

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 7100-402-ECP-BR-2016-MR		Program 5915,5920	Subprogram 5915010

Budget Request Description
 Unemployment Insurance Program Funding

Budget Request Summary

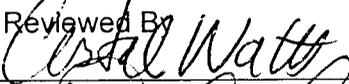
The Employment Development Department requests a reduction of \$4.5 million and 46.9 Personnel Equivalents in Unemployment Administration authority for 2016-17 due to updated workload estimates. In addition, this request also includes a proposal to reduce Benefit Audit Fund by \$23.6 million, and replace it with increases of \$19.7 million in General Fund and \$3.9 million in Contingent Fund. General Fund and Contingent Fund resources are needed due to revenue collections for the Treasury Offset Program coming in lower than previously anticipated.

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 No	Code Section(s) to be Added/Amended/Repealed	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 	Date 5/6/16	Reviewed By 	Date 5-6-16
Department Director	Date 5/9/16	Agency Secretary	Date 5-10-16

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 	Date submitted to the Legislature 5/13/16
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A. Budget Request Summary

The Employment Development Department (EDD) requests a reduction of \$4.5 million and 46.9 Personnel Equivalents (PEs) in Unemployment Administration (UA) authority for 2016-17 due to updated workload estimates. In addition, this request also includes a proposal to reduce Benefit Audit Fund (BAF) by \$23.6 million, and replace it with increases of \$19.7 million in General Fund and \$3.9 million in Contingent Fund. General Fund and Contingent Fund resources are needed due to revenue collections for the Treasury Offset Program (TOP) coming in lower than previously anticipated.

B. Background/History

Over the past several years, the Unemployment Insurance (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.

In 2013-14, the EDD implemented the TOP to leverage Federal Income Tax refunds of UI claimants with overpayment liability owed due to fraud or claimant's failure to report earnings. Through March 2016, the Department has collected over \$245 million dollars by leveraging the TOP collection tool. Due to the anticipated revenue collection tied to the second year of TOP (2015-16), the EDD was appropriated \$27.8 million of BAF and \$14.0 million of Contingent Fund in the 2015 Budget Act to continue to support the UI Program Service levels which began in 2013-14. The amount appropriated in the 2015 Budget Act replaced \$40.9 million of General Fund in support of the UI program.

The 2016-17 Governor's Budget included EDD's proposal for a reduction of \$33.9 million and 148.2 PEs in UA Fund authority for 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 request also included an increase of \$10.4 million of Contingent Fund and \$10.4 million of BAF to continue to support the UI Program. The 2016-17 BCP also proposed budget language that would allow EDD to adjust its state supplemental funding in both the BAF and the Contingent Fund. This proposal was approved by the Assembly Budget Subcommittee No.4 on April 12, 2016, and the Senate Budget and Fiscal Review Subcommittee No.5 on April 21, 2016.

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, increased service levels, and helped 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

Updated UI Workload Projections

This proposal seeks to change the level of staffing identified in the 2016-17 UI BCP due to updated workload projections (see table 1 below). The overall decrease in workload accounts for a 13.0 PE reduction for EDD and a 33.9 PE reduction for the California Unemployment Insurance Appeals Board (CUIAB), amounting to \$4.5 million.

Although workload has dropped resulting in a reduction of expenditures, this also results in EDD and the CUIAB receiving less money from the federal government. The decrease in federal dollars amounts to approximately \$4.5 million.

Table 1 - Workload Comparisons

Workload Category	2016-17 October 2015	2016-17 May 2016	Variance	Percentage Change
Initial Claims	2,486,000	2,462,000	-24,000	-0.97%
Weeks Claimed	20,620,000	20,019,000	-601,000	-2.91%
Non-Monetary Determinations	810,000	839,000	29,000	3.58%
Appeals	237,000	213,000	-24,000	-10.13%

Treasury Offset Program

2014-15 marked the first full year of TOP collections for California, which included almost \$185 million dollars being deposited into the UI Trust Fund, BAF, and Contingent Fund. Due to the large influx of additional revenue tied to the first year of TOP collections, the 2016-17 Governor's Budget estimated that Year 2 of TOP would decrease from Year 1 by approximately 25 percent. EDD leveraged other states' experiences because there was only one year of data for California available.

In analyzing the TOP data across the larger states (collections more than \$10 million), the Year 1 to Year 2 trends were fairly inconsistent. For example, Florida decreased over 76 percent from Year 1 to Year 2, yet New York only decreased 3 percent. Some states even saw gains from Year 1 to Year 2 (Wisconsin, Pennsylvania, and North Carolina). However, across all of the larger states the total amount of revenue collected dropped approximately 24 percent from Year 1 to Year 2 (see Table 2 below).

Table 2 – TOP State Experience¹

(Dollars in millions)

State	Year 1	Year 2	% Change
Alabama	10.5	5.8	-44.8%
Arizona	21.5	11.1	-48.4%
Arkansas	19.3	8	-58.5%
Florida	19.6	4.6	-76.5%
Illinois	37.6	29.7	-21.0%
Maryland	16.3	12.6	-22.7%
Minnesota	15.3	10.1	-34.0%
Mississippi	14.5	10.3	-29.0%
Missouri	20.2	13	-35.6%
New York	30.0	29.2	-2.7%
North Carolina	10.4	14.9	43.3%
Pennsylvania	9.4	16.9	79.8%
South Carolina	11.6	11.5	-0.9%
Tennessee	16.1	9.5	-41.0%
Wisconsin	11.6	13.3	14.7%
Total	263.9	200.5	-24.0%

¹ Data taken from Fiscal Year 2014 Report to the States published by the U.S. Department of the Treasury Bureau of Fiscal Services

² Year 1 reflects first full year

Unfortunately, as the bulk of the Year 2 TOP revenue was realized in the month of February 2016, EDD experienced a significant reduction compared to what was previously estimated. The revenue collections tied to the TOP BAF component came in over 75 percent lower than estimated for that month. This resulted in a \$12.4 million reduction compared to estimates for the month of February

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2016. TOP BAF collections for March 2016 have slightly increased over February, coming in about 57 percent lower than estimated. Overall, TOP BAF collections through March 2016 are tracking approximately 67 percent lower than previously estimated for 2015-16, or \$15.3 million.

Continuing the trend of TOP collections in the current year and further reducing in budget year (tied to other states experience) results in an estimated loss of almost \$40 million of BAF revenue. With TOP collections trending lower over the next few years, BAF will not be able to provide the level of support previously estimated to the UI Program. In order to fill the remaining funding gap, EDD is requesting \$19.7 million from the General Fund, an increase of \$3.9 million from the Contingent Fund, and a decrease of \$23.6 million in BAF. These changes, along with the reduced expenditure level and reduced above-base earnings are highlighted in Table 3 below.

Table 3 - Funding and Expenditure Changes¹

(Dollars in millions)

	Governor's Budget	May 2016 Update	Variance
Program Funding			
Federal Funds (Base/Above-Base)	\$362.1	\$357.6	(\$4.5)
Benefit Audit Fund	51.3	27.7	(23.6)
Contingent Fund	95.4	99.3	3.9
Electronic Base Period Revenue	1.2	1.2	-
Grand Total Funding	\$509.9	\$485.8	(\$24.2)
Estimated Expenditures	\$509.9	\$505.4	(\$4.5)
Funding Gap (Funding less Expenditures)			(\$19.7)

¹ Does not include resources or expenditures for "base" pro-rata.

If the revenue projections do not materialize to the level that EDD anticipates, EDD would need to reduce expenditures, which could impact UI program service levels.

E. Recommendation

EDD recommends approval of this proposal to update for May 2016 workload projections and the fund swap of \$23.6 million of BAF for \$19.7 million General Fund and \$3.9 million Contingent Fund.

BCP Fiscal Detail Sheet

BCP Title: Unemployment Insurance Program Administration Funding

DP Name: 7100-402-ECP-DP-2016-MR

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	-33.0	-33.0	-33.0	-33.0	-33.0
Positions - Temporary	0.0	-13.9	-13.9	-13.9	-13.9	-13.9
Total Positions	0.0	-46.9	-46.9	-46.9	-46.9	-46.9
Salaries and Wages						
Earnings - Permanent	0	356	-1,949	-1,949	-1,949	-1,949
Earnings - Temporary Help	0	-3,101	-796	-796	-796	-796
Total Salaries and Wages	\$0	-\$2,745	-\$2,745	-\$2,745	-\$2,745	-\$2,745
Total Staff Benefits	0	-1,768	-1,768	-1,768	-1,768	-1,768
Total Personal Services	\$0	-\$4,513	-\$4,513	-\$4,513	-\$4,513	-\$4,513
Total Budget Request	\$0	-\$4,513	-\$4,513	-\$4,513	-\$4,513	-\$4,513
Fund Summary						
Fund Source - State Operations						
0001 - General Fund	0	19,651	28,013	28,013	28,013	28,013
0184 - Employment Development Department Benefit Audit Fund	0	-23,611	-24,430	-24,430	-24,430	-24,430
0185 - Employment Development Department Contingent Fund	0	3,960	-3,583	-3,583	-3,583	-3,583
0870 - Unemployment Administration Fund	0	-4,513	-4,513	-4,513	-4,513	-4,513
Total State Operations Expenditures	\$0	-\$4,513	-\$4,513	-\$4,513	-\$4,513	-\$4,513
Total All Funds	\$0	-\$4,513	-\$4,513	-\$4,513	-\$4,513	-\$4,513
Program Summary						
Program Funding						
5920 - Unemployment Insurance Program California Unemployment Insurance	0	-1,250	-1,250	-1,250	-1,250	-1,250
5915010 - Appeals Board Unemployment Insurance Program	0	-3,263	-3,263	-3,263	-3,263	-3,263
Total All Programs	\$0	-\$4,513	-\$4,513	-\$4,513	-\$4,513	-\$4,513

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	-4.0	-4.0	-4.0	-4.0	-4.0
1277 - Legal Support Supvr I				0.0	-3.0	-3.0	-3.0	-3.0	-3.0
1278 - Legal Support Supvr II				0.0	-1.0	-1.0	-1.0	-1.0	-1.0
1379 - Office Asst (Typing)				0.0	-1.0	-1.0	-1.0	-1.0	-1.0
1470 - Assoc Info Sys Analyst (Spec)				0.0	-2.0	-2.0	-2.0	-2.0	-2.0
3224 - Sr Legal Typist				0.0	-5.0	-5.0	-5.0	-5.0	-5.0
5278 - Mgmt Svcs Techn				0.0	-9.0	-9.0	-9.0	-9.0	-9.0
5393 - Assoc Govtl Program Analyst				0.0	-1.0	-1.0	-1.0	-1.0	-1.0
6067 - Administrative Law Judge II				0.0	-4.0	-4.0	-4.0	-4.0	-4.0
6091 - Administrative Law Judge I				0.0	-3.0	-3.0	-3.0	-3.0	-3.0
TH00 - Temporary Help				0.0	-13.9	-13.9	-13.9	-13.9	-13.9
Total Positions				0.0	-46.9	-46.9	-46.9	-46.9	-46.9

Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4
1139 - Office Techn (Typing)	0	-152	-152	-152	-152	-152
1277 - Legal Support Supvr I	0	-149	-149	-149	-149	-149
1278 - Legal Support Supvr II	0	-55	-55	-55	-55	-55
1379 - Office Asst (Typing)	0	-33	-33	-33	-33	-33
1470 - Assoc Info Sys Analyst (Spec)	0	-134	-134	-134	-134	-134
3224 - Sr Legal Typist	0	-204	-204	-204	-204	-204
5278 - Mgmt Svcs Techn	0	-358	-358	-358	-358	-358
5393 - Assoc Govtl Program Analyst	0	-62	-62	-62	-62	-62
6067 - Administrative Law Judge II	0	-468	-468	-468	-468	-468
6091 - Administrative Law Judge I	0	-334	-334	-334	-334	-334
TH00 - Temporary Help	0	-796	-796	-796	-796	-796
Total Salaries and Wages	\$0	\$-2,745	\$-2,745	\$-2,745	\$-2,745	\$-2,745

Staff Benefits	CY	BY	BY+1	BY+2	BY+3	BY+4
5150150 - Dental Insurance	0	-29	-29	-29	-29	-29
5150200 - Disability Leave - Industrial	0	-19	-19	-19	-19	-19
5150210 - Disability Leave - Nonindustrial	0	-4	-4	-4	-4	-4
5150350 - Health Insurance	0	-574	-574	-574	-574	-574

5150450 - Medicare Taxation	0	-47	-47	-47	-47	-47
5150500 - OASDI	0	-194	-194	-194	-194	-194
5150600 - Retirement - General	0	-782	-782	-782	-782	-782
5150700 - Unemployment Insurance	0	-4	-4	-4	-4	-4
5150750 - Vision Care	0	-4	-4	-4	-4	-4
5150800 - Workers' Compensation	0	-107	-107	-107	-107	-107
5150900 - Staff Benefits - Other	0	-4	-4	-4	-4	-4
Total Staff Benefits	\$0	\$-1,768	\$-1,768	\$-1,768	\$-1,768	\$-1,768
Total Personal Services	\$0	\$-4,513	\$-4,513	\$-4,513	\$-4,513	\$-4,513