

P00
Workforce Development
 Department of Labor, Licensing, and Regulation

Operating Budget Data

(\$ in Thousands)

| | <u>FY 09</u> <u>Actual</u> | <u>FY 10</u> <u>Working</u> | <u>FY 11</u> <u>Allowance</u> | <u>FY 10-11</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|--------------------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| General Fund | \$3,845 | \$24,291 | \$23,963 | -\$329 | -1.4% |
| Contingent & Back of Bill Reductions | 0 | 0 | -466 | -466 | |
| Adjusted General Fund | \$3,845 | \$24,291 | \$23,496 | -\$795 | -3.3% |
| Special Fund | 8,047 | 8,612 | 7,851 | -761 | -8.8% |
| Contingent & Back of Bill Reductions | 0 | 0 | -71 | -71 | |
| Adjusted Special Fund | \$8,047 | \$8,612 | \$7,780 | -\$832 | -9.7% |
| Federal Fund | 130,448 | 177,447 | 142,997 | -34,450 | -19.4% |
| Contingent & Back of Bill Reductions | 0 | 0 | -1,150 | -1,150 | |
| Adjusted Federal Fund | \$130,448 | \$177,447 | \$141,847 | -\$35,600 | -20.1% |
| Reimbursable Fund | 6,584 | 10,637 | 10,096 | -542 | -5.1% |
| Contingent & Back of Bill Reductions | 0 | 0 | -219 | -219 | |
| Adjusted Reimbursable Fund | \$6,584 | \$10,637 | \$9,877 | -\$761 | -7.2% |
| Adjusted Grand Total | \$148,925 | \$220,988 | \$183,001 | -\$37,987 | -17.2% |

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance includes a fiscal 2010 deficiency of \$225,000 in general funds for the Governor's Workforce Investment Board. The monies are intended to partially fund the newly created Center for Maryland Construction Education and Innovation housed at Towson University.
- The fiscal 2011 allowance declines by over \$37.9 million, or 17.2%, largely due to one-time federal workforce development stimulus funds in fiscal 2010.

Note: Numbers may not sum to total due to rounding.

For further information contact: Jody J. Sprinkle

Phone: (410) 946-5530

Personnel Data

| | <u>FY 09 Actual</u> | <u>FY 10 Working</u> | <u>FY 11 Allowance</u> | <u>FY 10-11 Change</u> |
|------------------------|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Regular Positions | 1,077.20 | 1,307.70 | 1,302.70 | -5.00 |
| Contractual FTEs | <u>118.89</u> | <u>162.23</u> | <u>165.63</u> | <u>3.40</u> |
| Total Personnel | 1,196.09 | 1,469.93 | 1,468.33 | -1.60 |

Vacancy Data: Regular Positions

| | | |
|---|-------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | 56.28 | 4.32% |
| Positions and Percentage Vacant as of 12/31/09 | 92.41 | 7.07% |

- Five vacant positions were eliminated in the fiscal 2011 allowance in the interests of cost containment. These are teacher positions within the Correctional Education division. Conversely, Adult Education programs received additional contractual staff under its General Educational Development program.
- The department reports over 92 vacant positions at the end of calendar 2009; a vacancy rate of 7.07%. This is well above the budgeted turnover rate set in the fiscal 2011 allowance.

Analysis in Brief

Major Trends

Mixed Results in Employment Services: The Division of Workforce Development and Adult Learning tracks the success of its employment services by measuring the rate at which participants enter employment. The division meets the goal of achieving federal standards, but rates fluctuate from year to year. Federal stimulus funds are expected to positively impact this measure in the out-years.

Workload Puts Pressure on Unemployment Insurance Appeals Staff: The Unemployment Insurance appeals staff has met with an increasing workload beginning in fiscal 2008. The pressure of this increased workload has led to lower efficiency rates in appeals processing. An increased staff in fiscal 2010 is expected to alleviate workload pressures.

Department Begins Tracking Adult Learning Achievements: Chapter 134 of 2008 transferred adult education, literacy, and correctional education services from the Maryland State Department of Education (MSDE) to the department as of July 1, 2009. This legislation was enacted in order to align the State's workforce development resources with adult learning needs. The department is tailoring performance measures that will reflect this new alignment.

Issues

Weak Economy Highlights Workforce Development Efforts: The State's unemployment rate has reached 7.5%, increasing the demand for the services offered by the Division of Workforce Development and Adult Learning. The division offers services for youth, adult, and dislocated workers through 12 local workforce investment boards. **The Department of Legislative Services (DLS) recommends that the department comment on its workforce development efforts and the impact of federal stimulus funds on the placement and training of the State's workers.**

Unemployment Insurance: Trust Fund, Tax Rates, and Modernization: The current recession has caused a dramatic increase in benefits paid from the State's unemployment insurance trust fund. On September 30, 2009, the balance in the trust fund fell to \$302 million. This decline, combined with a taxable wage base of \$17.8 billion, places the State and Maryland employers in the highest tax table for calendar 2010. Federal stimulus funds may mitigate the decline in the trust fund balance dependant on the enactment of the Administration's proposed legislation entitled "Modernization and Tax Relief Act". **DLS recommends that the department brief the budget committees on the status of the Unemployment Insurance Trust Fund, the Administration's modernization plan, and how the division is managing the elevated workload resulting from increased and prolonged unemployment.**

Recommended Actions

| | <u>Funds</u> |
|--|---------------------|
| 1. Delete general funds for the Maryland Summer Youth Program. | \$ 120,000 |
| 2. Delete urban youth employment grants. | 355,110 |
| 3. Delete funds for the foreign trained nursing program. | 100,000 |
| 4. Delete the general fund deficiency to fund the Center for Maryland Construction Education and Innovation. | 225,000 |
| Total Reductions to Fiscal 2010 Deficiency Appropriation | \$ 225,000 |
| Total Reductions to Allowance | \$ 575,110 |

Updates

Report on the Transfer of Adult and Correctional Educational Programs: The 2009 *Joint Chairmen's Report* included narrative that requested the department to report on the transfer of adult and correctional educational programs to the department from MSDE. The report includes a summary of the transfer's monetary and personnel impacts and cites some early achievements of the newly aligned programs.

P00
Workforce Development
Department of Labor, Licensing, and Regulation

Operating Budget Analysis

Program Description

The Department of Labor, Licensing, and Regulation (DLLR) includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades. The department also administers a variety of employment service and adult learning programs.

This analysis focuses on the department's administrative and workforce development units. The administrative offices include the Office of the Secretary; legal services; equal opportunity and program evaluation; the Governor's Workforce Investment Board; appeals; budget and fiscal services; general services; information technology and personnel.

The bulk of the department's funding and personnel are within the following divisions:

- **Division of Workforce Development and Adult Learning** operates workforce development programs including job services, Workforce Investment Act, and labor market information programs. It also manages the newly aligned adult education programs including adult literacy programs and skills training for correctional institutions. Its mission is to support the State's economic growth through a workforce development, education and training system that is responsive to the needs of adult learners, job seekers, employers and all system partners.
- **Division of Unemployment Insurance (UI)** operates the federally funded unemployment insurance programs. Its mission is to provide prompt, temporary, partial wage replacement to eligible individuals who are unemployed, help facilitate their return to work, and collect unemployment insurance tax contributions from employers.

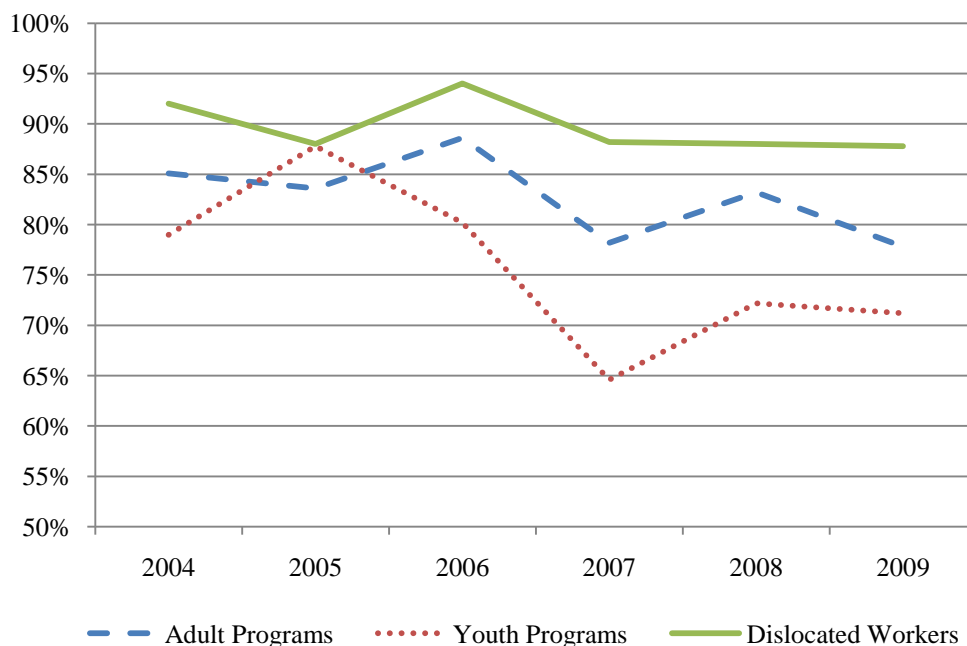
A separate analysis discusses business regulation and occupational licensing functions.

Performance Analysis: Managing for Results

Mixed Results in Employment Services

The Division of Workforce Development and Adult Learning strives to provide potential workers with the education, training, and support needed to become a contributing member of the State's workforce. The division measures its success by tracking the rate at which individuals that receive workforce development services enter employment. **Exhibit 1** shows the "entered employment rate" for each of the three programs offered by the division.

Exhibit 1
Workforce Development Programs
Entered Employment Rate
Fiscal 2004-2009



Source: Governor’s Budget Books, Fiscal 2006-2011

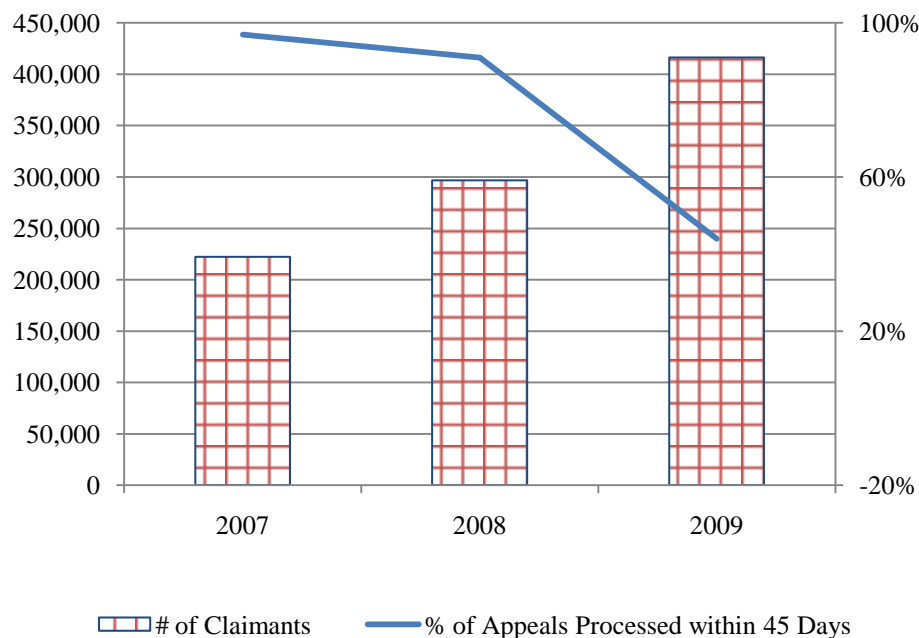
Youth program participants show the least success in entering employment upon receipt of departmental services. Fiscal 2007 marked a low point for each program in this performance measure. Further, the three programs have not matched the success achieved in fiscal 2004. However, the significant influx of resources made available to the department in fiscal 2010 through the federal stimulus funding is expected to have a positive effect in the out-years. This will be discussed more thoroughly in Issue 1 of this analysis.

Workload Puts Pressure on UI Appeals Staff

The Lower Appeals Division hears and decides appeals from the department’s initial determination on unemployment insurance claims matters. The unit strives to process 85% of the appeals within 45 days.

Exhibit 2 shows the number of claimants for UI benefits as compared to the efficiency rate of processing UI appeals. From fiscal 2008 to 2009, the number of individuals claiming UI benefits increased by 40%. The number of appeals increased by a proportionate amount. In fiscal 2008, the appeals unit processed 91% of its cases in 45 days, surpassing its stated performance goal. However,

Exhibit 2
Unemployment Insurance Claimants and Appeals
Fiscal 2007-2009



Source: Governor's Budget Books, Fiscal 2010-2011

in fiscal 2009, the unit was only able to process 43% of cases within 45 days. This represents a 52% decline in efficiency and makes the case that the unit and its 43 employees were overwhelmed by cases in fiscal 2009. Additional federal funds were made available in fiscal 2010 allowing the department to increase its appeals staff to 60 full-time positions.

Department Begins Tracking Adult Learning Achievements

Chapter 134 of 2008 transferred adult education, literacy, and correctional education services from the Maryland State Department of Education (MSDE) to the department as of July 1, 2009. This legislation was enacted in order to align the State's workforce development resources with adult learning needs. The Division of Workforce Development and Adult Learning is undertaking a review of performance measures for these programs. Currently, the division is tracking the number of learners who advance a literacy level; the rate of high school diplomas awarded; the rate of entering employment; total instructional hours; completions of academic, occupational, and transitional programs; total enrollment; and the number of students/inmates on waiting lists. Additionally, adult learning programs are now subject to the StateStat process.

Because the transfer was effective at the beginning of fiscal 2010, year-to-year comparisons are not currently useful in determining the performance of the department. The progress over the next few years will be critical in determining the efficacy of the transfer of the programs.

Fiscal 2010 Actions

Proposed Deficiency

The fiscal 2011 allowance includes a fiscal 2010 deficiency of \$225,000 in general funds for the Governor's Workforce Investment Board (GWIB).

Based on a recommendation from GWIB's report *Maryland's Construction Industry Workforce Report*, the Maryland Center for Construction Education and Innovation was established as a 501(c)(3) entity. The center is housed at Towson University's business incubator and is designed to partner with the public-private sector, universities, community colleges, and secondary schools to position construction as a career of choice, to promote the economic viability of construction in Maryland, and to serve as a resource for industry, education, and government. The annual operating budget of the entity is estimated at \$300,000. The center received a grant from the Maryland Economic Development Corporation of \$75,000. This deficiency will make up the remainder of the center's first year of operational costs.

Impact of Cost Containment

The fiscal 2010 cost containment effort reduced the department's workforce development appropriation by almost \$2.5 million. The majority of the reduction is due to savings related to position reductions and to the employee furlough. Most of the position and salary reductions occurred within the Correctional Education program. General fund savings were also realized as the department transferred several general funded positions to the newly created Workplace Fraud Unit and other special funded programs. Also, grants to benefit the foreign trained nursing program and community based education organizations were reduced by \$250,000.

Federal Stimulus Fund

Workforce development efforts were a major focus of federal stimulus funding. The funding was built on the existing framework of the federal Workforce Investment Act (WIA) funding that provides services for adults, youths and dislocated workers. The State received approximately \$33.5 million in stimulus funding for these purposes.

Proposed Budget

The fiscal 2011 allowance for the administration and workforce development units of the department declines by 17.2% from the fiscal 2010 working appropriation. This is due in large part to the increase in federal workforce development stimulus funds in fiscal 2010, which are not available in fiscal 2011. Additionally, general funds and special funds both decline in the fiscal 2011 allowance as shown in **Exhibit 3**.

Impact of Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected actions relating to employee furloughs, health insurance, and Injured Workers' Insurance Fund cost savings.

Division of Workforce Development and Adult Learning

The fiscal 2011 allowance for the Division of Workforce Development and Adult Learning reflects a significant decline (\$37.6 million) due primarily to the influx of federal stimulus funding in fiscal 2010. The fiscal 2011 funding represents a normal funding level under the federal Workforce Investment Act.

The allowance also reflects the abolition of 5 vacant teacher positions within the Correctional Education program. This action reduces personnel costs by approximately \$360,000 in general funds. Over the last two budget years, this program has lost 17 positions due to cost containment efforts. Of these positions, 5 teacher positions were eliminated due to the lower inmate population at the Metropolitan Transition Center. Most of the other positions were abolished because they were vacant. The coordinator positions for college programs and occupational programs were eliminated and several vacant teacher positions were eliminated. Although the Managing for Results data does not yet show any impact from the eliminated positions, it is reasonable to assume that it may have an effect on class availability, waiting lists, and academic achievement. To mitigate some of the impact of the positions reduction, the fiscal 2011 allowance includes increased contractual staff in order to add proctors for GED testing.

Exhibit 3
Proposed Budget
DLLR – Workforce Development
(\$ in Thousands)

| How Much It Grows: | General Fund | Special Fund | Federal Fund | Reimb. Fund | Total |
|----------------------------|-------------------------|-------------------------|-------------------------|------------------------|----------------|
| 2010 Working Appropriation | \$24,291 | \$8,612 | \$177,447 | \$10,637 | \$220,988 |
| 2011 Allowance | <u>23,963</u> | <u>7,851</u> | <u>142,997</u> | <u>10,096</u> | <u>184,907</u> |
| Amount Change | -\$329 | -\$761 | -\$34,450 | -\$542 | -\$36,081 |
| Percent Change | -1.4% | -8.8% | -19.4% | -5.1% | -16.3% |
| Contingent Reduction | -\$466 | -\$71 | -\$1,150 | -\$219 | -\$1,906 |
| Adjusted Change | -\$795 | -\$832 | -\$35,600 | -\$761 | -\$37,987 |
| Adjusted Percent Change | -3.3% | -9.7% | -20.1% | -7.2% | -17.2% |

Where It Goes:

Personnel Expenses

| | |
|--|--------|
| Abolished positions | -\$360 |
| Other salary adjustments | 99 |
| Employee and retiree health insurance..... | 887 |
| Employee retirement | 1,128 |
| Workers' compensation premium assessment | -146 |
| Turnover adjustments..... | 875 |
| Back of the Bill reductions including fiscal 2011 furlough | -1,906 |
| Other fringe benefit adjustments | -183 |

Other Changes

| | |
|---|---------|
| Decline in Workforce Investment Act federal funds for workforce programs | -37,582 |
| Decline in federal pass through grants to the Information Technology Support Center.... | -1,100 |
| Decline in Trade Adjustment Assistance grants..... | -600 |
| One-time unemployment insurance (UI) information technology upgrade in fiscal 2010 | -569 |
| Increase in postage for increased UI activity | 487 |
| Increase in contractual staff..... | 148 |
| Other..... | 835 |

Total **-\$37,987**

Note: Numbers may not sum to total due to rounding.

Division of Unemployment Insurance

The fiscal 2011 allowance for the Division of Unemployment Insurance declines by about \$1.6 million from the fiscal 2010 working appropriation. The decline is largely attributable to one-time expenditures in fiscal 2010. For example, the division received federal funds in fiscal 2010 under the Trade Adjustment Assistance program designed to provide reemployment and retraining services for those adversely affected by foreign trade. Also, the division experienced one-time information technology (IT) upgrades in fiscal 2010 to its Imaging Data Access System. As such, IT costs decline in fiscal 2011. Conversely, the costs for postage increases by about \$487,000 in federal funds, commensurate with the increase in UI benefit claim activity.

Issues

1. Weak Economy Highlights Workforce Development Efforts

As of December 2009, the State's unemployment rate has reached 7.5%. While less than the national average, the State's employment base is still in increasing need of the services offered by the Division of Workforce Development and Adult Learning. From the first to the last quarter of 2009, the total number of residents that sought State employment services increased from 143,000 to 180,000 statewide.

Workforce development programs are based on a platform developed by the U.S. Department of Labor's Workforce Investment Act (WIA). The programs are designed to help adult, youth, and dislocated workers. Most of the services are provided and tailored by local workforce investment boards. There are 12 local boards across the State, and each is chaired by a local business person. The point of contact for most individuals seeking services is the one-stop shops, which are located in each county. Services include:

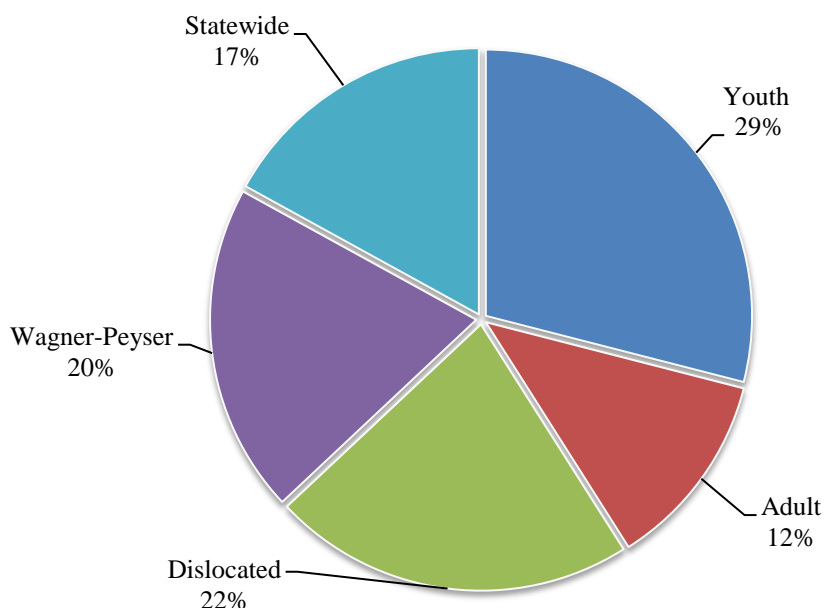
- **Core Services** – eligibility determination, outreach, assessment, training information, job searches, placement, and labor market information.
- **Intensive Services** – specialized assessment, diagnostic testing, employment barrier evaluation, individual counseling, career planning, out-of-area job search, educational remediation, and internships.
- **Training Services** – occupational skills, on-the-job training, cooperative programs, skills training, and job readiness training.

Stimulus Funding

Workforce development efforts were a major focus of the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA funding was built on the existing framework of the federal WIA funding that provides services for adults, youths, and dislocated workers. The State received approximately \$33.5 million in stimulus funding for these purposes. The department is using the funds to focus on upgrading the skills training of job seekers.

According to the Administration's web site on stimulus funding, youth programs and dislocated worker programs are receiving the majority of the funds. **Exhibit 4** shows the breakdown of the funding between the programs. The Wagner-Peyser funds provide operational and staff funding for the local one-stop shops.

Exhibit 4
Workforce Development Programs
Federal Stimulus Funding
Fiscal 2010

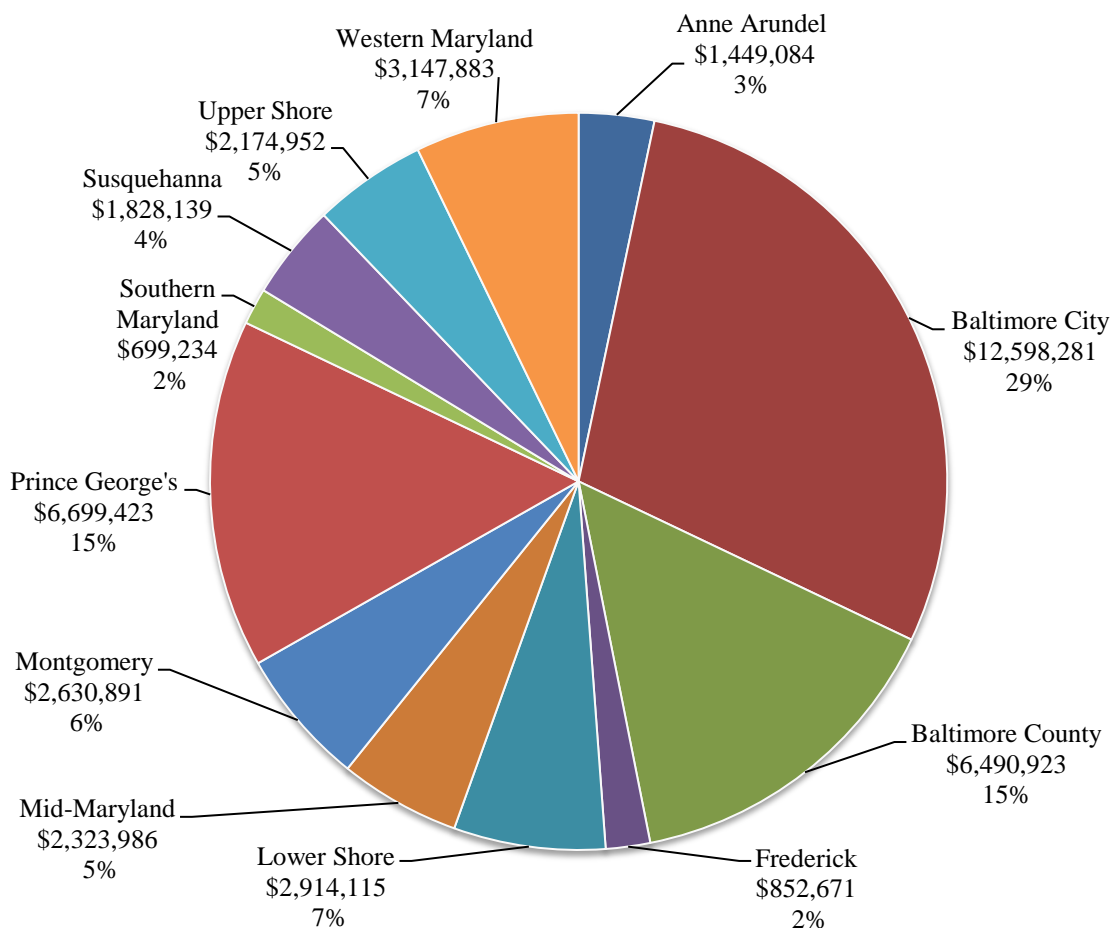


Source: Department of Budget and Management

Federal legislation requires that the majority of funds be passed through to the local workforce investment boards and local one-stop shops. However, the State may retain funds for statewide programs or initiatives. For example, this funding enables to the State to provide rapid response to workforce events, such as a plant closing. It may also be used for the newly created Integrated Basic Education and Skills Training initiative. This initiative targets underserved populations and provides concurrent literacy training and job skills training. It also funds various administrative functions at the State level. The State retained 17% of the stimulus funding for these purposes.

Finally, **Exhibit 5** shows the breakdown of both ARRA and regular WIA funding by jurisdiction. The totals by jurisdiction include funds for adult, youth, and dislocated programs for fiscal 2010. Funds may be spent over two years.

**Exhibit 5
Workforce Investment Funds
Fiscal 2010**



Source: Department of Labor, Licensing, and Regulation

The Department of Legislative Services (DLS) recommends that the department comment on its workforce development efforts and the impact of federal stimulus funds on the placement and training of the State's workers.

2. Unemployment Insurance: Trust Fund, Tax Rates, and Modernization

UI provides temporary, partial wage replacement benefits to persons who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Funding for the program is provided by employers through UI taxes paid to both the federal government for administrative expenses and to the State for deposit in the UI trust fund.

Background

Legislation enacted in Maryland in 2005 (Chapter 169) altered the State UI charging and taxation system by creating a series of experience tax rate tables that are based on the balance in the UI trust fund, as shown in **Exhibit 6**.

If the balance of the UI Trust Fund exceeds 5.0% of total taxable wages in the State (as measured on September 30 of the current year), the lowest tax rate table (Table A) is used to calculate employer rates for the following calendar year. For calendar 2007 and 2008, employers paid from Table A, which imposes a minimum tax rate of 0.3% (on the first \$8,500 of annual wages of each employee), or \$25.50 per employee. However, the UI Trust Fund balance on September 30, 2008, \$895 million, fell short by \$53 million of the amount needed to remain in the lowest tax table. Accordingly, employers paid a higher rate (Table B) in calendar 2009.

Exhibit 6
UITF Tax Rate Tables

| <u>Table</u> | <u>Ratio of UITF to Total Taxable Wages</u> | <u>Minimum Rate</u> | <u>Maximum Rate</u> |
|---------------------|--|----------------------------|----------------------------|
| A | UITF exceeds 5.0% | 0.3% | 7.5% |
| B | UITF exceeds 4.5%, but not in excess of 5.0% | 0.6% | 9.0% |
| C | UITF exceeds 4.0%, but not in excess of 4.5% | 1.0% | 10.5% |
| D | UITF exceeds 3.5%, but not in excess of 4.0% | 1.4% | 11.8% |
| E | UITF exceeds 3.0%, but not in excess of 3.5% | 1.8% | 12.9% |
| F | UITF is 3.0% or less | 2.2% | 13.5% |

UITF: Unemployment Insurance Trust Fund

Source: Department of Legislative Services

Pressure on the UI Trust Fund

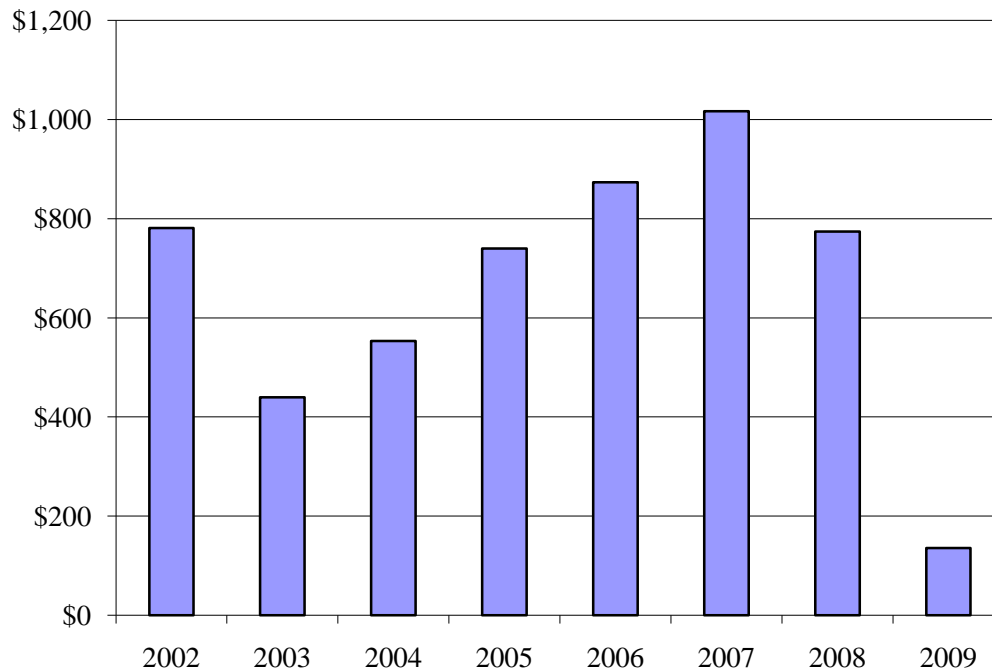
On September 30, 2009, the balance in the trust fund fell to \$312 million, or 1.7% of taxable wages. This significant decline places the State and Maryland employers in the highest tax table beginning in January 2010. The main driver of this decline is the high number of claims for benefits resulting from the economic downturn. The State's unemployment rate went from 4.5% at this time last year to 7.4% by November 2009. Average monthly payouts (includes refunds and other smaller payouts) from the UI trust fund grew from \$35.7 million in 2007 to \$94.2 million in 2009 (through September). Benefit payouts reached a peak in March 2009 of \$24 million per week.

Newly enacted legislation will put further, albeit less significant, pressure on the balance in the trust fund. Chapter 288 of 2009 altered the unemployment insurance schedule of benefits to increase the maximum allowed weekly benefit amount from \$380 to \$410 for claims establishing a new benefit year on or after October 4, 2009. For claims establishing a new benefit year on or after October 3, 2010, the maximum weekly benefit is then increased from \$410 to \$430. The fiscal note accompanying the legislation estimated that the trust fund would decline by over \$14 million in fiscal 2010. However, this legislation was effective October 1, 2009, and, therefore, did not have an impact on the tax rate determination for calendar 2010.

Chapter 6 of 2009 was enacted as emergency legislation and makes an individual whose availability to work is restricted to part-time work eligible for unemployment benefits, if the individual works predominantly throughout the year on a part-time basis for at least 20 hours per week. Previously, benefits were only available to those who said they were seeking full-time work. Original estimates of the impact of part-time eligibility ranged from \$6 million to \$19 million increase in payments from the UI trust fund. However, the Department of Labor, Licensing, and Regulation is experiencing difficulty in tracking the impact thus far.

Since the snapshot of the trust fund taken at the end of September 2009, the trust fund balance has fallen again to a low of \$135.3 million as of December. **Exhibit 7** shows the year-end balances in the fund for calendar 2002 to 2009. The department estimates that the fund will be depleted before March. The State may borrow funds from the federal government to partially replenish the fund in the short term. If repaid within 2010, the funds will carry no interest rate.

Exhibit 7
Unemployment Insurance Trust Fund
Year-end Balance
Calendar 2002-2009
(\$ in Millions)



Source: Department of Legislative Services

UI Modernization and Stimulus Funding

In response to long periods of unemployment for individuals, the federal government has enacted Emergency Unemployment Compensation (EUC). Regular Maryland benefits provide 26 weeks of UI benefits. The EUC provided an additional 20 weeks of federally funded benefits for those individuals that exhausted State benefits. The EUC was extended twice more, for 13 weeks and then for 14 additional weeks of benefits paid out of federal funds. As such, the unemployed are beneficiaries of a total of 73 weeks of payments.

Additionally, the federal stimulus legislation includes \$7 billion for the Unemployment Insurance program. Maryland's share of the total funding is estimated at \$126.8 million. These funds would allow Maryland to increase or expand benefits. Also, the funds could be used to shore up the balance in the UI Trust Fund. However, to receive that funding, Maryland would be required to amend its UI statute.

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First, Maryland would have to pass legislation allowing an alternative base period. Under current law, eligibility for benefits is based on the first four of the last five completed calendar quarters prior to filing a claim. The quarter immediately prior to filing a claim is not used because employers do not report those earnings until the following quarter (the quarter in which the claim is filed).

Under an alternative base period, if an individual does not have sufficient wages in the base period to qualify for benefits, then an alternative base period will be the last four complete calendar quarters immediately preceding the first day of the individual's benefit year. Wages used in the alternative base period calculation may not be used in qualifying for a subsequent benefit year.

Secondly, Maryland would have to enact two of the four options:

- Allowing eligibility for part-time work (Chapter 6 of 2009).
- Paying a dependent allowance (Maryland already does this but not enough to meet the new federal standards).
- Allowing for compelling family reason. For example, providing UI benefits to those separated from their job due to domestic violence, illness in family, etc. (Maryland allows this only for the transfer of a military spouse).
- Extending benefits to those enrolled in a State approved job training program.

The Administration has introduced **Senate Bill 107/House Bill 91** entitled Labor and Employment – Unemployment Insurance – Modernization and Tax Relief Act. This emergency legislation would take the steps necessary to ensure that the State received the \$126.8 million in federal funds. It changes the alternative base period and extends benefits to those enrolled in a State approved job training program. Furthermore, the proposal also includes a provision that lowers the tax rate for employers in the event that the State receives the stimulus funding.

DLS recommends that the department brief the budget committees on the status of the Unemployment Insurance Trust Fund, the Administration's modernization plan, and how the division is managing the elevated workload resulting from increased and prolonged unemployment.

Recommended Actions

| | <u>Amount Reduction</u> | |
|--|------------------------------------|----|
| 1. Delete general funds for the Maryland Summer Youth Program. The Workforce Investment Act provides significant federal funds for services related to youth employment. | \$ 120,000 | GF |
| 2. Delete two general fund grants aimed at urban youth employment. The Workforce Investment Act provides significant federal funds for services for youth employment. | 355,110 | GF |
| 3. Delete funds for the foreign trained nursing program. This program has already been scaled back due to the cost containment effort. | 100,000 | GF |
| 4. Delete the general fund deficiency to fund the Center for Maryland Construction Education and Innovation under the Governor’s Workforce Investment Board. The center should be funded by private sector partners. | 225,000 | GF |
| Total Reductions to Fiscal 2010 Deficiency | \$ 225,000 | |
| Total General Fund Reductions to Allowance | \$ 575,110 | |

Updates

1. Report on the Transfer of Adult and Correctional Educational Programs

In order to align adult education services with other workforce development skills training in the State, Chapter 134 of 2008 transferred adult education, literacy, and correctional education services from MSDE to DLLR as of July 1, 2009. However, the fiscal 2010 budget bill as introduced did not reflect the realignment of these programs and, therefore, was not subject to the scrutiny of the budget committees. As such, the *Joint Chairmen's Report* included committee narrative to request information about the transfer. The narrative reads as follows:

“The Department of Labor, Licensing, and Regulation shall submit a report to the committees by December 1, 2009, on the transfer of adult and correctional education programs from the Maryland State Department of Education. The report shall include a discussion of the budgetary impact on the department including any realized costs to physically move the programs and costs to upgrade the necessary technology. The department should discuss the number of positions transferred to the department, the number of positions that did not transfer, and the extent to which existing personnel are required to fill personnel gaps. Further, the report should discuss any new performance measures adopted by the department to gauge progress of the program. Finally, the report should include any early achievements of the transferred program that demonstrate how the department's emphasis on workforce development better serves adult education customers.”

The department fulfilled the narrative obligation and submitted its report in December 2009. According to the report, at the start of fiscal 2010, 184.5 full-time positions and 37 contractual staff transferred to the department from MSDE. Many of the positions came to the department vacant as individuals chose to stay at MSDE in other capacities or chose to retire. To the extent possible, the fiscal 2010 budget was lifted from MSDE and placed within the newly created programs under DLLR. Some grant funds were not able to be transferred through the budget process; however, the two entities are currently working on a memorandum of understanding regarding this funding stream.

One-time costs to accommodate the transfer were somewhat higher than originally expected and quantified in the fiscal note that accompanied the legislation. For example, moving costs were expected to be about \$200,000; and instead, reached \$500,000. Also, software licenses could not be transferred; therefore, it was necessary to purchase new licenses.

The department has expanded upon performance measures set by MSDE. Furthermore, the department takes part in the StateStat process, a process to which MSDE is not subject. Examples of the new measures include the rate of diplomas awarded, percent of promotions by grade level, rate entering employment, and number of inmate students on waiting lists.

P00 – DLLR – Workforce Development

The department reports that the policy decision to link adult learning with workforce development is showing signs of early achievement. For example, the Local Workforce Investment Boards are now conducting outreach to adult education providers and including them in workforce activities. New contracts for adult education programs are being sought that will include provisions that the provider must demonstrate the capacity to transition students to education and training programs that increase employment participation. Additionally, the department is using its flexibility with U.S. Department of Labor funding to connect inmates who are being released to the State labor exchange. Finally, the report notes that the U.S. Department of Education is using Maryland as a model for connecting adult learners to the job market.

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Labor, Licensing, and Regulation - Workforce Development and Administration (\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| Fiscal 2009 | | | | | |
| Legislative Appropriation | \$4,800 | \$14,246 | \$113,094 | \$6,720 | \$138,860 |
| Deficiency Appropriation | 200 | 0 | 12,252 | 0 | 12,452 |
| Budget Amendments | -99 | -583 | 7,692 | 3,015 | 10,025 |
| Cost Containment | -1,007 | -39 | -436 | 0 | -1,482 |
| Reversions and Cancellations | -49 | -5,576 | -2,154 | -3,151 | -10,930 |
| Actual Expenditures | \$3,845 | \$8,048 | \$130,448 | \$6,584 | \$148,925 |
| Fiscal 2010 | | | | | |
| Legislative Appropriation | \$26,713 | \$8,684 | \$177,453 | \$10,637 | \$223,487 |
| Cost Containment | -2,422 | -71 | -6 | 0 | -2,499 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Working Appropriation | \$24,291 | \$8,613 | \$177,447 | \$10,637 | \$220,988 |

Note: Numbers may not sum to total due to rounding.

Fiscal 2009

The actual expenditures for the workforce development and administration divisions of the department increased over the original appropriation due mainly to deficiency appropriations.

The fiscal 2010 allowance included a fiscal 2009 deficiency of \$10,417,300 in federal funds to supplement the UI program. After several years of declining federal funds due to Maryland's comparatively healthy economy, the department is anticipating an increase in the funding available for the program. Funding is based, in part, on economic and workload indicators of the UI Division, which are increasing. Also, funds are provided due to extended benefits enacted at the federal level.

The federal funds provided in the deficiency for UI will supplant previously appropriated special funds. Special funds, known as Reed Act funds, were appropriated from the UI Trust Fund to counter recent losses in federal funds. The department canceled over \$5.5 million in unused special funds at year end.

The remaining federal deficiency was provided to supplement funds for the local one-stop centers for employment services such as job training and labor market analysis. A small general fund deficiency was provided for one-time costs associated with the move of adult and correctional education programs to the department from MSDE.

Mitigating these increases, cost containment efforts reduced spending within the workforce and administration divisions by close to \$1.5 million. The department eliminated the Russian Immigrant Program and \$75,000 in annual general funds. This program provided grant funds to two charitable organizations that provide job training services to immigrants from Russia. Similarly, grant funds were reduced by \$89,400 for job training programs provided by the Baltimore Urban League and under the Foreign Trained Nursing Program. The remaining reductions were taken departmentwide and included reducing costs for travel, consultant services, subscriptions, equipment. Also, the department reassigned more of its overhead to special and federal funded programs. Many of the activities of the department share funding sources. As such, reductions to general funds often necessitate reductions to special and federal funds.

Budget amendments increased the original appropriation by over \$10 million in total funds. The cost-of-living salary adjustment increased general funds by \$46,376 and special funds by \$191,011. A budget amendment increased reimbursable funds by \$14,925 in fiscal 2009. These funds represent a grant from the Judiciary to assist the department in establishing an Alternative Dispute Resolution (ADR) office that will incorporate ADR into departmental programs. Federal funds were increased by \$8 million for grants to the local workforce investment boards and for administration of the unemployment insurance program. The remaining budget amendments realigned funds, in part, between workforce development components of the department and the business regulation divisions of the department which are discussed in another analysis.

Almost \$11.0 million in total funds were reverted or canceled at the end of fiscal 2009. About half of these funds were special funds related to the Reed Act funds for unemployment insurance as mentioned above. However, federal funds were also overbudgeted; therefore, about \$2.1 million in

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federal funds were canceled. Finally, approximately \$3.1 million in reimbursable funds were canceled. The department has an agreement for workforce training for those individuals receiving Temporary Assistance for Needy Families funds. The Department of Human Resources provided reimbursable funds through a budget amendment. This is a two-year agreement, and the funds are expected to be spent in fiscal 2010 instead of fiscal 2009.

Fiscal 2010

The fiscal 2010 cost containment effort reduced the department's workforce development appropriation by almost \$2.5 million. The majority of the reduction is due to savings related to position reductions and to the employee furlough. Most of the position and salary reductions occurred within the Correctional Education program. General fund savings were also realized as the department transferred several general funded positions to the newly created Workplace Fraud Unit and other special funded programs. Also, grants to benefit the foreign trained nursing program and community based education organizations were reduced by \$250,000.

Audit Findings

| | |
|------------------------------|-------------------------------|
| Audit Period for Last Audit: | August 1, 2005 – May 31, 2008 |
| Issue Date: | February 2009 |
| Number of Findings: | 7 |
| Number of Repeat Findings: | 3 |
| % of Repeat Findings: | 43% |
| Rating: (if applicable) | n/a |

This audit applies only to the Division of Unemployment Insurance (DUI) within the department.

Finding 1: Certain adjustments to claimant data that reduced benefit overpayment accounts receivable were not subject to supervisory review and approval.

Finding 2: Transactions processed to write off or waive benefit overpayment accounts receivable were not sufficiently controlled.

Finding 3: Controls over the recording of non-cash credit adjustment to reimbursable employer accounts receivable were inadequate.

Finding 4: DUI did not always investigate potentially improper benefit payments identified by its review of multiple claimants using the same address.

Finding 5: DUI did not adequately monitor and follow up on the results of matching procedures used to identify employers who failed to pay required unemployment insurance tax contributions.

Finding 6: Controls over adjustments to the unemployment insurance tax contribution rates assigned to employers, as well as recorded employer wages, were inadequate.

Finding 7: Access controls over critical production data and program files and monitoring of related security reports were inadequate.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
DLLR – Workforce Development**

| <u>Object/Fund</u> | <u>FY09 Actual</u> | <u>FY10 Working Appropriation</u> | <u>FY11 Allowance</u> | <u>FY10 - FY11 Amount Change</u> | <u>Percent Change</u> |
|---|------------------------|---|---------------------------|--------------------------------------|---------------------------|
| Positions | | | | | |
| 01 Regular | 10,77.20 | 13,07.70 | 1,302.70 | -5.00 | -0.4% |
| 02 Contractual | 118.89 | 162.23 | 165.63 | 3.40 | 2.1% |
| Total Positions | 1196.09 | 1469.93 | 1468.33 | -1.60 | -0.1% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 71,064,334 | \$ 92,738,131 | \$ 95,017,659 | \$ 2,279,528 | 2.5% |
| 02 Technical and Spec. Fees | 4,671,728 | 4,960,259 | 5,106,789 | 146,530 | 3.0% |
| 03 Communication | 8,821,542 | 4,735,710 | 5,228,590 | 492,880 | 10.4% |
| 04 Travel | 485,577 | 510,860 | 413,335 | -97,525 | -19.1% |
| 06 Fuel and Utilities | 894,791 | 1,081,522 | 828,739 | -252,783 | -23.4% |
| 07 Motor Vehicles | 224,613 | 289,013 | 318,918 | 29,905 | 10.3% |
| 08 Contractual Services | 10,826,831 | 20,183,324 | 14,764,843 | -5,418,481 | -26.8% |
| 09 Supplies and Materials | 1,463,488 | 1,516,464 | 1,695,873 | 179,409 | 11.8% |
| 10 Equipment – Replacement | 1,728,815 | 811,809 | 897,603 | 85,794 | 10.6% |
| 11 Equipment – Additional | 766,090 | 793,521 | 705,973 | -87,548 | -11.0% |
| 12 Grants, Subsidies, and Contributions | 45,479,630 | 90,180,639 | 57,078,192 | -33,102,447 | -36.7% |
| 13 Fixed Charges | 2,497,087 | 3,186,712 | 2,850,559 | -336,153 | -10.5% |
| Total Objects | \$ 148,924,526 | \$ 220,987,964 | \$ 184,907,073 | -\$ 36,080,891 | -16.3% |
| Funds | | | | | |
| 01 General Fund | \$ 3,845,143 | \$ 24,291,232 | \$ 23,962,682 | -\$ 328,550 | -1.4% |
| 03 Special Fund | 8,047,284 | 8,612,354 | 7,851,437 | -760,917 | -8.8% |
| 05 Federal Fund | 130,448,152 | 177,447,132 | 142,997,312 | -34,449,820 | -19.4% |
| 09 Reimbursable Fund | 6,583,947 | 10,637,246 | 10,095,642 | -541,604 | -5.1% |
| Total Funds | \$ 148,924,526 | \$ 220,987,964 | \$ 184,907,073 | -\$ 36,080,891 | -16.3% |

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary
DLLR – Workforce Development**

| <u>Program/Unit</u> | <u>FY09 Actual</u> | <u>FY10 Wrk Approp</u> | <u>FY11 Allowance</u> | <u>Change</u> | <u>FY10 - FY11 % Change</u> |
|--|------------------------|----------------------------|---------------------------|-----------------------|---------------------------------|
| 0A Department of Labor, Licensing, and Regulation | \$ 11,477,109 | \$ 12,322,725 | \$ 13,226,008 | \$ 903,283 | 7.3% |
| 0B Division of Administration | 17,008,460 | 17,365,736 | 17,823,949 | 458,213 | 2.6% |
| 0G Division of Workforce Development and Adult Literacy | 54,441,633 | 124,953,998 | 89,129,196 | -35,824,802 | -28.7% |
| 0H Division of Unemployment Insurance | 65,997,324 | 66,345,505 | 64,727,920 | -1,617,585 | -2.4% |
| Total Expenditures | \$ 148,924,526 | \$ 220,987,964 | \$ 184,907,073 | -\$ 36,080,891 | -16.3% |
| General Fund | \$ 3,845,143 | \$ 24,291,232 | \$ 23,962,682 | -\$ 328,550 | -1.4% |
| Special Fund | 8,047,284 | 8,612,354 | 7,851,437 | -760,917 | -8.8% |
| Federal Fund | 130,448,152 | 177,447,132 | 142,997,312 | -34,449,820 | -19.4% |
| Total Appropriations | \$ 142,340,579 | \$ 210,350,718 | \$ 174,811,431 | -\$ 35,539,287 | -16.9% |
| Reimbursable Fund | \$ 6,583,947 | \$ 10,637,246 | \$ 10,095,642 | -\$ 541,604 | -5.1% |
| Total Funds | \$ 148,924,526 | \$ 220,987,964 | \$ 184,907,073 | -\$ 36,080,891 | -16.3% |

Note: The fiscal 2010 appropriation does not include deficiencies.