

ANALYSIS OF THE NEW JERSEY
FISCAL YEAR 1998 - 1999 BUDGET



DEPARTMENT OF LABOR

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

APRIL 1998

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF LABOR

Budget Pages..... C-10, C-19, C-26, D-195 to D-207,
E-28, I-19, K-24, K-27, K-36, K-38

Fiscal Summary (\$000)

	Expended FY 1997	Adjusted. Appropriation FY 1998	Recommended FY 1999	Percent Change 1998-99
State Budgeted	\$84,599	\$74,545	\$74,608	0.1%
Federal Funds	290,753	329,235	333,552	1.3%
<u>Other</u>	<u>111,645</u>	<u>104,102</u>	<u>104,141</u>	<u>0.0%</u>
Grand Total	\$486,997	\$507,882	\$512,301	0.9%

Personnel Summary - Positions By Funding Source

	Actual FY 1997	Revised FY 1998	Funded FY 1999	Percent Change 1998-99
State	645	626	707	12.9%
Federal	2,946	2,983	3,350	12.3%
<u>Other</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>0.0%</u>
Total Positions	3,598	3,616	4,064	12.4%

FY 1997 and revised FY 1998 personnel data reflect actual payroll counts. FY 1999 data reflect the number of positions funded.

Introduction

The Department of Labor is responsible for administering programs that provide or oversee safe and equitable conditions for workers and the public; economic assistance for the unemployed and temporarily disabled; the adjudication of disability claims under the State's workers' compensation/special compensation statutes and the Social Security Act; vocational rehabilitation of persons with physical or mental disabilities; job placement services for the unemployed; job training for employed, underemployed and displaced workers; labor relations; and labor market planning and research.

Key Points

- ! Most of the department's programs are supported by federal (65 percent) and dedicated (29 percent) State and Other funds.

Key Points

- ! The Governor's FY 1999 Budget proposes the transfer of the department's Wage and Reporting functions to the Department of Treasury's Division of Revenue. Revenue collection and processing functions related to Unemployment Insurance, Temporary Disability, Workers' Compensation, and Special Compensation will be transferred. According to the Budget in Brief, the purpose of the transfer is to streamline reporting requirements and tax collection for businesses, and reduce duplication. \$1.5 million in State funds will be transferred to Treasury under this shift.
- ! The Governor's Budget proposes transferring several workplace safety programs, including the department's inspection activities for ski lifts, asbestos, boilers, liquefied petroleum gas, and carnival rides from the Division of Workplace Standards to the Department of Community Affairs (DCA). A sum of \$779,000 will be shifted from the Department of Labor to DCA as a result of this proposal. According to the Budget in Brief, the purpose of this shift is to coordinate inspection programs within DCA and thus create a more efficient system.
- ! The recommended Direct State Services appropriation for the administration of the Workforce Development Partnership Program (WDPP) is \$6.6 million, unchanged from the FY 1998 adjusted level. WDPP, which was made permanent in 1996 pursuant to P.L. 1995, c. 422, provides workforce training grants to disadvantaged and displaced workers and to employers. The program is fully funded through employer and employee payroll tax contributions which generate in excess of \$60 million annually.
- ! Proposed language in the Governor's Budget (page E-24) recommends the transfer of \$33.4 million from the Workforce Development Partnership Fund (page K-27) to the Work First New Jersey program in the Department of Human Services for "training and work activities" related to the Governor's welfare reform initiatives. Of this amount, \$25.4 million is in excess of the 11.5 percent statutory maximum which may be allocated to "disadvantaged" workers pursuant to P.L. 1992, c.43 (C.34:15D-1 et seq.). In FY 1998, similar language authorized the use of \$32.0 million from the Workforce Development Partnership Fund for the same purposes.
- ! Proposed budget language (page D-207) recommends an increase in spending of up to \$10 million from the Workforce Development Partnership Fund for the Customized Training program. This amount is in addition to the approximately \$24 million allocated to Customized Training pursuant to the statutory requirements under P.L. 1992, c.43 (C.34:15D-1 et seq.). This program provides training grants to businesses to enhance the creation and retention of "high wage, high skill" jobs.
- ! The Budget Recommendation indicates that federal funds are expected to remain relatively flat at \$333.5 million in FY 1999, up 1.3 percent over the current adjusted appropriation of \$329.2 million. Divisions anticipating increases in federal aid include Employment and Training Services (\$3.0 million or 2.9 percent); Disability Determination (\$2.2 million or 5.9 percent); Unemployment Insurance (\$1.2 million or 1.4 percent); Vocational Rehabilitation Services (\$670,000 or 1.5 percent); Planning and Research (\$520,000 or 7.5 percent); and Workplace Standards (\$144,000 or 9.6 percent). These increases are offset by reductions in federal assistance for the Division of Employment Services (\$3.5 million or 8.5 percent).

Key Points

- ! The Unemployment Compensation Auxiliary Fund (UCAF), which derives revenues from fines and penalties imposed on employers for violations of insurance regulations, is projected to have a positive fund balance of \$5.0 million by the end of the current year. This amount is in contrast to the fund balance of \$44,000 projected in the FY 1998 Budget Recommendation, and is due, in part, to an upward revision of fund revenues from \$14.5 million to \$16.5 million in the current year. The Governor's Budget further projects a \$10.3 million fund balance by the end of FY 1999, assuming slightly higher revenue collections of \$17.0 million during FY 1999.
- ! The Governor's Budget recommends language that would appropriate "such amounts as may be necessary" from the Unemployment Compensation Auxiliary Fund (UCAF) to implement technology improvements in the Workplace Standards program (page D-200), and to administer the Unemployment Insurance program (page D-203). These appropriations are not reflected in the FY 1999 estimated UCAF fund balance. However, the Budget also recommends continued appropriations from the fund to support Planning and Research, Vocational Rehabilitation (both DSS and GIA) and Private Sector Labor Relations. These appropriations are reflected in the FY 1999 estimated UCAF fund balance.
- ! The Budget Recommendation anticipates that the Unemployment Compensation Fund will have a \$2.99 billion balance at the end of FY 1999, a \$38.7 million (1.3 percent) increase over the FY 1998 estimated balance of \$2.95 billion. These fund balances take into account the a shift of \$201.7 million and \$250 million, in FY 1998 and FY 1999 respectively, to the Health Care Subsidy Fund for charity care in lieu of payments to the Unemployment Compensation Fund, pursuant to P.L. 1997, c.263.
- ! The Governor's Budget recommends funding for 4,064 positions, 17% (707 positions) of which are State funded. The position data for FY 1998 indicates that the total number of positions on the payroll as of mid-October, 1997 was 3,616, of which 17% (626 positions) were State funded .
- ! Proposed Grants-In-Aid funding for the Sheltered Workshop Program includes a cost of living adjustment of \$94,000 (2 percent) for sheltered workshop providers in FY 1999, as well as \$118,000 to fully fund a cost of living adjustment initiated in the current fiscal year. Sheltered workshops provide long-term employment and rehabilitation services to severely disabled individuals who can not be placed in open competitive employment. In addition, Grants-In-Aid funding for Services to Clients (state share) is proposed to increase by \$200,000 to \$3.8 million in FY 1999 (a 5.4 percent increase).
- ! The recommended appropriation of \$2.4 million from Casino Revenue Funds/Grants-In-Aid for the Sheltered Workshop Transportation program is unchanged from the FY 1998 adjusted appropriation.
- ! Funding for the Public Employee Relations Commission (PERC) remains level at \$2.7 million under the Governor's Budget. PERC is an independent agency within the Department of Labor which resolves disputes between public employees and their employers.
- ! Of \$12.1 million in anticipated savings for the Inter-departmental Accounts, \$2 million is anticipated in savings from the elimination of Sick Leave Injury benefits provided pursuant to N.J.S.A. 11A:6-8. The Sick Leave Injury program provides up to one year

Key Points

of leave with full pay, plus payment for medical expenses, to state employees with work related injuries. The proposed elimination of Sick Leave Injury benefits may impact on the amount of benefits paid through the Workers' Compensation program.

Background Paper:

Funding for the Vocational Rehabilitation Services' Sheltered Workshop Program p. 24

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

Most of the department's programs are financed by federal, trust or special revenue funds dedicated to the department by statute or budget language for specific purposes. In FY 1999 for example, 85.8 percent, or \$45.9 million, of the department's Direct State Service appropriation of \$53.5 million will be derived from trust and special revenue funds. In addition, \$8.7 million of the recommended Grants-In-Aid appropriation of \$18.6 million for Vocational Rehabilitation Services will be financed through the Unemployment Compensation Auxiliary Fund, a special revenue fund supported by penalties and interest imposed upon employers for violations of unemployment insurance regulations. The Casino Revenue Fund is also recommended to provide \$2.4 million to support Vocational Rehabilitation Services Sheltered Workshop Transportation program. Overall, of the \$74.6 million in State budgeted appropriations recommended for FY 1999, \$57.1 million, or 76.6 percent, will be derived from trust and special revenue sources.

The largest part of the department's FY 1999 budget is comprised of \$437.7 million in federal and other dedicated revenues appropriated "off-budget" or "below the line." The recommended federal appropriation of \$333.6 million will provide most of the department's budget support for unemployment insurance, disability determination, job training and employment services operations, while \$104.1 million from "All 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 revenue from the workplace standards program, which enforces the State's wage and hour laws and provides for on-site safety inspections of certain public and occupational premises, is also included in this funding category and, like the other revenue sources cited, is used for program support.

Thus, of the department's total FY 1999 recommended appropriation of \$512.3 million, only 3.5 percent, or \$17.5 million, is supported by General Fund resources.

In addition to these sums, the department administers more than \$2.7 billion in benefit payments which are not included as part of the department's appropriation. During the current budget year, for example, the department will administer \$1.1 billion in unemployment insurance benefits, \$319 million in temporary disability benefits, and \$1.3 billion in federal Social Security disability payments. The department also has a role in adjudicating disputes for the workers' compensation system, in which more than \$560 million is paid to workers by employers and insurers.

Summary of the FY 1999 Recommended Budget

The department's recommended FY 1999 total appropriation of \$512.3 million represents a slight increase of \$4.4 million (less than one percent), over the FY 1998 adjusted appropriation of \$507.9 million. While the recommended Direct State Services appropriation of \$53.5 million is decreased slightly from the current adjusted appropriation of \$53.9 million,

Program Description and Overview

total recommended State funding of \$74.6 million for FY 1999 (including Grants-in-Aid and Casino Revenue Fund appropriations) is nearly flat relative to the current year.

Two major recommendations in the Governor's Budget concern the Workforce Development Partnership (WDP) Program. Established in 1992, and made permanent in 1996 pursuant to P.L. 1995, c. 422, the WDP program was intended to provide a stable source of funding for training grants to disadvantaged and displaced workers and to employers. The program is fully funded through employer and employee payroll tax contributions, which are anticipated to generate \$66 million in revenue in FY 1999, and which are in lieu of worker and employee contributions to the Unemployment Compensation Fund. These annual tax revenues are required by statute to be allocated, proportionally, to specific components of the WDP program.

Notwithstanding these statutory requirements, for the second consecutive year, the Governor's FY 1999 Budget recommends that approximately half of all expected program revenues, or \$33.4 million in FY 1999, be transferred from the WDP program in the Department of Labor to the Department of Human Services. The purpose of the transfer is to provide employment training services to welfare recipients through the Work First New Jersey program, the Governor's welfare reform initiative.

The second major recommendation regarding the Workforce Development Partnership (WDP) Fund concerns a proposed \$10 million increase in expenditures from the fund for customized training grants. Pursuant to P.L. 1992, c. 42, 45 percent of annual WDP revenues are statutorily dedicated to customized training grants. Customized training grants are provided to businesses to assist in the creation and retention of "high skill, high wage" jobs. As per the statutory requirement, of the \$66 million in WDP revenues anticipated in FY 1999, approximately \$29 million must be allocated for customized training. In addition to this statutory allocation, proposed language in the Governor's Budget would allocate up to an additional \$10 million for customized training grants. However, data provided by the department during the last budget cycle indicated that the amount actually expended on customized training has been below the amount allocated in every year that the WDP program has been in operation. The Governor's recommendation indicates that the recommended additional funding is needed to "fully fund" this program.

The Governor's Budget proposes consolidations which would shift staff and programs from three areas currently within the Department of Labor to other State departments. Wage and Reporting functions would be shifted to the Department of the Treasury. Specifically, the revenue collection and processing functions related to Unemployment Insurance, Temporary Disability, Workers' Compensation and Special Compensation would be transferred. The Administration's stated goal is to streamline business' reporting requirements and create a central point for all tax collections. In addition, the Budget proposes transferring the department's safety inspection activities for ski lifts, asbestos, boilers, petroleum gas, and carnival rides to the Department of Community Affairs. These functions would be consolidated with inspection programs currently located in the Department of Community Affairs. Finally, two research economists presently located in the Department of Labor would move to the Department of the Treasury. In all, the Office of Management and Budget anticipates shifting more than \$2.2 million out of the department as a result of these consolidations.

The Governor's Budget further recommends Grants-In-Aid funding of \$18.6 million for Vocational Rehabilitation Services, an increase of \$412,000, or 2.3 percent, over the FY 1998

Program Description and Overview

adjusted appropriation of \$18.2 million. Vocational Rehabilitation programs provide rehabilitative and employment skills training to individuals with physical and mental disabilities who would otherwise be unable to secure or maintain employment or live independently. The proposed increase for Vocational Rehabilitation includes an additional \$200,000 for the basic Vocational Rehabilitation program, which the department estimates will allow an additional 43 clients to be served. The remaining \$212,000 represents a cost of living increase for community providers of sheltered workshop programs in FY 1999 and full funding of a COLA initiated in FY 1998 for these providers. (Sheltered workshops offer long-term training and rehabilitation services to individuals with disabilities who might otherwise be confined to their homes or institutions.) Even with the proposed COLA, the department indicates that fees paid to provider agencies will only cover 82.1 percent of the per-client cost incurred by these providers in FY 1999. (For additional information on the funding of the Sheltered workshop program see the Background Paper on page 24).

Federal Funds

The Governor's Budget Recommendation anticipates that federal resources, which currently provide 65 percent of the department's budget, are expected to increase by \$4.3 million (1.3 percent) to \$333.5 million in FY 1999 from the current adjusted appropriation level of \$329.2 million.

Divisions anticipating increases in federal aid include: Employment and Training Services (\$3.0 million or 2.9 percent); Disability Determination (\$2.2 million or 5.9 percent); Unemployment Insurance (\$1.2 million or 1.4 percent); Vocational Rehabilitation Services (\$670,000 or 1.5 percent); Planning and Research (\$520,000 or 7.5 percent); and Workplace Standards (\$144,000 or 9.6 percent). These increases are offset by reductions in federal assistance within the Division of Employment Services (\$3.5 million or 8.5 percent). The Division of Employment Services reduction consists of reductions in aid for the Trade Adjustment Assistance Project and the One Stop Shopping program, offset by increased funds for veterans services and the Work Opportunity Tax Credit.

Most of the distributions in federal aid are formula based, and these anticipated changes reflect changes in caseloads.

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Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS (\$000)

	Expended FY 1997	Adj. Approp. FY 1998	Recom. FY 1999	Percent Change	
				1997-99	1998-99
General Fund					
Direct State Services	\$65,498	\$53,883	\$53,534	-18.3%	-0.6%
Grants - In - Aid	16,661	18,222	18,634	11.8%	2.3%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	0	0	0	0.0%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	\$82,159	\$72,105	\$72,168	-12.2%	0.1%
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	\$84,599	\$74,545	\$74,608	-11.8%	0.1%
Federal Funds	\$290,753	\$329,235	\$333,552	14.7%	1.3%
Other Funds	\$111,645	\$104,102	\$104,141	-6.7%	0.0%
Grand Total	\$486,997	\$507,882	\$512,301	5.2%	0.9%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 1997	Revised FY 1998	Funded FY 1999	Percent Change	
				1997-99	1998-99
State	645	626	707	9.6%	12.9%
Federal	2,946	2,983	3,350	13.7%	12.3%
All Other	7	7	7	0.0%	0.0%
Total Positions	3,598	3,616	4,064	13.0%	12.4%

FY 1997 and revised FY 1998 personnel data reflect actual payroll counts. FY 1999 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	33.7%	33.1%	33.0%	----	----
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Significant Changes/New Programs (\$000)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 1998</u>	<u>Recom.</u> <u>FY 1999</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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ECONOMIC PLANNING AND DEVELOPMENT**DIRECT STATE SERVICES**

Salaries and Wages	\$449	\$331	(\$118)	(26.3)%	D-197
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The Governor's Budget reduces State funding for the Divisions of Planning and Research and Management and Administration by \$118,000. According to the department, these reductions will be offset by an increase in federal funding and will not have any impact on the number of staff. Position data in the proposed Budget (page D197) shows 40 State funded positions in FY 1999, compared with the FY 1998 payroll count of 39. Federally funded positions total 470 in FY 1999, compared with the FY 1998 payroll count of 419. Appropriations for Research and Planning, and Management and Administration cover Labor Market and Demographic Research; the Division of Program Planning, Analysis and Evaluation; the Office of the Commissioner; the Office of the Internal Audit; the Division of Administrative Services; and all accounting and budgeting functions for the department.

ECONOMIC REGULATION**FEDERAL FUNDS**

Workplace Standards	\$1,488	\$1,632	\$144	9.7%	D-200
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Within the Division of Workplace Standards, the Budget Recommendation reflects a 10.4 percent increase in federal funds (from \$1.38 million to \$1.52 million) for the provision of on-site occupational health and safety consultation services to employers by agreement with the Federal Occupational Safety and Health Administration.

MANPOWER AND EMPLOYMENT SERVICES**ALL OTHER FUNDS**

Public Sector Labor Relations	\$0	\$42	\$42	—	D-206
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This recommended increase reflects the amount that the department anticipates it will collect in interest arbitration and appeal filing fees through the Public Employment Relations Commission (PERC). PERC is an independent agency within the Department of Labor that resolves disputes between public employees and their employers. N.J.S.A. 34:13A-6 authorizes PERC to establish a fee structure to cover the cost of effectuating its provisions. Regulations have established this fee schedule for the processing of petitions to initiate interest arbitration proceedings and for the processing of appeals of interest arbitration awards. In the current fiscal year, \$24,000 has been realized from this revenue source.

Significant Changes/New Programs (\$000)

<u>Budget Item</u>	<u>Adj. Approp. FY 1998</u>	<u>Recom. FY 1999</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
GRANTS-IN-AID					
Cost of Living Adjustment - Sheltered Workshops	\$0	\$94	\$94	—	E-28
Deferred Cost of Living Adjustment - Sheltered Workshops	\$0	\$118	\$118	—	E-28

These recommended appropriations provide for a cost of living adjustment (COLA) of approximately two percent for providers of sheltered workshop services.

Pursuant to P.L. 1971, c.272 (N.J.S.A. 34:16 et seq.), the Division of Vocational Rehabilitation Services contracts with private and public non-profit agencies which operate "extended employment" programs for individuals with severe disabilities. Known as sheltered workshops, these programs offer long-term training and rehabilitation services to individuals with disabilities who cannot sustain or achieve competitive employment in their communities, and who might otherwise be confined to their homes or institutions. Extended employment programs provided by sheltered workshops are State funded.

Language Provisions

1998 Appropriations Handbook

1999 Budget Recommendations

B-132

Notwithstanding the provisions of the "1992 New Jersey Employment and Workforce Development Act," P.L. 1992, c.43 (C.34:15D-1 et seq.), in addition to the amounts hereinabove appropriated for Planning and Research, there shall be made available from the Workforce Development Partnership Fund an amount of \$168,000 to fund planning and research activities related to the Workforce Development Partnership program, subject to the approval of the Director of the Division of Budget and Accounting.

No comparable language.

Explanation

The current language appropriates \$168,000 from the Workforce Development Partnership (WDP) Fund to the Division of Research and Planning to reimburse the division for services provided to the WDP program. WDP funds supplanted an equivalent reduction in State funds to the division in the current year. According to the Office of Management and Budget, this language is recommended to be eliminated since, pursuant to the "1992 New Jersey Employment and Workforce Development Act," P.L. 1992, c.43 (C.34:15D-1 et seq.), the Department of Labor already has the authority to appropriate (up to 10 percent) of annual WDP revenues for administration of the WDP program.

The WDP program, which was made permanent in 1996 pursuant to P.L. 1995, c. 422, provides workforce training grants to disadvantaged and displaced workers and to employers. The program is fully funded through employer and employee payroll tax contributions.



Language Provisions

1998 Appropriations Handbook

No comparable language.

1999 Budget Recommendations

D-200

Notwithstanding the provisions of the Unemployment Compensation Law (R.S. 43:21-1 et seq.) such amounts as may be necessary to implement technology improvements in the Workplace Standards program are appropriated from the Unemployment Compensation Auxiliary Fund, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language would allow an unspecified amount of moneys to be appropriated from the Unemployment Compensation Auxiliary Fund (UCAF) to the Workplace Standards program. According to the department, these moneys will be utilized to automate processes within the Workplace Standards program that are currently performed manually. The Office of Management and Budget indicates that the cost of these improvements has not yet been determined, and are thus not reflected in the FY 1999 estimated UCAF fund balance of \$10.3 million (Budget page K-24).

Pursuant to N.J.S.A. 43:21-14 (g), UCAF funds are to be utilized for defraying the cost of administration of the unemployment compensation program and for "...essential and necessary expenditures in connection with programs designed to stimulate employment..." The Workplace Standards program, however, is primarily engaged in the inspection of certain premises, contents and working conditions.



Language Provisions

1998 Appropriations Handbook

No comparable language.

1999 Budget Recommendations

D-203

Such sums as may be necessary to administer the Unemployment Insurance program are appropriated from the Unemployment Compensation Auxiliary Fund, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

According to the Office of Management and Budget (OMB), this language provides for the appropriation of an unspecified amount of funds from the Unemployment Compensation Auxiliary Fund to the Unemployment Insurance program to compensate for costs associated with P.L. 1997, c.255 (C.43:21-3 et al.), which eliminated charges against unemployment insurance accounts of employers who do not lay off claimants, as well as costs associated with adjusting computers for the Year 2000 problem. Although neither the department nor the OMB is able to specify how much would be shifted from the UCAF pursuant to the proposed language, the department previously estimated costs (see Fiscal Note to Assembly Committee Substitute for Assembly Bill No. 1971 of 1997) associated with P.L. 1997, c. 255 to be approximately \$1.2 million annually as a result of an increase in associated nonmonetary workloads which would require the hiring of 24 additional claims examiners. At the time of the department's estimate, however, the OLS noted that, according to the U.S. Department of Labor, such administrative expenditures would be reimbursable with federal funds, an assessment with which the OMB previously concurred. Any effect of the proposed language is not reflected in the FY 1999 estimated UCAF fund balance of \$10.3 million (Budget page K-24).

The UCAF is supported by penalties and interest imposed upon employers for violations of unemployment insurance regulations. Pursuant to N.J.S.A. 43:21-14 (g), UCAF funds are to be utilized for defraying the cost of administration of the unemployment compensation program, and for "...essential and necessary expenditures in connection with programs designed to stimulate employment..." UCAF funds are currently appropriated to support Planning and Research, Vocational Rehabilitation (both DSS and GIA) and Private Sector Labor Relations.

Language Provisions

1998 Appropriations Handbook

No comparable language.

1999 Budget Recommendations

D-203

The Director of the Division of Budget and Accounting is hereby authorized to transfer such sums as are necessary between the Department of Labor and the Department of Treasury for the administration of revenue collection and processing functions related to the Unemployment Insurance, Temporary Disability Insurance, Workers Compensation, and Special Compensation programs.

Explanation

This language is recommended to effectuate a proposal within the FY 1999 recommended Budget to transfer the department's Wage and Reporting functions to the Department of the Treasury. Specifically, the revenue collection and processing functions related to Unemployment Insurance, Temporary Disability, Workers' Compensation and Special Compensation will be transferred. As stated in the Budget in Brief, this shift will create "a central collection point for all tax collections, including corporate business taxes." The Office of Management and Budget estimates that approximately \$1.5 million would be transferred to Treasury under the proposed language.



Language Provisions

1998 Appropriations Handbook

No comparable language.

1999 Budget Recommendations

D-207

Notwithstanding the provisions of the "New Jersey Employment and Workforce Development Act" (P.L. 1992, c.44), the Commissioner of the Department of Labor, in consultation with the Director of the Division of Budget and Accounting, shall allocate an additional amount, not to exceed \$10 million, from the balance in the fund to adequately fund the Customized Training program.

Explanation

This language permits an additional amount, not to exceed \$10 million, to be appropriated for Customized Training grants from the unexpended balances of the Workforce Development Partnership (WDP) Fund. Pursuant to P.L. 1992, c. 42 (C.34:15D-1 et seq.), the "1992 New Jersey Employment and Workforce Development Act," 45 percent of annual WDP revenues (which are funded through employer and employee payroll tax contributions) are statutorily dedicated for the customized training grant program which provides grants to businesses to enhance the creation and retention of "high skill, high wage" jobs. Of the \$65 million in WDP revenues anticipated in FY 1999, approximately \$29 million is statutorily allocated for customized training. The proposed language recommends exceeding the statutory allocation for customized training by up to \$10 million.



Language Provisions

1998 Appropriations Handbook

1999 Budget Recommendations

B-138

Pursuant to the provisions of the "1992 New Jersey Employment and Workforce Development Act", P.L. 1992, c.43 (C.34:15D-1 et seq.), funds shall be made available to the Department of Labor and the State Employment and Training Commission, subject to the approval of the Director of the Division of Budget and Accounting.

No comparable language.

Explanation

The current language allows appropriations to be made from the Workforce Development Partnership (WDP) Fund to the department and to the State Employment and Training Commission for reimbursement of expenditures related to the administration of the Workforce Development Partnership Program. According to the Office of Management and Budget, this language is recommended to be eliminated since, pursuant to the "1992 New Jersey Employment and Workforce Development Act," P.L. 1992, c.43 (C.34:15D-1 et seq.), the Department of Labor already has the authority to appropriate up to 10 percent of annual WDP revenues for administration of the WDP program.

The WDP program, which was made permanent in 1996 pursuant to P.L. 1995, c. 422, provides workforce training grants to disadvantaged and displaced workers and to employers. The program is fully funded through employer and employee payroll tax contributions.



Language Provisions

1998 Appropriations Handbook

C-26

Of the amount hereinabove for the Vocational Rehabilitation Services program classification, an amount not to exceed \$8,535,602 is appropriated from the Unemployment Compensation Auxiliary Fund.

1999 Budget Recommendations

E-28

Of the amount hereinabove for the Vocational Rehabilitation Services program classification, an amount not to exceed \$8,715,602 is appropriated from the Unemployment Compensation Auxiliary Fund.

Explanation

As in prior years, the proposed language provides for funding of the recommended Grants-In-Aid (GIA) appropriation for the Vocational Rehabilitation Services program from the Unemployment Compensation Auxiliary Fund (UCAF), which is supported by penalties and interest imposed upon employers for violations of unemployment insurance regulations. The full GIA appropriation to which the proposed language appropriates funds is recommended to increase from \$18.2 million to \$18.6 million in FY 1999.

Vocational Rehabilitation programs deliver rehabilitation services to individuals with physical and mental disabilities who would otherwise be unable to secure or maintain employment or live independently.



Discussion Points

1. The Workforce Development Partnership (WDP) program, created pursuant to P.L. 1992, c.42 and 43, (C.34:15D-1 et seq.) is funded by a payroll tax paid by workers and employers on wages subject to unemployment insurance taxes. These payroll tax contributions, which the Governor's Budget proposal estimates will generate \$66 million in FY 1999 (page K-27), are dedicated by law to financing specific WDP job training programs. Without enactment of the WDP law, these revenues would have been paid into the unemployment compensation trust fund.

The WDP law currently requires that at least 94.5 percent, or \$62.4 million of the \$66 million in anticipated FY 1999 WDP tax revenues be allocated as follows: 45 percent, or \$29.7 million, for customized training grants to train currently employed workers; 25 percent, or \$16.5 million, for individual training grants for permanently laid off ("displaced") workers; 6 percent, or \$4.0 million, for qualified disadvantaged workers; 5 percent, or \$3.3 million, for youth apprenticeship training; 3 percent, or \$2.0 million, to occupational safety and health training; and 10.5 percent, or \$6.9 million, for WDP program administration.

Each fiscal year from FY 1995 to FY 1997, budget language has provided for the transfer of \$8 million in WDP revenues from the Department of Labor to the Department of Human Services (DHS) for services to welfare recipients, an amount which exceeds the allowable statutory allocation for disadvantaged workers. In the current fiscal year, the amount shifted to DHS increased from \$8 million to \$32 million. Recommended FY 1999 budget language further increases the amount of funds proposed to be shifted to \$33.4 million. However, the Department of Labor indicated last year that the transfer of WDP funds to DHS was expected to be "a one time transfer."

! *Questions:* a. Please discuss the reason for the continued need to transfer funds from the WDP program to DHS, considering the department's previous indication that the FY 1998 shift was to be a "one time transfer?" Does the Administration plan to continue to shift WDP funds in excess of the statutory allocation for disadvantaged workers to DHS in FY 2000 and subsequent years? If so, what amounts are anticipated to be transferred in future fiscal years?

b. Of the \$32 million transferred to DHS in FY 1998, how much is being spent on job training services, how much is being spent on other services, and how many clients are being served? Of the \$33.4 million proposed for transfer in FY 1999, how much will be spent on job training services, how much will be spent on other services, and how many clients will be served? Please provide copies of any contracts which exist between DOL and DHS regarding these monies.

c. Please provide, for FY 1997 and FY 1998, the following information regarding WDP funding for each major category of WDP activity (customized training, displaced worker training, disadvantaged worker training, youth training, occupational safety and health training, and program administration): (1) The amount the department calculates it was required to spend on the category during that fiscal year to be in compliance with the WDP law; (2) The amount allocated to each category at the beginning of the fiscal year; (3) The amount actually spent for activities in each category during the fiscal year, including any amount paid after the end of the fiscal year for services delivered during the fiscal year; (4) All obligations or encumbrances for any multi-year grants which extend beyond the fiscal year; (5) All amounts deobligated during the fiscal year; and (6) The amount available to be carried forward into the next fiscal year.

Discussion Points

d. Please provide estimates for fiscal years 1999, 2000, and 2001 of what amounts will be needed to comply with the WDP law for each major category of WDP activity and how much will be available for each category if \$33.4 million of WDP funds are shifted to DHS each year. Include in the estimates the amounts that will be needed as reserves to pay for multi-year contracts.

e. Has spending already been restricted or reduced from the original allocated amounts or the minimum amounts required by law during the current year in any of the WDP program categories?

2. In the Governor's FY 1998 Budget proposal, the FY 1998 year end balance for the Workforce Development Partnership (WDP) Fund was estimated to be \$17.1 million. However, in the Governor's proposed FY 1999 Budget, the FY 1998 year end balance for the WDP fund is now projected to be \$94.3 million, a 451 percent increase over the year end fund balance estimated last year. In addition, the FY 1999 Budget anticipates a year end balance for the fund of \$77.7 million in FY 1999.

! *Questions:* a. Please specify what accounts for the significant increase in the estimated balance of the WDP Fund in FY 1998.

b. Does the Administration consider the WDP program to be over-funded? Would the Administration support a reduction in the payroll tax that provides revenue to this fund, or a reversion of these revenues to the Unemployment Compensation Fund?

3. The Governor's FY 1999 Budget proposes an additional \$10 million appropriation from the WDP fund for customized training grants. Customized training grants are awarded to employers to sustain employment in the State and to make the workforce more competitive through training of current employees. According to the Office of Management and Budget, this \$10 million is in addition to the 45 percent of WDP fund revenues that must be spent on customized training pursuant to the WDP law. This would bring the total amount allocated to WDP for FY 1999 to \$39.7 million.

However, data provided by the department in response to questions from the Legislature during the review of the FY 1998 budget showed that expenditures on customized training have been consistently below the amount allocated during every year that WDP has been in operation. During the first five years of the program, only \$52.8 million was expended out of the \$77.4 million allocated to customized training. The annual expenditure for customized training has been less than \$20 million every year that the program has been in operation. In contrast, in many program years, applications from displaced workers for training have been rejected for lack of funds. For example, \$65.6 million has been expended of the \$65.8 million allocated from the WDP Fund to individual grants for displaced workers over the same five year period.

! *Questions:*
a. Given the level of spending on customized training, and the significant unexpended balances from year-to-year, please explain the need for \$10 million in additional spending for customized training.

b. How many additional businesses does the department anticipate serving with this funding in FY 1999? For FY 1997 and FY 1998, please provide the number of customized

Discussion Points

training grant applications filed, as well as the number of grants the department was able to fund.

c. Were any applications for WDP individual training grants for displaced workers rejected due to lack of funds during FY 1998? Were all such applications accepted thus far in FY 1998?

4. Virtually all job training provided under WDP, with the exception of on-the-job training provided by employers under customized training grants, is purchased from training service providers. To assure that workers and others receive high-quality training and employment services, the WDP law requires that information be collected to evaluate each training service provider under both the WDP and Job Training Partnership Act (JTPA) programs, based on long-term success of former trainees in obtaining permanent employment and increasing earnings (over a follow-up period of at least two years). The law requires that this information be used: (1) to assist in determining which service providers to approve to receive grant funds; and (2) to provide reliable information on the quality of services provided to prospective trainees.

The State Employment and Training Commission (SETC), which is responsible for the evaluation of WDP and other training programs last year terminated a three and a half year, \$900,000 contract with Abt Associates for the evaluation of WDP, due to difficulties with Abt. Thus, six years after enactment of the WDP law, there is still no system in place to use long-term follow-up information to evaluate training service providers. SETC has entered into a contract with the Bloustein School of Planning and Public Policy at Rutgers University to design a system to evaluate service providers. States such as Texas, Florida and Illinois have developed, or are developing, systems that use wage data to evaluate the long-term effect on wages of each training provider.

! *Questions:* a. What activities are currently underway under the Bloustein School contract? What evaluation measures has the Bloustein School developed to analyze the performance of service providers? In what manner will the department utilize data on service provider performance when determining which service providers to approve to receive grant funds? Will the department utilize data on service provider performance to provide information to prospective trainees to allow the consumer to be better aware of quality of services? Will a system be developed which will evaluate service providers for all parts of the training and employment system, including displaced worker training, welfare to work programs, and school to work programs? What is the projected time necessary to implement a service provider evaluation system?

b. How much is budgeted to the SETC for WDP and other program evaluation during FY 1998 and FY 1999 from all sources, including federal moneys? How much of that will be spent on outside consultants and vendors?

c. When will the department and the SETC, pursuant to the WDP statute, have long-term follow-up information available regarding the effectiveness of individual service providers under the WDP and JTPA programs, specifically describing the long-term success of former trainees of each provider in obtaining permanent and increased earnings?

5a. The Unemployment Compensation Auxiliary Fund (UCAF) receives revenues from penalties collected from employers who fail to pay Unemployment Insurance (UI) taxes or who fail to remit

Discussion Points

tax reports in on a timely basis. Pursuant to N.J.S.A. 43:21-14(g), these funds may be expended on "programs designed to stimulate employment, as determined by the Commissioner of Labor." Currently, for example, the fund supports the following departmental programs: Planning and Research, Vocational Rehabilitation (both DSS and GIA) and Private Sector Labor Relations.

The Governor's Budget recommends language that would appropriate "such amounts as may be necessary" from the UCAF to support technology improvements in the Workplace Standards program (page D-200). The Workplace Standards program enforces statutes and rules by inspections of premises, contents, and working conditions. Covered are places of public employment; certain provisions of the Worker and Community Right to Know Act; mines, pits and quarries; explosives; proximity to high voltage lines; fireworks; minimum wage and overtime; wage payment; child labor; industrial homework; lie detectors; prevailing wage; crew leaders; drinking water and toilet facilities; and certain contract labor camps.

According to the Office of Management and Budget, this shift of funds from the UCAF to Workplace Standards will provide funding to automate some functions now performed manually.

! *Questions:* Please describe in what ways the utilization of funds from the UCAF, which pursuant to statute are to be utilized for "programs designed to stimulate employment," is consistent with the purposes of the Workplace Standards program, which primarily performs workplace inspections. What amount (either actual or estimated) does the department anticipate appropriating from the UCAF to Workplace Standards? Is the recommended appropriation of UCAF revenues for the Workplace Standards program expected to be a one-time occurrence or are future appropriations anticipated in FY 2000 or subsequent years?

5b. The Unemployment Compensation Auxiliary Fund is projected to have a positive fund balance of \$5.0 million by the end of the current year. This amount is in sharp contrast to the fund balance of \$44,000 originally projected in the FY 1998 Budget Recommendation. This increase is, in part, due to an upward revision of fund revenues from \$14.5 million to \$16.5 million in the current year. The Governor's Budget further projects a \$10.3 million fund balance by the end of FY 1999, assuming slightly higher revenue collections of \$17.0 million during FY 1999.

! *Questions:* Please explain the relatively significant fluctuation in revenue and year end balance estimates for the Unemployment Compensation Auxiliary Fund over the past year.

6. The Governor's Budget proposes transferring several workplace safety programs, including the department's inspection activities for ski lifts, asbestos, boilers, liquefied petroleum gas, and carnival rides from the Division of Workplace Standards to the Department of Community Affairs (DCA). According to the Office of Management and Budget, a sum of \$779,000 will be shifted from the Department of Labor to DCA as a result of this proposal. According to the Budget in Brief, the purpose of this shift is to coordinate inspection programs within DCA and thus create a more efficient system.

! *Questions:* Will overall positions dedicated to inspection activities within both the Department of Community Affairs and the Department of Labor decrease as a result of efficiencies? In what specific ways will the program become more efficient under the DCA?

Discussion Points

7. The Governor's Budget proposes the transfer of the department's Wage and Reporting functions to the Department of the Treasury's Division of Revenue. Revenue collection and processing functions related to Unemployment Insurance, Temporary Disability, Workers Compensation, and Special Compensation will be transferred. According to the Budget in Brief, the purpose of this transfer is to streamline reporting requirements and tax collection for businesses and reduce duplication. According to the Office of Management and Budget, \$1.5 million will be transferred to Treasury under this shift.

! *Questions:* What savings and efficiencies does the department anticipate as a result of this shift? What specific duplicative processes will be eliminated? Will there be any reductions in State personnel in connection with the transfer? How will streamlined reporting requirements impact businesses?

8. P.L.1997, c.263, which provides \$250 million in funding during FY 1999 for hospital charity care and related health care through the continued redirection of payroll taxes from the Unemployment Compensation Fund (UCF), also reduced the total payroll taxes paid by employers to the UCF by reducing the minimum reserve ratio necessary for employers to be taxed under schedule "A" in R.S.43:21-7. That change in the reserve ratio caused employer (unemployment) taxes to be reduced in FY 1999 by changing the tax schedule applied to them from schedule "B" to schedule "A." The budget includes an estimate that taxes paid into the UCF will decline by \$251 million, or 18.7 percent, from \$1.339 billion in FY 1998 to \$1.088 billion in FY 1999 (page K-38).

! *Questions:* a. What amount of taxes does the department estimate would have been paid into the UCF in FY 1999 if the employers were taxed under schedule "B" during FY 1999?

b. Does the department estimate that employers will continue to be taxed under schedule "A," or under a different tax schedule in FY 2000? in FY 2001? in FY 2002? For each year that the department anticipates that schedule "A" will apply, how much lower will total employer taxes be during each of those years compared to the amount which would have been collected from employers had schedule "B" been applied?

Background Paper: Funding for Vocational Rehabilitation Services - Sheltered Workshop Support

Budget Page E-28

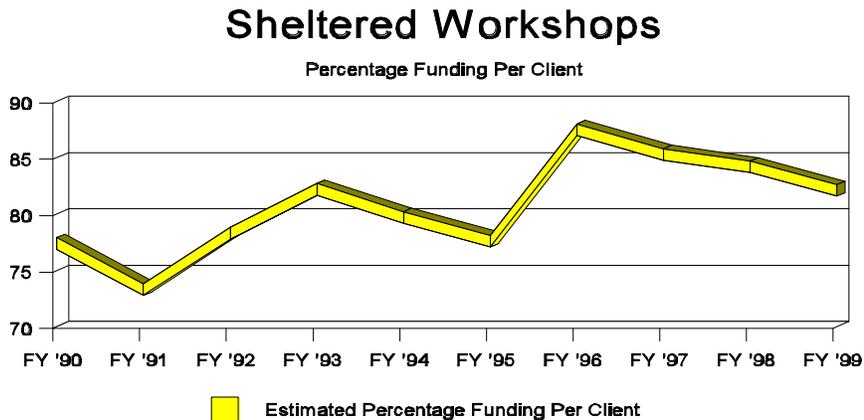
Overview

Pursuant to P.L. 1971, c.272 (C. 34:16-39 et seq.), the Division of Vocational Rehabilitation Services contracts with private and public non-profit agencies which operate "extended employment" programs for individuals with severe disabilities. Known as sheltered workshops, these programs offer long-term training and rehabilitation services to individuals with disabilities who cannot sustain or achieve competitive employment in their communities, and who might otherwise be confined to their homes or institutions.

Extended employment programs provided by sheltered workshops are State funded. However, in recent years, it is estimated that funding for the sheltered workshop program has not provided 100 percent reimbursement to providers for their per client costs. In addition, there is a portion of the client population for whom the State does not provide any reimbursement. In the current fiscal year, the department has been able to mitigate this situation through the use of State funds carried forward from previous fiscal years from the Sheltered Workshop Placement Incentive Program (PIP). While these funds have allowed the State to reimburse providers for services to more than 200 previously unfunded clients, it is anticipated that at the current rate of expenditure, the availability of PIP funds from prior fiscal years will be exhausted within the next two fiscal years. The Legislature may want to explore the impact of the exhaustion of these funds on community services provided through the sheltered workshop program.

Sheltered Workshop Funding

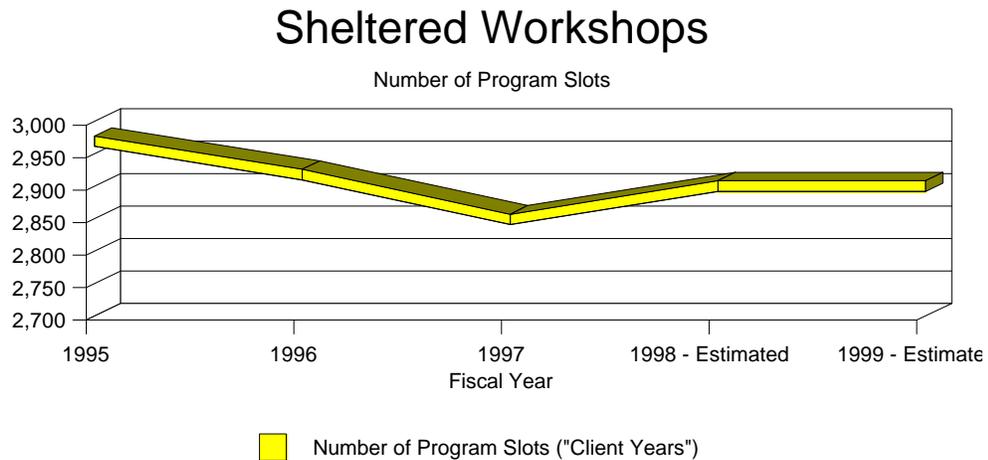
The Division of Vocational Rehabilitation Services (DVRS) provides funding to community providers who deliver sheltered workshop services, based on a percentage of the costs incurred by providers to deliver those services. For example, the department estimates that the FY 1999 Budget provides funding to providers sufficient to cover 82.1 percent of the cost of serving each client, which is a slight increase over the average reimbursement rate of 81.7 percent that has prevailed over the last ten fiscal years, but a reduction over the recent peak of 87.5 percent provided in FY 1996. The last year the State provided full funding (100 percent reimbursement) was in FY 1988.



Background Paper: Funding for Vocational Rehabilitation Services - Sheltered Workshop Support

The department's current reimbursement rate assumes that the per client cost of providing sheltered workshop services is approximately \$5,500 per year, or about \$1,000 *less* than the cost providers estimate that they spend per client. This discrepancy is due to the fact that the department last collected complete information from providers regarding actual costs in 1989. Since then, the department has extrapolated providers' costs based on the rate of inflation. While according to the department, the level of funding granted to providers is adequate, providers indicate that their costs have outpaced inflation, resulting in insufficient funding and leading to high staff turnover, cutbacks in staff levels and fringe benefits, and an inability to provide staff development.

The department also indicates that the number of clients served in sheltered workshops has been decreasing. In FY 1999 and FY 1998, sheltered workshops will provide an estimated 2,900 "program slots" throughout the State. Program slots (referred to as "client years" by the department) understate the total number of clients served, since one slot may serve more than one client over the course of a year. Since FY 1995, the number of slots has decreased slightly, from 2,969 in FY 1995 to 2,900 estimated in FY 1998. While program slots or "client years" may not exactly reflect the number of clients served in sheltered workshops, a slight decrease in program slots translates into a slight decrease in clients served.



The department, and representatives of sheltered workshop providers, credit some of the reduction in the number of clients served to the Placement Incentive Program (PIP), which provides reimbursement to facilities that have successfully placed clients into competitive employment. While the program has been in existence since the late 1980's (and is recommended to continue under the proposed Budget), rates granted to providers under PIP were increased significantly in FY 1996, correspondingly increasing the incentive to place clients in competitive employment, and out of sheltered workshops.

In the current fiscal year and prior years, the number of clients served through the sheltered workshop system has exceeded the number of clients funded. For example, in FY 1996, while extended employment services were provided through 2,918 program slots in the sheltered workshop system, the State only provided funding for 2,573 of these slots, effectively leaving 345

Background Paper: Funding for Vocational Rehabilitation Services - Sheltered Workshop Support

slots without State funding. The department has been able to mitigate this situation in the current fiscal year by using \$991,000 in unused Placement Incentive Program funds from FY 1997. This has provided funding for 216 program slots that had previously been unfunded, leaving only approximately 50 slots unfunded. The department anticipates a similar situation in FY 1999, where funding carried over from the Placement Incentive Program should continue to cover most of the 216 newly funded slots, leaving approximately 50 slots without State funds.

However, in future years, Placement Incentive Program (PIP) funding is not expected to be available for funding extended employment programs in sheltered workshops, since the department anticipates that prior year funding for the PIP program will eventually be fully utilized. In addition, increased use of a new program called "time limited job coaching" (which provides assistance to move individuals into mainstream employment settings) is expected to increase demand for new PIP funds significantly. As carry forward funds from the PIP program are eliminated, the number of individuals receiving extended employment services in sheltered workshops with no corresponding State support is expected to increase. The Legislature may want to explore the impact of the exhaustion of these funds on community services provided through sheltered workshops.

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Individuals wishing information and committee schedules on the FY 1999 budget are encouraged to contact:

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