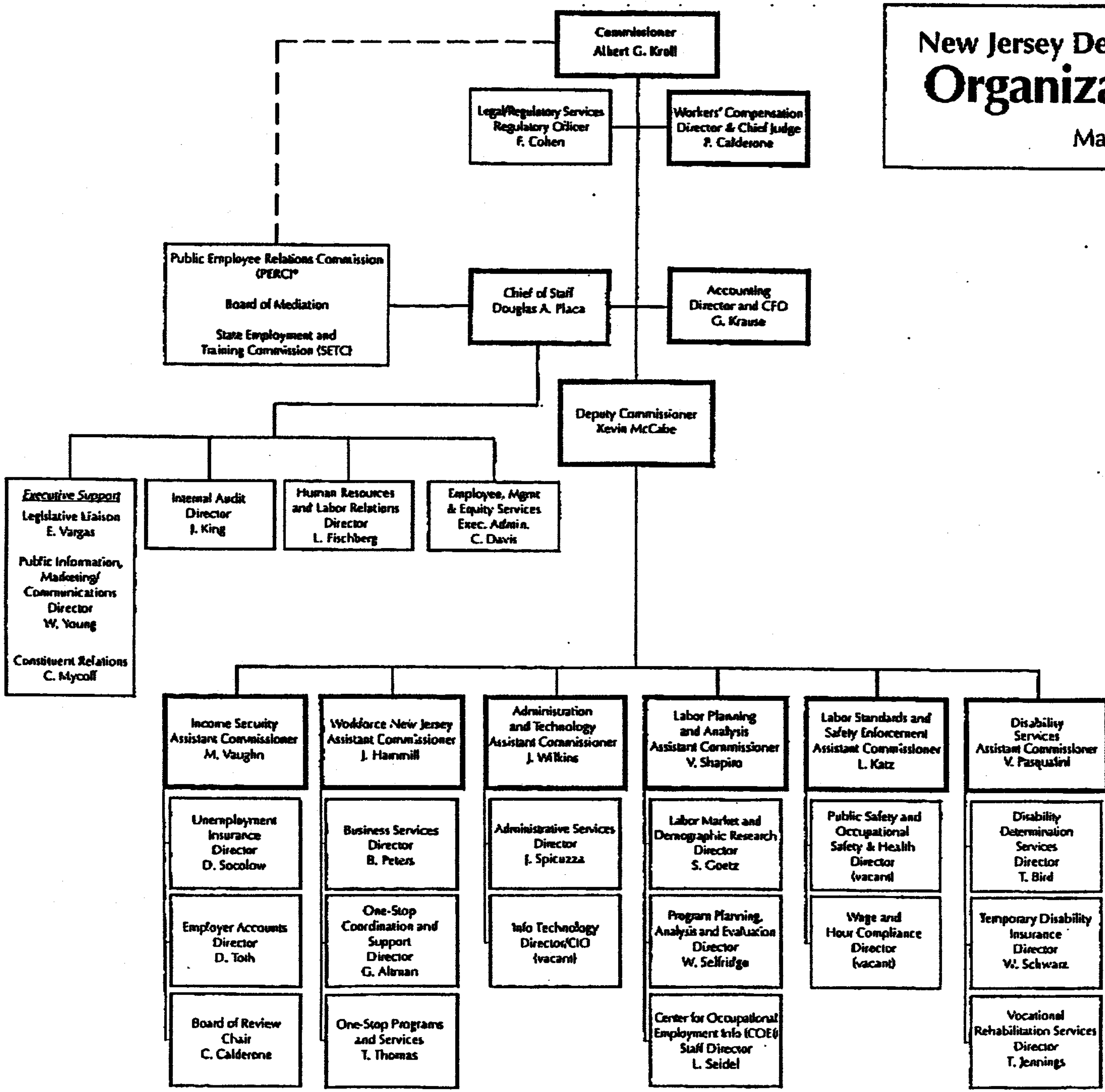
The Budget Recommendation anticipates federal funds of $367 million in FY 2004, an increase of 10.7 percent or $35.5 million above the FY 2003 adjusted appropriation of $331.5 million. The divisions anticipating increases in federal aid include: Unemployment Insurance

Program Description and Overview (Cont'd)

($34.9 million or 35.5 percent); Disability Determination ($1.4 million or 3 percent); Planning and Analysis ($153,000 or 1.7 percent); and Vocational Rehabilitation Services ($350,000 or .7 percent). These increases are offset, in part, by decreases in Employment Services ($1.1 million or 2.8 percent) and Employment and Training Services ($195,000 or .2 percent). Most of the distributions in federal aid are formula based, and these anticipated changes reflect changes in caseloads.

New Jersey Department of Labor
Organization Chart

March 2003



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Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2002	Adj. Approp. FY 2003	Recom. FY 2004	Percent Change 2002-04	Percent Change 2003-04
General Fund					
Direct State Services	$75,566	$61,392	$60,018	(20.6)%	(2.2)%
Grants-In-Aid	37,842	32,779	31,279	(17.3)%	(4.6)%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	238	0	0	(100.0)%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$113,646	$94,171	$91,297	(19.7)%	(3.1)%
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	$116,086	$96,611	$93,737	(19.3)%	(3.0)%
Federal Funds	$309,760	$331,487	$367,022	18.5%	10.7%
Other Funds	$134,160	$147,096	$150,584	12.2%	2.4%
Grand Total	$560,006	$575,194	$611,343	9.2%	6.3%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2002	Revised FY 2003	Funded FY 2004	Percent Change 2002-04	Percent Change 2003-04
State	729	670	695	(4.7)%	3.7%
Federal	2,830	2,804	2,865	1.2%	2.2%
All Other	7	5	6	(14.3)%	20.0%
Total Positions	3,566	3,479	3,566	0.0%	2.5%

FY 2002 (as of December) and revised FY 2003 (as of September) personnel data reflect actual payroll counts. FY 2004 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	38.1%	41.3%	38.6%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page

ECONOMIC ASSISTANCE AND SECURITY

DIRECT STATE SERVICES

Salaries and Wages	$25,506	$23,841	($1,665)	(6.5)%	D-289

The Governor's Budget recommends an overall decrease of $1.665 million in salary and wages in the Economic Assistance and Security program classes of the department. Divisions with decreases in salaries and wages include: State Disability Insurance Plan ($865,000 or 7.6 percent); Private Disability Insurance Plan ($314,000 or 8.6 percent); Worker's Compensation ($421,000 or 4.7 percent); and Special Compensation ($65,000 or 4.8 percent). Nearly all of these decreases result from reallocation of funds to non-salary accounts. Salary savings may have resulted from attrition and the impact of the early retirement incentive program. The number of positions supported by State funds in these areas would be 377, about equal to FY 2003 revised levels and a decrease of 20 from FY 2002 levels in December, 2001.

FEDERAL FUNDS

Unemployment Insurance	$98,275	$133,200	$34,925	35.5%	D-289

According to the department, the $34.9 million increase is based on the estimated availability of federal funds, including Reed Act funds earmarked by language for UI system and One-Stop Center improvements. Taking into account different reporting of FY 2003 Reed Act funds earmarked for such improvements, federal funding in FY 2004 is commensurate with FY 2003 funding.

Disability Determination	$46,623	$48,000	$1,377	3.0%	D-289

According to the department, the $1.377 million increase is based on the estimated availability of federal funds.

MANPOWER AND EMPLOYMENT SERVICES

DIRECT STATE SERVICES

Salaries and Wages	$16,604	$15,402	($1,202)	(7.2)%	D-294

The Governor's Budget recommends an overall decrease of $1.202 million in salary and wages in the Manpower and Employment Services program classes of the department. Divisions with decreases in salaries and wages include: Vocational Rehabilitation Services ($121,000 or 5.0 percent); Workplace Standards ($982,000 or 19.7 percent); Public Employment Relations Commission ($75,000 or 2.6 percent); and State Board of Mediation ($24,000 or 5.0 percent). According to the Office of Management and Budget, $452,000 of these decreases result from the annualization of FY 2003 attrition and early retirement incentive program savings. $750,000 in

Significant Changes/New Programs ($000) (Contd.)

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page

reductions to Workplace Standards salary funding will be replaced by increased penalty revenue resulting from P.L. 2002, c. 95.

FEDERAL FUNDS

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Total	$177,390	$176,470	($920)	(0.5)%	D-295
Vocational Rehabilitation Services	$48,680	$49,030	$350	0.7%	D-295
Employment Services	$38,185	$37,110	($1,075)	(2.8)%	D-295
Employment and Training Services	$86,560	$86,365	($195)	(0.2)%	D-295
Workplace Standards	$3,965	$3,965	$0	0.0%	D-295

The FY 2004 recommended budget anticipates a total decrease in federal funds for Manpower and Employment Services of $920,000 or 0.5 percent below the FY 2003 adjusted appropriation. While the federal funds for Vocational Services are anticipated to increase, a decrease is anticipated in Employment Services of $1.075 million, and in Employment and Training Services of $195,000 or 0.2 percent, in Workforce Investment Act funds. There is not likely to be any significant impact as a result of these changes.

ALL OTHER FUNDS

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Workplace Standards	$2,931	$4,199	$1,268	43.3%	D-295

This increase in "off budget" funding of $1.268 million is due to increases in anticipated revenues available to the Workplace Standards Program, according to the department, which is a result of penalties for prevailing wage violations pursuant to P.L. 2002, c.95.

Language Provisions

2003 Appropriations Handbook	2004 Budget Recommendations
	p. D-285
No comparable language.	In addition to the amount hereinabove for Administration and Support Services, an amount not to exceed $550,000 is appropriated from the Unemployment Compensation Auxiliary Fund, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The proposed FY 2004 language in the Governor's Budget recommends an additional $550,000 appropriation from the Unemployment Compensation Auxiliary Fund (UCAF) for Administrative and Support Services. According to the Office of Management and Budget, this language is needed to conform federal and State allocations as detailed in a recent federal audit.

The Division of Administration and Support Services provides for all accounting and budgeting functions for the department, including evaluation of operating programs from a financial management viewpoint.

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-112	p. D-289
In addition to the amount hereinabove appropriated for administrative costs associated with the State Disability Insurance Plan there is appropriated from the State Disability Benefits Fund an amount not to exceed $6,250,000, subject to the approval of the Director of the Division of Budget and Accounting.	In addition to the amount hereinabove appropriated for administrative costs associated with the State Disability Insurance Plan there is appropriated from the State Disability Benefits Fund an amount not to exceed $6,350,000, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The State Disability Insurance Plan program has a recommended appropriation of $21.1 million in the FY 2004 budget. The recommended FY 2004 language would allow the program to spend an additional $6.35 million above that amount, subject to Office of Management and Budget approval. This "off-budget" authorization is $100,000, or 1.6 percent higher than the current fiscal year authorization. This change in funding allows for an increase in fringe benefits and indirect costs.

The State Disability Insurance Plan program (also known as Temporary Disability Insurance or TDI)

Language Provisions (Cont'd)

provides direct, temporary cash benefits to workers to insure against loss of income due to non-occupational sickness or accident.

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-113	p. D-290
From the funds made available to the State under section 903(d)(4) of the Social Security Act (42 U.S.C. s.1103 et seq.), as amended, the sum of $37,000,000, or so much thereof 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 other technology improvements 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.	From the funds made available to the State under section 903(d)(4) of the Social Security Act (42 U.S.C s.1103 et seq.), as amended, the sum of $30,000,000, or so much thereof as may be necessary, is to be used for the improvement of services to unemployment insurance claimants through the improvement and modernization of the benefit payment system and other technology improvements and to employment service clients through the 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. s. 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 $30 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)

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-116	p. D-296
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.	Of the amount hereinabove for the Vocational Rehabilitation Services program classification, an amount not to exceed $14,422,000 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 increase of $1.4 million is a result of the department's initiative to raise, upon the passage of appropriate legislation, the penalties levied on employers who fail to comply with reporting requirements under the State's unemployment compensation law.

In FY 2003, $13 million was supported by the UCAF. In FY 2001 and FY 2002, $9.0 million was supported by the UCAF. Expenditures from the UCAF are expected to increase from $14.7 million in the current fiscal year to $18 million in FY 2004. The year-end balance for FY 2004 is projected at $747,000.

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-116	
From the amounts provided hereinabove for Cost of Living Adjustments - Sheltered Workshops, it is intended that these monies shall be used to fund, at a minimum, a 2.0% cost of living increase for direct service workers' salaries, effective July 1, 2002.	No comparable language.

Explanation

This language is discontinued as a result of the absence of FY 2004 funding for cost of living adjustments for grantees.

Language Provisions (Cont'd)

2003 Appropriations Handbook

p. B-116

The amount hereinabove for the John J. Heldrich Center represents a grants-in-aid appropriation to the New Jersey Redevelopment Authority pursuant to an agreement with the New Brunswick Development Corporation. The authority's investment shall be used to pay a portion of the costs associated with the acquisition, site preparation, design and construction of a Statewide workforce training center to be located in New Brunswick, New Jersey known as the Heldrich Center for Workforce Development at the Edward J. Bloustein School of Policy and Planning (the "Heldrich Center") and the infrastructure and site preparation costs associated with the redevelopment project. The authority's investment is subject to the terms and conditions set forth in an agreement between the authority and the New Brunswick Development Corporation. The agreement shall be subject to the approval of the State Treasurer who, upon such approval, shall report to the Joint Budget Oversight Committee on the terms and conditions of the agreement.

2004 Budget Recommendations

p. D-296

The amount hereinabove appropriated for the John J. Heldrich Center shall be reduced by the sum of funds received from the Economic Recovery Fund pursuant to a memorandum of understanding between the New Jersey Economic Development Authority and the New Jersey Redevelopment Authority. The funding represents a grants-in-aid appropriation to the New Jersey Redevelopment Authority pursuant to an agreement with the New Brunswick Development Corporation. The funds shall be used to pay a portion of the costs associated with the acquisition, site preparation, design and construction of a Statewide workforce training center to be located in New Brunswick, New Jersey known as the Heldrich Center for Workforce Development at the Edward J. Bloustein School of Policy and Planning (the "Heldrich Center") and the infrastructure and site preparation costs associated with the redevelopment project. The authority's investment is subject to the terms and conditions set forth in an agreement between the authority and the New Brunswick Development Corporation. The agreement shall be subject to the approval of the State Treasurer, who upon such approval, shall report to the Joint Budget Oversight Committee on the terms and conditions of the agreement.

Explanation

The John J. Heldrich Center for Workforce Development is a university-based organization which works towards transforming the workforce development system at local, State and federal levels. The Center is also a component of a major redevelopment project in New Brunswick. The Governor's Budget continues a $4 million appropriation for the Center. However, the FY 2004 budget proposes language that the Center receive funding from the Economic Recovery Fund (ERF) rather than from State resources. The ERF is held and administered by the New Jersey Economic Development Authority.

Discussion Points

1. The federal "Job Creation and Worker Assistance Act of 2002," (JCWAA) included 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 Unemployment Insurance (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 2004 budget request directs that $30 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." $37 million was appropriated in the FY 2003 budget from "Reed Act" funds for the same purpose, of which, according to the department's answer to an OLS question, $12.5 million was to be spent on improving the UI benefits payment system, $18 million on One-Stop Offices, and $6.5 million on unspecified purposes.

- *Questions:* a. Of the $37 million in Reed Act funds appropriated for FY 2003, how much is actually being spent on modernizing of the UI benefit payment system? To what extent does system modernization involve the use of consultants and contractors? Please identify both the nature of work or services and the amount to be spent. How much of the $30 million appropriation of Reed Act funds proposed for FY 2004 will be spent on modernizing the UI benefit payment system?
- b. How much of the $37 million for FY 2003 and the $30 million for FY 2004 will be spent on improvements to employment services? How much will be spent on retraining or upgrading of the skills of department personnel?
- c. If the department has plans for these projects beyond FY 2004, provide a schedule of the anticipated total expenditures on each component for each year, with the expected sources of funding.

2. 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 UI benefits. Two improvements for UI benefits were included in P.L. 2002, c.13. The first, an entirely State-funded 10-week extension of UI benefits, resulted in the payment of a total of $49.5 million in extended UI benefits to New Jersey workers during 2002, and is now expired. The second was the permanent elimination of the one-week period which laid off workers had been required to wait before receiving UI benefits. P.L. 2002, c.13. also reduced the reserve ratio which triggers the higher UI taxes of the "B" UI tax schedule from 4.5% to 3.5%, thereby keeping New Jersey employers in the "A" tax schedule, which has the lowest rates of UI taxes for employers.

- *Questions:* a. How many laid off workers received benefits as the result of the $49.5 million extension?
- b. How many laid off workers received additional UI benefits because of the elimination of the waiting week? How much did the total amount of UI benefit payments increase as a result?
- c. How much more would employers have paid in UI taxes in FY 2003 if the reserve ratio triggering the "B" UI tax schedule had not been reduced from 4.5% to 3.5%?

Discussion Points (Cont'd)

3. The FY 2004 budget (page B-5) includes a proposal to redirect $325 million in UI tax revenues from the UI trust fund to the Health Care Subsidy Fund (HCSF). This is in addition to $325 million in UI taxes diverted to the HCSF 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 the "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 20), the balance of the State's UI fund ($2.940 billion at the end of FY 2002) 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 budget, however includes an estimate (on page H-44) that the UI trust fund balance will fall to $1.844 billion by June 30, 2004. In recent years, the fund balance on March 31, the date used to calculate the reserve ratio to determine which tax schedule is used, has been more than $200 million lower than the fund balance on June 30, suggesting that the fund balance on March 31, 2004 will be less than $1.7 billion. If that occurs, it is likely that the "C" UI tax schedule, which imposes higher UI tax rates on employers than either the "A" or "B" schedules will take effect. It may be possible that the "D" schedule, with even higher tax rates, will be triggered.

- *Question:* If the proposed diversion of $325 million of UI tax revenues to the HCSF is carried out, what does the department project the UI fund balance to be on March 31, 2004 and on March 31, 2005 respectively? What UI tax schedule will be put into effect as a result? Please provide the actual "Unemployment Compensation Fund Reserve Rate Calculation" for FY 2002 and FY 2003 and estimates for FY 2004 and FY 2005, based on the assumption that the $325 million diversion will be enacted as proposed. Also provide the assumptions made regarding unemployment rates as the basis and the anticipated payment for those estimates.

4. In a press release from the Governor's office dated December 18, 2002, it was reported that the State's workforce development programs are to be consolidated under the Department of Labor. Specifically, these job training programs include the transfer of welfare-to-work training and adult literacy program to the Department of Labor, which are currently administered by the Department of Human Services and the Department of Education. The Governor's proposed FY 2004 budget does not appear to reflect any changes that would be expected to result from the proposed consolidation.

- *Questions:* Does the Administration intend to pursue its previously announced goal of merging workforce development programs under the Department of Labor? If so, on what timetable will this merger be implemented? In what specific ways will this merger improve clients' accessibility to training and the responsiveness of training to the markets' demand for employment skills? Does the department envision cost savings or cost increases to result from this merger?

5. The Governor's FY 2004 Budget assumes the lapse of $20 million from the Second Injury Fund (SIF) to the General Fund to boost the year-end surplus. The SIF, also known as the Special Compensation Fund, was established pursuant to R.S. 34:15-94 and provides workers' compensation benefits to totally and permanently disabled workers with prior, work-incurred disabilities. Revenue is provided for the SIF through an assessment on self-insured employers and workers' compensation insurers. The total amount of this assessment is required by statute to equal 125 percent of the amount estimated by the Commissioner of Labor as necessary to pay benefits and

Discussion Points (Cont'd)

any other costs from the fund in the following calendar year, minus any prior year-end net assets in the fund above $5 million. Thus, the fund is designed to maintain, through assessments and unexpended balances from the previous year, approximately 125 percent of what is needed to pay benefits and other costs in the next calendar year.

- *Question:* Please provide, on a calendar year basis for every year from 1999 to 2002: the total amount expended from the Second Injury Fund for benefits; the total amount expended for other costs, such as administration; the total amount of revenue from assessments; the total amount carried forward in the fund from the previous year; the total amount of other revenues in the fund (including transfers in); and the total amount of unexpended balances at the end of the calendar year.

6. The Workforce Development Partnership (WDP) Program provides training grants to disadvantaged and displaced workers, as well as to employers to provide training to their employees. The WDP program is funded by worker and employer payroll taxes on wages subject to unemployment insurance (UI) taxes. The proposed FY 2004 budget estimates that these payroll tax revenues, plus investment earnings, will generate approximately $97.6 million in FY 2004 (page H-26).

The proposed FY 2004 budget includes language (pages D-268 and D-279) transferring $62.4 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, $60.5 million, is for the Work First 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 $62.4 million transferred to DHS equals nearly two-thirds of the $97.6 million in WDP revenues estimated for FY 2004. In addition to the language noted above transferring $62.4 million from WDP to DHS, the FY 2004 budget also includes language (page D-296) allowing whatever amounts are needed "to provide a State match to the federal Welfare to Work Grant Program."

- *Questions:* a. For FY 2002, 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 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 2003 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 Work First 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 2003 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 $255.7 million transferred to DHS from FY 1995 to FY 2003 has thus far been expended on training services, how much on other services? How much more than the specified $62.4 million is expected by the department to be needed

Discussion Points (Cont'd)

to be transferred to provide the required State match to the federal Welfare to Work Grant Program in FY 2004?

7. The proposed budget appropriates $30 million from the State Disability Benefits Fund (SDBF) for transfer to the General Fund as revenue (page F-8). The SDBF is used by the State's Temporary Disability Insurance (TDI) program to provide partial wage replacement for workers who become disabled due to injury or illness unrelated to work and pay for the administration of the benefits.

- *Question:* Please provide all of the data regarding revenues, benefit and administrative expenditures, and the cash balance in the SDBF for each month in calendar year 2002 and as many months as possible for calendar year 2003.

  Please provide a month-by-month estimate of what impact the department expects the $30 million transfer of SDBF moneys to the General Fund will have on the cash and fund balances of the SDBF during FY 2004.

8. According to the FY 2004 budget (page D-288), the number of positions for the State Disability Insurance Plan program class will decrease from 173 in FY 2001 to 158 in FY 2004, a decline of 9.5 percent. For the same period of time, the actual number of filled positions under the Private Disability Insurance Plan, which regulates privately-operated TDI plans, is estimated to decline from 70 to 66 positions.

- *Question:* How will the expected decrease in filled positions affect the TDI claim processing? Please provide for calendar years 2001 and 2002 the time lapse claim distribution. What does the department estimate that the time lapse distribution and the average time to determine eligibility for a TDI claim will be in calendar years 2003 and 2004?

Background Paper: The Unemployment Insurance (UI) Trust Fund

Budget Pages.... D-289, D-290 and H-44

MAJOR CHANGES AFFECTING THE UNEMPLOYMENT INSURANCE SYSTEM IN FY 2004

There are two major fiscal proposals that would affect New Jersey's Unemployment Insurance (UI) trust fund during FY 2004: (1) the expenditure of $30 million from the fund to improve the administration of UI benefit payments and employment services; and (2) the redirection of $325 million from the UI trust fund to the Health Care Subsidy Fund (HCSF).

Normally, federal law prohibits the use of UI trust fund moneys for any purpose other than paying UI benefits to laid off workers. The $30 million budgeted for administrative purposes is permitted only because it is drawn from the $243 million that was deposited by the federal government into New Jersey's UI fund pursuant to the federal "Job Creation and Worker Assistance Act of 2002," (JCWAA). The $243 million is New Jersey's share of a one-time distribution under the JCWAA 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. The JCWAA also allows states to use the $8 billion to fund increased UI benefits.

The department's FY 2004 budget request directs that $30 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" (see page D-290). The $30 million proposed for FY 2004 is in addition to the $37 million appropriated in the FY 2003 budget from "Reed Act" funds for the same purpose.

The portion of the $243 million federal infusion into the UI fund remaining after the appropriation of the indicated $67 million over two years helps to offset the loss of $1.167 billion in UI revenues caused by the diversion of $325 million of UI taxes to the HCSF proposed for FY 2004 (see page B-5) and the diversion of $841.5 million of UI taxes to the HCSF pursuant to P.L.2002, c.29 during FY 2003 and the first six months of calendar year 2002. This is 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 the "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 below, the fund balance of the State's UI fund ($2.940 billion at the end of FY 2002) has been high enough for the last five years to keep employers in the "A" tax schedule, which provides the lowest UI tax rates for employers.

The $243 million Reed Act distribution and the shifting of $1.167 billion 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. According to the federal General Accounting Office, three states used Reed Act funds to pay existing, regular UI benefits and nine more states used those funds to enhance UI benefits.

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

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 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 $482 in 2003. The average New Jersey weekly benefit was $335 in 2003, second highest in the nation, but lower than 30 other states as a percentage of average wages.

During CY 2002, 605,409 New Jersey residents filed UI benefit claims, with a weekly average of 134,575 workers laid off from jobs in the State receiving benefits. The average New Jersey UI claim lasted 19 weeks, 2.5 weeks longer than the national average claim. During that period, 200,236 New Jersey claimants, 58 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 42 percent. That New Jersey benefit exhaustion rate reached its highest rate on record, and is the second highest rate in the nation. Only Texas has a higher rate. Benefits to workers laid off from jobs in the State totaled $2.9 billion in CY 2002.

Benefits are financed from taxes paid by employers and workers on the first $23,900 of each worker's annual wages in 2003, an amount adjusted annually to reflect changes in the AWW. During calendar year 2002, New Jersey employers paid 0.9 percent of total payroll for UI taxes, 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 $23,500 or more in 2002 paid $100 in taxes for the UI and health care and workforce development funds. Employers paid an average of $315 per covered employee for those taxes.

What follows is a description of major changes in the 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

From the beginning of the 1970s until the mid-1990's, there was an overall decline in the degree to which New Jersey's system of regular and extended UI benefits 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 workers receiving benefits had fallen to only 39 percent. Since then, the share of laid-off workers receiving UI benefits recovered significantly, rising to 72 percent by 2002.

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, 1993 and 2002), 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

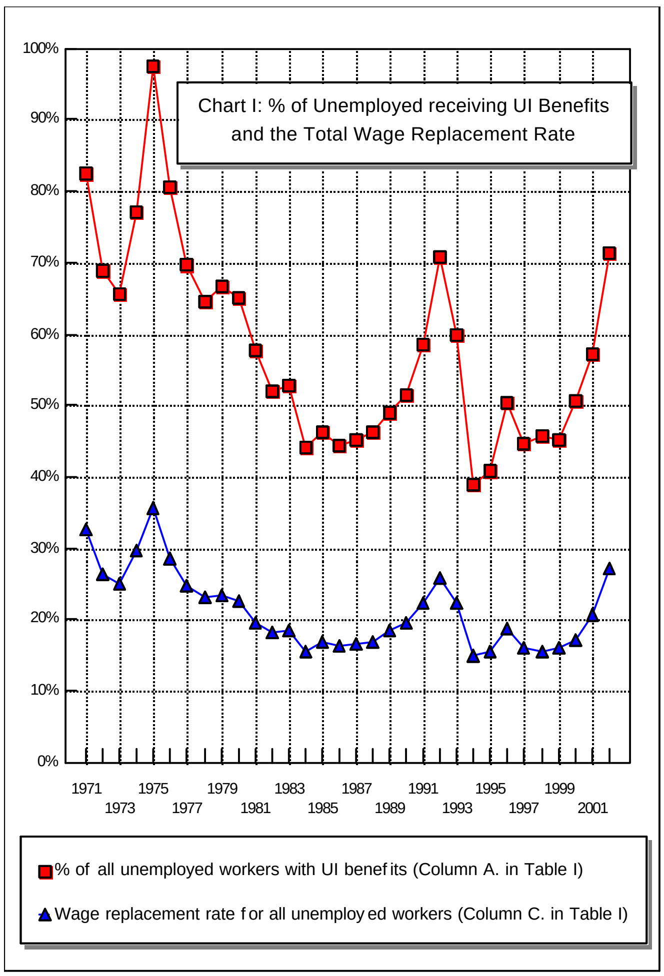
Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)

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 2002. 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. The wage replacement rate declined from a peak of 36 percent in 1975 to a low of 15 percent in 1994, since rising to 28 per cent in 2002 (see Table I and Chart I).

CAUSES OF THE DECLINE IN UI BENEFIT COVERAGE

The declining percentage of unemployed workers receiving UI benefits was caused by national and State changes making it harder for laid-off workers to obtain UI benefits and shortening benefit duration. This included changes in the federal UI law in 1981 (Pub.L.97-35) making it harder for a state to qualify 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 ever since 1983. The State "emergency" UI benefits provided 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 in May 2003, and provide a maximum of 13 weeks of benefits, much less than the maximum 33 weeks of federal extended benefits in the early 1990's and 39 weeks in the mid-1970's.



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 overhaul their UI programs, most often 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 stricter

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, either entirely federally-funded or entirely State-funded, are of varying lengths and enacted on a, temporary, ad hoc basis. No extended benefits have been provided since 1983. Beyond the time period covered in Table I and Chart I, no State emergency benefits are currently being provided and the federal emergency now in effect will expire in May, 2003.

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%	33.8%	15.5%
1999	84,878				84,878	187,850	45.2%	35.3%	15.9%
2000	78,470				78,470	154,803	50.7%	34.0%	17.2%
2001	100,436				100,436	176,013	57.1%	36.5%	20.8%
2002	127,068	3,082		48,055	178,204	248,620	71.7%	38.4%	27.5%

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.

provisions disqualifying claimants for various misbehaviors, contributed to a continuing decline of wage replacement rates, which reached a low 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.

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

RECENT REFORMS TO ALLEVIATE DECLINING UI BENEFIT COVERAGE

Measures were taken during the last ten years, however, to mitigate the reduced wage replacement rates. Largest in scale were federal "emergency" UI programs, providing laid off New Jersey workers with $2.1 billion in extended benefits in 1992 and 1993, and $786 million in 2002, at no cost to the State. Smaller State-funded temporary emergency programs in 1991, 1996 and 2002 provided another $396 million in UI benefits. This $3.2 billion in extended benefits represents a substantial share of the $19.3 billion total UI benefits paid from 1991 to 2002, but, because of their "one shot" nature, their effect has been temporary and unpredictable.

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 base 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. Most recently, P.L.2002, c.13 eliminated the one-week waiting period for regular UI benefits.

Although the increase in UI benefits from these initiatives has not exceeded $100 million per year, they, together with the emergency extensions, 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 of a $570 million deficit in 1977, forcing the State to borrow from the federal government to pay benefits. Despite the record high $2.1 billion in UI benefits paid from the UI trust fund in CY 2002, combined with a diversion of $517 million, the UI fund had a cash balance of $2.3 billion, high enough to keep in effect the "A" UI tax schedule, which provides employers with the lowest UI tax rates.

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

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 (employers are 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.

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by 1986. The 1984 changes also eventually resulted in the indicated $3.1 billion balance in 2001, even while more than $3.6 billion in revenues were shifted from UI taxes into payroll taxes supporting the Health Care Subsidy Fund (HCSF) from 1992 to 2002.

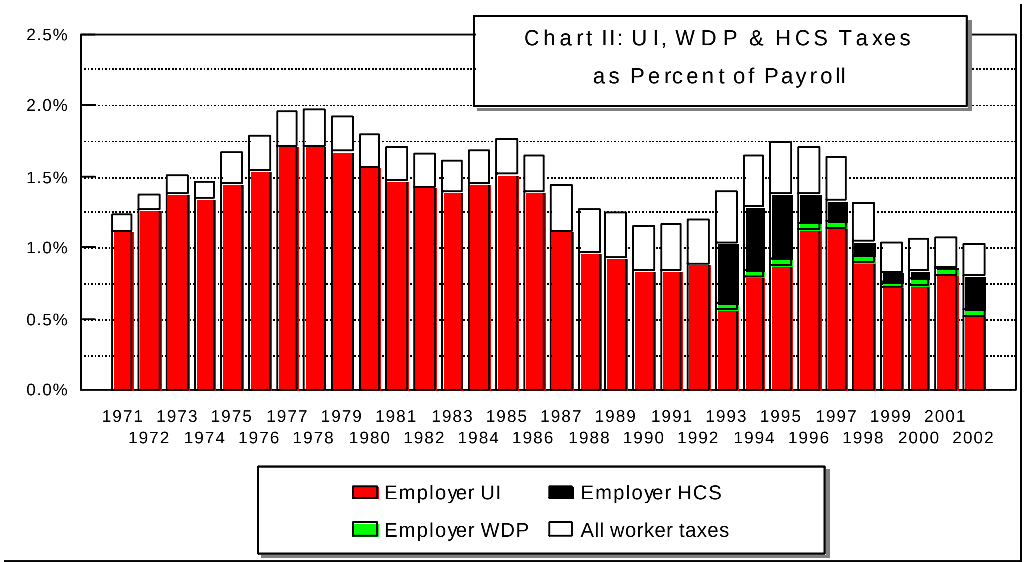

Chart II and Table II show the amounts paid by employers and workers for UI, HCSF and Workforce Development Partnership (WDP) taxes. The HCSF tax, which was $600 million in 1992 and $500 million each year in 1993 and 1994, was being steadily decreased in the following years, declining to $95 million in 2001. That pattern, however, was reversed by P.L.2002, c.13, which increased the HCSF tax for 2002 and the first half of 2003 from $67 million to $842 million.

The shift of payroll tax revenues from UI taxes to HCSF 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 HCSF taxes reduces the amount of UI taxes paid, reducing an employer's reserve ratio and leading to higher UI tax rates.

Notwithstanding this shift of tax revenue, the level of solvency of New Jersey's UI trust fund is now 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) of 1.63 percent at the end of 2002, compared to the national average of 0.98

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

	U I taxes in millions			WDP taxes in millions			HCS 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
2002	$762.4	$146.9	$909.3	$66.9	$20.0	$86.8	$368.5	$148.0	$516.5	$1,197.7	$314.9	$1,512.6
Total	$10,173.1	$1,941.8	$12,114.9	$496.1	$151.9	$647.9	$2,289.6	$1,282.3	$3,571.9	$12,958.7	$3,376.0	$16,334.7

Source: New Jersey Department of Labor: "Annual Statistical Review," various years and information from NJDOL regarding WDP and HCS taxes. Employer UI taxes exclude the taxes of "reimbursable" public employers that do not pay into the UI trust fund. For 1993-2002, worker taxes include excess collections of HCS tax returned to the UI trust fund, because the returned excess collections were not attributed to employer accounts. 2002 numbers are estimates.

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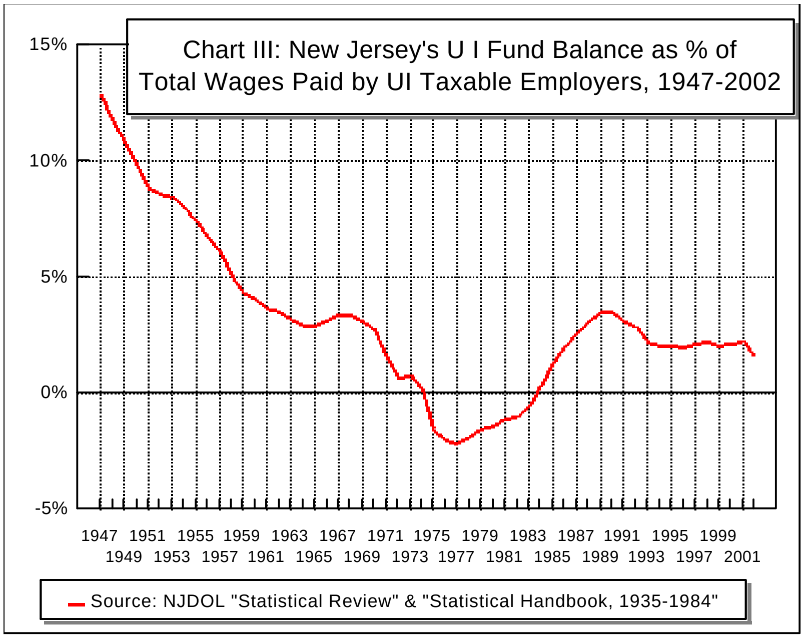

percent. New Jersey's high cost multiple (the reserve ratio adjusted for the difference between current UI benefits and their historic high) was 0.49 percent, which is higher than the national rate of 0.44 percent. Even if all UI tax collections stopped, New Jersey would be able to pay 13 months worth of benefits from its UI fund balance.

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 0.44 percent, was always greater than 1.0 percent before 1974. The national average reserve ratio, now 0.98 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 Chart 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.

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 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 at least

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 the "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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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 the Health Care Subsidy Fund 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.

through FY 2003. 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 more than twice as high as it actually was in 2002, requiring a UI trust fund balance in 2002 of $6.1 billion. Employer UI taxes for 2002 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 two steps during 1997 and 1998, reduced the combined UI/HCSF 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. Consequently, worker taxes have been reduced more than $100 million per year, a reduction of up to $48 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.

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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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