

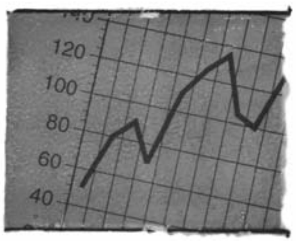



ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

FISCAL YEAR 2014 - 2015

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2014

NEW JERSEY STATE LEGISLATURE

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Questions or comments may be directed to the OLS Commerce, Labor and Industry Section (609-847-3845) or the Legislative Budget and Finance Office (609-847-3105).

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

Budget Pages....... C-5, C-13 to C-14, C-21, D-217 to D-236

Fiscal Summary ($000)

	Expended FY 2013	Adjusted Appropriation FY 2014	Recommended FY 2015	Percent Change 2014-15
State Budgeted	$202,062	$160,317	$165,857	3.5%
Federal Funds	$449,149	$520,175	$505,752	(2.8%)
Other	$188,561	$253,436	$280,662	10.7%
Grand Total	$839,772	$933,928	$952,271	2.0%

Personnel Summary - Positions By Funding Source

	Actual FY 2013	Revised FY 2014	Funded FY 2015	Percent Change 2014-15
State	469	462	473	2.4%
Federal	2,377	2,348	2,360	0.5%
Other	354	356	364	2.2%
Total Positions	3,200	3,166	3,197	1.0%

FY 2013 (as of December) and revised FY 2014 (as of January) personnel data reflect actual payroll counts. FY 2015 data reflect the number of positions funded.

Link to Website: http://www.njleg.state.nj.us/legislativepub/finance.asp

Highlights

- The FY 2015 Budget Recommendation for the Department of Labor and Workforce Development (DLWD) of $952.3 million is an $18.3 million (2 percent) increase, compared to the FY 2014 adjusted appropriation of $933.9 million. Over half of the DLWD's funding is from the federal government, $505.8 million (or 53 percent). The remainder consists of dedicated revenues, including transfers from special revenue and proprietary funds, $280.7 million (or 29.4 percent), and State General Fund and Casino Revenue Fund appropriations, $165.9 million (or 17.3 percent).

- The FY 2015 Budget Recommendation proposes a $165.9 million State appropriation, a $5.54 million (3.5 percent) increase, as compared to the FY 2014 adjusted State appropriation of $160.3 million. This increase reflects the intended transfer of extended employment services (also known as "sheltered workshop" services) from the Department of Human Services to the Division of Vocational and Rehabilitative Services in the DLWD envisioned in the FY 2014 Appropriations Act. Pursuant to language contained in the FY 2014 Appropriations Act, the Commissioner of Human Services and the Commissioner of Labor and Workforce Development are required to submit a plan, by January 1, 2014, to the Joint Budget Oversight Committee (JBOC) to execute the transfer of services; however, thus far, no plan has been received by JBOC.

- The FY 2015 Budget Recommendation proposes an increase of $23.4 million (13.6%) in appropriations for the Special Compensation program, which is funded through the Special Compensation Fund, more commonly known as the Second Injury Fund. The increase is funded entirely by an assessment on workers' compensation policy holders. The increase is due to an increase in the costs of anticipated claims as well as the cost of fringe benefits for employees of the Division of Workers' Compensation.

- The FY 2015 Budget Recommendation proposes a decrease of $12.03 million (6.3%) in federal funds for Unemployment Insurance (UI) program administration. The decrease reflects an anticipated reduction in costs to the State for UI administration in FY 2015.

- The FY 2015 Budget Recommendation proposes an increase of $2.5 million (94.3%) in All Other Funds for Unemployment Insurance (UI) program administration. This increase reflects a $2.5 million increase in appropriations from the Unemployment Compensation Auxiliary Fund to support UI collection activities as well as costs associated with certain State required notifications to UI claimants. According to the department, the increase in UCAF funding reflects a shift from federal resources, so that federal administrative funding can be dedicated to costs related to the provision of benefits.

- Supplementary budget information (contained on page 45 of the "Other Governmental Funds and Proprietary Funds" section of the FY 2015 Budget Recommendation, available in the online version only) indicates that the unemployment insurance compensation trust fund (UI trust fund) will have a balance of $1.1 billion at the beginning of FY 2015. The fund anticipates revenues of $3.3 billion in FY 2015 and expenditures of $2.4 billion for benefits and administrative costs. The balance at the end of FY 2015 is anticipated to be $1.9 billion.

Highlights (Cont'd)

- As of April 1, 2014, the UI trust fund had an outstanding debt of $425 million owed to the federal government. Employers are currently paying higher State UI taxes and an additional annual assessment to reimburse the federal government for the principal and interest on the loan. Additionally, any revenue in excess of benefits and administrative costs in the UI trust fund is applied to the debt. Through the additional payments and increased tax revenue, the DWLD estimates that the State will have paid off the entire loan balance by May, 2014.

Background Papers:

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2013	Adj. Approp. FY 2014	Recom. FY 2015	Percent Change 2013-15	Percent Change 2014-15
General Fund					
Direct State Services	$134,087	$93,365	$93,365	(30.4%)	0.0%
Grants-In-Aid	65,779	64,756	70,296	6.9%	8.6%
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	**$199,866**	**$158,121**	**$163,661**	**(18.1%)**	**3.5%**
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	$2,196	$2,196	$2,196	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	**$202,062**	**$160,317**	**$165,857**	**(17.9%)**	**3.5%**
Federal Funds	$449,149	$520,175	$505,752	12.6%	(2.8%)
Other Funds	$188,561	$253,436	$280,662	48.8%	10.7%
Grand Total	**$839,772**	**$933,928**	**$952,271**	**13.4%**	**2.0%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2013	Revised FY 2014	Funded FY 2015	Percent Change 2013-15	Percent Change 2014-15
State	469	462	473	0.9%	2.4%
Federal	2,377	2,348	2,360	(0.7%)	0.5%
All Other	354	356	364	2.8%	2.2%
Total Positions	**3,200**	**3,166**	**3,197**	**(0.1%)**	**1.0%**

FY 2013 (as of December) and revised FY 2014 (as of January) personnel data reflect actual payroll counts. FY 2015 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	42.0%	42.1%	42.1%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page

ECONOMIC PLANNING AND DEVELOPMENT

FEDERAL FUNDS

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
Research and Information	**$9,929**	**$8,895**	**($1,034)**	**(10.4%)**	**D-223**

The FY 2015 Budget Recommendation anticipates a decrease of $1.03 million (10.4%) in federal funds for the support of the Office of Research and Information in the Department of Labor and Workforce Development (DLWD). The Office comprises five areas: Labor and Market Demographic Research; Program Planning, Analysis and Evaluation; the Center for Occupational Employment Information; and One Stop Data and Analysis.

ECONOMIC ASSISTANCE AND SECURITY

FEDERAL FUNDS

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
Unemployment Insurance	**$191,665**	**$179,631**	**($12,034)**	**(6.3%)**	**D-226**

The FY 2015 Budget Recommendation anticipates an appropriation of $179.6 million for Unemployment Insurance (UI) program administration, a decrease of $12.03 million (6.3%). This decrease is matched by an equal reduction in anticipated federal revenues for the UI program (page C-14). The reduction reflects lower anticipated costs for UI administration in FY 2015.

During the "Great Recession" the national and State UI systems were severely tested. New Jersey, as well as the rest of the nation, experienced high unemployment, which steadily rose from 4.6 percent in January, 2008 to a peak of 10 percent in December, 2010 and is currently 7.1 percent (February, 2014). Since 2008, unprecedented amounts of benefits, funded through the State's UI trust fund and federally supported extended benefits, were paid to unemployed individuals. The State paid out $1.86 billion in UI benefits in 2007, the year before the recession began, peaking at $3.48 billion in 2009, and then slowly decreasing to $2.4 billion in 2013. These amounts were in addition to the extended benefits provided by the federal government which were paid from 2008 to 2013. As of December 31, 2013, the federal government was no longer providing additional benefits.

The need for additional staff to administer these benefits resulted in the DLWD hiring temporary intermittent staff to ensure enough personnel for UI claims approval and the appeals systems. These additional staff resulted in higher administrative costs for the UI program. The economy is slowly recovering and there has been no extension of federal UI benefits at this time. These two circumstances should result in lower UI administrative costs for the State in FY 2015 and thus, a lower federal reimbursement for UI administrative costs in FY 2015.

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

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
ALL OTHER FUNDS					
Unemployment Insurance	**$2,650**	**$5,150**	**$ 2,500**	**94.3%**	**D-226**

The FY 2015 Budget Recommendation proposes an increase of $2.5 million (94.3%) in All Other Funds for Unemployment Insurance (UI) program administration. This increase reflects a $2.5 million increase in appropriated receipts from the Unemployment Compensation Auxiliary Fund (p. C-14). These funds will be used to support collection activities in the UI program as well as costs associated with certain State required notifications to UI claimants. Collection activities fees are also known as an "internal function" joint tax cost. According to the DLWD, the increase in UCAF funding reflects a shift from federal resources, so that federal administrative funding can be dedicated to costs related to the provision of benefits.

The DLWD imposes an "internal function" joint tax cost on the funds it oversees to pay for the administrative functions associated with these funds, including maintenance of employer accounts, auditing and collections. Furthermore, the Division of Revenue in the Department of the Treasury, under an agreement with DLWD, imposes an additional charge to certain funds for functions related to the receipt of employer tax reports and remittances, commonly known as "shared costs." These shared costs are charged to the Family Leave Insurance Account, the State Disability Benefits Fund, the Workforce Development Partnership Fund, the Unemployment Insurance Fund, and the Unemployment Compensation Auxiliary Fund, among others. According to the DLWD, as required by federal cost principles, the "costs associated with revenue collection are allocated to all benefitting programs using a cost allocation plan."

ALL OTHER FUNDS					
Special Compensation	**$171,673**	**$195,061**	**$23,388**	**13.6%**	**D-226**

The FY 2015 Budget Recommendation proposes an increase of $23.388 million (13.6%) in All Other Funds for the Special Compensation program. This increase is reflected in a $22.984 million increase in appropriated receipts from the Special Compensation Fund (p. C-13), more commonly known as the Second Injury Fund (SIF). (The discrepancy in revenue versus expenditures is due to the overlap of the fiscal year with the calendar year, which is used to calculate the assessment for the fund.) The SIF is funded entirely by an assessment on workers' compensation policy holders. According to the department, the increase is due to an increase in the costs of anticipated claims and fringe benefits for employees of the Division of Workers' Compensation.

The SIF was established pursuant to R.S.34:15-94, and provides workers' compensation benefits to totally and permanently disabled workers with prior, work-related disabilities. Additionally, P.L.1980, c.83 provides that the SIF pay for a cost of living adjustment (COLA) for workers (and

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

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page

their dependents) suffering permanent disability or death before 1980. Finally, P.L.1990, c.46 provides that all administrative costs of the Division of Workers' Compensation (WC) be paid out of the SIF.

Revenue is provided for the SIF through an assessment on workers' compensation insurance for both self-insured and privately insured employers. State and municipal self-insured employers are exempt from the SIF assessment, but State and municipal employees are eligible for SIF benefits if disabled.

The level of assessment is determined each year by the Commissioner of Labor and Workforce Development. The commissioner makes this determination by estimating the amounts necessary to pay SIF benefits and SIF and WC administrative costs in the following calendar year, reduced by the net SIF assets at the end of the current year, exceeding $5 million, and then multiplying that total by 125% to determine the amount needed in the SIF for the next year. However, due to certain statutory requirements, the total amount needed must then be reduced by $40 million. P.L.2002, c. 12 and P.L.2002, c. 38 each transferred $20 million from the SIF to the General Fund. P.L.2002, c.5 and P.L.2003, c.111 each amended R.S.34:15-94 to provide that the two separate transfers of $20 million from the SIF to the GF be added back into the SIF for computational purposes when determining the assessment amount. The assessment is then charged to employers as a surcharge on their workers' compensation insurance payments.

According to the DLWD's response to OLS Discussion Points during the FY 2014 budget process, the DLWD assessed companies approximately $216 million in CY 2013 pursuant to the assessment formula.

Moreover, the DLWD further indicated to the OLS that the SIF has been in deficit since 2010 and the deficit was expected to increase to $39.6 million in CY 2013. The DLWD asserted that the deficit was due to the statutory requirement to reduce the total assessment by $40 million each year, resulting in a slow erosion of the surplus that existed prior to the statutory changes. To pay benefits and administrative costs, the DLWD has either received a supplemental appropriation ($17.5 million from the General Fund in June, 2011 pursuant to P.L. 2011, C. 82) or the State has advanced funds to cover benefit programs until sufficient resources are available through the collection process.

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

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
MANPOWER AND EMPLOYMENT SERVICES					
GRANTS-IN-AID					
Vocational Rehabilitation Services	**$36,876**	**$42,416**	**$ 5,540**	**15.0%**	**D-231**

The FY 2015 Budget Recommendation includes a $5.54 million increase in Grants-in-Aid funding for Vocational Rehabilitation Services. This increase reflects the intended transfer of extended employment services (also known as "sheltered workshop" services) from the Department of Human Services to the Division of Vocational and Rehabilitative Services in the DLWD envisioned in the FY 2014 Appropriations Act. Pursuant to language contained in the FY 2014 Appropriations Act, the Commissioner of Human Services and the Commissioner of Labor and Workforce Development are required to submit a plan, by January 1, 2014, to the Joint Budget Oversight Committee (JBOC) to execute the transfer of services; however, thus far, no plan has been received by JBOC.

The language was included because DHS had developed new guidelines that proposed eliminating the funding of services provided to individuals with developmental disabilities through extended employment programs (but preserved funding for services provided through more community-integrated employment programs). The language required that all clients currently choosing to be employed in extended employment programs and receiving services from DHS must continue to be able to access extended employment programs and be provided transportation and other ancillary services related to accessing these programs. Additionally, any new clients served by DHS must be provided with the opportunity to access extended employment programs and any other ancillary services, including transportation, for these programs.

The budget language required the departments' plan to provide for changes to current structures that may inhibit the clients of DHS services from accessing Division of Vocational Rehabilitation (DVR) services. For example, regulations (N.J.A.C.12:51–4.1 and 12:51-8.1) currently provide that clients enrolled in extended employment through DVR funding must meet a 20 percent production rate. Some clients, who are currently being served by DHS, do not meet the 20 percent production rate. Although the commissioner has the ability to waive these requirements for a one time transfer of clients from DHS to DVR, the budget language directed that future clients also have the choice of extended employment, which will require that a long term plan be put in place to serve new clients.

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

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
MANPOWER AND EMPLOYMENT SERVICES					
Federal Funds					
Employment Services	**$37,869**	**$36,369**	**($1,500)**	**(4.0%)**	**D-232**

The FY 2015 Budget Recommendation anticipates a decrease of $1.5 million (4.0%) in federal funds for Employment Services. According to the DLWD, this decrease is reflective of recent federal grant awards for Alien Labor Certification.

The Alien Labor Certification program is a federal/State partnership which provides labor certification for foreign workers. The certification is primarily conducted at the federal level; however, the DLWD provides varying degrees of services for employers who are seeking H-1B, H-2B, H-2A and permanent work visas.

Significant Language Changes

Administration and Support Services

Revision	2014 Handbook: p. B-119 2015 Budget: p. D-223

Notwithstanding the provisions of any law or regulation to the contrary, in addition to the amount hereinabove appropriated for Administration and Support Services, there is appropriated ~~$450,000~~ $460,000 from the New Jersey Builders Utilization Initiative for Labor Diversity, pursuant to P.L. 2009 c.313 (C.52:38-7), for enforcing the provisions of P.L. 2009 c.335 (C.52:40-1 et seq.).

Explanation

The FY 2015 Budget Recommendation revises an existing language provision to authorize a $10,000 increase in the appropriation from the New Jersey Builders Utilization Initiative for Labor Diversity (NJ BUILD) account for Administrative and Support Services, from $450,000 in FY 2014 to $460,000 in FY 2015. According to the Department of Labor and Workforce Development (DLWD), the increase in these funds will be used for related costs of the Office of Contract Compliance and Equal Employment Opportunity in Public Contracts (Office) located in the DLWD. The Office, which has been referred to by various names in the statutes and budget documents over the years, was transferred to the DLWD from the Department of the Treasury on or about December 5, 2011.

P.L.2009, c.335 (C.52:40 -1 et seq.) requires the Office to determine whether each of the State entities whose performance it monitors has properly allocated and released to the DLWD, as authorized by P.L. 2009, c. 313 (C.52:38-7 et seq.), one-half of one percent of the total cost of a construction contract of $1,000,000 or more, to be used by the DLWD for the NJBUILD program to train minorities and women for employment in construction trades. The transferred funds are deposited into what is known as the NJ BUILD account.

The DLWD is required to use the transferred funds to provide on-the-job or off-the-job outreach and training programs, including programs of preparation for admission into registered apprenticeships for minority group members and women in the construction trades, which foster opportunities for long-term trade and professional employment, providing economic self-sufficiency for the minority group members and women. Additionally, pursuant to the statute, the Office is tasked with ensuring that businesses contracting with the State are abiding by reporting requirements and contractual obligations regarding the use of small and minority and women-owned businesses.

According to the State accounting system, the NJ BUILD account has approximately $3.7 million in uncommitted funds as of April 8, 2014. In response to the OLS Discussion Points during the FY 2014 budget process, the DLWD reported that approximately $13.5 million collected for the NJ BUILD fund had not been used for its intended purpose, but rather was lapsed to the General Fund from FY 2010 through FY 2013.

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

Unemployment Compensation Auxiliary Fund

Revision

2014 Handbook: p. B-122
2015 Budget: p. D-227

In addition to the amounts hereinabove appropriated, there is appropriated out of the Unemployment Compensation Auxiliary Fund, an amount not to exceed ~~$2,500,000~~ <u>$5,000,000</u> to support collection activities in the program as well as costs associated with certain State required notifications to Unemployment Insurance claimants and for the support of the workforce development system, subject to the approval of the Director of the Division of Budget and Accounting.

<u>Explanation</u>

The FY 2015 Budget Recommendation includes language authorizing $5.0 million in FY 2015 appropriations from the UCAF to support collection activities, a $2.5 million (100%) increase from amount authorized in FY 2014 for the same purpose. Collection activities fees are also known as an "internal function" joint tax costs. According to the DLWD, the increase is intended to offset a shift from federal funding, so that federal administrative monies can be dedicated to costs related to the provision of benefits.

The Department of Labor and Workforce Development (DLWD) imposes an "internal function" joint tax cost on the funds it oversees to pay for the administrative functions associated with these funds, including maintenance of employer accounts, auditing and collections. Furthermore, the Division of Revenue in the Department of the Treasury, under an agreement with DLWD, imposes an additional charge to certain funds for functions related to the receipt of employer tax reports and remittances, commonly known as "shared costs." These shared costs are charged to the Family Leave Insurance Account, the State Disability Benefits Fund, the Workforce Development Partnership Fund, the Unemployment Compensation Auxiliary Fund and the Unemployment Insurance Fund, among others.

According to the DLWD's response to the OLS Discussion Points in the FY 2014 budget process, as required by federal cost principles, the "costs associated with revenue collection are allocated to all benefitting programs using a cost allocation plan. To determine the allocation to each benefitting program, the DLWD Joint Tax Allocation Plan used direct personnel costs along with interviews and observations of employees within the various operating sections, as well as data such as the number of registered employers, delinquency and follow-up billings, judgments and refunds. Complexity factors were developed for some activities in order to provide proper weighting for the level of sophistication and detail required for specific work assignments. Division of Revenue cost sharing allocations are based on the percentage of transactions processed as related to the various tax programs."

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

Council on Gender Parity

Revision

2014 Handbook: p. B-124
2015 Budget: p. D-232

Notwithstanding the provisions of any law or regulation to the contrary, ~~in addition to the amount hereinabove~~ there is appropriated for the Council on Gender Parity, an amount not to exceed $72,000 ~~is appropriated~~ from the Unemployment Compensation Auxiliary Fund for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The FY 2015 Budget Recommendation authorizes an appropriation not to exceed $72,000 from the Unemployment Compensation Auxiliary Fund (UCAF) to the Council on Gender Parity (council). and eliminates language providing for that amount to be in addition to any direct line item appropriation for the council. This revision is necessary as the Governor's Budget does not incorporate a direct line item appropriation for the council in FY 2015 (see page D-231).

Prior to the FY 2011 Appropriations Act, the council was fully funded through a Direct State Services appropriation included in the DLWD's budget. After that time, funding for the council was shifted to the UCAF pursuant to budget language. The proposed FY 2015 language reflects the funding system that has been in place since FY 2011.

The council was established pursuant to P.L.1999, c.354 to oversee the State's efforts to provide gender equity in labor, education and training (C.34:15C-21 et seq.).

CIVIL SERVICE COMMISSION

Merit System Board

Revision

2014 Handbook: p. B-126
2015 Budget: p. D-237

Receipts from fees charged for appeals to the ~~Merit System Board~~ Civil Service Commission are appropriated for the costs of administering the appeals process, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The FY 2015 Budget Recommendation revises language to substitute the "Civil Service Commission" for the "Merit System Board" as the recipient of fees charged for appeals to the Board. This change is necessary due to the abolishment of the former Department of Personnel

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

and the Merit System Board pursuant to P.L.2008, c.29. The previous language authorized the appropriation of receipts of fees charged for appeals to the Merit System Board, which is no longer an active board. The new language reflects the current process whereby these appeals are made to the Civil Service Commission, and thus the fees should also be authorized for the Civil Service Commission.

Training and Development

Revision

2014 Handbook: p. B-126
2015 Budget: p. D-237

Receipts from ~~Workforce Initiatives~~ Training and ~~Employment~~ Development (CLIP) and any unexpended balance at the end of the preceding fiscal year are appropriated for costs related to that program, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The FY 2015 Budget Recommendation revises existing language to substitute the term Training and Development for Workforce Initiatives and Employment Development. As revised, the language authorizes the appropriation of unexpended balances from training and development receipts for related costs to the newly reorganized Office of Training.

In FY 2014, the Office of Workforce Initiatives and Development (OWID) was reorganized as the Office of Training, within the Division of Administration and Training within the Civil Service Commission (CSC). Moreover, in FY 2013, the OWID was transferred from the Department of the Treasury to the CSC located in, but not of, the DLWD. (The OLS notes that the use of the term CLIP within the recommended language is in error and refers to an unused acronym for training and development programs.)

The OWID compiled information on the human resources and training needs of State government; provided online training courses to employees of State government agencies; offered basic guidance and referrals through the Employee Advisory Services; and investigated and heard appeals related to Equal Employment Opportunity and Affirmative Action requirements for public employers and employees. The Office generated revenue through fees paid by other State departments and municipalities to utilize the services of the Office. In FY 2012, prior to the transfer of the Office from the Department of the Treasury to the CSC, the operations of the Human Resource Development Institute (HRDI) within OWID were shifted from an in-classroom training program to an online management system offering mandatory training to all State government employees on policy issues such as ethics, workplace violence, and diversity. However, according to the OWID's responses to the OLS Discussion Points during the FY 2014 budget process, after the transfer of OWID to the CSC in FY 2013, a combined learning approach including e-learning and more traditional instructor-led training was implemented.

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

In FY 2014, following the shift of the OWID's responsibilities to the Office of Training, the new office formed a partnership with the NJ Community College Consortium for Workforce and Economic Development to deliver a variety of classroom training programs and e-learning opportunities to State and local government employees.

In FY 2012, a fee schedule was initiated to charge to all State agencies for training services, based on the number of employees. As of March 2013, these fees had generated $622,585 in FY 2012 and $1.1 million in FY 2013.

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Background Paper: Unemployment Insurance - Update and Overview

Budget Pages.... C-21, D-232 to D-235

History/Overview

The Social Security Act of 1935 authorized a federal-state unemployment insurance (UI) system to provide temporary partial wage replacement to individuals who lose their jobs through no fault of their own. New Jersey's unemployment insurance system, established by the "unemployment compensation law," R.S.43:21-1 et seq., began paying benefits to laid off workers in 1939. The main goals of the UI system are to alleviate the hardship of involuntary unemployment on workers and their families and to stabilize the economy. As stated in New Jersey's "unemployment compensation law," the system is designed to meet these 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."

Nationally, the UI system operates as a federal-state partnership. The federal program provides broad requirements for eligibility and states determine the details of the operation and administration of their programs within the minimum requirements established by federal law.

Federal law, pursuant to Titles III, IX, and XII of the Social Security Act and the Federal Unemployment Tax Act of 1939 (FUTA), defines which employment is a "covered service" and must be covered by unemployment insurance in the states' programs, although states may expand the definition to be more inclusive. Federal law also defines the method for triggering extended benefits, the federal tax base and rate and how states will apply for and repay any loans from the federal Unemployment Trust Fund. The federal government also serves as the depository for state contributions and federal payroll taxes that finance UI. Furthermore, the federal government provides annual appropriations for grants to states for administration of the UI program and oversees the appropriate and efficient use of those funds.

States must meet the minimum requirements established by the federal law. Within these parameters, states are permitted to set UI eligibility provisions (including minimum time periods and/or minimum amount of wages earned before workers can become eligible to receive benefits), determine benefit amounts, and set state payroll tax wage base and rate structures for employers. States also: determine operation methods; administer the program; take claims from individuals; determine eligibility; pay benefits to workers; determine employer liability; and assess and collect contributions.

Current Status

During the "Great Recession" the national and State UI systems were severely tested. New Jersey, as well as the rest of the nation, experienced high unemployment, resulting in high amounts of benefits being paid out and an increase in taxes to support those benefits. The Legislature, and the Department of Labor and Workforce Development, acted by establishing a UI Task Force to make recommendations to improve the system, implementing recommended safeguards to the UI system and gradually phasing in the required tax increases on employers during this time. At present, the State is in a period of economic recovery and the UI system is slowly recovering to reflect these changes.

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Since the "Great Recession" began, unprecedented amounts of benefits funded through both the State's UI trust fund and federally supported extended benefits were paid to unemployed individuals. The State paid out $1.86 billion in UI benefits in 2007, the year before the recession began, increasing to $2.24 billion in 2008, peaking at $3.48 billion in 2009, and then slowly decreasing to $3.05 billion in 2010, $2.66 billion in 2011, $2.57 billion in 2012 and $2.4 billion in 2013. These amounts were in addition to the extended benefits provided to New Jersey unemployed by the federal government which were as follows: $570.9 million in 2008; $3.61 billion in 2009; $5.1 billion in 2010; $3.68 billion in 2011; $2.71 billion in 2012; and, $1.7 billion in 2013. As of December 31, 2013, the federal government was no longer providing additional benefits.

The very high volumes of benefit claims, due to sustained, high rates of unemployment, which steadily rose from 4.6% in January, 2008 to a peak of 10.0% in December, 2010, depleted the State UI compensation trust fund account (UI trust fund) as of March 5, 2009. On that date, the State commenced borrowing from the federal Unemployment Trust Fund to pay State UI benefits. As of March 25, 2014, the State had an outstanding balance of $378 million owed to the federal Unemployment Trust Fund. To reimburse the federal government for the principal and the corresponding interest on this loan, employers paid higher federal taxes for 2011 and 2012 and are currently paying higher State UI taxes and an additional annual assessment for interest. Through the additional payments and increased tax revenue (both to be discussed in more detail in this paper), the department estimates that the State will have paid off the entire loan balance by May, 2014.

Current Tax Structure

New Jersey is currently borrowing from the federal government to pay State UI benefits, due to the insolvency of the State UI trust fund. States are permitted to borrow from the federal Unemployment Trust Fund to pay state UI claims, but must return the funds on a scheduled basis and must pay interest on this loan. New Jersey employers are paying an additional annual assessment to pay back the interest on the loan and, until January, 2013, employers were paying an additional federal tax to facilitate the payment of the principal of the loan.

The State may pay back the principal of the loan through excess State UI taxes or disbursements from the State General Fund. However, if the principal of the loan is not paid back after two years of deficit, the employers are charged a higher total FUTA tax rate to pay back that principal (please see the separate budget backgrounder on FUTA taxes for more information). As no General Fund monies have been appropriated for this purpose, the State has been relying on the excess revenue collected from the State UI taxes and the additional employer FUTA tax to pay back the principal of the loan. For information on these loan repayments, please see http://www.treasurydirect.gov/govt/ reports/tfmp/tfmp_utf.htm.

The State may pay back the interest on the loan through disbursements from the State General Fund, the State Unemployment Compensation Auxiliary Fund (UCAF) or if neither of these funds can sufficiently repay the accrued interest, then statute provides for a special assessment on employers (except governmental entities and nonprofit organizations) to be

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deposited in the "Unemployment Compensation Interest Repayment Fund" (UIRF). Section 16 of P.L.1984, c.24 (C.43:21-14.3) established the UIRF to "be used solely for the purpose of paying interest due on any advances made from the federal unemployment account under Title XII of the Social Security Act (42 U.S.C. s.1321 et seq.)" should the commissioner determine that there are insufficient funds in the UCAF. Please see the separate budget backgrounder on the UIRF for more information.

The State has made three interest payments from the UIRF of: approximately $48.0 million in September, 2011, approximately $44.7 million in September, 2012, and $17.1 million in September, 2013. At this time, the department estimates that there may be a $6.7 million payment due in September, 2014.

In addition to the increased federal taxes and the cost of the interest assessment charged to employers, the State UI employer tax rate has also increased from its lowest rate on July 1, 2009 to its highest rate on July 1, 2012. The UI employer tax rate is statutorily established to automatically increase if the UI trust fund's balance drops below certain set measures. However, to lessen the impact of the tax increases on employers, the Legislature acted to graduate the tax increase in Fiscal Years 2010, 2011, 2012, and 2013 through a series of legislative actions discussed in more detail on page 5 of this background paper.

In short, the UI trust fund is currently in deficit to the federal government, but the Legislature has acted to restore the UI trust fund with the needed revenue through changes in the tax structure. The UI Task Force issued three reports on the status of the fund and recommendations to stabilize the fund and improve the UI system. The changes to the tax structure and the UI system should replenish the UI trust fund and restore a surplus in the next several years to prevent the depletion of the fund in a future recession. According to the department, it is likely the UI trust fund will be completely paid off in May, 2014, and thus the FUTA tax will remain stable and the assessment in 2014 should be the last assessment for this debt.

Funding

UI is funded jointly through the federal unemployment tax, more commonly referred to as the "FUTA tax," for the act under which it was established. All of the revenues collected from the taxes established under FUTA (the federal tax levied on employers and the State UI taxes levied on employers and employees) are deposited into a variety of specific fund accounts in the federal Unemployment Trust Fund. This section of the paper will explain these funding mechanisms in more detail.

Federal Funding

FUTA tax revenue is used primarily to finance administrative costs of the system, fund loans to states and cover extended benefits. Revenues collected from FUTA are deposited into the employment security administration account (ESAA), the extended unemployment compensation account (EUCA) and the federal unemployment compensation account (FUA) located in the federal Unemployment Trust Fund.

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The amount of tax levied under FUTA is established in Section 3301 of the Social Security Act. Section 3301 imposes a payroll tax for every "covered service," equal to a specified percentage of total wages paid during a calendar year. FUTA currently provides that the tax rate is 6.0 percent. Wages subject to the tax are defined in Section 3306(a) of FUTA as the first $7,000 paid to an employee in a calendar year. However, FUTA provides for a tax credit of up to 5.4% for employers who pay state taxes on time for "covered services," as defined under FUTA, in an approved state UI program. Thus, the effective FUTA tax rate is 0.6 percent (6.0 – 5.4) or $42 ($7,000 x 0.006) per employee. The total amount of FUTA tax collected from wages in New Jersey for 2012 was approximately $149 million.

State Funding

In addition to the federal tax, state governments also levy payroll taxes on employers and in three states, including New Jersey, payroll taxes on employees. These taxes are deposited into the state's UI trust fund within the federal Unemployment Trust Fund. Each state has its own UI trust fund account within the federal Unemployment Trust Fund. For reports of these accounts, please see http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_ utf.htm.

The New Jersey "unemployment compensation law" establishes the State tax rate for both employers and employees. The tax rate is applied to income earned up to the statutorily defined taxable wage base (N.J.S.A.43:21-7). The taxable wage base is 28 times the Statewide average weekly wage (SAWW) for all covered workers. The SAWW is calculated annually by the Department of Labor and Workforce Development. The taxable wage base for 2014 is $31,500.

Employee Contribution

In New Jersey, the tax on the employee is levied at a rate of 0.3825% on the first $31,500 of income earned. Thus, in 2014, the maximum employee contribution is approximately $120.49 per employee (0.003825 x 31,500). The total amount of employee contributions in New Jersey in FY 2014 is estimated to be approximately $325 million.

Employer Contribution

In New Jersey, the employer's tax rate is determined by individual employers' experience and the annual experience of the State UI trust fund. The experience rating tax table provided in N.J.S.A.43:21-7 (see page 6), dictates the tax rate of the employer. The tax rate is dependent upon a combination of the annual experience of the State UI trust fund, as calculated through the determination of the overall fund reserve ratio, and the experience of the individual employer. The overall fund reserve ratio is determined on March 31 of each year by dividing the fund balance on that date by the taxable wages from the previous calendar year. The fund reserve ratio is used to determine the tax column that will be applied to employers in the next fiscal year. The tax columns are referred to as "A" through "E;" "A" being the lowest tax rate and the most advantageous to the employers and "E" being the highest tax rate.

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The total amount of employer contributions in New Jersey in FY 2014 is estimated to be $2.6 billion (excluding the FUTA tax). The tax rate is currently set at the "E" column, which has the highest tax rate.

The current prolonged high unemployment, along with the diversions from the UI trust fund, led to insufficient funds in the UI trust fund to pay the high number of beneficiaries and maintain a low tax rate.

The UI tax rate was first expected to increase on July 1, 2008, but through transfers of appropriations and legislation artificially maintaining lower tax rates, the Legislature acted to lessen the UI tax increases on employers and provide the employers with the ability to plan ahead for gradual UI tax increases. These changes resulted in the following tax schedule – "A" in FY2009, "B" in FY2010, "C" in FY2011, "D" in FY 2012 and "E" in FY 2013 and FY 2014 (through the enactment of P.L.2008, c.20, P.L.2010, c.37 and P.L. 2011, c.81, and P.L. 2013, c. 75, respectively). As stated previously, it is currently estimated that the UI trust fund will retain solvency in May, 2014 and there should be no increased tax triggered on July 1, 2014.

Although the high unemployment rates and need for benefits stressed the UI trust fund from 2008 to present, the fund balance was also diminished through a series of tax changes and diversions from the UI trust fund to the Health Care Subsidy Fund and other funds. A series of legislative enactments amended the experience rating tax table to establish a lower reserve ratio in order to maintain the lowest tax rate, the "A" column, for employers from July 1, 1998 to July 1, 2009. In each case, these changes in the tax table were made in conjunction with legislation that diverted funds from the UI trust fund to other funds. (P.L.1984, c.24, P.L. 1996, c.30; P.L.1997, c.263; P.L.2001, c.152; P.L.2002, c.13; P.L.2003, c.107; and P.L.2004, c.45)

The State diverted funds intended for the UI trust fund to other purposes from 1992 until 2005. During that time, over $4.6 billion was diverted from the UI trust fund to the Health Care Subsidy Fund (please see the OLS background paper, "History of Diversions from the Unemployment Insurance, Temporary Disability Insurance, and Second Injury Funds" in the FY 2012 OLS budget book for more information). These diversions depleted the surplus that was intended to ensure the financial stability of the fund during times of recession, such as the current period.

However, a recent amendment to the New Jersey Constitution no longer permits such diversions. The approval of Senate Concurrent Resolution 60 of 2008 on November 2, 2010 by the voters of New Jersey meant the adoption of a Constitutional Amendment (paragraph 8 of Article VIII, Section II of the State Constitution), requiring that contributions collected from assessments on wages be used solely for employee benefits, and prohibiting the use of contributions from those assessments for any other purpose. According to the statement to the public question posing this amendment, the paragraph's intent was to dedicate all contributions made to State funds, such as the UI trust fund, to the purpose of that fund, thereby protecting the UI trust fund from further diversions.

The Legislature also enacted P.L.2011, c.81, which amends the experience rating tax table to increase the UI trust fund reserve ratios which are used to set employer UI tax rates in such a manner that larger reserves are required in the UI trust fund before employer UI taxes

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are reduced. Specifically, the law sets the reserve ratio triggers at the same level they were during FY 2003. Following is the current experience rating tax table:

EXPERIENCE RATING TAX TABLE
Fund Reserve Ratio[1]

Employer Reserve Ratio	3.50% to Over	3.00% to 3.49%	2.5% to 2.99%	2.0% and 2.49%	1.99% and Under
Tax Column	A	B	C	D	E
Positive Reserve Ratio:					
17% and over	0.3	0.4	0.5	0.6	1.2
16.00% to 16.99%	0.4	0.5	0.6	0.6	1.2
15.00% to 15.99%	0.4	0.6	0.7	0.7	1.2
14.00% to 14.99%	0.5	0.6	0.7	0.8	1.2
13.00% to 13.99%	0.6	0.7	0.8	0.9	1.2
12.00% to 12.99%	0.6	0.8	0.9	1.0	1.2
11.00% to 11.99%	0.7	0.8	1.0	1.1	1.2
10.00% to 10.99%	0.9	1.1	1.3	1.5	1.6
9.00% to 9.99%	1.0	1.3	1.6	1.7	1.9
8.00% to 8.99%	1.3	1.6	1.9	2.1	2.3
7.00% to 7.99%	1.4	1.8	2.2	2.4	2.6
6.00% to 6.99%	1.7	2.1	2.5	2.8	3.0
5.00% to 5.99%	1.9	2.4	2.8	3.1	3.4
4.00% to 4.99%	2.0	2.6	3.1	3.4	3.7
3.00% to 3.99%	2.1	2.7	3.2	3.6	3.9
2.00% to 2.99%	2.2	2.8	3.3	3.7	4.0
1.00% to 1.99%	2.3	2.9	3.4	3.8	4.1
0.00% to 0.99%	2.4	3.0	3.6	4.0	4.3
Deficit Reserve Ratio:					
-0.00% to -2.99%	3.4	4.3	5.1	5.6	6.1
-3.00% to -5.99%	3.4	4.3	5.1	5.7	6.2
-6.00% to -8.99%	3.5	4.4	5.2	5.8	6.3
-9.00% to-11.99%	3.5	4.5	5.3	5.9	6.4
-12.00% to-14.99%	3.6	4.6	5.4	6.0	6.5
-15.00% to-19.99%	3.6	4.6	5.5	6.1	6.6
-20.00% to-24.99%	3.7	4.7	5.6	6.2	6.7
-25.00% to-29.99%	3.7	4.8	5.6	6.3	6.8
-30.00% to-34.99%	3.8	4.8	5.7	6.3	6.9
-35.00% and under	5.4	5.4	5.8	6.4	7.0
New Employer Rate	2.8	2.8	2.8	3.1	3.4

[1]Fund balance as of March 31 as a percentage of taxable wages in the prior calendar year.
[2]Employer Reserve Ratio (Contributions minus benefits as a percentage of employer's taxable wages).

In addition to determining what column will be used to calculate the tax rate on all employers, the employer's individual reserve ratio (left hand column in table) is calculated through an experience rating system to determine that employer's particular rate. To determine the employer's ratio, the benefits paid out by the employer are subtracted from all the contributions an employer has made to the State UI trust fund and then that amount is divided

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by the amount of the employer's taxable wages (average of all payroll over the previous three years). The more charges against the account, the higher the tax rate; the fewer claims against the account, the lower the tax rate. The purpose of the experience rating system is to ensure an equitable distribution of the costs of the system among employers and to encourage employers to stabilize their workforce.

Depending on their experience rating, New Jersey employers are taxed (in FY 2014) on a scale from 1.2 percent to a maximum of 7 percent on the first $31,500 (2014) paid in wages, a range from a minimum of $378 to a maximum of $2,205 per employee. New employers, since they have no experience, begin at a tax rate of 3.2825 percent, or $1,034 per year, per employee. The average tax rate on taxable wages ($30,900) in 2013 was 3.2 percent, or $988 per employee. The total amount of employer contributions in New Jersey for FY 2014 is estimated to be $2.6 billion.

Although the majority of employers in the State contribute to the UI trust fund, there are some noteworthy exemptions. The State and any of its governmental entities, including schools, municipalities and local governments, and a majority of non-profit entities do not pay into the UI trust fund on a forward basis through taxes but rather are "reimbursable" employers (N.J.S.A. 43:21-7.2 and 7.3). These entities reimburse the UI trust fund for any charges on their accounts for benefits to former employees in the previous calendar year.

Eligibility

UI is available to individuals in New Jersey, who, in most instances, have lost their jobs through no fault of their own. Persons who are not eligible for UI include those who: voluntarily left their employment; were terminated for "gross" misconduct; are not employed in a "covered service," as defined in FUTA or by State law; certain corporate officers and owners of businesses, including the self-employed; and, those who have not earned enough in wages or worked for a sufficient amount of time to qualify. Additionally, certain individuals who were terminated for simple or severe misconduct or left employment voluntarily may not immediately be eligible for UI benefits, but may qualify after returning to work for a shortened time period.

More specifically, some examples of employment exempt from "covered services" under FUTA and therefore not covered under UI are: ministers or members of religious orders; services performed in the employ of a foreign government; insurance solicitors who work on commission; certain agricultural labor; and certain domestic service. In addition, FUTA excludes from its definition of "covered service" several categories of employers that, while not required to pay the FUTA tax or the State tax, are required to provide unemployment compensation benefits through an alternate system. Examples of these types of services include: federal employers; non-profit employers; maritime employers; railroad employers; and the states and local governmental entities. Furthermore, corporate officers or business owners who have ceased working but whose corporation has not filed for bankruptcy are not eligible for UI, whereas those individuals whose corporations have filed for bankruptcy are eligible. Lastly, individuals must have earned at least 20 times the minimum wage for at least 20 weeks or earned at least 1,000 times the minimum state hourly wage during their base year. The base year is either: the first four calendar quarters of the last five completed quarters before the date

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of the claim; the four most recently completed calendar quarters before the date of the claim; or the three most recently completed calendar quarters before the date of the claim and the weeks in the filing quarter up to the date of the claim.

Benefits

Once an individual's eligibility for UI is established, the level of benefits must be determined. In New Jersey, weekly UI benefits are 60 percent of a laid-off worker's weekly wages (plus dependent allowances of up to 15 percent for 3 or more dependents), up to 57 percent of the Statewide average weekly wage (SAWW) for all workers, or a maximum weekly benefit of $636 in 2014. The average New Jersey weekly benefit was $397 in 2013, fourth highest in the nation, but twenty-eighth in the nation as a percentage of average wages. The total amount of regular benefits paid to workers in New Jersey in 2013 was $2.36 billion.

Duration of Benefits

Individuals may continue to collect UI benefits for up to 26 weeks in New Jersey. To remain eligible for benefits during this time, the individual must: report to the local One-Stop Career Center as scheduled; be able and available to work; actively seek work; not refuse any offer of suitable work; and claim the weekly unemployment benefits on the Internet or by telephone. In New Jersey, in 2013, 172,941 individuals (46% of those claiming benefits) exhausted their regular benefits, twentieth in the nation. The average claim duration was 18.9 weeks, eighth in the nation.

Extended Benefits

There are four means by which an individual can access UI benefits beyond the regular 26 week duration. All of these benefits are cumulative and are in addition to the original 26 weeks of benefits. Two are permanently established in statute: the jointly funded federal-state extended benefits program and the State funded additional benefits during training program. Two are temporary in nature and are generally issued as a result of either an act of Congress or an enactment at the State level: Federal Temporary Extension of Unemployment Benefits and the State Emergency Unemployment Benefits Program.

Federal/State Extended Benefits Program

The joint federal-state extended benefits (EB) program, statutorily authorized by P.L.1970, c.324 (C.43:21-24.11 et seq.) and the "Federal State Extended Unemployment Compensation Act of 1970" (26 U.S.C. 3304 note), is triggered when states reach certain levels of unemployment. The regular EB program provides for 50 percent of regular benefits or an additional 13 weeks of benefits, whichever is less, for workers. The "high EB" program provides for 80 percent of regular benefits or an additional 20 weeks of benefits. These benefits are equally funded (50/50) from a state UI trust fund and from the federal extended unemployment compensation account. In New Jersey, the trigger for regular EB is an unemployment rate of at least 6.5% in each of the most recent three months, which must also represent 110% of the rate for the corresponding three-month period in either of the previous two years. If the average total unemployment rate reaches 8% and is 110% of the rate for the

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corresponding three-month period in either of the previous two years, New Jersey qualifies for "high EB," 20 weeks or 80% of regular benefits.

New Jersey "triggered on" EB in 2009 and "triggered off" on June 16, 2012. At that time, there was a three week phase out for individuals who were collecting EB and no new individuals can access EB at this time. During this time, EB was fully funded by the federal government. The American Recovery and Reinvestment Act (ARRA) of 2009 included a provision that eliminates the required state contribution for EB. Pursuant to the original language contained in ARRA, the 100 percent federal payment would have ended January 1, 2010; however, subsequent legislation, most recently the "Tax Relief Extension Act of 2012" (Public Law 112 - 240), extended the 100 percent federal funding for claims filed until the week beginning December 28, 2013. The total amount of extended benefits paid to workers in New Jersey was $535 million in 2009, $607.4 million in 2010; $692.4 million in 2011; and, $292.3 million in 2012, all of which was fully funded with federal dollars.

Federal Temporary Extension of Unemployment Benefits

The second means to provide additional UI benefits are temporary extensions of unemployment compensation (TEUC) through an Act of Congress. The extensions are of varying duration and there are certain qualifications that individuals must meet to access benefits. To qualify, individuals must have: filed an initial claim that was in effect during or after the onset of the TEUC; exhausted regular benefits or have no benefit rights due to the expiration of a benefit year ending during or after the onset of the TEUC; no rights to regular or extended benefits under any state or federal law; and had 20 weeks of full-time work, or the equivalent in wages, in the base period.

TEUC was available, through the adoption of a multitude of federal legislation, most recently the "Tax Relief Extension Act of 2012" (Public Law 112 - 240), from June 26, 2008 until December 31, 2013. Currently, there is no TEUC available, as there has been no Act of Congress to extend benefits. The total amount of TEUC benefits paid to workers in New Jersey was $2.7 billion in 2009; $4.0 billion in 2010; $2.9 billion in 2011; $2.4 billion in 2012; and, $1.7 billion in 2013, all of which was fully funded with federal dollars.

State Emergency Unemployment Benefits Program

The third means by which individuals can continue their benefits beyond the initial 26 week period are State emergency unemployment benefits programs. While such a program is not currently active, in the past, the State has statutorily authorized additional benefits through these emergency programs. This has occurred twice in the previous 15 years, from December 30, 2001 to March 9, 2002 and from June 2, 1996 to March 1, 1997. During the 2001/2002 extension, benefits were granted for 10 weeks, while the 1996/1997 extension provided up to 50% of the original benefit amount or 13 weeks, whichever was less.

Additional Benefits during Training

The fourth means by which individuals can continue their benefits beyond the initial 26 week period is the State funded Additional Benefits during Training program (ABT) established

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pursuant to section 5 of P.L.1992, c. 47 (C.43:21-61). If approved by a State counselor, eligible individuals may enroll in an approved training program and receive their UI benefits for an additional 26 weeks. These funds are provided from the State UI trust fund. The total amount of ABT paid to workers in New Jersey was $5.2 million in 2009; $15.1 million in 2010; $27.7 million in 2011; $24.9 million in 2012; and, $21.2 million in 2013.

Disaster Unemployment Assistance

Disaster Unemployment Assistance (DUA), also referred to as Disaster Relief and Emergency Assistance, is a federal program that provides temporary financial assistance to individuals unemployed as a result of a major disaster declared by the President. DUA benefits are administered by the State department, but are funded by the Federal Emergency Management Agency (FEMA). DUA was made available to 2,663 individuals in New Jersey after Hurricane Sandy struck in October, 2012. People could apply for the aid from October 29, 2012 till February 4, 2013.

DUA is available for a maximum of 26 weeks to persons who do not have employment due to a disaster and are not eligible for regular unemployment insurance benefits. Instances where an individual may collect DUA include: the self employed; persons with an injury caused by the disaster; persons who cannot reach the place of work; persons who cannot work due to damage to the place of work; and an individual who becomes the head of a household and is seeking work because the former head of household died as a result of the disaster.

Current Status of Benefits

An individual who is currently unemployed would be eligible for 26 weeks of regular UI benefits and, certain individuals are eligible for an additional 26 weeks of ABT.

Summary

Due to the economic recession, the unemployment compensation system is under financial stress nationwide, including in New Jersey. However, the State, along with the rest of the nation, is slowly recovering from the recession. The unemployment rate has slowly decreased over the last year, measuring at 7.1% in February, 2014, as compared to a high of 10% in December, 2009. Additionally, the Legislature and the department have made several changes to the UI system that, if maintained, should support the sustainability of the UI trust fund in future downturns. The latest estimates predict that the UI trust fund will regain solvency in May, 2014 and it will gradually build up reserves. The changes made by the Legislature to fortify the fund should enable it to maintain a positive balance into the future.

Background Paper: The Federal Unemployment Tax Act

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The Federal Unemployment Tax Act (FUTA) was created to finance all administrative expenses of the federal/state unemployment insurance system and the federal costs involved in any extended benefits (26 U.S.C. 3301 et seq.).

Each employer in the United States must pay a FUTA tax on each employee, with certain exceptions. The rate of the FUTA tax is set by the federal government. The current FUTA tax rate is 6.0% on the first $7,000 in wages. This rate is offset with a credit of 5.4%, yielding a net tax of 0.6% ($42) for employers in states that contribute to an approved state unemployment insurance fund.

Please see the following chart for New Jersey's total estimated FUTA receipts and the amounts paid back to New Jersey for administrative costs and federally funded extended benefits since 2002:[1]

NJ FUTA Receipts and Returns		
Year	Receipts (millions)	Total returned to State (millions)
2002	$205.5	$957.7
2003	$203.8	$716.4
2004	$203.7	$334.8
2005	$209.5	$136.1
2006	$215.7	$125.5
2007	$216.8	$124.4
2008	$214.3	$380.8
2009	$199.3	$2,047.4
2010	$193.3	$608.6
2011[2]	$196	$923.4
2012	$149.2	$598.2
Total	**$2,207.1**	**$6,953.3**

Sections 3302(c)(2) and 3302(d)(3) of FUTA provide that, when a state has borrowed from the federal government to pay unemployment insurance benefits to claimants, and the loan is still outstanding two years after the state first borrowed the money, then a reduction to the employers' FUTA credit is initiated to pay back the principal of that loan. New Jersey commenced borrowing from the federal government in March 2009 and was still in deficit to the federal government in March, 2011, triggering such a reduction in the credit.

On October 31 of each year, the U.S. Secretary of Labor signs an annual certification of the state and its unemployment compensation laws for the previous 12 month period, verifying which states are eligible for the normal credit. New Jersey was in deficit in October 31, 2011,

[1] http://www.ows.doleta.gov/unemploy/futa_receipts.asp

[2] A temporary 0.2% surcharge to the FUTA tax rate, initiated in 1976 by Congress, was not renewed in 2011, resulting in the FUTA tax rate decreasing from 6.2% to 6.0%, effective July 1, 2011.

Background Paper: The Federal Unemployment Tax Act (Cont'd)

and the 5.4% credit was gradually phased out (at 0.3% per year) beginning on January 1, 2012. The phase out of the credit resulted in a FUTA tax rate of 0.9% ($63) per employee in 2011 and 1.2% ($84) per employee in 2012. Employers pay the additional tax with their fourth quarter tax for that year, which is due on January 31 of the subsequent year. Therefore, the majority of New Jersey employers paid the 2011 increase on January 31, 2012 and the 2012 increase on January 31, 2013.

On October 31, 2013, the State UI trust fund was temporarily solvent and the Secretary of Labor certified that New Jersey is eligible for the maximum credit allowable under FUTA. As a result, as of January 1, 2014, employers in New Jersey pay the reduced FUTA tax of 0.6% on the first $7,000 in wages ($42).

The Department of Labor and Workforce Development, in its press release announcing the reduction, estimated that New Jersey employers will save $211 million in 2014 due to the reduction in the FUTA tax. Furthermore, the department anticipates that the loan will be paid back in May, 2014 and thus, there should be no increase in the FUTA tax in calendar year 2015.

Background Paper: Unemployment Compensation Interest Repayment

Budget Pages.... C-21, D-232 to D-235

During the "Great Recession" the national and State unemployment insurance (UI) systems were severely tested. New Jersey, as well as the rest of the nation, experienced high unemployment, resulting in large amounts of benefits being paid out and an increase in taxes to support those benefits. The State's unemployment compensation insurance trust fund (UI trust fund) was depleted due to the need to pay benefit claims and the State commenced borrowing from the federal Unemployment Trust Fund to pay State claims in March, 2009. As of March 25, 2014, the State had an outstanding balance of $378 million owed to the federal Unemployment Trust Fund. Provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) permitted States to borrow funds without interest until December 31, 2010. After this time the State began to accrue interest on the principal balance.

Federal law prohibits the State from paying back the interest on the loan with State UI tax revenue (Section 1202 of the Social Security Act (42 U.S.C. s.1322). State statute establishes a system for paying back any interest accrued on federal UI loans through section 16 of P.L.1984, c.24 (N.J.S.A.43:21-14.3), which provides that the Commissioner of Labor and Workforce Development must, on or before June 30 of each year, review the amount of interest owed to the United States Treasury for advances made from the federal Unemployment Trust Fund to pay State UI benefits and determine if the Unemployment Compensation Auxiliary Fund (UCAF) has the funds needed to repay the interest to the federal government by September of that calendar year. The UCAF is established in subsection (g) of N.J.S.A.43:21-14, is a repository for all interest and penalties imposed upon employers for violation of unemployment insurance regulations. Moneys from the UCAF are to be used for the cost of the administration of the UI trust fund, for the repayment of any interest bearing advances made for the federal unemployment account and for essential and necessary expenditures in connection with programs, as determined by the commissioner. If it is determined by the commissioner that the UCAF has insufficient funds to repay the accrued interest, then the statute provides for a special assessment on employers (except governmental entities and nonprofit organizations) to be deposited into the "Unemployment Compensation Interest Repayment Fund" (UIRF); see below. The assessment is determined by the department as a ratio of the amount of interest owed to 95 percent of the total employer contributions payable for UI on taxable wages during the preceding calendar year. This ratio is then applied to the individual employer's amount of unemployment contributions payable in the previous year to determine the amount of assessment.

Section 16 of P.L.1984, c.24 (C.43:21-14.3) also established the "Unemployment Compensation Interest Repayment Fund" to "be used solely for the purpose of paying interest due on any advances made from the federal unemployment account under Title XII of the Social Security Act (42 U.S.C. s.1321 et seq.)" should the commissioner determine that there are insufficient funds in the UCAF. As stated above, the money borrowed from the federal government was interest free until December 31, 2010. As of January 1, 2011, the federal loan accrued interest and the first interest payment was due on September 30, 2011.

The first interest payment of approximately $48 million was paid to the federal government on September 30, 2011; the second payment of approximately $44.7 million was paid to the federal government on September 28, 2012; and the third payment of $17.1 million

Background Paper: Unemployment Compensation Interest Repayment (Cont'd)

was made on September 27, 2013. In order to pay this amount, the department mailed Federal Loan Interest Assessment Statements to employers in May of each year and the due date for the assessment was August of each year. According to the department, the average cost of the assessment was approximately $20 per employee in July 2011, $18.50 per employee in July 2012, and $7.00 per employee in July, 2013. According to the department, it is likely the UI trust fund principal loan will be completely paid off in May, 2014, and thus the assessment in 2014 will be the last assessment for this debt. At this time, the department estimates that there may be a $6.7 million payment due in September, 2014, approximately $2.81 per employee.

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