

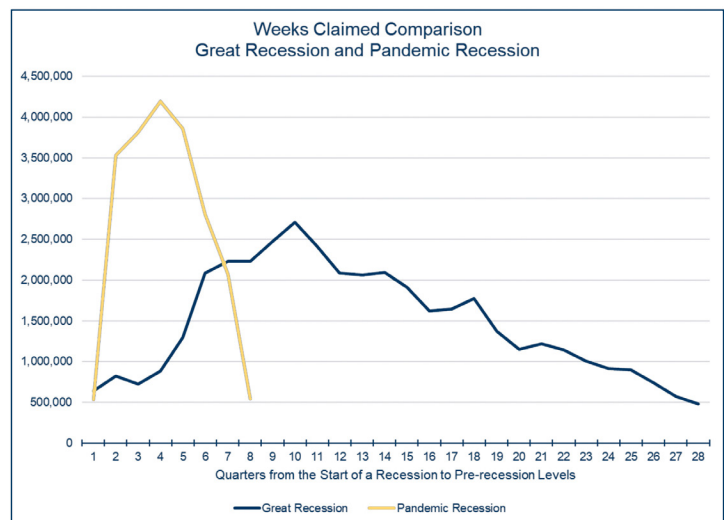
# 2021-2023 OED BUDGET BRIEF

## OVERVIEW

The Oregon Employment Department (OED) is supported by a mix of Other Funds and Federal Funds. OED receives a large portion of federal funding from the U.S. Department of Labor (USDOL) for Unemployment Insurance (UI) Administration. At the end of the pandemic recession, federal funding dropped rapidly to pre-pandemic levels — even though OED backlogs and operating costs continued at elevated levels. This change resulted in a projected \$45 million revenue shortfall by June 2023. OED has planned to resolve the shortfall by reducing expenditures and increasing the use of available, one-time funds.

## BACKGROUND

During a recession, OED's workload increases — as does federal funding. However, during the pandemic, all parts of the recession cycle were exaggerated, both in how quickly the changes came about and their severity. Equally rapid has been the drop in revenue from the federal government. To ensure OED can continue funding its monthly operational costs, the department has realigned its budget to lower revenue projections. This is something OED has done historically at the end of prior recessions, as workload, revenue, and other factors have changed.



## EXPECTATIONS FOR FEDERAL FUNDING

- The agency was recently notified it will receive \$6 million (or 10 %) less in UI Administration funds from the USDOL for federal fiscal year 2022 (which ends Sept. 30, 2022) than the U.S. Department of Labor had previously projected.
- The new \$48 million base amount is 36% short of what OED estimates it needs to fund the UI program for fiscal year 2022.
- OED will use some supplemental federal funds and other funds to cover the shortfall. This includes spending available funds from paid penalties and interest and some one-time Other Funds (2009 ARRA funds), such as projected savings from the modernization project for the UI and Workforce Operations programs.

## REVENUE STREAMS

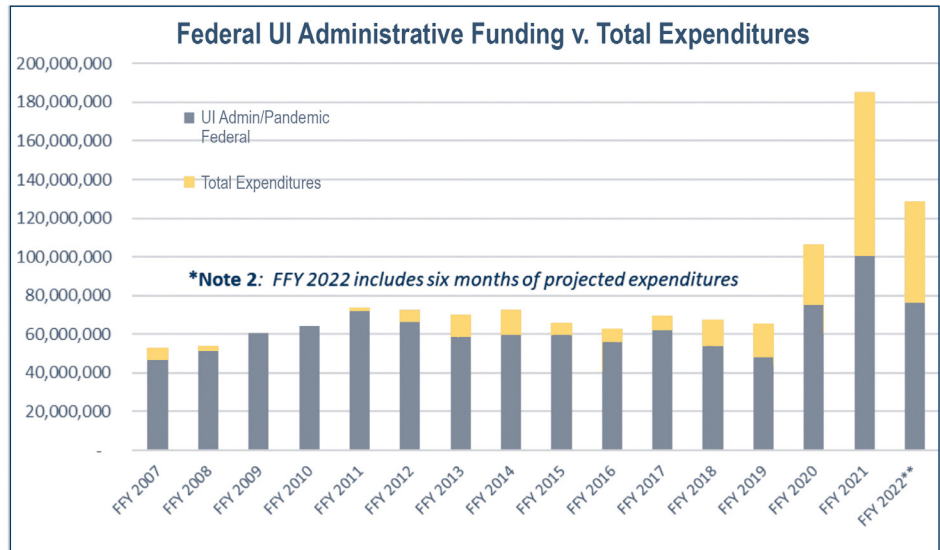
While new workload, such as initial claims, is down significantly, OED still has a substantial amount of work to do on pandemic-related claims, particularly in fraud investigations and a few other areas. OED also needs to continue making operational and organizational improvements to rebuild and strengthen the agency after the stresses of the pandemic and the opportunities those revealed.

## FEDERAL FUNDING TYPICALLY PAYS FOR ONLY 70 PERCENT OF OED'S UI ADMINISTRATIVE COSTS

Historically, OED has been able to use its limited Other Funds – such as penalties on underpayments from employers – to help pay for the remaining costs. Federal Fiscal Year 2022 payments, taking into account the expected reduction, will only pay about 64% of UI costs during this period. The combined impacts of the decrease in federal revenue, the ongoing need to ensure OED is doing work to serve the public, and the creation of new federal pandemic programs that were not 100% funded, as promised, created a negative cash flow forecast for several months during the remainder of the 2021-23 biennium.

### HISTORICAL TRENDS

Federal funding has dropped off much more quickly in the pandemic recession than in past recessions. Even though new work has also dropped off, OED has not had the same amount of time as during past recessions to resolve the backlog of complex work accumulated during the pandemic's peak.



Much of the remaining work — such as investigating potential fraud claims — are not reflected in USDOL's 'workload' metrics, but OED must still complete this work.

### IMPACTS OF FUNDING SHORTFALL

The scale and speed of the pandemic recession has exacerbated the normal cycle of decreasing federal funds for UI administration during economic recoveries. Further, in most recessions, the federal government provides administrative funds to handle the workload, with federal funding then falling to inadequate levels into the recovery. During the COVID-19 recession, the federal government did not, at any time, fully pay the costs of UI administration. This underfunding means that, rather than building up some additional Other Fund reserves for use when federal funding levels fell, the agency further depleted those reserves during the recession.

Because projections for both the volume of work and the amount of federal funding have changed significantly since the Legislature passed the Employment Department's budget, the department has adjusted its plans to stay within currently projected revenues.

### PLAN FOR A BALANCED 2021-23 BUDGET

The graph below outlines how OED plans to reduce \$45M in expenditures for the remainder of the 2021-23 biennium. OED based the plan on the most likely scenario of a 10% reduction in USDOL funding. However, the department is prepared to make deeper cuts if revenue falls more than expected and to mitigate the additional

risks and impacts to customer service. These further cuts would have a more significant impact on services, create more risk for the Modernization Project, and decrease the department's preparedness for the next recession.

Description	Amount	Reductions					
		Total	Vacant Position Count	Identified Savings *	Budgeted Vacancy %	Savings	Position Count
<b>EXPENDITURE SAVINGS</b>							
Vacancy Hold							
UI	21,600,000	34,286,000	940	34,286,000	37%	21,600,000	940
WO	451,000	2,327,000	18	518,000	13%	451,000	6
Research	382,000	538,000	11	415,000	8%	382,000	4
Shared Services - Director's Office/EIC/Comm	259,000	702,000	6	315,000	18%	259,000	4
Shared Services - ABS	487,000	783,000	9	541,000	10%	487,000	8
Shared Services - HR	168,000	539,000	7	179,000	6%	168,000	1
Shared Services - IT	2,896,000	5,786,000	37	3,575,000	19%	2,896,000	25
Vacancy Hold Savings	26,243,000	768 LD, 153 Perm, 21 Seas, 4 temp, 41 unknown					
Defer IT Projects	600,000	Meeting Connect deferred to next biennium					
Defer WO IT Replacement	543,000	75% of total ITRP; 25% held back for break fixes					
Decrease S&S							
Research Travel & Training	40,000	Assumed same level of savings as thru Feb.					
Office Supplies	1,500,000	Assumed 50% of what was saved thru Feb.					
Facilities	TBD	To be determined					
Pool Cars	TBD	To be determined					
Add Office of SIP (7) and DEI (4) positions**	(1,683,000)	Hire by July 1st					
<b>Total Expenditure Savings</b>	<b>27,243,000</b>						
<b>REVENUE INCREASE</b>							
Lost Wage Assistance Administration	2,800,000	New Revenue					
Other Funds	14,800,000	2009 ARRA funds projected available after completion of Modernizing UI and Workforce Operations.					
<b>Increased Revenue</b>	<b>17,600,000</b>						
<b>Net Impact to 2021-23</b>	<b>44,843,000</b>						

\*Identified savings are the salary savings from positions OED plans to keep vacant, before accounting for already assumed vacancy savings. The net savings from prior projections are reflected in the "Savings" column. This plan includes significant staff reductions, but also the addition of a few targeted positions.

\*\*The additions include four positions to continue the equity and inclusion work needed for the department and seven positions for the Office of Strategy, Innovation and Performance to create much-needed agency wide infrastructure for performance management and reporting, project and change management, and other functions.

## IMPACT OF REDUCTION PLAN ON PROGRAMS AND SERVICES

To balance its budget, OED cannot reduce the amount of benefits paid out. It can only change how it administers the program. To that end, OED is terminating leases, deferring some planned projects, and has already reduced staffing levels for the remainder of this biennium compared to prior projections.

The table below shows the number of FTEs assigned to various parts of the agency just prior to the pandemic and at other points in time. It also shows the percentage change in FTE in those areas between July 2021 and March 2021. Most of the FTE in all areas were doing UI work during the peak workloads of the pandemic, but in this table, they are reflected in their ‘home’ division.

	February 2020	June 2020	January 2021	July 2021	January 2022	March 2022	% change since July 2021
<b>UI</b>	<b>415.17</b>	<b>699.63</b>	<b>1297.35</b>	<b>1211.22</b>	<b>1118.57</b>	<b>997.11</b>	<b>-17.6%</b>
Shared Services	139.2	160.91	187.00	188.52	181.44	180.21	-4.4%
Workforce Operations	442.63	443.02	461.03	447.80	451.18	453.26	+1.2%
Research	46.26	48.96	48.33	48.29	42.64	43.21	-10.5%
Modernization	12.97	18.61	19.56	31.45	34.71	42.73	+35.9%
Paid Leave	4.94	18.02	19.01	28.4	21.58	20.58	-27.5%
<b>Total</b>	<b>1061.17</b>	<b>1389.15</b>	<b>2032.28</b>	<b>1955.68</b>	<b>1850.12</b>	<b>1737.1</b>	<b>-11.2%</b>

(Note – some positions formerly in Paid Leave Oregon were moved to Modernization as Paid Leave implementation work is underway in Modernization).

In addition to staff reductions, the agency is able to cut the amount of money it spends on office supplies due to the continuation of staff working remotely. OED is deferring a technology upgrade to support hybrid work, and it is delaying the replacement of computer equipment past the warranty period. OED is also saving money by keeping nearly 1,000 positions vacant through attrition – mainly in the UI division. OED does not expect layoffs at this time.

OED does not yet know the complete impact to its 2023-25 Agency Request Budget (ARB). The May forecast and the ARB process, which the agency expects to complete during June 2023, will help OED better forecast and plan for any impacts to the 2023-25 budget.

The reductions OED is making include significant staff reductions (through attrition), which will impact places where the work is dependent on people. Currently, 95% of people calling about their UI claims have their call answered within five minutes. Maintaining these numbers will be difficult with fewer staff to answer the phones. The pace of resolving claims related to fraud investigations, overpayments, and collections will slow, and appeals will have a significant backlog.

Even so, OED will continue to aggressively monitor service levels and quickly refocus dedicated employees from across the agency to where they’re most needed. For example, the agency will assign most UI tax auditors to do UI tax system work, discussed more below. This will likely result in the agency not meeting the federal requirements for the number of UI tax audits for a period of time. However, OED anticipates UI tax auditors will return to their auditing work in 2023 with no significant or long-term risk to the UI Trust Fund.

One notable risk is the agency's preparedness to launch Frances Online in September 2022. There is still a lot of work OED must complete in its current mainframe UI Tax system to successfully convert the data related to HB 3389 (UI tax relief for employers) and the issuing of UI tax refunds. The risk increases when the agency is unable to hire more staff. OED will mitigate this risk by having UI tax auditors help with the work needed to successfully launch Frances Online.

## LOOKING AHEAD

OED will continue to adjust its spending through the remainder of the 2021-23 biennium. It will seek additional funding sources where possible — such as federal grant opportunities — to support the department's work. It will also continue to build up operating capital in 2023-25 to prepare for the next recession and possible increased UI workload.

The department is closely monitoring discussions at the federal level for potential changes to the Lost Wages Assistance repayment requirements. It's also seeking support from several senators, including Wyden, to increase UI administrative funding to cover the actual costs of running the UI program.

OED will continue its ongoing efforts to improve efficiencies and increase productivity and accountability within the UI program. Launched during the pandemic, these projects give the department a more robust approach to project and change management, enhance data analytics and performance monitoring, and focus on equity and inclusion work.

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