

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 7100	Department Employment Development Department	Priority No. 1
Budget Request Name 7100-003-BCP-BR-2016-GB		Program 5915, 5920, & 5930	Subprogram 5915010

Budget Request Description
 Unemployment Insurance Program Funding

Budget Request Summary

The Employment Development Department (EDD) requests a reduction of \$33.9 million and 148.2 Personnel Equivalents in Unemployment Administration Fund authority for 2016-17 due to updated workload estimates, reduced federal carryforward, and reduced Electronic Benefit Payment (EBP) earnings. To offset the decrease in federal earnings, carryforward, and EBP revenue, the EDD requests an increase of \$10.4 million of Contingent Fund and \$10.4 million of Benefit Audit Fund to continue to support the Unemployment Insurance Program. The additional funding will allow the EDD to meet its service targets for answering telephone calls, scheduling eligibility determination interviews, processing claims, and responding to online inquiries.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

FSR SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By <i>Crystal Watts</i>	Date <i>12-25-2015</i>	Reviewed By <i>[Signature]</i>	Date <i>12/30/15</i>
Department Director <i>[Signature]</i>	Date <i>12-30-15</i>	Agency Secretary <i>[Signature]</i>	Date <i>1-4-16</i>

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA <i>[Signature]</i>	Date submitted to the Legislature <i>1/7/16</i>
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A. Budget Request Summary

The Employment Development Department (EDD) requests a reduction of \$33.9 million and 148.2 Personnel Equivalents (PEs) in Unemployment Administration (UA) Fund authority for 2016-17 due to updated workload estimates, reduced federal carryforward, and reduced Electronic Benefit Payment (EBP) earnings. To offset the decrease in federal earnings, carryforward, and EBP revenue, the EDD requests an increase of \$10.4 million of Contingent Fund (CF) and \$10.4 million of Benefit Audit Fund (BAF) to continue to support the Unemployment Insurance (UI) Program. The additional funding will allow the EDD to meet its service targets for answering telephone calls, scheduling eligibility determination interviews, processing claims, and responding to online inquiries.

B. Background/History

The UI program is a federal-state program that provides weekly payments to eligible workers who lose their jobs through no fault of their own. Benefits range from \$40 to \$450 per week depending on the individual's earnings during a 12-month base period. To be eligible, an applicant must have received enough wages during the base period to establish a claim, be totally or partially unemployed, be unemployed through no fault of his or her own, be physically able to work, be seeking work and immediately available to accept work, as well as meet eligibility requirements for each week of benefits claimed.

Over the past several years, the UI program has received multiple augmentations from state and special funds in order to address a structural funding deficit and to increase service levels. These augmentations have made it possible for EDD to continue to meet the service level targets which were identified as part of the 2014-15 Finance Letter. Specifically, these resources were used to increase the number of telephone calls answered and to reduce call demand by processing Internet and paper claims, Internet inquiries (EDDComm messages), and scheduling eligibility determination interviews more timely. The EDD was appropriated \$27.8 million of BAF and \$14.0 million of CF in the 2015 Budget Act to continue to maintain the level of service which began in 2013-14.

The following chart outlines UI funding and personnel history for three years:

Table 1 - Funding and PE History

(Dollars in millions)

	2013-14	2014-15	2015-16
Base Program Funding			
Federal Funds (Base/Above-Base)	417.8	384.7	374.6
Federal Carryover	79.8	48.8	16.7
Contingent Fund			68.1
Other Special Funds	74.0	23.7	17.7
BCP/Finance Letter/Revise Augmentations			
Federal Funds	35.4	21.0	
Contingent Fund	29.7	64.0	14.0
General Fund		24.9	
Benefit Audit Fund			27.8
Grand Total Funding	636.7	567.1	518.9

Positions			
Actual PEs	4,769.7	4,298.2	
Estimated PE's			3,984.0

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Workload History

Annual workload history from 2007-08 through 2014-15, and projected workload for 2015-16 and 2016-17 has been compiled below:

Table 2 – Actual and Estimated UI Workload

Fiscal Year	Initial Claims	Weeks Claimed	Non-Monetary Determinations	Appeals Closed
2007-08	2,682,767	23,211,414	1,221,434	289,754
2008-09	5,082,849	48,585,669	1,384,178	333,415
2009-10	6,953,048	77,824,741	1,546,422	453,633
2010-11	6,899,259	69,629,674	1,343,179	468,804
2011-12	5,743,599	57,696,934	1,230,785	445,746
2012-13	4,807,433	44,905,472	1,306,238	415,203
2013-14	4,013,891	32,761,583	1,010,443	351,864
2014-15	2,706,390	21,627,694	848,335	266,187
2015-16 (forecast)	2,595,031	21,496,680	832,650	250,320
2016-17 (forecast)	2,486,000	20,620,160	809,750	237,030

C. State Level Considerations

The EDD is the only state entity impacted by this proposal. In recent years, the state's UI program drew significant attention for its poor service levels. The 2013-14, 2014-15, and 2015-16 augmentations have offset the program's underfunding at the federal level, resulting in increased service levels, and helping the EDD achieve the benchmarks set forth in each request. The federal underfunding is expected to continue, leaving the state to rely on ongoing alternate funding sources to maintain the gains in service that have been achieved to date.

D. Justification

This proposal will enable EDD to continue its efforts to provide acceptable levels of service to California's UI claimants. Additionally, this proposal establishes a baseline methodology to continue to address the federal underfunding issue annually as well as continuing to maintain adequate service levels to California's UI population.

Baseline Methodology

This proposal builds upon the prior approved methods by establishing a single calculation that identifies the staffing needs of the UI program. By leveraging the most recent state fiscal year MPU calculations and updated workload projections, the EDD will be able to maintain the levels of service as seen in the last several fiscal years. The main difference between this methodology and the prior methodology is that the EDD leverages the existing model to fund specific workloads at 100 percent, as opposed to the 2012-13 service level of 85 percent. As illustrated below, this results in additional PE needs for those workloads which have been targeted in 2014-15 and 2015-16.

Table 3 - PE Calculations Using New Method

Workload Category	Workload Estimate	SFY 2014-15 MPUs	2012-13 Service Levels (85%)	Current Service Levels (100%)	Variance
Initial Claims	2,486,000	34.420	720.0	847.1	127.1
Weeks Claimed	20,620,160	1.656	287.4	338.1	50.7
Non-Monetary Determinations	809,750	75.063	511.4	601.7	90.3
Total PE Need			1,518.8	1,786.9	268.1

Maintaining the three service level workloads at 100 percent of the funded model eliminates the need for the Department to calculate an additional service level need as had been the practice in 2014-15 and 2015-16. The additional service level calculation included in the 2015-16 Budget Act was 594 PEs.

Updated UI Workload Projections

There has been a decrease in UI program workload over the last 12 months. The following table compares May 2015 workload projections for 2015-16 to October 2015 projections for 2016-17:

Table 4 – Workload Comparisons

Workload Category	2015-16 May 2015	2016-17 October 2015	Variance	Percentage Change
Initial Claims	2,723,000	2,486,000	-237,000	-8.7%
Weeks Claimed	21,888,000	20,620,160	-1,267,840	-5.8%
Non-Monetary Determinations	818,470	809,750	-8,720	-1.1%
Appeals	253,150	237,030	-16,120	-6.4%

As a result of the workload changes and the new methodology for service levels, there is a decreased need for staff when compared to the staffing level of 3,984.0 which was established for 2015-16. Utilizing the new methodology, a PE need of 3,835.8 has been identified at a cost of \$509.9 million for 2016-17. This equates to a reduction of 148.2 PEs and \$9.0 million in expenditures.

Funding Issues

The drop in workload results in a reduction of expenditures. The reduction in expenditures results in EDD and CUIAB receiving less money from the federal government. The decrease in federal dollars is estimated to be a \$12.6 million reduction in the new base grant allocation and updated above base earnings for 2016-17. Additionally, EDD anticipates that by the end of 2015-16 all of the UI carryforward (\$16.7 million) will be exhausted, leaving no UI carryforward going into 2016-17. Lastly, the existing EBP contract will be ending on July 31, 2016. The EDD solicited bids from vendors for a new EBP contract starting in 2016-17. The selected vendor's revenue share figure is almost 80 percent less than the current contract. Once this contract goes into effect in 2016-17 it is estimated that EDD will lose approximately \$800,000 a month, equating to a reduction of \$9.6 million over the course of the year.

The EBP revenues are shared between the UI and Disability Insurance programs. The UI revenue is deposited back into the program in order to offset program expenses. The DI revenue share is

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deposited back into the Unemployment Compensation Disability Fund. It is estimated that the UI Program EBP revenue will be reduced by \$4.8 million annually due to the change in the contract.

Because of the various decreases in funding, and by capturing additional resources via Control Section and Employee Compensation adjustments, the EDD has identified a need of \$20.7 million in order to fill the current funding gap. Due to the availability of funding in both BAF and CF, the EDD is proposing to split the need between the two fund sources evenly. The following table illustrates the identified funding gap:

Table 5 - Funding and Expenditure Changes

(Dollars in millions)

	2015-16	2016-17	Variance
Program Funding			
Federal Funds (Base/Above-Base)	\$374.6	\$362.1	(\$12.5)
Federal Carryover	16.7	0.0	(16.7)
Contingent Fund	82.1	85.0	2.9
Other Special Funds	45.5	42.0	(3.5)
Grand Total Funding	\$518.9	\$489.2	(\$29.8)
Estimated Expenditures	\$518.9	\$509.9	(\$9.0)
Funding Gap (Funding less Expenditures)			(\$20.8)

In order for the EDD to address funding changes (increases or decreases) and maintain adequate levels of service, EDD is proposing budget language that would allow the Department to adjust its state supplemental funding in both BAF and CF. This would allow EDD, upon notification to DOF and the Legislature, to make current year and budget year changes to its state supplemental funding. The proposed language is currently included in the Budget Act for the UA Fund, the Unemployment Compensation Disability Fund, and the Consolidated Work Program Fund. The proposed language can be found in Attachment I.

If additional budget language is not included in the Budget Act and if sequestration reductions are applied to FFY 2017 UI grants, UI Program services would be severely impacted and would need to absorb an estimated \$24.1 million reduction in federal resources.

E. Outcomes and Accountability

This proposal will enable EDD to continue its efforts to provide services to California's UI claimants. EDD will monitor program service levels to ensure that claimants receive services timely and appropriately.

F. Analysis of All Feasible Alternatives

1. Provide \$10.4 million of CF and \$10.4 million of BAF to continue to support the UI Program.

Pro: Would allow EDD to maintain the level of service that began in 2013-14

Con: Impact to the General Fund

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2. Do not provide any additional money for the UI Program.

Pro: No impact to General Fund

Con: Would cause a degradation of services to UI claimants. Individuals seeking UI benefits could expect to have a difficult time making contact with the EDD and may experience delays in getting benefit payments. Additionally, there will likely be an increase in backlogs that will occur in the filing, eligibility determinations, and eventually in the appeals functions.

G. Implementation Plan

None

H. Supplemental Information

None

I. Recommendation

EDD recommends the approval of this request for \$10.4 million of CF and \$10.4 million of BAF in order to maintain service levels.

Proposed Provisional Language

7100-001-0184—For support of Employment Development Department, payable from the Employment Development Department Benefit Audit Fund XXX,XXX

Provisions:

1. The amount appropriated in this item includes revenues derived from the assessment of fines and penalties imposed as specified in Section 13332.18 of the Government Code.
2. *Provision 1 of Item 7100-001-0588 also applies to funds appropriated in this item for the Unemployment Insurance Program.*

7100-001-0185—For support of Employment Development Department, payable from the Employment Development Department Contingent Fund XXX,XXX

Provisions:

1. Funds appropriated in this item are in lieu of the amounts that otherwise would have been appropriated for administration pursuant to Section 1586 of the Unemployment Insurance Code.
2. The amount appropriated in this item includes revenues derived from the assessment of fines and penalties imposed as specified in Section 13332.18 of the Government Code.
3. *Provision 1 of Item 7100-001-0588 also applies to funds appropriated in this item for the Unemployment Insurance Program.*

BCP Fiscal Detail Sheet

BCP Title: Unemployment Insurance Administration

DP Name: 7100-003-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	-21.0	-21.0	-21.0	-21.0	-21.0
Positions - Temporary	-41.2	-127.2	-127.2	-127.2	-127.2	-127.2
Total Positions	-41.2	-148.2	-148.2	-148.2	-148.2	-148.2
Salaries and Wages						
Earnings - Temporary Help	0	-7,788	-7,788	-7,788	-7,788	-7,788
Total Salaries and Wages	\$0	\$-7,788	\$-7,788	\$-7,788	\$-7,788	\$-7,788
Total Staff Benefits	0	-4,729	-4,729	-4,729	-4,729	-4,729
Total Personal Services	\$0	\$-12,517	\$-12,517	\$-12,517	\$-12,517	\$-12,517
Operating Expenses and Equipment						
5301 - General Expense	0	-32	-32	-32	-32	-32
5302 - Printing	0	-12	-12	-12	-12	-12
5304 - Communications	0	-76	-76	-76	-76	-76
5306 - Postage	0	-134	-134	-134	-134	-134
5322 - Training	0	-1	-1	-1	-1	-1
5324 - Facilities Operation	0	-138	-138	-138	-138	-138
5326 - Utilities	0	-10	-10	-10	-10	-10
5344 - Consolidated Data Centers	0	-106	-106	-106	-106	-106
5346 - Information Technology	0	-49	-49	-49	-49	-49
539X - Other	0	-36	-36	-36	-36	-36
Total Operating Expenses and Equipment	\$0	\$-594	\$-594	\$-594	\$-594	\$-594
Total Budget Request	\$0	\$-13,111	\$-13,111	\$-13,111	\$-13,111	\$-13,111
Fund Summary						
Fund Source - State Operations						
0184 - Employment Development Department Benefit Audit Fund	0	10,387	10,387	10,387	10,387	10,387
0185 - Employment Development Department Contingent Fund	0	10,387	10,387	10,387	10,387	10,387
0870 - Unemployment Administration Fund	0	-33,885	-33,885	-33,885	-33,885	-33,885
Total State Operations Expenditures	\$0	\$-13,111	\$-13,111	\$-13,111	\$-13,111	\$-13,111
Total All Funds	\$0	\$-13,111	\$-13,111	\$-13,111	\$-13,111	\$-13,111

Program Summary

Program Funding

5920 - Unemployment Insurance Program	0	4,175	4,175	4,175	4,175	4,175
5930 - Tax Program	0	-14,022	-14,022	-14,022	-14,022	-14,022
5915010 - Appeals Board Unemployment Insurance Program	0	-3,264	-3,264	-3,264	-3,264	-3,264
Total All Programs	\$0	-\$13,111	-\$13,111	-\$13,111	-\$13,111	-\$13,111

Personal Services Details

Positions	Salary Information			CY	BY	BY+1	BY+2	BY+3	BY+4
	Min	Mid	Max						
1139 - Office Techn (Typing)				0.0	-1.0	-1.0	-1.0	-1.0	-1.0
1245 - Exec Secty II				0.0	-1.0	-1.0	-1.0	-1.0	-1.0
1558 - Sys Software Spec II (Supvry)				0.0	-1.0	-1.0	-1.0	-1.0	-1.0
3224 - Sr Legal Typist				0.0	-4.0	-4.0	-4.0	-4.0	-4.0
5278 - Mgmt Svcs Techn				0.0	-2.0	-2.0	-2.0	-2.0	-2.0
6067 - Administrative Law Judge II				0.0	-12.0	-12.0	-12.0	-12.0	-12.0
TH00 - Temporary Help				-41.2	-127.	-127.2	-127.2	-127.2	-127.2
Total Positions				-41.2	-148.	-148.2	-148.2	-148.2	-148.2
Salaries and Wages				CY	BY	BY+1	BY+2	BY+3	BY+4
1139 - Office Techn (Typing)				0	-42	-42	-42	-42	-42
1245 - Exec Secty II				0	-52	-52	-52	-52	-52
1558 - Sys Software Spec II (Supvry)				0	-96	-96	-96	-96	-96
3224 - Sr Legal Typist				0	-182	-182	-182	-182	-182
5278 - Mgmt Svcs Techn				0	-89	-89	-89	-89	-89
6067 - Administrative Law Judge II				0	-1,489	-1,489	-1,489	-1,489	-1,489
TH00 - Temporary Help				0	-5,838	-5,838	-5,838	-5,838	-5,838
Total Salaries and Wages				\$0	\$-7,788	\$-7,788	\$-7,788	\$-7,788	\$-7,788
Staff Benefits									
5150150 - Dental Insurance				0	-77	-77	-77	-77	-77
5150200 - Disability Leave - Industrial				0	-52	-52	-52	-52	-52
5150210 - Disability Leave - Nonindustrial				0	-10	-10	-10	-10	-10
5150350 - Health Insurance				0	-1,514	-1,514	-1,514	-1,514	-1,514
5150450 - Medicare Taxation				0	-125	-125	-125	-125	-125
5150500 - OASDI				0	-522	-522	-522	-522	-522
5150600 - Retirement - General				0	-2,106	-2,106	-2,106	-2,106	-2,106
5150700 - Unemployment Insurance				0	-11	-11	-11	-11	-11
5150750 - Vision Care				0	-11	-11	-11	-11	-11
5150800 - Workers' Compensation				0	-290	-290	-290	-290	-290
5150900 - Staff Benefits - Other				0	-11	-11	-11	-11	-11
Total Staff Benefits				\$0	\$-4,729	\$-4,729	\$-4,729	\$-4,729	\$-4,729