

Employment Department

	2013-15 Actual	2015-17 Legislatively Adopted	2015-17 Legislatively Approved*	2017-19 Current Service Level
General Fund	-	6,122,818	6,133,655	6,252,676
Other Funds	109,896,730	141,800,701	146,303,204	146,868,691
Other Funds (NL)	1,191,961,129	1,520,105,053	1,520,105,053	1,424,000,000
Federal Funds	155,199,849	157,985,169	162,865,912	156,502,819
Federal Funds (NL)	241,841,739	94,832,000	94,832,000	70,000,000
Total Funds	\$1,698,899,447	\$1,920,845,741	\$1,930,239,824	\$1,803,624,186
Positions	1,395	1,272	1,272	1,260
FTE	1,280.46	1,237.76	1,237.76	1,204.84

*Includes Emergency Board and administrative actions through May 2016.

Program Description

The Employment Department (OED) offers services in five program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Workforce Operations offers job listing and referrals services and career development resources.
- Workforce and Economic Research (Research) coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings (OAH) conducts contested case hearings for approximately 70 state agencies.
- The Oregon Talent Council focuses on developing core talent for high-skill, high demand occupations. With the passage of HB 2728, the 2015 Legislative Assembly established the Oregon Talent Council within OED. The Talent Council predecessor, the Engineering and Technology Industry Council, had formerly been administered by the Oregon University System before being transferred to the Chief Education Officer and the Oregon Education Investment Board in 2014 (HB 4020).

CSL Summary and Issues

The Oregon Talent Council (OTC) is the only General Fund expenditure in the Employment Department budget. The OTC was transferred to the Employment Department via HB 2728 in 2015, and includes two positions (1.67 FTE). HB 2728 limits administrative expenditures to 10% of the total appropriation. The agency included \$6,252,676 for the OTC in current service level, \$5,613,370 of which is for special payments, in the form of grants and contracts. Of the 2015-17 Legislatively Approved Budget for the Oregon Talent Council, \$5.57 million in grant funding had been awarded as of February, 2017. While proposals were sought for assistance in developing program investment and accountability measures, the Council received no responses; however, certain measurements including investment leverage, customer satisfaction and varying degrees of program impact and effectiveness have been written into award contracts. The Governor's budget phases

out funding for the Oregon Talent Council, leaving funding sufficient to monitor and report on awards until the end of their respective contract periods.

Phase Outs of 2015-17 One Time Expenditures - \$7.4 million Other Funds and \$5.8 million Federal Funds have been phased out of the 2017-19 OED budget in Package 022. The phase-outs are associated with the following “one time” expenditures in the 2015-17 legislatively approved budget:

- Package 101, Modernize Business Services and Technology Infrastructure;
- Package 103, Contracted Services associated with the Business and Employment Services division. Five permanent positions for this activity are requested in the 2017-19 ARB package 104;
- Package 104 (\$250,000 Other Funds and \$663,000 Federal Funds expenditures associated with complying with information technology security protocols);
- Package 106 (\$1.6 million Other Funds expenditures related to updating the Oregon Payroll Reporting System);
- Package 107 (Trade Adjustment Act Assistance expenditures of \$455,512 Federal Funds for services and supplies in several divisions);
- Package 109 (\$1.7 million Other Funds expenditures associated with remodeling OED Worksource Centers to improve customer access and service);
- Package 139 (\$374,403 Other Funds for information technology expenditures and associated personnel related to completion of the Office of Administrative Hearings Case Management system);
- Package 803 (\$2.6 million Federal Funds related to completed initiatives funded with federal grants); and
- Package 804 (\$2.4 million in total funds expenditure limitation included to enable completion of IT-related systems improvement projects that bridged the 2013-15 and 2015-17 biennia).

The personal services expenses and positions associated with these packages were removed from the 2017-19 base budget through the “PICS freeze” process.

Mandated Caseload - \$1.03 million and 32 positions (7.00 FTE) are included in OED’s budget for mandated caseload, associated with work related to processing UI benefits based on economic forecasts from the Office of Economic Analysis. The high number of positions relative to FTE in Package 040 (Mandated Caseload) reflects seasonal spikes in unemployment rates.

Fund Shifts in Package 050 are primarily attributable to the following: the use of Supplemental Employment Department Administrative Fund (SEDAF) dollars in place of dwindling Federal Funds in the UI division, due to a lower workload forecast by the federal Department of Labor; federal Trade Adjustment Act funds that can be used in place of SEDAF in the Business and Employment Services/Workforce Operations divisions for services trade impacted job seekers; and proper reflection of federal grants awarded for activities specific to the Workforce and Economic Research division.

Creation of a Central Services Division - At the direction of the Legislative Fiscal Office and Chief Financial Office, OED has created a new Shared Services unit to reflect central administrative expenses, which were previously disbursed throughout the various divisions of the agency. Positions related to human resources, information technology, the Director's Office, and other central administration expenses have been transferred from other divisions to the new shared services division via package 060, Technical Adjustments.

Policy Issues for 2017-19

Exhaustion of One Time Funds - By the close of the 2015-17 biennium, the Employment Department is expected to have an estimated \$2 million in remaining one-time Reed Act funds. A total of \$104.1 million in Reed Act funds was distributed to OED as Other Funds from the federal Employment Security Administration Account in 2002 and 2008-09, and OED budgeted \$21.8 million in Reed Act expenditures for the 2015-17 biennium for expenditures related to administration of the Unemployment Insurance and Business and Employment Services programs. Because this source of funding for agency operations is effectively no longer available, any policy decision to transfer OED Other Funds (from SEDAF, for example) to the General Fund can be expected to have a noticeable impact on Employment Department customers.

A revenue reduction package of \$3.1 million Other Funds, \$0.9 million Federal Funds and elimination of eight positions (7.67 FTE), reflecting actions taken in 2015-17 through approved permanent finance plans and intentionally unfilled vacancies. These actions were undertaken to align expenditures with projected available revenue, primarily in the Unemployment Insurance division, and reflect savings that were realized as a result of migrating servers to the state data center.

IT Modernization

2015-17 Expenditures to date - As of December 31, 2016, the Employment Department had spent \$511,490 of the \$3.1 million approved for the 2015-17 information technology modernization package approved as part of the 2015-17 budget. The expectation was that the investment would result in a detailed business case, feasibility study, risk assessment, project management plans, procurement statements of work, and independent quality assurance and oversight. That hadn't happened according to the assumed schedule, and the Department has executed a contract with the Information Technology Support Center (ITSC) a not-for-profit that provides best practice consultation and technology solution support to Unemployment Insurance agencies, to help with fundamental planning for the modernization of its IT infrastructure. The agency anticipates expenditures of \$2 million for the project by the end of the 2015-17 biennium.

For 2017-19, the agency's IT planning package request consists of \$6.6 million Other Funds and 24 positions (23.00 FTE) which is expected to result in a dedicated project team and completed feasibility study, the beginnings of business mapping, and identification of business requirements. The package will be funded from remaining UI Modernization funding (\$85.6 million in one-time funding was awarded in 2009, as a result of adopting several changes to the UI program, and use is restricted to expenditures relating to UI and employment services administration. An estimated \$82.9 million will remain for expenditures in 2017-19 and beyond). These funds are budgeted as Other Funds. The agency has expressed the intention of "reserving" these funds for IT modernization-related expenditures rather than regular administration. It's unlikely that the total cost estimate for IT modernization will be known until sometime after the 2017-19 biennium.

Other Significant Issues and Background

The UI Trust Fund balance has exceeded \$3 billion, from a trough slightly less than \$1 billion in 2010. The trust fund balance remained solvent during the recession due to the statutory self-balancing Unemployment Insurance tax structure, which prescribes employer state UI tax rates based on Trust Fund balance levels.

Key Performance Measures - As part of the recommendation associated with SB 5508, the agency's 2015-17 budget bill, the Legislative Fiscal Office recommended that OED evaluate and revise agency key performance measures to reflect standards and requirements related to the federal Workforce Innovation and Opportunity Act, and that a performance measure be developed for the Workforce and Economic Research division. The Employment Department's proposed changes to Key Performance Measures and targets will be included in its budget presentation, and recommendations will be made as part of the Legislative Fiscal Office recommendations on the agency's budget.

Other Policy Option Packages - The majority of other policy option packages are concerned with adding permanent positions in programs where consistent use of limited duration positions has been demonstrated, such as the Trade Adjustment Act (funded with Federal Funds), administration of the Workforce Opportunity Tax Credit program (funded with Federal Funds), and contracting with state agencies for client job placement services (Other Funds - fee for service).