

**New Hampshire Employment Security (NHES)**  
**Senate Finance Hearing on Budget Request FY 2022/2023**  
**Tuesday, April 20<sup>th</sup> @ 1:00pm**

- The Department receives no state general funds and the majority of its non-matching federal funding comes from the United States Department of Labor (USDOL).
  
- Our biennium budget projection is based on the knowledge and expectation of the continuation of our core programs: Employment Services, Unemployment Insurance and Labor Market Information.
  
- The Department also receives supplemental funding in the form of a 0.2% diversion of employer state unemployment taxes (RSA 282 A:87) for administrative support in order to cover federal funding shortfalls, and from which \$6M annually is deposited into the Training Fund.

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- The Department offers a variety of services to claimants, job seekers and employers in 12 full service offices and 2 itinerant offices located throughout the state. Therefore, personal service and benefit costs comprise the largest portion of our overall budget. While services are currently being provided virtually, we are working hard to transition back to in-person services and are confident we will be able to open our offices back up to the public in 2021.
  - Worth noting is our current 2021 adjusted authorized budget is now near \$66 million (versus \$40 million in your packet) as NHES continues to receive above-base and supplemental federal funding to assist with the continued elevated workload levels and necessary computer system enhancements.
  
- **Personnel-related costs** comprise approximately **57% of our budget**. When unemployment claims increase, as has been experienced resulting from the pandemic,

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NHES receives additional federal funding based on workloads in excess of our base budget workload counts.

- Our 2022 personnel-related budget lines have increased approximately 12% over our 2021 adjusted authorized budget. Our 2023 personnel-related budget represents an almost 6% increase over 2022 due to the additional pay-period in 2023. That said, these increases are based on the lower 2021 adjusted authorized budget and would actually be an 18% decrease using the current 2021 adjusted authorized.
- A growing economy and low unemployment rate like NH was experiencing prior to the pandemic, results in decreased funding for NHES. To put this into context, at the start of the FY12-13 biennium, the total number of staff at the department was 453, while at the start of the FY20-21 biennium, the total number of staff was down to 249.

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- Prior to the pandemic, NHES had the lowest staffing levels going back at least 40 years.
  
- Considering how quickly the pandemic and related necessary public health restrictions impacted the state's workforce, the department did not have time to hire additional staff in order to meet the growing demand for unemployment benefits and related services.
  
- Instead, the department made the decision to address this demand with existing staff and increasing reliance on technology. NHES staff worked overtime equivalent to approximately 95 additional positions in the initial months of the pandemic in order to handle the sudden and drastic increase in workloads.
  
- NHES staff were working longer hours and were working 7 days per week in order to meet the demand.

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The employees of the department have made incredible sacrifices during 2020 and continue to make sacrifices and work long hours in order to meet the needs of the citizens of this state.

- Understanding that such expectations from our workforce are only realistic in the short term, we made the decision to increase staffing levels during the summer of 2020 when workloads were expected to decline. We have been hiring staff these past few months, bringing in additional staff to process claims; to conduct appeals; to work with customers on the hotline; and to review claims in order to detect fraud prior to benefits being paid.
  
- We have filled 59 vacancies since the beginning of the pandemic and 35 positions remain in active recruitment, many of which are the result of internal movement

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which we have done by filling previously funded vacant positions.

- We have also utilized external resources with at first the New Hampshire National Guard and currently an outside vendor to support the needs around the unemployment hotline created at the outset of the pandemic. We have received over one million calls during the pandemic and have handled this with the combination of outside resources and our own internal staff.
  
- **Department of Information Technology (DoIT) costs** comprise approximately **11% of our overall budget**. With this budget, NHES supports approximately 24 full-time equivalent DoIT positions: 19 embedded within NHES.

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- Our 2022 and 2023 DoIT budget line increased 7.3% and 3.5% over 2021, respectively. A portion of the increase is the result of the inclusion of maintenance and support costs associated with the Workforce Innovation and Opportunity Act (WIOA) case management module of our Job Match System (JMS). Our 2022 budget includes one-time server and other hardware upgrades not also included in 2023. Using the current 2021 adjusted authorized budget, there are decreases of 2% and 5% for 2022 and 2023, respectively.
  
- The **Job Training Fund** receives \$6,000,000 annually, which represents approximately **12% of our overall budget**.
  
- NHES relies heavily on **technology** to administer all of our programs but most importantly the unemployment insurance program; therefore, in addition to class 027 (DoIT), our software, equipment and equipment-related

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**maintenance budget represents approximately 10% of our overall budget.**

- Our 2022 and 2023 technology and equipment budget lines increased 92% and 95% over 2021, respectively. Using the current 2021 adjusted authorized budget, there are decreases of 51% and 50% for 2022 and 2023, respectively. With the significant benefit system enhancements necessary resulting from the pandemic, NHES' equipment, maintenance and support costs are expected to increase as a result.
  
- **The remaining 10% of our overall budget is comprised of general operating expenditures** such as telecommunications, postage, check/paper stock, utilities, supplies, rent, banking costs, building maintenance contracts, etc.
  - Our 2022 and 2023 general operating expenditure lines increased 18% over 2021. Using the current 2021 adjusted authorized budget, there is a decrease of 47% in 2022 and 2023.



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- The Department submitted a budget of \$14,490,810 for SFY 2022 and \$15,323,820 for SFY 2023 in the category of personal services for permanent classified and unclassified staff. This includes 286 classified positions (of which 15 are unfunded this biennium) and 7 unclassified positions.
  
- The Department also included 26 full time temporary and 35 part time positions in the SFY 2022/2023 budget request in order to assist with continued elevated workloads for which above-base funding is anticipated.

## **Discussion of the Unemployment Compensation Trust Fund:**

- The Unemployment Compensation Trust Fund is currently at \$103 million (as of 4/6/21).
- This current balance includes the additional \$50 million deposited to the trust fund from the state's CARES Act flex funds.
- To put this into perspective, the balance was approximately \$300 million at the beginning of the pandemic. NHES has paid out approximately \$318 million in state UI benefits during the pandemic.
- As NHES administers both state and federal unemployment programs, we have paid out almost \$1.8

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**Billion** in total benefits, the majority of which was through federally funded supplemental assistance programs.

- Based upon our current trust fund forecast and the \$50 million infusion from the CARES Act flex funds, we currently anticipate the trust fund will remain solvent through calendar year 2021. While this is great news for New Hampshire, there are many assumptions involved in this forecast that could shift suddenly because of the pandemic. We need to be very cautious with forecasting the trust fund during these unprecedented times and certainly need to refrain from making long term predictions without plenty of caveats and proper analysis of all risks.

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- There are currently 22 states borrowing from the US Treasury in order to pay benefits including Massachusetts and Connecticut here in New England.
  
- Regarding proposals in HB2 involving the department, the first such proposal first proposed by the Governor (Sections 129-131) involves changes to the sections in state law that adjust employer tax rates in order to maintain the solvency of the unemployment compensation trust fund.
  
- Currently, the manner in which revenue is generated into the trust fund, we ask the least of employers when they can most afford it - like during periods of economic growth and low unemployment - and the most of employers when they can least afford it - like during an economic downturn or a pandemic.

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- This series of amendments seeks to reverse this upside down dynamic, first by eliminating the tax surcharges that drive up employer tax rates during times when they can least afford it like during the Great Recession or currently during the pandemic.
  
- These surcharges are only needed because the solvency controls allowing the trust fund to grow to the predetermined point of solvency are set too low. If the trust fund thresholds are increased then the surcharges that hit employers during economic downturns are no longer necessary.
  
- Second, these amendments increase the 2<sup>nd</sup> and 3<sup>rd</sup> of the trust fund solvency thresholds, ultimately allowing the fund to grow to \$400 million rather than the current limit of \$300 million, before employers receive the maximum reduction to their unemployment tax rate.

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- We are confident that if these changes had been implemented prior to the Great Recession, New Hampshire would not have needed to borrow the \$120 million we borrowed from the federal treasury in order to pay benefits and if implemented prior to the pandemic we would have avoided the trust fund needing \$50 million from the CARES Act flex funds. We can't rely on some outside source of funds to save the trust fund during the next downturn, whenever that may be, in order to avoid depleting the trust fund and needing to borrow from the US treasury in order to pay benefits.
- The 1<sup>st</sup> threshold would remain unchanged providing tax relief when the fund grows to \$250 million. The 2<sup>nd</sup> threshold would be increased from \$275 million to \$350 million and the 3<sup>rd</sup> threshold would be increased from \$300 million to \$400 million.

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- By setting these top two thresholds at higher trust fund balances then we eliminate the need to implement surcharges when the trust fund falls because we will have allowed the fund to grow to a sufficient level to achieve solvency.
- The second proposal contained in HB2 involving the department is found in section 302. This section which was requested by the department and is supported by the Governor was amended to HB2 by the House.
- This section seeks to amend the section of the unemployment compensation statute that deals with confidentiality in order to allow the department to participate in USDOL's Integrity Data Hub (IDH).
- This is a collaborative effort of all states supervised by USDOL and coordinated by the National Association of

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State Workforce Agencies (NASWA) to allow states to help each other in order to better detect and prevent identity theft fraud.

- There is no cost to the state to participate and we retain ownership and control of all of our data and our data never gets provided to another state. However, there will be IT development costs associated with the new functionality to be incorporated into our benefit payment system so that information learned from participation in IDH is able to be used to prevent payments in New Hampshire through system detection rather than manual detection by staff. All of this IT development cost will be paid by Federal grant dollars received specifically for this purpose.
- Participation in IDH, if approved as part of the budget, will be one of many tools that we will use to protect and



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preserve the trust fund going forward so that only legitimate claimants, and not criminals using stolen identities, will be paid benefits.

- The department has done remarkably well during the pandemic in detecting and preventing payment to ID theft claims. We have detected and prevented payment in over 99% of cases, having shut down over 27,000 attempts. While the country has lost billions to ID theft, New Hampshire has managed to prevent payment in all but 150 attempts and has managed to keep losses to \$443,000, split evenly between state and federal programs, out of the nearly \$1.78 billion in benefits paid out during the pandemic.
  
- We know that we need to continue to strengthen our integrity defenses in order to continue to successfully

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keep these criminals out of our unemployment system and participation in IDH will help us do that.

- I look forward to the next biennium and continuing to provide essential services to the people and businesses of New Hampshire.