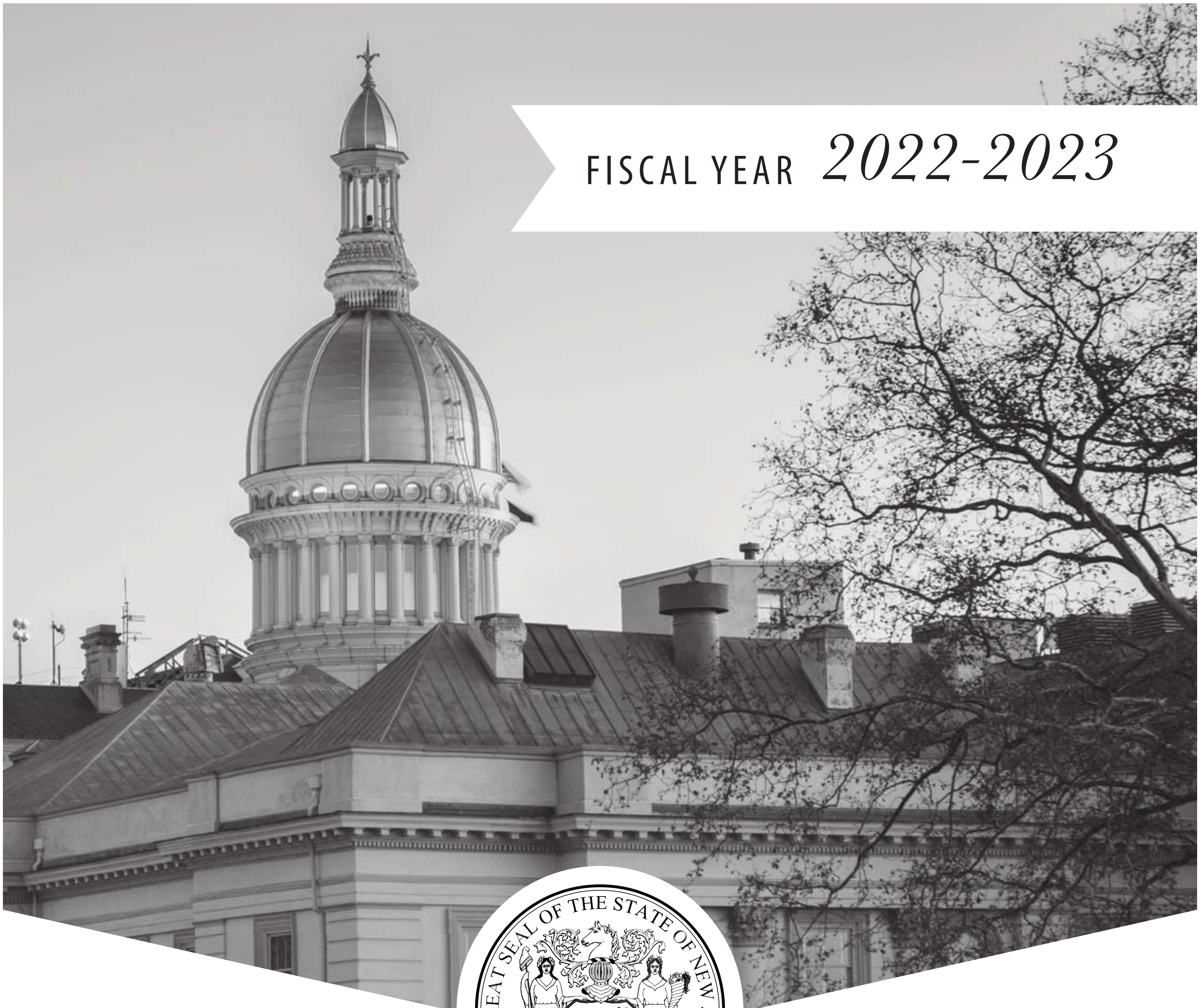
FISCAL YEAR 2022-2023



ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

Prepared by the

New Jersey Legislature

★ *Office of* LEGISLATIVE SERVICES ★

May 2022

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

Budget Pages....... C-5, C-12 to C-13, C-20 to C-21, D-227 to D-246

The data presented in this Office of Legislative Services Budget Analysis reflect 12-month fiscal years beginning on July 1 and ending on June 30 of the subsequent year.

Fiscal Summary ($000)

	Expended FY 2021	Adjusted Appropriation FY 2022	Recommended FY 2023	Percentage Change 2022-23
State Budgeted	$182,725	$211,106	$202,914	(3.9%)
Federal Funds	454,292	553,203	553,164	(0.0%)
All Other Funds	248,799	322,558	329,185	2.1%
Grand Total	$885,816	$1,086,867	$1,085,263	(0.1%)

Personnel Summary - Positions By Funding Source

	Actual FY 2021	Revised FY 2022	Funded FY 2023	Percentage Change 2022-23
State	432	434	482	11.1%
Federal	2,067	2,105	2,285	8.6%
Other Funds	301	288	329	14.2%
Total Positions	2,800	2,827	3,096	9.5%

FY 2021 (as of December) and revised FY 2022 (as of January) personnel data reflect actual payroll counts. FY 2023 data reflect the number of positions funded.

Link to Website: https://www.njleg.state.nj.us/budget-finance/governors-budget

Highlights

- The Governor's FY 2023 Budget recommends $1.09 billion in State, dedicated, and federal funds be appropriated to the Department of Labor and Workforce Development in FY 2023, which is a $1.6 million (0.1 percent) reduction from the current year's adjusted appropriation. The Executive anticipates the department receiving $553.2 million in federal funds, comprising just over half, or 51.0 percent, of the department's total funding. The remainder consists of $329.2 million (30.3 percent) in dedicated revenues; $200.7 million (18.5 percent) in State General Fund appropriations; and $2.2 million (0.2 percent) in Casino Revenue Fund appropriations.

- The federal loan to the New Jersey Unemployment Insurance Trust Fund stood at $834.6 million as of April 22, 2022. In order to avert the insolvency of the trust fund due to surging unemployment compensation claims during the COVID-19 pandemic, the State began borrowing from the federal government in August of 2020. The Executive projects a *negative* FY 2023 New Jersey Unemployment Insurance Trust Fund opening balance of $109.1 million but a *positive* closing balance of $117.5 million. Since March of 2020, the department has distributed over $37.0 billion in State and federal unemployment insurance benefits during the COVID-19 pandemic.

- The Executive anticipates $9.4 million and $13.0 million in interest payments in FY 2022 and FY 2023, respectively, on the federal loan to the New Jersey Unemployment Insurance Trust Fund. Balances in the dedicated Unemployment Compensation Auxiliary Fund are being used for this purpose. The Unemployment Compensation Auxiliary Fund is a special revenue fund that serves as the repository for all interest and penalties imposed upon employers for violations of unemployment insurance regulations. Its balances support certain administrative activities of the Unemployment Insurance Trust Fund, including the repayment of any interest-bearing advances made from the federal unemployment account.

- The FY 2023 Governor's Budget does not recommend appropriating additional funds for Future of Work Initiatives because the FY 2022 appropriation of $10.0 million is intended to pay for FY 2023 program expenditures.

- The FY 2023 Governor's Budget does not include an additional State funds appropriation for modernizing and improving the unemployment insurance claims processing system. However, the Executive recommends appropriating an additional $15.0 million for this purpose out of the $6.24 billion Coronavirus State Fiscal Recovery Fund grant the State has received under the American Rescue Plan Act of 2021. The FY 2022 Appropriations Act already allocated $10.0 million of the federal grant funds to this purpose.

- The Executive recommends two new grant appropriations totaling $2.8 million to fund ACCSES New Jersey within the Extended Employment (sheltered workshop) program, of which $1.4 million would be for transportation services.

- The Governor recommends a $9.0 million appropriation to the New Jersey Community College Consortium for Workforce and Economic Development, an additional $6.0 million compared to the current year.

- The Governor proposes eliminating an $8.5 million language appropriation the Legislature included in the FY 2022 Appropriations Act for the New Jersey Community College Consortium for Workforce and Economic Development to establish Pathway and

Highlights (Cont'd)

Skills Collaboratives and Centers of Excellence in New Jersey's fastest growing industries. The appropriation was out of the Workforce Development Partnership Fund. It is unclear whether the Governor plans to support this initiative in FY 2023. The FY 2023 Budget in Brief signals the intent to use federal Coronavirus State Fiscal Recovery Fund balances in amounts to be determined for unspecified workforce development programming.

- At $329.2 million, estimated FY 2023 appropriations from dedicated revenues exceed the FY 2022 level by $6.6 million (2.1 percent). That net growth includes $15.0 million that reflects an increased appropriation out of the Unemployment Auxiliary Compensation Fund for unemployment insurance program debt collection activities.

- P.L.2019, c.37 expanded temporary disability insurance and family leave insurance benefits effective July 1, 2020, with increased employee payroll taxes paying for the enhanced benefits. State Disability Benefits Fund expenditures in FY 2023 are projected to rise to $1.07 billion. In FY 2019, the last year that was unaffected by P.L.2019, c.37, fund expenditures totaled $531.2 million.

- The "Supplementary Information" section in the FY 2023 Governor's Budget, available online, includes projections of the FY 2023 financial performance of several special revenue funds administrated by the department that are the depositories of revenues predominantly collected from payroll assessments on workers and their employers. The table below summarizes the funds' anticipated FY 2023 financial performance.

FY 2023 Anticipated Financial Performance of Special Revenue Funds Holding Payroll Assessment Collections (in $ Thousands)

Fund	Opening Balance	Revenues	Expenditures	Transfers to Other Funds	Closing Balance
State Disability Benefits Fund	$1,253,396	$728,000	$1,065,000	$57,710*	$858,686
Supplemental Workforce Fund for Basic Skills	$14,427	$37,834	$27,500	$13,390	$11,371
Unemployment Insurance Compensation Trust Fund	($109,088)	$2,876,550	$2,650,000	$0	$117,462
Workforce Development Partnership Fund	$60,445	$136,305	$9,656	$138,331	$48,762

* Transfers are in compliance with Article VIII, Section II, paragraph 8 of the State Constitution and used for the administrative expenses of the State Disability Insurance Plan and the Private Disability Insurance Plan.

Background Papers:

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2021	Adj. Approp. FY 2022	Recom. FY 2023	Percentage Change 2021-23	Percentage Change 2022-23
General Fund					
Direct State Services	$119,143	$124,464	$114,472	(3.9%)	(8.0%)
Grants-In-Aid	62,760	84,446	86,246	37.4%	2.1%
State Aid	0	0	0	----	----
Capital Construction	0	0	0	----	----
Debt Service	0	0	0	----	----
Sub-Total	**$181,903**	**$208,910**	**$200,718**	**10.3%**	**(3.9%)**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	----	----
Grants-In-Aid	0	0	0	----	----
State Aid	0	0	0	----	----
Sub-Total	**$0**	**$0**	**$0**	**----**	**----**
Casino Revenue Fund	$822	$2,196	$2,196	167.2%	0.0%
Casino Control Fund	$0	$0	$0	----	----
State Total	**$182,725**	**$211,106**	**$202,914**	**11.0%**	**(3.9%)**
Federal Funds	$454,292	$553,203	$553,164	21.8%	0.0%
Other Funds	$248,799	$322,558	$329,185	32.3%	2.1%
Grand Total	**$885,816**	**$1,086,867**	**$1,085,263**	**22.5%**	**(0.1%)**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2021	Revised FY 2022	Funded FY 2023	Percentage Change 2021-23	Percentage Change 2022-23
State	432	434	482	11.6%	11.1%
Federal	2,067	2,105	2,285	10.5%	8.6%
All Other	301	288	329	9.3%	14.2%
Total Positions	**2,800**	**2,827**	**3,096**	**10.6%**	**9.5%**

FY 2021 (as of December) and revised FY 2022 (as of January) personnel data reflect actual payroll counts. FY 2023 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percentage -					
Department of Labor and Workforce Development	54.2%	53.2%	N/A	----	----
Civil Service Commission	42.8%	51.5%	N/A	----	----

Significant Changes/New Programs ($000)

General Fund, Direct State Services Special Purpose: Unemployment Processing Modernization and Improvements				Budget Page: D-231	
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.	Change FY 2022 – FY 2023	
$0	$3,875	$7,750	$0	($7,750)	(100.0%)

The Governor does not recommend an additional State funds appropriation in FY 2023 for modernizing and improving the unemployment insurance claims processing system. However, newly proposed language would carry the unexpended balance in the account forward to FY 2023 for the same purpose. As of April 28, 2022, some $962,000 of the total has been expended, while $2.2 million is committed to be expended.

In addition, instead of an FY 2023 State funds appropriation for unemployment insurance claims processing system improvements, the Executive recommends appropriating $15.0 million out of the $6.24 billion Coronavirus State Fiscal Recovery Fund grant the State has received under the American Rescue Plan Act of 2021.

The FY 2022 Appropriations Act already authorized the expenditure of $10.0 million out of the federal grant funds for this purpose. As of April 28, 2022, none of the federal funds appropriation was expended.

According to the FY 2023 Budget in Brief, project funding is used to replace antiquated unemployment insurance systems and outdated hardware to provide a stable environment that will support increased volume, remove security vulnerabilities, reduce the risk of fraud, allow for new self-service functions, and facilitate integration with Temporary Disability and Family Leave Insurance programs.

The COVID-19 pandemic led to a spike in unemployment insurance claims that overwhelmed the department's established system for processing claims and resolving non-routine cases. At times, the unemployment insurance information technology system collapsed under the weight of the more than two million filings and distribution of over $37.0 billion in benefits during the COVID-19 pandemic through April 2022.

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

General Fund, Direct State Services Workforce Literacy and Basic Skills Program				Budget Page: D-240	
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.	Change FY 2022 – FY 2023	
$1,457	$1,118	$5,000	$2,000	($3,000)	(60.0%)

General Fund, Grants-In-Aid NJ Community College Consortium for Workforce and Economic Development				Budget Page: D-240	
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.	Change FY 2022 – FY 2023	
$0	$0	$0	$9,000	$9,000	---

The Governor's FY 2023 Budget recommends increasing the appropriation for the New Jersey Community College Consortium for Workforce and Economic Development by $6 million from $3 million in FY 2022 to $9 million in FY 2023.

From a technical perspective, the Legislature added a $3 million appropriation for the consortium to the Workforce Literacy and Basic Skills Program budget line in the FY 2022 Appropriations Act. Instead, in FY 2023, the Governor proposes replacing the $3 million added to the appropriation for the Workforce Literacy and Basic Skills Program with a stand-alone $9 million appropriation for the consortium.

Furthermore, the Governor recommends eliminating an $8.5 million language appropriation the Legislature included in the FY 2022 Appropriations Act for the consortium to establish Pathway and Skills Collaboratives and Centers of Excellence in New Jersey's fastest growing industries. The appropriation was out of the Workforce Development Partnership Fund, with the federal $6.24 billion Coronavirus State Fiscal Recovery Fund grant serving as an alternative resource if Workforce Development Partnership Fund balances were to fall under a certain threshold. It is unclear whether the Governor plans to support this initiative in FY 2023. The FY 2023 Budget in Brief signals the intent to use Coronavirus State Fiscal Recovery Fund balances in amounts to be determined for unspecified workforce development programming.

The consortium is a collaboration of New Jersey's community colleges that delivers customized workforce training programs to New Jersey businesses and trains unemployed people and others to fill open positions. The Workforce Literacy and Basic Skills Program, in turn, is a workforce development and training partnership of the New Jersey Business and Industry Association, the New Jersey Community College Consortium for Workforce and Economic Development, and the New Jersey Department of Labor and Workforce Development.

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

All Other Funds: Unemployment Insurance					Budget Page: D-234	
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.		Change FY 2022 – FY 2023	
$6,000	$6,000	$150	$15,150		$15,000	100.0%

The recommended All Other Funds appropriation represents dedicated, off-budget receipts from the Unemployment Compensation Auxiliary Fund that support certain administrative activities of the Unemployment Insurance Trust Fund, most notably the collection of debts owed to the trust fund. The entire increase would fund unemployment insurance program debt collection activities. Unemployment Compensation Auxiliary Fund appropriations used for this purpose would rise from $150,000 in FY 2022 to $15.0 million in FY 2023.

The Unemployment Compensation Auxiliary Fund is a repository for all interest and penalties imposed upon employers for violation of unemployment insurance regulation. By statute, moneys from this fund are to be used for the cost of the administration of the Unemployment Insurance 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 department.

The Unemployment Compensation Auxiliary Fund is projected to collect $25.0 million in revenue in FY 2023 and to transfer a total of $33.0 million to other funds. The fund's FY 2023 closing balance is projected at $32.2 million (page 117 of the "Supplementary Information" section in the FY 2023 Governor's Budget, available online).

General Fund, Direct State Services Workplace Standards					Budget Page: D-239	
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.		Change FY 2022 – FY 2023	
$15,034	$15,624	$9,641	$9,641		$0	0.0%

Two recommended offsetting changes produce a stable State funds appropriation level for the Division of Workplace Standards. Both changes affect the ultimately unchanged $7.1 million appropriation for division salaries and wages.

Notably, the Governor proposes increasing the division's salaries and wages appropriation by $1.0 million for the costs of 13 additional positions assigned to enforce the provisions of the "New Jersey Prevailing Wage Act." This increase would be completely offset by the discontinuation of an FY 2022 supplemental appropriation of $1.0 million for the salaries and wages of the Office of Strategic Enforcement and Compliance that is to be established under P.L.2021, c.166. An appropriation for that office is not needed in FY 2023 because the FY 2022 appropriation would be used to pay for FY 2023 expenses of the office. The 2021 law charges the office with overseeing and coordinating across the divisions of the department and, when

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

necessary, between the department and other State agencies and entities, strategic enforcement of State wage, benefit, and tax laws.

General Fund, Grants-In-Aid Future of Work Initiatives					Budget Page: D-240
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.	Change FY 2022 – FY 2023	
$0	$0	$10,000	$0	($10,000)	(100.0%)

The FY 2023 Governor's Budget does not recommend appropriating additional funds for Future of Work Initiatives because the FY 2022 appropriation is intended to pay for FY 2023 program expenditures. Accordingly, the Governor recommends new budget language that would authorize the carryforward of the FY 2022 spending authority into FY 2023. As of April 28, 2022, the entirety of the $10 million is unexpended and uncommitted.

FY 2022 budget language requires that the funds be used for incumbent worker training grants and to develop and implement a pilot program that creates savings accounts to fund education and training expenses to improve lifelong learning.

General Fund, Grants-In-Aid ACCSES NJ – Extended Employment					Budget Page: D-240
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.	Change FY 2022 – FY 2023	
$0	$0	$0	$1,400	$1,400	---

General Fund, Grants-In-Aid ACCSES NJ – Extended Employment - Transportation					Budget Page: D-240
FY 2020 Expended	FY 2021 Expended	FY 2022 Adj. Approp.	FY 2023 Recomm.	Change FY 2022 – FY 2023	
$0	$0	$0	$1,400	$1,400	---

Extended Employment services, also referred to as Sheltered Workshop services, provide long-term employment services in occupation-oriented facilities operated by non-profit service providers, which, except for staff, employ only individuals with significant disabilities at subminimum wages.

The FY 2023 Governor's Budget recommends two appropriations of $1.4 million each for ACCSES New Jersey to provide transportation and other services for individuals in Extended

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

Employment settings. ACCSES New Jersey is a non-profit organization that supports members who advocate for and serve persons with disabilities through community-based programs.

All Other Funds Employment and Training Services					**Budget Page: D-241**	
FY 2020 Expended	**FY 2021 Expended**	**FY 2022 Adj. Approp.**	**FY 2023 Recomm.**		**Change FY 2022 – FY 2023**	
$27,435	**$29,565**	**$54,622**	**$46,122**		**($8,500)**	**(15.6%)**

The All Other Funds line represents multiple appropriations out of the dedicated Workforce Development Partnership Fund for Employment and Training Services. The $8.5 million decline reflects the recommended elimination of an $8.5 million language appropriation the Legislature included in the FY 2022 Appropriations Act for the New Jersey Community College Consortium for Workforce and Economic Development to establish Pathway and Skills Collaboratives and Centers of Excellence in New Jersey's fastest growing industries. The appropriation was out of the Workforce Development Partnership Fund, with the federal $6.24 billion Coronavirus State Fiscal Recovery Fund grant serving as an alternative resource if Workforce Development Partnership Fund balances were to fall under a certain threshold.

It is unclear whether the Governor plans to support this initiative in FY 2023. The FY 2023 Budget in Brief signals the intent to use Coronavirus State Fiscal Recovery Fund balances in amounts to be determined for unspecified workforce development programming.

The Pathway and Skills Collaboratives and Centers of Excellence work to connect numerous eligible training providers to improve the alignment of training and the needs of employers in New Jersey's key industries, to develop new education and training programs aligned with the needs of employers, and to deliver education and training tied to the needs of employers in key industries.

Significant Language Changes

Carryforward Authority for FY 2022 Unemployment Processing Modernization and Improvements Appropriation	
Addition	2022 Handbook: p. N/A 2023 Budget: p. D-241

The unexpended balance at the end of the preceding fiscal year in the Unemployment Processing Modernization and Improvements account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Governor does not recommend a State funds appropriation in FY 2023 for modernizing and improving the unemployment insurance claims processing system. However, this newly proposed language would carry the unexpended balance of the $7.8 million appropriation that was made for this purpose in the current fiscal year forward to FY 2023. As of April 28, 2022, $4.5 million, or about 59 percent, of the original appropriation is uncommitted.

In addition, instead of an FY 2023 State funds appropriation for unemployment insurance claims processing system improvements, the Executive recommends appropriating $15.0 million out of the $6.24 billion Coronavirus State Fiscal Recovery Fund grant the State has received under the American Rescue Plan Act of 2021.

The FY 2022 Appropriations Act already authorized the expenditure of $10.0 million out of the federal grant funds for this purpose. As of April 28, 2022, none of the federal funds appropriation was expended.

The COVID-19 pandemic led to a spike in unemployment insurance claims that overwhelmed the department's established system for processing claims and resolving non-routine cases. At times, the unemployment insurance information technology system collapsed under the weight of the more than two million filings and distribution of over $37.0 billion in benefits during the COVID-19 pandemic through April 2022.

EXPLANATION: FY 2022 language not recommended for FY 2023 denoted by strikethrough.
Recommended FY 2023 language that did not appear in FY 2022 denoted by underlining.

Significant Language Changes (Cont'd)

Direct Support for New Jersey Community College Consortium for Workforce and Economic Development	
Revision	**2022 Handbook: p. B-138** **2023 Budget: p. D-241**

The amounts hereinabove appropriated for the Workforce Literacy and Basic Skills Program shall be appropriated from receipts received pursuant to P.L.2001, c.152 (C.34:15D-21 et seq.), together with such additional amounts as may be required to administer the Workforce Literacy Program, ~~with no less than $3,000,000 for the New Jersey Community College Consortium for Workforce and Economic Development, a part of the New Jersey Council of County Colleges,~~ subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Governor recommends increasing the appropriation for the New Jersey Community College Consortium for Workforce and Economic Development by $6 million from $3 million in FY 2022 to $9 million in FY 2023.

From a technical perspective, the Legislature added a $3 million appropriation for the consortium to the Workforce Literacy and Basic Skills Program budget line in the FY 2022 Appropriations Act and the above language specified the use of the $3 million that the Legislature added to the budget line. Instead, in FY 2023, the Governor proposes replacing the $3 million added to the appropriation for the Workforce Literacy and Basic Skills Program with a stand-alone $9 million appropriation for the consortium.

The consortium is a collaboration of New Jersey's community colleges that delivers customized workforce training programs to New Jersey businesses and trains unemployed people and others to fill open positions. The Workforce Literacy and Basic Skills Program, in turn, is a workforce development and training partnership of the New Jersey Business and Industry Association, the New Jersey Community College Consortium for Workforce and Economic Development, and the New Jersey Department of Labor and Workforce Development.

EXPLANATION: FY 2022 language not recommended for FY 2023 denoted by strikethrough.
Recommended FY 2023 language that did not appear in FY 2022 denoted by underlining.

Significant Language Changes (Cont'd)

Appropriation for Pathway and Skills Collaboratives and Centers of Excellence	
Deletion	**2022 Handbook: p. B-139** **2023 Budget: p. N/A**

~~There is appropriated $8,500,000 from the Workforce Development Partnership Fund, and if that fund has a balance of lower than one-third of its revenue in the previous fiscal year, from what New Jersey is owed under the federal Coronavirus State Fiscal Recovery Fund established under the American Rescue Plan to the New Jersey Community College Consortium for Workforce and Economic Development, a part of the New Jersey Council of County Colleges, to establish Pathway and Skills Collaboratives and Centers of Excellence in New Jersey's fastest growing industries. The collaboratives and centers created using these funds shall connect the New Jersey Department of Labor & Workforce Development, the State Employment and Training Commission, the New Jersey Business & Industry Association, community colleges, vocational-technical schools, workforce development boards, four-year colleges and universities, labor unions, community-based organizations, private career schools, and other eligible training providers to improve the alignment of training and the needs of employers in New Jersey's key industries, to develop new education and training programs aligned with the needs of employers, and to deliver education and training tied to the needs of employers in key industries.~~

<u>Explanation</u>

The FY 2023 Governor's Budget recommends eliminating an $8.5 million language appropriation the Legislature included in the FY 2022 Appropriations Act for the New Jersey Community College Consortium for Workforce and Economic Development to establish Pathway and Skills Collaboratives and Centers of Excellence in New Jersey's fastest growing industries. The appropriation was out of the Workforce Development Partnership Fund, with the federal $6.24 billion Coronavirus State Fiscal Recovery Fund grant serving as an alternative resource if Workforce Development Partnership Fund balances were to fall under a certain threshold.

It is unclear whether the Governor plans to support this initiative in FY 2023. The FY 2023 Budget in Brief signals the intent to use Coronavirus State Fiscal Recovery Fund balances in amounts to be determined for unspecified workforce development programming.

The Pathway and Skills Collaboratives and Centers of Excellence work to connect numerous eligible training providers to improve the alignment of training and the needs of employers in New Jersey's key industries, to develop new education and training programs aligned with the needs of employers, and to deliver education and training tied to the needs of employers in key industries.

EXPLANATION: FY 2022 language not recommended for FY 2023 denoted by strikethrough.
Recommended FY 2023 language that did not appear in FY 2022 denoted by underlining.

Significant Language Changes (Cont'd)

Division of Workplace Standards Salaries and Wages	
Revision	**2022 Handbook: p. B-139** **2023 Budget: p. D-242**

Of the amount hereinabove appropriated for Workplace Standards Salaries and Wages, an amount not less than ~~$500,000~~ <u>$1,500,000</u> shall be allocated for the costs of additional staff assigned to enforce the provisions of the "New Jersey Prevailing Wage Act," P.L.1963, c.150 (C.34:11-56.25 et seq.).

Explanation

The Governor proposes increasing by $1.0 million in FY 2023 the Salaries and Wages appropriation for the Division of Workplace Standards. This language would require that the increase be used by the Division of Wage and Hour Compliance for the costs of additional staff assigned to enforce the provisions of the "New Jersey Prevailing Wage Act." As a result, 13 new positions would be funded in FY 2023.

Overall, the recommended State funds appropriation for Division of Workplace Standards salaries and wages is recommended to remain at an unchanged $7.1 million after accounting for the discontinuation of an FY 2022 supplemental appropriation of $1.0 million to the Office of Strategic Enforcement and Compliance that is to be established under P.L.2021, c.166. An appropriation for that office is not needed in FY 2023 because the FY 2022 appropriation would be used to pay for FY 2023 expenses of the office. The 2021 law charges the office with overseeing and coordinating across the divisions of the department and, when necessary, between the department and other State agencies and entities, strategic enforcement of State wage, benefit, and tax laws.

Carryforward Authority for FY 2022 Future of Work Initiatives Appropriation	
Addition	**2022 Handbook: p. B-140** **2023 Budget: p. D-243**

<u>The unexpended balance at the end of the preceding fiscal year in the Future of Work Initiatives account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.</u>

Explanation

The FY 2023 Governor's Budget does not recommend appropriating additional funds for Future of Work Initiatives because the FY 2022 appropriation is intended to pay for FY 2023 program expenditures. Accordingly, the Governor recommends the new budget language above that would grant the authority to carry the FY 2022

EXPLANATION: FY 2022 language not recommended for FY 2023 denoted by strikethrough.
Recommended FY 2023 language that did not appear in FY 2022 denoted by underlining.

Significant Language Changes (Cont'd)

spending authority forward into FY 2023. The language would require that the carryforward amounts be used for the same purpose for which they were first appropriated, namely for incumbent worker training grants and to develop and implement a pilot program that creates savings accounts to fund education and training expenses to improve lifelong learning. As of April 28, 2022, the entirety of the $10 million is unexpended and uncommitted.

Background Paper: Unemployment Insurance Funding Overview

Budget Pages....	C-12 and pages 117, 118, and 136 of the "Supplementary Information" section in the FY 2023 Governor's Budget, available online

This background paper provides an overview of the unemployment insurance system in New Jersey. The system is intended to accumulate funds during economic prosperity and distribute those funds to the unemployed during times of economic trouble.

HISTORY/OVERVIEW

The Social Security Act of 1935 authorized a federal-state unemployment insurance 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 unemployment insurance system are to alleviate the hardship of involuntary unemployment on workers and their families and thereby 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 unemployment insurance system operates as a federal-state partnership. The federal element provides broad requirements for eligibility for participation in the unemployment insurance system while states determine the details of the operation and administration of their programs within the minimum requirements established by federal law.

The Federal Unemployment Tax Act of 1939 and Titles III, IX, and XII of the Social Security Act define which employees are considered part of a "covered service" and, therefore, must be covered by unemployment insurance in the states' programs, although states may expand the definition. Federal law also establishes the method for triggering federally funded 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 states' contributions and federal payroll taxes that finance the unemployment insurance program. Furthermore, the federal government provides annual appropriations for grants to states for administration of the unemployment insurance program and oversees the appropriate and efficient use of those funds.

As noted above, states must meet the minimum requirements established by the federal law. Within these parameters, states are permitted to set unemployment insurance eligibility provisions (including minimum time periods and minimum amounts 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 unemployment insurance program; take claims from individuals; determine eligibility; pay benefits to workers; determine employer liability; and assess and collect contributions.

Background Paper: Unemployment Insurance Funding Overview (Cont'd)

FUNDING

In New Jersey, the unemployment insurance program is funded jointly through the federal unemployment tax and State unemployment insurance taxes levied on employers and employees.

Federal Funding

The federal unemployment insurance tax revenue is used primarily to finance administrative costs of the system, fund loans to states and cover extended benefits. Revenues collected from the Federal Unemployment Tax Act of 1939 are deposited into the Employment Benefits Security Administration account, the extended unemployment compensation account and the federal unemployment compensation account located in the federal Unemployment Trust Fund.

The amount of federally levied tax is established in Section 3301 of the Social Security Act of 1935, which imposes a payroll tax for every "covered employee" or "covered service," equal to a specified percentage of total wages paid during a calendar year. The federal law currently provides that the tax rate is 6.0 percent. Wages subject to the tax are defined in Section 3306(a) of the Federal Unemployment Tax Act of 1939 as the first $7,000 paid to an employee in a calendar year. However, the law provides for a tax credit of up to 5.4 percent for employers who pay state taxes on time for "covered services," as defined under the law, in an approved state unemployment insurance program. Thus, the federal unemployment insurance tax rate is 0.6 percent (6.0 – 5.4) or $42 ($7,000 x 0.006) per employee. The total amount of federal unemployment tax collected from wages paid in New Jersey for 2021 approximated $150.0 million.

State Funding

In addition to the federal tax, state governments also levy payroll taxes on employers and in some states, including New Jersey, payroll taxes on employees. These taxes are deposited into the state's unemployment insurance trust fund within the federal Unemployment Trust Fund. Each state has its own unemployment insurance trust fund account within the federal Unemployment Trust Fund.

The New Jersey "unemployment compensation law" establishes the 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 for all covered workers. The Statewide average weekly wage is calculated annually by the Department of Labor and Workforce Development. The taxable wage base for 2022 is $39,800.

Employee Contribution

New Jersey is one of only three states in which employees are subject to a tax for unemployment insurance. In New Jersey, the tax on the employee is levied at a rate of 0.3825 percent on the first $39,800 of income earned. Thus, in calendar year 2022, the maximum employee contribution is approximately $152 per employee (0.003825 x 39,800). The total amount of employee contributions in New Jersey in calendar year 2021 is estimated to be $405 million.

Background Paper: Unemployment Insurance Funding Overview (Cont'd)

Employer Contribution

In New Jersey, the employer's tax rate is determined by both the individual employer's experience using the unemployment system and the annual experience of the State Unemployment Insurance Trust Fund. The experience rating tax table provided in N.J.S.A.43:21-7 (see table below), dictates the tax rate of the employer. The overall fund reserve ratio is determined each year by dividing the fund balance 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 + 10%;" "A" being the lowest tax rate and the most advantageous to the employers and "E + 10%" being the highest tax rate. The tax rate is currently set at the "C" column. Following is the current experience rating table:

EXPERIENCE RATING TAX TABLE						
	Fund Reserve Ratio*					
Employer Reserve Ratio **	3.50% and Over	3.00% to 3.49%	2.50% to 2.99%	2.00% to 2.49%	1.99% to 1.00%	0.99% and Under
	A	B	C	D	E	E + 10%
Positive Reserve Ratio:						
17% and over	0.3	0.4	0.5	0.6	1.2	1.3
16.00% to 16.99%	0.4	0.5	0.6	0.6	1.2	1.3
15.00% to 15.99%	0.4	0.6	0.7	0.7	1.2	1.3
14.00% to 14.99%	0.5	0.6	0.7	0.8	1.2	1.3
13.00% to 13.99%	0.6	0.7	0.8	0.9	1.2	1.3
12.00% to 12.99%	0.6	0.8	0.9	1.0	1.2	1.3
11.00% to 11.99%	0.7	0.8	1.0	1.1	1.2	1.3
10.00% to 10.99%	0.9	1.1	1.3	1.5	1.6	1.8
9.00% to 9.99%	1.0	1.3	1.6	1.7	1.9	2.1
8.00% to 8.99%	1.3	1.6	1.9	2.1	2.3	2.5
7.00% to 7.99%	1.4	1.8	2.2	2.4	2.6	2.9
6.00% to 6.99%	1.7	2.1	2.5	2.8	3.0	3.3
5.00% to 5.99%	1.9	2.4	2.8	3.1	3.4	3.7
4.00% to 4.99%	2.0	2.6	3.1	3.4	3.7	4.1
3.00% to 3.99%	2.1	2.7	3.2	3.6	3.9	4.3
2.00% to 2.99%	2.2	2.8	3.3	3.7	4.0	4.4
1.00% to 1.99%	2.3	2.9	3.4	3.8	4.1	4.5
0.00% to 0.99%	2.4	3.0	3.6	4.0	4.3	4.7
Deficit Reserve Ratio:						
-0.00% to -2.99%	3.4	4.3	5.1	5.6	6.1	6.7
-3.00% to -5.99%	3.4	4.3	5.1	5.7	6.2	6.8
-6.00% to -8.99%	3.5	4.4	5.2	5.8	6.3	6.9
-9.00% to-11.99%	3.5	4.5	5.3	5.9	6.4	7.0
-12.00% to-14.99%	3.6	4.6	5.4	6.0	6.5	7.2
-15.00% to-19.99%	3.6	4.6	5.5	6.1	6.6	7.3
-20.00% to-24.99%	3.7	4.7	5.6	6.2	6.7	7.4
-25.00% to-29.99%	3.7	4.8	5.6	6.3	6.8	7.5
-30.00% to-34.99%	3.8	4.8	5.7	6.3	6.9	7.6
-35.00% and under	5.4	5.4	5.8	6.4	7.0	7.7
New Employer Rate	2.8	2.8	2.8	3.1	3.4	3.7
* Fund balance as of March 31 as a percentage of taxable wages in the prior calendar year.						
** Employer Reserve Ratio (Contributions minus benefits as a percentage of employer's taxable wages).						

Background Paper: Unemployment Insurance Funding Overview (Cont'd)

In addition to determining what column will be used to calculate the tax rate on all employers, the employer's reserve ratio or experience rating (left hand column in table) is calculated through a formulaic system to determine an employer's particular rate. To determine the employer's ratio, the benefits paid out to the specific employer's workers are subtracted from all the contributions an employer has made to the State Unemployment Insurance Trust Fund and then that amount is divided by the amount of the employer's taxable wages (which is calculated by determining the average of all payroll paid over the previous three years). The more unemployment insurance charges against the account, the higher the employer's tax rate; the fewer claims filed 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 unemployment insurance system among employers and to encourage employers to stabilize their workforce.

Depending on their experience rating, New Jersey employers are taxed in calendar year 2022 on a scale from 0.5 percent to a maximum of 5.8 percent on the first $39,800 paid in wages, a range from a minimum of $199 to a maximum of $2,308 per employee. Since new employers have no experience, the tax rate begins at 2.8 percent, or $1,114 per year, per employee. The total amount of employer contributions in New Jersey for calendar year 2022 is estimated to be $2.01 billion.

Although the majority of employers in the State contribute to the unemployment insurance 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 trust fund on a forward basis through taxes but rather are "reimbursable" employers pursuant to 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

Unemployment insurance benefits are 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 include those who: 1) voluntarily left their employment; 2) were terminated for gross misconduct; 3) are not employed in a service, as defined in federal unemployment tax or by State law; and 4) have not earned enough in wages or worked for a sufficient amount of time to qualify. Also excluded are certain corporate officers and owners of business. Certain individuals who were terminated for simple or severe misconduct or left employment voluntarily may not immediately be eligible for unemployment insurance benefits, but may qualify after returning to work for a shortened period.

In addition, federal unemployment tax excludes from its definition of "employment" several categories of employers that, while not required to pay the federal unemployment tax or the State tax, are required to provide unemployment compensation benefits through an alternative system. Examples of these types of employers include federal employers, non-profit employers, maritime employers, railroad employers, and state and local governmental entities.

Lastly, individuals must have earned at least 20 times the minimum wage for at least 20 weeks ($240 per week during calendar year 2022) or earned at least 1,000 times the minimum State hourly wage during their base year ($12,000 during calendar year 2022) in order to qualify to participate in the unemployment insurance system.

Background Paper: Unemployment Insurance Funding Overview (Cont'd)

BENEFITS

Once an individual's eligibility for unemployment insurance is established, the level of benefits must be determined. The maximum unemployment benefit is the balance of benefits over funds potentially available to a worker based on the worker's weeks worked (up to 26 weeks) and wages earned before filing for benefits. More concretely, the weekly benefit amount is 60 percent of the worker's average weekly wage plus up to 15 percent of the worker's wage for dependents, except that the total weekly benefit may not exceed 57 percent of the State average weekly wage for all workers, which results in a maximum weekly benefit of $804 in 2022.

The maximum a beneficiary can receive, regardless of how many weeks the claimant worked during the base year or how much the claimant earned, is 26 times the maximum weekly benefit rate. In 2022, the maximum total benefit amount a claimant can receive during the annual claim period is $20,904 ($804*26 weeks). The annual claim period is 365 days from the date of the worker submits the claim. The total amount of regular benefits paid to workers in New Jersey in 2022 is estimated to be $2.14 billion.

Duration of Benefits

Individuals may collect unemployment benefits for up to 26 weeks in New Jersey. To remain eligible for benefits during this time, the individual must: schedule an appointment and report to the local One-Stop Career Center at the appropriate time; be able and available to work; actively seek work; not refuse any offer of "suitable work" as defined in State law; and claim the weekly unemployment benefits on the Internet or by telephone.

Federal/State Extended Benefits Program

There are a few means by which an individual can access unemployment insurance benefits beyond the regular 26-week duration. All of these benefits are cumulative and are in addition to the original 26 weeks of benefits.

The joint federal-State extended benefits program, statutorily authorized by P.L.1970, c.324 and the "Federal State Extended Unemployment Compensation Act of 1970," Pub.L.91-373, is triggered when states reach certain levels of unemployment. The regular extended benefits program provides for 50 percent of regular benefits or an additional 13 weeks of benefits, whichever is less, for unemployed workers. These benefits are equally funded by the State unemployment insurance trust fund and from the federal extended unemployment compensation account. In New Jersey, the trigger for regular extended benefits is an unemployment rate of at least 6.5 percent in each of the most recent three months. Given the lower State's unemployment rate in February 2022 of, 4.6 percent, the State extended benefits program expired on April 9, 2022. The total amount of extended benefits paid to workers in New Jersey from July 2020, through the time of this backgrounder was approximately $1.3 billion.

Background Paper: Unemployment Insurance COVID-19 Impact

Budget Pages.... C-12 and pages 117, 118, and 136 of the "Supplementary Information" section in the FY 2023 Governor's Budget, available online

COVID-19 PANDEMIC IMPACT

The COVID-19 pandemic led to a spike in unemployment insurance claims that overwhelmed the department's established system for processing claims and resolving non-routine cases. The high volume of unemployment insurance claims since March 2020 has depleted the Unemployment Insurance Trust Fund. To ensure the continued payment of unemployment insurance benefits, it became necessary for the State to begin borrowing from the federal government in August 2020. As of April 22, 2022, New Jersey is one of nine states with outstanding loans from the federal unemployment account. Its existing loan balance totals $834.6 million on which the State is paying a 1.59 percent interest rate.

The depletion of the Unemployment Insurance Trust Fund during the COVID-19 pandemic and the need to borrow from the federal government to continue the payment of unemployment benefits would have normally triggered sharply higher employer and employee contributions to replenish the fund. P.L.2020, c.150, however, spread out over three fiscal years the steep increase in employer contributions that the statutory formula would have otherwise required to occur in FY 2022.

The employer tax rate is based on a combination of the annual experience of the individual employer[1] and the annual experience of the Unemployment Insurance Trust Fund calculated through a determination of the overall fund reserve ratio. 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+10%;" "A" having the lowest tax rates and "E+10%" having the highest tax rates.

Currently, unemployment contribution rates for FY 2022 are set by column "C" of the experience rating tax table pursuant to P.L.2020, c.150. For FY 2023, the law prescribed that rates be set in accordance with column "D" and for FY 2024 in accordance with column "E." Under prior law and absent P.L.2020, c.150, the rate schedule would have been "E + 10%" starting in FY 2022. Moreover, the gradual increase in the employer tax rate, under P.L.2020, c.150, is estimated to result in savings for employers totaling $684.0 million for FY 2022; $478.3 million for FY 2023; and $257.1 million for FY 2024.

Furthermore, P.L.2020, c.150 provides that none of the unemployment insurance benefits paid during the COVID-19 pandemic public health emergency and state of emergency declared by the Governor on March 9, 2020, and any subsequent extensions of that public health emergency and state of emergency, are included in the calculation of the employer's individual unemployment insurance contribution tax rates within an unemployment insurance tax column. Because employers have continued to pay unemployment insurance taxes during the emergency while having no paid benefits counted in their accounts, their individual tax rates have declined within the tax columns.

[1] Depending on their experience rating, New Jersey employers are taxed in calendar year 2022 on a scale from 0.5 percent to a maximum of 5.8 percent on the first $39,800 paid in wages to an employee.

Background Paper: Unemployment Insurance COVID-19 Impact (Cont'd)

P.L.2020, c.150 Modification of the EXPERIENCE RATING TAX TABLE				
	2.50% to 2.99%	2.00% to 2.49%	1.99% to 1.00%	0.99% and Under
Employer Reserve Ratio **	"C" FY 2021-2022	"D" FY 2023	"E" FY 2024	"E+10%"
Positive Reserve Ratio:				
17% and over	0.5	0.6	1.2	1.3
16.00% to 16.99%	0.6	0.6	1.2	1.3
15.00% to 15.99%	0.7	0.7	1.2	1.3
14.00% to 14.99%	0.7	0.8	1.2	1.3
13.00% to 13.99%	0.8	0.9	1.2	1.3
12.00% to 12.99%	0.9	1.0	1.2	1.3
11.00% to 11.99%	1.0	1.1	1.2	1.3
10.00% to 10.99%	1.3	1.5	1.6	1.8
9.00% to 9.99%	1.6	1.7	1.9	2.1
8.00% to 8.99%	1.9	2.1	2.3	2.5
7.00% to 7.99%	2.2	2.4	2.6	2.9
6.00% to 6.99%	2.5	2.8	3.0	3.3
5.00% to 5.99%	2.8	3.1	3.4	3.7
4.00% to 4.99%	3.1	3.4	3.7	4.1
3.00% to 3.99%	3.2	3.6	3.9	4.3
2.00% to 2.99%	3.3	3.7	4.0	4.4
1.00% to 1.99%	3.4	3.8	4.1	4.5
0.00% to 0.99%	3.6	4.0	4.3	4.7
Deficit Reserve Ratio:				
-0.00% to -2.99%	5.1	5.6	6.1	6.7
-3.00% to -5.99%	5.1	5.7	6.2	6.8
-6.00% to -8.99%	5.2	5.8	6.3	6.9
-9.00% to-11.99%	5.3	5.9	6.4	7.0
-12.00% to-14.99%	5.4	6.0	6.5	7.2
-15.00% to-19.99%	5.5	6.1	6.6	7.3
-20.00% to-24.99%	5.6	6.2	6.7	7.4
-25.00% to-29.99%	5.6	6.3	6.8	7.5
-30.00% to-34.99%	5.7	6.3	6.9	7.6
-35.00% and under	5.8	6.4	7.0	7.7
New Employer Rate	2.8	3.1	3.4	3.7
* Fund balance as of March 31 as a percentage of taxable wages in the prior calendar year.				
** Employer Reserve Ratio (Contributions minus benefits as a percentage of employer's taxable wages).				

Interest Repayment

The State may pay back the interest on the loan through disbursements from the State General Fund or the State Unemployment Compensation Auxiliary Fund. 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 deposited in the "Unemployment Compensation Interest Repayment Fund". N.J.S.A.43:21-14.3 established the

Background Paper: Unemployment Insurance COVID-19 Impact (Cont'd)

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 State Unemployment Compensation Auxiliary Fund.

The Executive anticipates $9.4 million and $13.0 million in interest payments on the federal loan out of the dedicated Unemployment Compensation Interest Repayment Fund in FY 2022 and FY 2023, respectively. Although statutes require that a special assessment on employers be imposed to pay for the interest on the loan (with collections to be deposited into the dedicated Unemployment Compensation Interest Repayment Fund), balances in the dedicated Unemployment Compensation Auxiliary Fund are being used for this purpose by means of a funds transfer in accordance with budget language. Notwithstanding the Executive estimate, according to the federal Title XII Advance Activities Schedule, available online, the net interest for the loans will accrue to $5.3 million by September 30, 2022, at which time the net payment will be due.

Principal Repayment

The State may pay back the principal of the loan through excess State unemployment insurance taxes or disbursements from the State General Fund. However, if the principal of the loan is not paid back after two years of deficit, employers are charged a higher total federal unemployment insurance tax rate to pay back that principal. The federal unemployment insurance tax revenue is used primarily to finance administrative costs of the system, fund loans to states, and cover extended benefits. Revenues collected from the Federal Unemployment Tax Act of 1939 are deposited into the employment security administration account, the extended unemployment compensation account and the federal unemployment compensation account located in the federal Unemployment Trust Fund.

The amount of federally levied tax is established in Section 3301 of the Social Security Act, which imposes a payroll tax for every "covered service," equal to a specified percentage of total wages paid during a calendar year. The federal law currently provides that the tax rate is 6.0 percent. Wages subject to the tax are defined in Section 3306(a) of the Federal Unemployment Tax Act as the first $7,000 paid to an employee in a calendar year. However, the act provides for a tax credit of up to 5.4 percent for employers who pay state taxes on time for "covered services," as defined under the law, in an approved state unemployment insurance program. Thus, the effective federal unemployment insurance tax rate is 0.6 percent (6.0 – 5.4) or $42 ($7,000 x 0.006) per employee. New Jersey commenced borrowing from the federal government in August 2020 and is still in deficit to the federal government in April 2022; if the State does not satisfy its debt, it will trigger a reduction in the credit and an increase in the actual federal unemployment tax rate.

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 5.4 percent credit.

Background Paper: Unemployment Insurance COVID-19 Impact (Cont'd)

COVID-19-Related Unemployment Insurance Extended Benefits

Several federal programs temporarily expanded unemployment eligibility and extended unemployment benefits; most of these benefits, including Pandemic Unemployment Assistance, Pandemic Emergency Unemployment Compensation, and the Federal Pandemic Unemployment Compensation, expired on September 4, 2021, with Lost Wages Assistance expiring on September 5, 2020. Although the additional benefit programs were administered by the New Jersey Department of Labor and Workforce Development, the federal government paid for 100 percent of the cost.

Pandemic Unemployment Assistance, established under the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, provided up to 79 weeks of benefits to New Jerseyans who met all of the following criteria: 1) are not eligible for unemployment benefits in any state, including self-employed workers; 2) are otherwise able and available to work except that they are unemployed, partially unemployed, or unable or unavailable to work due to a COVID-19 qualifying reason; and 3) are able to demonstrate labor market attachment, through earnings or an official work offer. The Pandemic Unemployment Assistance program provided $5.6 billion of benefits to New Jerseyans through September 4, 2021.

Pandemic Emergency Unemployment Compensation, also established by the CARES Act, extended unemployment benefits per eligible claim for an additional 13 weeks. The federal Continued Assistance Act of 2020 and the American Rescue Plan Act of 2021 extended the program for an additional 11 weeks and 25 weeks respectively. Benefits paid to workers under the program totaled about $3.8 billion.

The *Federal Pandemic Unemployment Compensation*, provided $600, under the CARES Act, to workers for weeks ending on April 4, 2020 through July 24, 2020, and $300, under the American Rescue Plan Act, to workers for weeks or unemployment ending on March 11, 2021 through September 4, 2021. Benefits paid to workers under the program totaled over $15.2 billion.

Lost Wages Assistance, also referred to as "FEMA payments," was a limited-time federal program that paid a $300 weekly supplemental benefit to most workers unemployed for a COVID-19 related reason during the weeks ending August 1, 2020 through September 5, 2020. The maximum benefit was for six weeks, for a total of $1,800 in payments. Payments were for claimants who could certify that they: 1) were unemployed for all or part of the six-week period from the time of eligibility; and 2) were eligible for at least $100 in unemployment benefits; and 3) were unemployed for a COVID-19 related reason. The total amount of Lost Wages Assistance paid to unemployed New Jerseyans approximated $1.4 billion.

Background Paper: Funding Mechanism and Diversions of Workforce Development Partnership Fund

Budget Pages....	Page 99 of the "Supplementary Information" section in the FY 2023 Governor's Budget, available online

Introduction

This background paper provides an overview of the statutory allocations of funding in the Workforce Development Partnership Fund, which provides an allocation of funding for career and employment services for certain qualified currently employed and recently displaced workers, or workers who are otherwise disadvantaged. While the statute establishing the Workforce Development Partnership Fund specifies an allocation for the moneys in the fund, the annual appropriations act diverts fund balances to several agencies and other State instrumentalities.

Establishment of the Workforce Development Partnership Fund

The Workforce Development Partnership Fund was established by P.L.1992, c.43. The original purpose of the act was to provide currently employed and recently displaced workers with the employment and training services most likely to provide them with the greatest opportunity for long-range career advancement with high levels of productivity and earning power.

In the findings and declarations for the act, the Legislature determined that it was "an appropriate public purpose to sustain the current level of support of training programs for disadvantaged individuals and to establish, with the active participation of New Jersey's business and labor communities, a broader program of expanded, high-quality training and education, including needed basic skills education, for currently employed and recently displaced front-line workers, funded by the redirection of a portion of existing payroll taxes." To that end, the law provides that the program is to deliver career and employment services through training grants to individual displaced workers or customized training services tailored to the needs of employers.

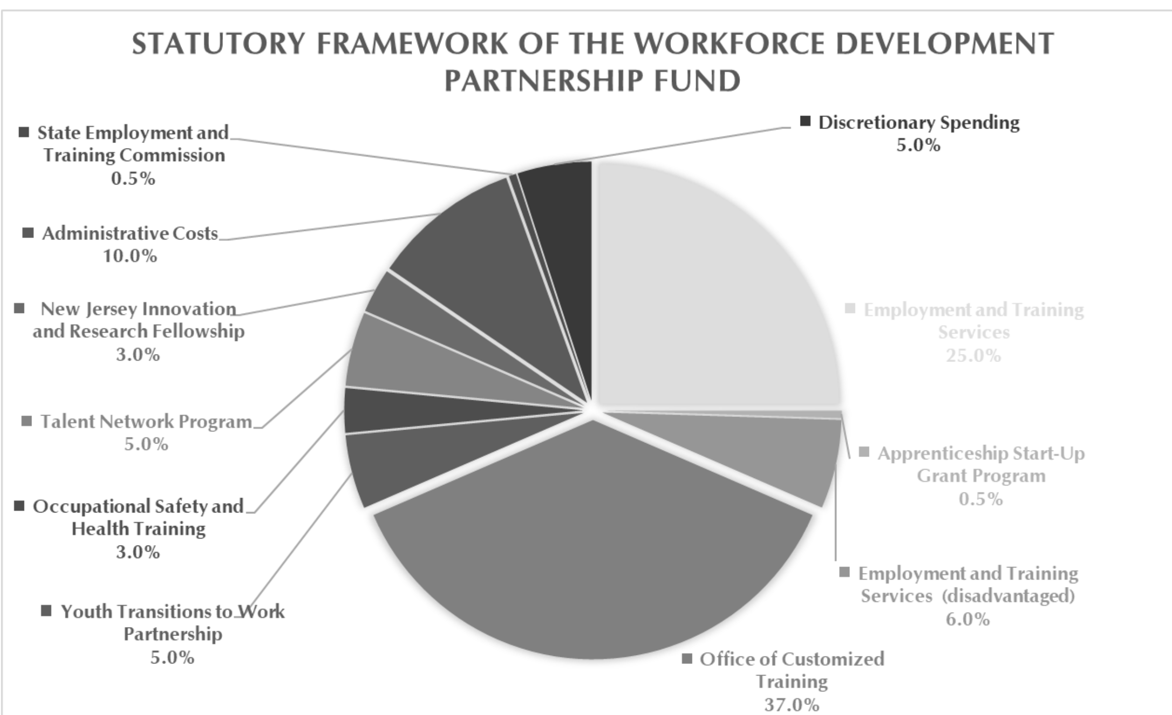
P.L.1992, c.43 did not provide a breakdown of the specific ways in which moneys from the fund were to be used. As enacted, the law provided that if the balance of the fund exceeded 1.5 times the amount of contributions deposited for the calendar year that ended, the excess was to be deposited into the unemployment compensation fund.

Current Statutory Framework of the Workforce Development Partnership Fund

Since the enactment of P.L.1992, c.43, the funding allocations for the program and the Workforce Development Partnership Fund have changed significantly. Current law provides the following funding requirements:

Background Paper: Funding Mechanism and Diversions of Workforce Development Partnership Fund (Cont'd)

Table 1. Statutory Framework of the Workforce Development Partnership Fund			
SPECIFICATIONS	ACCOUNTS	STATUTORY REQUIRED PROPORTION	RESERVED
FY 2002 and thereafter	Employment and Training Services (Qualified Displaced Workers)	25%	
Through FY 2023 - Reserve	Employment and Training Services - Pilot program P.L.2019, c.252		10%
FY 2020 and thereafter	Employment and Training Services (Qualified Disadvantaged Workers)	6%	
Through FY 2023 - Reserve	Employment and Training Services - Pilot program P.L.2019, c.252		10%
	Apprenticeship Start-Up Grant Program	0.5%	
	Office of Customized Training	37%	
	Youth Transitions to Work Partnership	5%	
	Occupational Safety and Health Training	3%	
	Talent Network Program	5%	
	New Jersey Innovation and Research Fellowship Program	3%	
	Administrative Costs	10%	
	State Employment and Training Commission	0.5%	
	Discretionary Spending	5%	
TOTAL		100%	



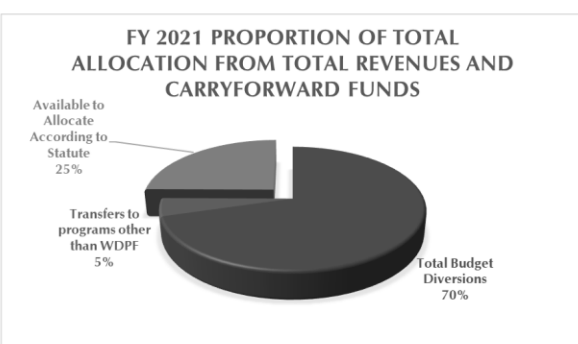
Background Paper: Funding Mechanism and Diversions of Workforce Development Partnership Fund (Cont'd)

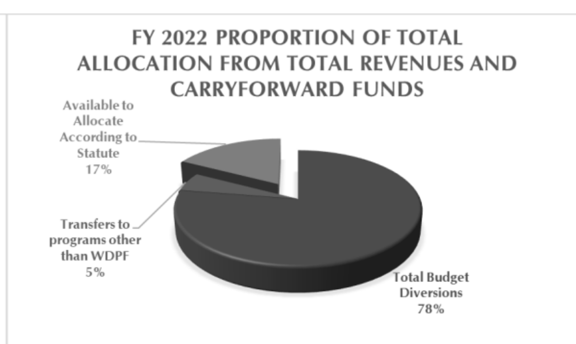
In addition to the allocations above, the funding requirements provide that, except for the account reserved for the Talent Network Program, if the unexpended cash balance in any of the other accounts of the fund, less any amount awarded in grants but not yet disbursed from the account, is determined to exceed 20 percent of the amount of contributions collected for deposit in the account during the fiscal year that ended, the excess will be regarded as an unemployment compensation contribution and deposited into the unemployment compensation fund.

With respect to the Talent Network Program, the funding requirements provide that if the unexpended cash balance in the account reserved for the Talent Network Program, less any amount awarded in grants but not yet disbursed from the account, is determined to exceed 20 percent of the amount of contributions collected for deposit in the account during the fiscal year that ended, the excess will be deposited into the Workforce Development Partnership Fund account reserved for the Office of Customized Training.

Additionally, the funding requirements provide an allocation for the Apprentice Assistance and Support Services Pilot Program, established by P.L.2019, c.419. The purpose of the program is to address two significant barriers to individuals participating in apprenticeships, lack of affordable and reliable transportation and lack of affordable, high-quality childcare, by providing stipends to eligible apprentices, and the program is scheduled to expire on July 1, 2025. The funding requirements provided for an initial $250,000 allocation to the pilot program from the $29.7 million, which was appropriated pursuant to the annual appropriations act for fiscal year 2019 from the Workforce Development Partnership Fund for Work First New Jersey Work Activities and Work First New Jersey-Training Related Expenses. $1.1 million was required to be allocated to the pilot program in each of fiscal years 2020, 2021, and 2022, and is required to be allocated to be so allocated in fiscal years 2023 and 2024 from the amounts appropriated pursuant to the annual appropriations act in those fiscal years from the Workforce Development Partnership Fund for the purpose of funding Work First New Jersey Work Activities and Work First New Jersey-Training Related Expenses.

Despite the statutory requirements concerning the allocation of moneys in the Workforce Development Partnership Fund, the fund is rarely utilized in the manner prescribed by law, and is instead subject to the annual appropriations act, which provides a different accounting for the moneys in the fund.

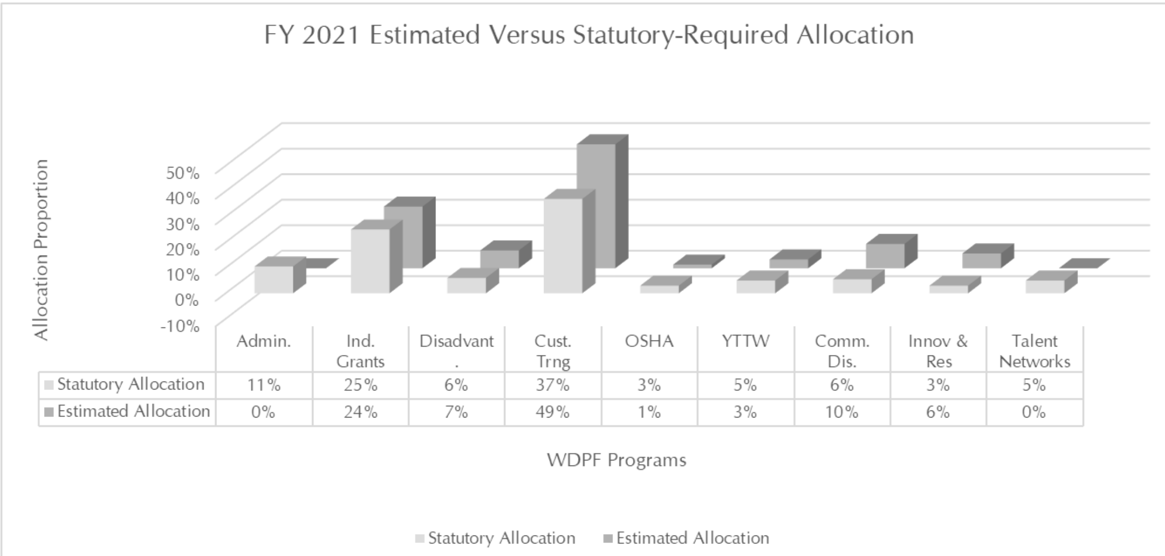


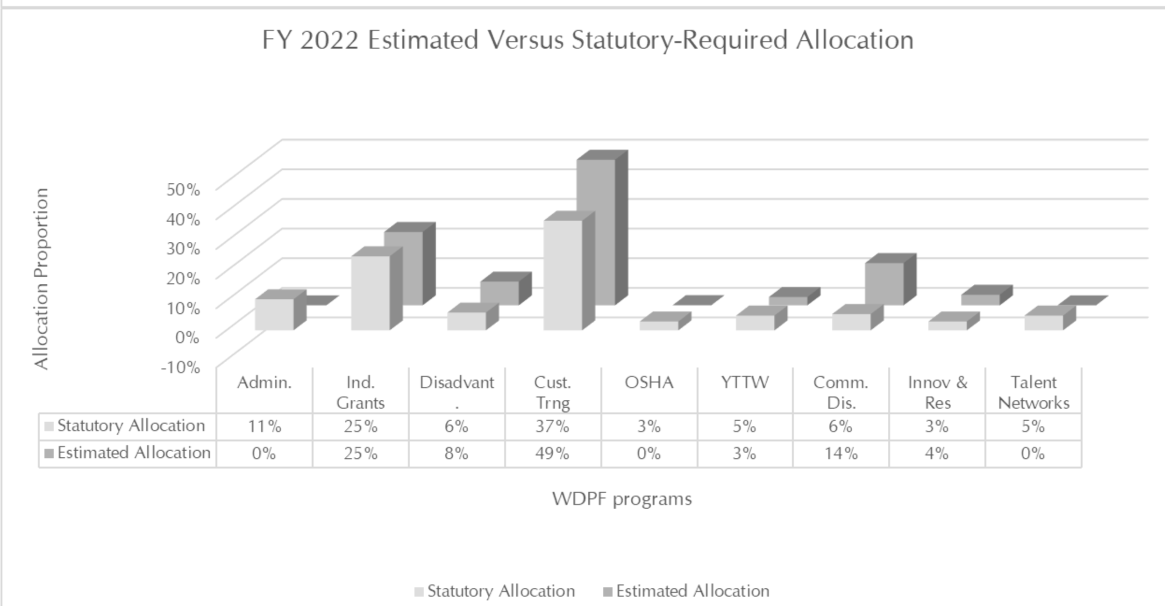


According to the charts above, for fiscal years 2021 and 2022, the department estimates that in fiscal year 2021, about 70 percent of the total funding from estimated revenues and carryforward

Background Paper: Funding Mechanism and Diversions of Workforce Development Partnership Fund (Cont'd)

moneys was diverted to other departments for different budgetary purposes and likewise in fiscal year 2022, 78 percent will be so diverted. The department also estimated that approximately 25 percent and 17 percent, for the same fiscal years, respectively, would have been available to allocate according to the program's statutorily required allocation mechanism.





The remaining funds available to allocate (25 percent for FY 2021 and 17 percent for FY 2022 of total estimated revenues and carryforward moneys) are shown in the graphs above, with separate columns for the statutorily-required allocation formula and the department's estimated allocation for those years.

Background Paper: The Expanded Temporary Disability and Family Leave Insurance Programs and their Effects on Employee Payroll Taxes

Budget Page	Page 109 of the "Supplementary Information" section in the FY 2023 Governor's Budget, available online

P.L.2019, c.37 expanded the temporary disability insurance and family leave insurance benefits programs. For leave periods beginning on or after July 1, 2020, benefits were increased under both programs and the maximum benefit period was extended only for the family leave insurance program. Employees pay for the entirety of the enhanced benefits through higher payroll taxes.

Benefit Expansion

P.L.2019, c.37 expanded the maximum duration for family leave insurance benefits from six weeks to 12 weeks. The law also raised the weekly benefits for both family leave insurance and temporary disability insurance claims from 66.7 percent to 85.0 percent of the worker's average weekly wage. The maximum benefit amount also grew from 53 percent to 70 percent of the State average weekly wage (an increase from $651 to $860 per week in calendar year 2019). Because of general wage growth, the maximum weekly benefit increased further from $903 in calendar year 2021 to $993 in calendar year 2022.

Employee Payroll Taxes

Employees pay for the entirety of the benefit expansion through payroll taxes. Starting in January 2020, family leave insurance and temporary disability insurance employee payroll tax rates and the taxable wage base went up. The initial payroll tax increase was divided between two calendar years, because the tax rates are determined on a calendar year basis and the benefit enhancement took effect on July 1, 2020.

Table 1. displays the impact of the expansion of the temporary disability insurance program on an individual taxpayer paying the maximum worker contribution. It should be noted that the average worker no longer pays the maximum contribution after P.L.2019, c.37's expansion of the taxable wage rate.

Table 1. Temporary Disability Insurance Employee Payroll Tax Impact on Individual

	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Taxable Wage Base	$33,700	$34,400	$134,900	$138,200	$151,900
Employee Tax Rate	0.0019	0.0017	0.0026	0.0047	0.0014
Maximum Worker Contribution	$64.03	$58.48	$350.74	$649.54	$212.66

Table 2. shows the impact of the expansion of the family leave insurance program on an individual taxpayer paying the maximum worker contribution. As is the case under the temporary disability insurance program, the average worker no longer pays the maximum contribution after P.L.2019, c.37's expansion of the taxable wage rate.

Background Paper: The Expanded Temporary Disability and Family Leave Insurance Programs and their Effects on Employee Payroll Taxes (Cont'd)

Table 2. Family Leave Insurance Employee Payroll Tax Impact on Individual

	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Taxable Wage Base	$33,700	$34,400	$134,900	$138,200	$151,900
Employee Tax Rate	0.0009	0.0008	0.0016	0.0028	0.0014
Maximum Worker Contribution	$30.33	$27.52	$215.84	$386.96	$212.66

Table 3. aggregates the impacts from the expansion of the two programs on an individual taxpayer paying the maximum worker contribution. As noted above, the average worker no longer pays the maximum contribution after P.L.2019, c.37's expansion of the taxable wage rate.

Table 3. Combined Temporary Disability Insurance and Family Leave Insurance Employee Payroll Tax Impact on Individual

	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Maximum Worker Contribution:					
Temporary Disability Insurance	$64.03	$58.48	$350.74	$649.54	$212.66
Family Leave Insurance	$30.33	$27.52	$215.84	$386.96	$212.66
TOTAL	$94.36	$86.00	$566.58	$1,036.50	$425.32

Temporary disability insurance and family leave insurance payroll contributions are deposited into the State Disability Benefit Fund. Table 4. shows total revenue collections and expenditures out of the fund between fiscal years 2018 and 2023, estimated. Because these data are on a fiscal year basis, they do not correspond neatly to the calendar year data in the above tables on the impact of P.L.2019, c.37 on individual taxpayers.

In addition, as employers also contribute to the temporary disability insurance program, not all of the tax collections represent employee payroll contributions.

Table 4. Annual State Disability Benefit Fund Expenditures and Tax Revenues (in $ Million)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 Est.	FY 2023 Est.
Payroll Tax Revenue	$516.3	$510.4	$705.5	$1,362.5	$1,365.0	$690.0
Expenditures	$521.8	$531.2	$559.8	$829.2	$1,025.0	$1,065.0

The significant decrease in estimated FY 2023 payroll tax revenue reflects the mechanics of the tax rate determination formula. Because the department overestimated the amount of benefits it would pay out in calendar years 2020 and 2021, a significant excess balance accumulated in the State Disability Benefit Fund. As the payroll tax rate determination formula takes the excess fund balance into account, estimated calendar year 2022 benefit payments are paid for out of excess fund balances plus reduced payroll contributions.

New Jersey Legislature

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Individuals wishing information and committee schedules on the FY 2023 budget are encouraged to contact:

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