

Employment Department

	2011-13 Actuals	2013-15 Leg. Approved	2015-17 CSL LFO	2015-17 Governor's
Other Funds	109,943,193	127,704,596	122,514,742	108,618,079
Other Funds Non-Limited	1,544,709,275	1,634,912,351	1,520,000,000	1,520,129,120
Federal Funds	171,190,409	168,973,715	155,935,577	158,875,848
Federal Funds Non-Limited	1,471,745,386	264,035,745	94,832,000	94,832,000
Total Funds	3,297,588,263	2,195,626,407	1,893,282,319	1,882,455,047
Positions	1,514	1,347	1,206	1,158
FTE	1,426.05	1,286.63	1,176.58	1,122.53

*includes Emergency Board and administrative actions through December 2014

Program Description

The Oregon Employment Department's mission is to "support business and promote employment." The agency accomplishes its mission through the following activities:

- Determines eligibility, calculates, and provides Unemployment Insurance Compensation payments to workers who have been laid off;
- Finds and recovers benefit overpayments;
- Determines eligibility and provides access to job search and skill training opportunities;
- Provides applicant screening and placement services on behalf of employers and state agencies (for hard-to-place populations);
- Adjudicates state agency program eligibility and rule determinations when decisions are appealed by affected citizens; and
- Performs research regarding economic trends and workforce needs both generally and as requested by specific employers, in an effort to optimize policy and investment decisions at the state and local level.

CSL Summary and Issues

The 2015-17 current service level represents a 13.8% reduction from the 2013-15 Legislatively Approved budget, primarily due to declines in Unemployment Insurance benefit payments to Oregonians (as represented by Other Funds Non-Limited and Federal Funds Non-Limited amounts), owing to expiration of federal benefit extensions and the improving economy. Federal funds utilized for administering Employment Department programs are also anticipated to decline.

For 15-17, projected sources of Federal Funds include the following: Department of Labor Funds for Unemployment Insurance Administration (\$120.5 million); Re-employment Assistance (\$8 million); Wagner-Peyser funds (\$12.4 million); Federal Trade Act administration dollars (\$10.9 million); Veterans employment assistance and training (\$4.2 million); Workforce Opportunity Tax Credit (\$0.6 million); Labor Certification (\$0.2 million); Bureau of Labor Statistics and Workforce Information grants (\$2.9 million combined); and a grant for development of longitudinal data (\$0.2 million).

Federal employer taxes are anticipated to generate \$94.8 million for the Unemployment Insurance Trust Fund and are budgeted as Federal Funds Non-Limited.

Other Funds projections include the following: Charges for service (\$4.8 million); Transfers from other agencies and miscellaneous (\$0.47 million); Supplemental Employment Department Administrative Funds (SEDAF; \$72.4 million); Reed Act (\$17.3 million); Unemployment Insurance Modernization Funds (\$85 million); Fraud Control (\$14.6 million); Penalty and Interest (\$37 million).

Employer taxes, fines and forfeitures, and interest income is anticipated to generate a combined \$2.31 billion for the Unemployment Insurance Trust Fund. These dollars are budgeted as Other Funds-Non Limited.

Policy Issues

A new agency director was brought in to the Employment Department in late August, 2013. Lisa Nisenfeld's primary focus has been on prioritizing and increasing the effectiveness of the state's workforce system, accomplished through changes to regional workforce investment boards and services provided by the department's Business and Employment Services division. A second area of focus has been reducing errors and streamlining delivery of Unemployment Insurance services. The agency implemented a "hiring frost" as it evaluated current programs, revenues, and agency priorities. A number of changes to the management team have also occurred.

OED continues to work toward righting its technology ship, bringing in new information technology managers and working to prioritize and streamline the pipeline of existing system upgrades and projects in need of completion. In October of 2014, the Employment Department's information systems were breached, exposing the personal information of Oregonians who had registered for Unemployment Insurance benefits and/or job search assistance. The breach affected approximately 851,000 Oregonians and resulted in reviews and improvements to security protocols. Of the Employment Department's 15 policy option packages in its Agency Request Budget, five were primarily IT-centered, and at least another three had some secondary IT programming or upgrade that will be necessary were the package approved. Project planning appears to be proceeding in concert

with the agency's strategic plan, but continued oversight from the Legislature and the Chief Information Office, via the stage gate process and updates to the JLCIMT, will be crucial to agency accountability and future project success. LFO will evaluate the requested packages with an eye toward priority systems, as well as the agency's capacity to successfully plan and manage multiple technology projects.

The Office of Administrative Hearings consists of a chief administrative law judge, appointed by the Governor, and a staff of administrative law judges that adjudicate citizen and business disputes with the majority of state agencies. The Office of Administrative Hearings was created in 1999 (as the Hearings Officer Panel) to provide more efficient, centralized services for hearings, rather than continuing to maintain separate panels for each agency. The Employment Department and Governor's Budget propose moving the agency's Office of Administrative Hearings to the Department of Administrative Services. The basis for the request appears to be centered primarily on perception concerns about OAH neutrality on decisions related to Unemployment Insurance benefit appeals. The General Government Subcommittee will consider the Department of Administrative Service's capacity to absorb service provision to an additional 111 positions, and the extent to which there are costs associated with receiving and implementing future phases of the still-in-development-case management system. Still to be determined are whether or not there are any cost or compatibility issues between DAS and OAH (and/or OED which will continue to maintain and support related EAB information systems) with regard to licensing, server and software requirements, encryption and security issues, and the OAH time keeping and billing system.

Senate Bill 242 and SB 243 were introduced to keep Oregon's UI program in conformity with new federal directives and rules from the U.S. Department of Labor. Failure to maintain conformity can have negative federal UI tax implications for Oregon employers. Policy Option Packages 111 and 114 are included in the budget to accommodate additional revenue, limitation and staffing needs associated with these bills.

Packages are also included to: begin planning for modernizing the Department's information technology infrastructure and increasing information security (Policy Option Package 101 and 104, respectively); continue overpayment prevention and control efforts through additional claims review and auditing (Policy Option Package 102); provide permanent staffing for employment services provided to other state agency clients under contract (Policy Option Package 103); update the agency's payroll reporting system (Policy Option Package 106); accommodate extension of the federal Trade Adjustment Act (Policy Option Package 107); building and reception area modifications in WorkSource centers to improve customer service (Policy Option Package 109); develop training materials and programming to accommodate updated Unemployment Insurance eligibility criteria (Policy Option Package 115); and reclassify positions to provide for information technology and program project management duties.

Limitation will also be necessary to complete upgrades to the Office of Administrative Hearings Case Management System, begun in the 2013-15 biennium (Policy Option Package 139). Whether to include that limitation in the Employment Department or DAS budget will be determined by the policy decision on whether to transfer OAH to DAS per House Bill 2438.

Other Significant Issues and Background

SEDAF Transfer

The Governor's budget proposed the transfer of \$37.9 million in Supplemental Employment Department Administrative Fund (SEDAF) dollars from the Employment Department to the General Fund for other budget priorities. SEDAF is comprised of an assessment equal to 0.09% of taxable wages paid by employers, and, per ORS 657.783 is continuously appropriated to the Department for payment of the agency's authorized budgeted administrative expenses for which federal funding has been reduced, eliminated or otherwise is not available. The agency utilizes SEDAF funding for its central administration expenses, as well as its Business & Employment Services and Workforce & Economic Research divisions to cover the balance of program delivery costs that Federal Funds do not meet. The agency also uses SEDAF as a source of operating capital, since billing and payment resulting from contractual agreements can take time, and since federal rules dictate that Federal Funds can only be drawn down on a reimbursement basis after allowable costs are incurred. SEDAF funds have been transferred by the Legislature in the past two biennia (\$9 million in 2011-13 and \$10 million in 2013-15). A transfer on the order of the magnitude proposed for 2015-17 is primarily possible because of the presence of one time funds, known as Reed Act Funds that were distributed to OED from the Employment Security Administration Account in 2002 and 2008-09. The agency has utilized this \$104 million in Reed Act monies over multiple biennia as a "balancer"; approximately \$17.3 million remains, which is anticipated to be fully expended in 2015-17, assuming the proposed transfer of SEDAF funding and approval of proposed policy option packages in the Governor's budget. The Department will also make use of \$14.9 million of the \$85.6 million in one-time Unemployment Insurance Modernization funding granted for changes to alternative base year calculations for unemployment insurance benefits. The Employment Department had originally planned to utilize the Modernization funds exclusively for business systems and Information Technology expenses related to replacing legacy information technology systems that are becoming obsolete, insupportable, and difficult to repair and update. The Governor's budget assumes \$1.9 million in spending from this source for modernization efforts, and \$13 million on non-IT related packages.

The extent to which one-time sources of funding such as Reed Act and UI Modernization dollars are spent down will determine the sustainability of service levels of Employment Department programs and the viability of future transfers of SEDAF dollars for other spending priorities.

Audit

A Secretary of State audit of the department's compliance with rules related to federal Unemployment Insurance Program for the year ended June 30, 2013 found a significant deficiency in terms of overpayment to claimants, and in terms of consistent documentation of claimant eligibility (though the report noted that the agency had improved over previous audits). A copy of the letter and agency's response should be included in the agency's budget presentation appendix.

Co-Chairs' Budget Framework Discussion

Like the Governor's budget, the Co-Chairs' budget framework also assumes a transfer of \$37.9 million in SEDAF to the General Fund for other budgetary priorities.