

## 2025-27 Budget Review

### Employment Department

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	33,941,652	5,767,819	-	-
Other Funds	229,168,063	425,276,313	475,441,638	507,735,591
Other Funds (NL)	1,094,856,806	3,482,550,560	3,853,268,759	3,853,268,759
Federal Funds	263,929,613	208,606,201	198,703,316	212,206,689
Federal Funds (NL)	1,091,595,352	69,308,000	43,444,000	43,444,000
<b>Total Funds</b>	<b>2,713,491,486</b>	<b>4,191,508,893</b>	<b>4,570,857,713</b>	<b>4,616,655,039</b>
Positions	3,304	2,010	1,988	2,028
FTE	2,250.52	1,991.79	1,978.22	2,015.44

\* Includes legislative and administrative actions through December 2024.

### PROGRAM DESCRIPTION

The mission of the Oregon Employment Department (OED) is to support business and employment, through services offered in the following major program areas:

- **Unemployment Insurance (UI)** provides wage replacement income to qualifying workers unemployed through no fault of their own. This work is supported by federal administrative grant funding, penalties and interest assessed against employers who underpay tax obligations, overpayment penalties assessed against recipients who commit fraud or receive overpayments, and a 0.109% diversion of employer taxes from the UI Trust Fund to the Supplemental Employment Department Administrative Fund (SEDAF).
- **Workforce Operations** offers job listings, referrals, and career development resources, and is supported by federal administrative grants, fees for specialized services, and SEDAF revenue.
- **Workforce and Economic Research** coordinates the collection and dissemination of occupation and economic climate data for the state, workforce regions, and counties of Oregon; the primary sources of funding for these activities are federal administrative grants, SEDAF, and fees for service.
- **Paid Leave Oregon** division administers paid leave benefits for workers, funded with employer and employee contributions equivalent to 1% of payroll for covered employers.
- **Office of Administrative Hearings** conducts contested case hearings for approximately 70 state agencies and is funded with state agency assessments.

Other program areas include the **Modernization Initiative**, funded with a one-time federal allocation, SEDAF, and penalty and interest payments, focused on the modernization of OED's information

technology systems; the **Contributions and Recovery** division, which collects Unemployment and Paid Leave contributions, and recovers benefits paid through fraud or error; and the **Shared Services** division which functions as the central agency administration, and is supported by cost allocation to the agency's other divisions.

## BUDGET ENVIRONMENT

OED has a self-balancing unemployment insurance tax system with rates set in statute. The amount employers pay considers the available balance in the Unemployment Insurance Trust Fund at the time payments are due. Federal administrative funding increases in times of high unemployment and decreases during periods of relative economic stability. During the latter, Federal Funds do not cover costs of administering agency programs. Currently, the agency is projected to have a 2023-25 ending balance equivalent to only two months of operating expenditures.

The Department struggled in the wake of the COVID-19 pandemic to resolve outstanding complicated claims and appeals. This resulted in delays of several weeks and excessive call wait times for benefit applicants. The passage of HB 4035 (2024) increased the amount of employer taxes diverted for administrative expenses from 0.09% to 0.109% of taxable payroll, generating an estimated \$26 million in additional administrative funding, and supporting the addition of 72 permanent positions to improve service levels and fraud prevention. In total, SEDAF is estimated to generate a total of \$159.4 million in administrative funding for the 2025-27 biennium.

The agency's Frances Online system modernized technology and business operations for employer tax collection and reporting, and payment of Paid Leave and Unemployment Insurance benefits. The Paid Leave Oregon program began paying benefits in September 2023, and OED is currently analyzing usage rates. Contributions have been set at the statutory maximum of 1% of payroll, ensuring funds are sufficient to pay claims and administrative expenses of the program. The agency is evaluating accounting codes and practices to verify that Shared Services and Contributions and Recovery expenses are being correctly allocated to the Paid Leave program.

Frances Online went live for the Unemployment Insurance benefit payment program in March 2024. OED continues to adjust and refine instructions, processes, and coding to improve customer service and reduce errors. The Department is still evaluating the process for potential changes to improve customer service. Once trends emerge, OED will have a better understanding of what additional staffing resources may be required to meet the Department's evolving challenges around wait times and call volumes.

The next phase of OED's technology and business systems modernization is for the Workforce Operations division. Systems will support labor exchange, case management and training programs for workers, including veterans, displaced workers, and Department of Human Services clients. OED is in the process of planning for procurement, independent quality management services, and implementation, with this project anticipated to begin in the 2027-29 biennium.

## CURRENT SERVICE LEVEL

OED's 2025-27 current service level is \$4.6 billion total funds, and 1,988 positions (1,978.22 FTE), which is a 9.1% increase from the 2023-25 legislatively approved budget. The increase is largely due to a base

budget increase of \$1.2 billion to align trust fund benefit payments with usage forecasts. The current service level includes the following substantive adjustments:

- Phased in expenses of \$1 million Other Funds for personal services inflation on 72 permanent positions added to improve service levels in the Unemployment Insurance division that are funded with an increase in the SEDAF diversion rate approved in HB 4035 (2024).
- Phase out of one-time costs totaling \$42.7 million, including one-time grants and contracts (\$2.7 million Federal Funds), IT vendor and procurement costs for the Frances system (\$34.2 million Other Funds), and one-time General Fund which was approved to temporarily support 72 positions in the Unemployment Insurance division (\$5.8 million General Fund).
- \$28.2 million in expenses were shifted from Federal Funds to Other Funds, reflecting budgetary adjustments to balance expenditures to forecasted available revenue. The primary changes in expenditure patterns are due to a greater percentage of Shared Services expenses attributable to the Paid Leave Oregon program, and the exhaustion of federal funding that was made available during the pandemic for Workforce Operations programs.

## GOVERNOR'S BUDGET SUMMARY

The 2025-27 Governor's budget is \$4.6 billion total funds and is a \$425.1 million, or 10.1%, increase from the 2023-25 legislatively approved budget and a \$45.8 million, or 1%, increase from the 2025-27 current service level. The Governor's budget includes the following proposed investments:

- \$10.3 million Other Funds and \$5.1 million Federal Funds for procurement and implementation of a modernized Workforce Operations technology systems. Sources of funding include modernization funds and federal Trade Act funding.
- \$16.8 million Other Funds, \$5 million Federal Funds, and 10 permanent positions (10.00 FTE) for ongoing maintenance and support for the Frances information technology system, serving the Unemployment Insurance and Paid Leave Oregon programs. Sources of funding include Paid Leave Oregon contributions, SEDAF, and federal Trade Act funds.
- \$2.1 million Other Funds, \$3.2 million Federal Funds, and 11 positions (9.66 FTE) for contracted training and job placement services for adults and dislocated workers in Jackson and Josephine counties. Ten positions are limited duration, and all are supported by fees for services provided.
- \$267,841 Federal Funds and one permanent Trade Adjustment Assistant Manager position (0.92 FTE) to reflect growth in the Trade Adjustment Assistance program. The source of funding is federal Trade Act funding.
- \$3.5 million Other Funds, \$120,326 Federal Funds, 18 positions (16.64 FTE) to address customer service needs in the Employment Department. This proposal extends eight limited duration positions first approved in 2023-25 and proposed to be extended into 2025-27. The 10 permanent positions include an administrative specialist dedicated to employer support, a supervisory position, and wage investigative workers. These positions would be in the Contributions and Recovery division, ensuring accurate and complete wage data, that is foundational to expedient determinations for benefits. The sources of funding include SEDAF, Unemployment Insurance grant funding, and Paid Leave contributions.

- \$1 million Other Funds and \$443,015 Federal Funds for costs related to overtime, temporary positions, and wage differentials. These costs are supported proportionately by all agency revenue sources.

## KEY PERFORMANCE MEASURES

A copy of the Employment Department Annual Performance Progress Report can be found on the LFO website: [https://www.oregonlegislature.gov/lfo/APPR/APPR\\_OED\\_2024-10-01.pdf](https://www.oregonlegislature.gov/lfo/APPR/APPR_OED_2024-10-01.pdf)

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