

Analysis

Item 41: Employment Department

UI Administration and IT System Stabilization

Analyst: Michelle Deister

Request: Increase expenditure limitation and position authority for the Oregon Employment Department as follows: Federal Funds expenditure limitation by \$31,847,232 and add two permanent and 320 limited duration positions (145.80 FTE) for unemployment insurance administration; increase Federal Funds expenditure limitation by \$8,125,438 and add 94 limited duration positions (40.33 FTE) for administration of the Pandemic Unemployment Assistance Program; and increase Other Funds expenditure limitation by \$1,188,752 and add 16 permanent positions (4.00 FTE) for the Modernization program.

Analysis: The Oregon Employment Department (OED) is seeking additional expenditure limitation to facilitate its efforts in promptly administering unemployment insurance (UI) benefits, including the Pandemic Unemployment Assistance Program created under the Coronavirus Aid, Relief and Economic Security (CARES) act. While expenditure limitation was granted during the August 2nd special session of 2020 for these purposes, it was based on workload forecasts informed by UI Claims during the month of March 2020 and prior to other changes instituted both at the federal and state level. This request is expected to meet updated workload forecasts through June 30, 2021, assuming no new additional federal or state programs are instituted. In addition, expenditure limitation and position authority is also being sought in furtherance of efforts to procure and implement a new UI information technology solution. Each of these issues is discussed below.

Unemployment Insurance Benefit Administration: Due to the economic slowdown caused by the Coronavirus, OED has processed 566,100 claims between March and September 12th through its regular unemployment insurance benefit programs. OED reports that the initial processing of “straightforward” initial claims, workshare participant claims (for 1,580 employers covering about 65,000 employees), and PUA claims (discussed below) are current. Redeterminations (in the event that claimants contest their earnings) or claims requiring adjudication are still backlogged. As claimants exhaust their first weeks of eligibility for benefits, they may be eligible for additional weeks (known as extended benefits), which this request will help to deliver.

To ensure timely benefit payments under ongoing UI programs, the agency is requesting \$31,847,232 in additional Federal Funds expenditure limitation and 322 positions (145.80 FTE), the majority of which have already been hired as part of the surge in effort to address backlogs. Of the requested positions, 160 (73.33 FTE) are claims adjudicators, charged with fact finding and investigation of particularly complicated cases (claims requiring adjudication comprise the majority of OED’s claims backlog). A further 56 positions are specifically attributed to taking claims (Benefit and Employment Specialist positions) and tax status determination and fraud protection (Compliance Specialist positions). Managers (19 positions) will ensure appropriate supervisory ratios, while identifying, elevating, and resolving process and training issues to keep claims resolution running smoothly. Administrative support personnel comprise 29 positions to provide support for those working directly on claims, by performing tasks such as scanning documents and compiling claimant file information. Public service representatives (25 positions) are charged with following up with applicants on

additional information needed to resolve claims.

Twenty-seven of the requested positions -- two of which are requested as permanent -- are requested for OED's Shared Services Division. The positions will support functions including the following: human resources recruitment and personnel; accounting and reporting requirements per U.S. Department of Labor guidelines; procurement and contracting; employee health and safety (including facilities maintenance and construction to facilitate the influx of new employees, and a safety specialist to assist with health protocols); and information services specialist positions to maintain and (re)program the agency's mainframe benefits system (6 positions). The two positions requested as permanent support the agency's legislative and public affairs communications.

These positions are funded with federal U.S. Department of Labor administrative grant funds. The requested limitation and position authority is estimated to be sufficient for the remainder of the biennium, before considering any additional claims that may be generated by Disaster Unemployment Assistance that Oregonians affected by wildfires are now eligible for, and assuming the unemployment rate stabilizes. Workload and revenue forecasting for the 2021-23 biennium will be reevaluated and incorporated into the LFO recommendation for the agency's budget during the regular 2021 legislative session; with this in mind, the Legislative Fiscal Office recommends that all requested positions associated with this portion of the request be approved as limited duration, and recommends approval of the requested expenditure limitation.

Pandemic Unemployment Assistance (PUA) Benefit Administration: OED is requesting 94 positions (40.34 FTE) and an increase in Federal Funds expenditure limitation of \$8,125,438 for administration of benefits for PUA eligible claimants, an estimated 54,000 people. Of the requested positions, 70 are compliance specialist positions, dedicated to evaluating and making determinations on these more complicated claims. Thirteen positions are public service representatives and eleven of the requested positions are managers. The PUA program is currently slated to expire at the end of 2020.

The Legislative Fiscal Office recommends approval.

UI Information Technology Stabilization and Modernization: Other Funds expenditure limitation in the amount of \$1,188,752 and 16 permanent positions (4.00 FTE) are related to Information Technology Stabilization and information technology modernization efforts. The requested positions would be supported by Penalty and Interest earnings.

Since the beginning of the economic downturn, IT staffing resources have been diverted from planning and design activities associated with modernizing the UI IT system; their expertise and support has been required to reprogram and fix errors on the existing system to facilitate unemployment insurance payments to waiting Oregonians. This need for existing system support is not expected to abate any time soon, but these same staff are the ones needed to perform analysis, documentation, planning, and development of changes needed to design and prepare for a modernized IT solution. Seven of the requested positions are for the purpose of bringing new IS professionals on board to learn and support legacy systems, so that experienced IT personnel can be moved back to the Modernization project, to help determine and design the new system's technical requirements.

Several of the requested positions were included in a policy option package for the Department's 2021-23 agency request budget. However, OED has determined that they are needed sooner than the

beginning of the biennium, now that OED issued a Notice of Intent to Award a contract for a new UI solution, and negotiations concerning the level of vendor support will soon be underway; the policy option package can be adjusted to account for the changes in the timing of adding these personnel.

Training coordinators are being requested to guide employees through transition phases (by communicating changes in a coordinated way, collecting feedback, and coordinating testing, and training employees in loading data and correctly learning to use modules and updates as they are developed). The agency's independent quality assurance vendor has identified OED's lack of a coordinated change management effort as a key risk to the success of the modernization project, and this request seeks to address that deficiency through a combination of the aforementioned training professionals and a management position.

The Legislative Fiscal Office recommends approval.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends that the Emergency Board approve for the Employment Department an increase in Federal Funds expenditure limitation of \$31,847,232 and authorize the establishment of 322 limited-duration positions (145.80 FTE) to support administration of unemployment insurance benefits and agency administrative capacity; an increase in Federal Funds expenditure limitation of \$8,125,438, and authorize the establishment of 94 limited-duration positions (40.34 FTE) for administration of the Pandemic Unemployment Assistance program; and an increase in Other Funds expenditure limitation of \$1,188,752 and authorize the establishment of 16 permanent positions (4.00 FTE) in support of unemployment insurance information technology systems.

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Oregon Employment Department
Brickman

Request: Increase Federal Funds expenditure limitation by \$39,972,670 for 414 limited duration and two permanent full time positions (186.13 FTE) for administration of unemployment insurance programs (including Pandemic Unemployment Assistance (PUA)), which are still experiencing an unprecedented amount of claims being filed. Increase Other Funds expenditure limitation by \$1,188,752 for 16 permanent full time positions (4.00 FTE).

Recommendation: Approve the request with the following modification: Increase Federal Funds expenditure limitation by \$39,972,670 for 416 limited duration positions (186.13 FTE) for administration of unemployment insurance programs. Increase Other Funds expenditure limitation by \$1,188,752 for 16 permanent full time positions (4.00 FTE).

Discussion:

COVID-19 Unemployment Insurance Needs

The Oregon Employment Department (OED) continues to experience significantly high workload in the Unemployment Insurance (UI) program due to the impacts of COVID-19 on the workforce. In response to COVID-19, Congress has passed both the Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. These acts provide additional flexibility for state unemployment insurance agencies, add administrative funding, and expand states' ability to provide unemployment insurance for many workers impacted by the COVID-19 pandemic, including workers who are not ordinarily eligible for unemployment benefits.

As part of a phased approach, OED received an increase in expenditure limitation and limited duration position authority during the 2020 2nd Special Session. The UI environment is rapidly changing and OED continues to need additional resources to deal with processing ongoing claims and clearing the backlog the Department has experienced over the last six months. The latest data available on the OED website shows over 480,000 initial claims were filed from the week beginning March 21, 2020 through the week beginning July 4, 2020. Continuing weekly claims are coming down, but the Department still has a backlog of initial claims being adjudicated and new programs continue to come online, such as the Lost Wage Assistance program and now Disaster Unemployment Insurance related to wildfires. Expenditure limitation granted during the 2020 2nd Special Session, was based on information and forecasts available in March 2020. This Phase Two request is based on information and forecasts as of August 2020.

The current request from OED includes two permanent full time positions, but at this point, as all of COVID-19 programs are considered temporary, there is no need to establish permanent full time positions. The recommendation from the Chief Financial Office (CFO) differs slightly from the Department's request by changing the two permanent full time positions to limited duration in nature. Of the 416 positions in the request (which includes two permanent full time positions), the CFO recommendation is to make all of positions limited duration in nature, providing 186.13 FTE to all programs, except the Pandemic Unemployment Assistance (PUA) program. The PUA program will receive 40.33 FTE out of the position request. It is separated out because the PUA program has an appropriation of its own.

Unemployment Insurance Modernization Project

The project is taking shape and work has started to enter into a contract with a vendor for modernization of the Department's UI systems and processes. On September 10, 2020, after years of work, OED announced its intent to award a contract to FAST Enterprises for the Department's Unemployment Insurance Modernization project. To continue modernization efforts, additional Information Technology (IT) resources are needed to continue legacy work on the mainframe system, which is vital to prepare for the configuration and implementation of a modernized solution.

The Department's request is tied to mitigating risks to the project, which have been caused by recruitment challenges, stabilization of staff prior to choosing the vendor, and unprecedented volume and complications related to changes needed for modernization. Another challenge facing the Department is the ability to maintain the mainframe system while implementing multiple changes for benefit programs established as a result of COVID-19 impacts on the economy. In its current state, OED's existing IT, training, and organization change capacity is not sufficient to engage in and complete the work that will be critical to implementing the modernization project. With a vendor soon to be in place and given the length of time it has taken to get to this point, providing the necessary staff to the Department to be successful in implementing this project is vital.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 269, section 4, Oregon Laws 2019, by \$31,847,232, for administration of unemployment insurance programs, for the 2019-21 biennium.

Increase the Federal Funds expenditure limitation established by Senate Bill 5723, section 60, Oregon Laws 2020 Special Session 2, by \$8,125,438 for administration of the Pandemic Unemployment Assistance Program, for the 2019-21 biennium.

Increase the Other Funds expenditure limitation established by chapter 269, section 1, subsection 4, Oregon Laws 2019, by \$1,188,752 for to administer and begin implementation of the Modernization Project, for the 2019-21 biennium.



Oregon

Kate Brown, Governor

Employment Department

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September 4, 2020

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301-4048

Dear Co-Chairs:

Nature of the Emergency/Request

The Employment Department provides coordinated solutions and services to Oregonians to deliver on the department's mission to "Support Business – Promote Employment." The agency includes four major divisions; Unemployment Insurance, Workforce Operations, Workforce and Economic Research, and Paid Family Medical Leave Insurance. In addition to the four major divisions the department includes Shared Services to support the core administrative functions for the major divisions and the Modernization Program, which is a multi-biennia effort to transform the department's business and technology systems. This request concerns additional resources for two areas: Unemployment Insurance and Shared Services to respond to the effects of the COVID-19 pandemic; and the Modernization Program for increasing capacity to maintain the existing mainframe system while simultaneously integrating changes due to the COVID-19 impacts to unemployment insurance compensation.

The department's Unemployment Insurance (UI) division provides temporary wage replacement to workers who are unemployed through no fault of their own. The department also collects a payroll tax from Oregon employers that go into the Unemployment Insurance Trust Fund to pay for benefits. The UI Program is affected by economic conditions including the recent economic downturn caused by the Coronavirus (COVID 19).

Oregon, like the rest of the nation, continues to experience high unemployment caused by the effects of COVID-19. The U.S. Congress has reacted to the unemployment levels by passing a series of federal unemployment benefit extensions. These benefit costs for the extension programs are paid with 100% federal funds. The U.S. Department of Labor has provided additional federal administrative funds to states for the work necessary to process the additional claims and administer the UI extension programs. Expenditure limitation and position authority were provided to the department during the Second Special Session of the Legislature as a "phase one" request based on what was then known in a rapidly changing environment. Additional resources are needed to support the increased hiring for processing ongoing and still being filed claims and clearing the unprecedented backlog of claims experienced by the department in the last six months.



Oregon

The Modernization Program and the Unemployment Insurance Modernization Project activities continue to progress during the current Coronavirus (COVID-19) environment; and, the program and project are under budget and within scope. Over the last few months, the department conducted a review of request for proposals in preparation for choosing a solution vendor for the modernization of the department's Unemployment Insurance systems and processes.

We are also working to mitigate risks to the overall schedule caused by challenges in recruitment and stabilization of staff prior to choosing the solution vendor. We are asking for the establishment of additional positions to mitigate these risks and to adjust to the unprecedented volume and complication of system changes required to modify and maintain the mainframe system while simultaneously integrating multiple newly implemented system and business process changes to respond to the economic impact of the COVID-19 pandemic. The combination of these factors have created a previously unforeseeable situation in which the department's existing IT, training, and organizational change capacity is insufficient to complete the body of work that is critical to the implementation of a modernized Unemployment Insurance solution and business processes.

In addition to this position authority, the department will later seek limitation related to the solution vendor costs that the department will incur during the 2019-21 biennia. The amount of limitation needed will not be clarified until the department enters into final contract negotiations with the proposed solution vendor after the Notice of Intent to Award has been issued. Once the limitation need is known, a subsequent request will be brought to this committee.

Agency Action

The effects of the economic downturn and associated federal UI new and extended programs are significantly impacting the Employment Department. The Department is dealing with an unprecedented workload due to the sudden increase of Unemployment Insurance claims including assistance to these claimants with new federal programs and extensions. This work includes processing claims and benefit checks, revising processes, rules and operations to comply with the new federal programs and more. Increased federal funds have been provided through federal legislation for payment of administration for this activity.

The department seeks to successfully implement a modernized solution for its Unemployment Insurance system. IT resources are focused on actively implementing changes that directly and immediately benefit Oregonians who are out of work through no fault of their own. To continue modernization efforts, additional IT resources are needed to continue the legacy work on the mainframe system that is vital to prepare for the configuration and implementation of a modernized solution. Additionally, as department resources focus on the training and development of the significant increase in agency staffing, training and organizational change resources are needed to ensure successful implementation of the modernized solution.



Oregon

Action Requested

Increase Federal Funds limitation \$39,972,670, 414 Limited Duration positions, 2 Permanent Full-time positions, 186.13 FTE for the Employment Department. \$8,125,438 Federal funds, 94 Limited Duration positions, 40.33 FTE included in this request are related to administration of Pandemic Unemployment Assistance, which is a CARES Act program that provides benefits to the self-employed and others not eligible for traditional unemployment insurance benefits.

Increase Other Funds Limitation for the Modernization Program by \$1,188,752, 16 Permanent Full Time positions, 4.00 FTE.

Legislation Affected

- Increase Federal Funds limitation \$31,847,232, which affects Oregon Laws 2019, Chapter 269, Section 4.
- Increase Federal Funds limitation \$8,125,438, which affects Oregon Laws 2020 2nd Special Session, Senate Bill 5723, Section 60, currently awaiting the Governor's signature.
- Increase Other Funds limitation \$1,188,752, which affects Oregon Laws 2019, Chapter 269, Section 1, Subsection (4).

Sincerely,

David Gerstenfeld, Acting Director
Oregon Employment Department

cc: Ken Rocco, Legislative Fiscal Office
Michelle Deister, Legislative Fiscal Office
Sean McSpaden, Legislative Fiscal Office
George Naughton, DAS Chief Financial Office
Tamara Brickman, DAS Chief Financial Office