



## Legislative Fiscal Bureau

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May 12, 2009

Joint Committee on Finance

Paper #847

### Reemployment Initiative (DWD)

[LFB 2009-11 Budget Summary: Page 688, #8]

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#### **CURRENT LAW**

The unemployment administration, apprenticeship appropriation is used to fund administration of the Department's apprenticeship programs. The source of funding for the appropriation is federal Reed Act funds.

#### **GOVERNOR**

Provide increased funding of \$1,050,000 FED in 2009-10 and \$1,400,000 FED in 2010-11 in the unemployment administration, apprenticeship appropriation to provide reemployment services to unemployment insurance claimants. In addition, the statutory appropriation language for the appropriation would be modified to allow appropriation funds to be used for administration and service delivery of employment and workforce information services, including delivery of reemployment assistance services to unemployment insurance claimants.

#### **DISCUSSION POINTS**

1. The Bureau of Apprenticeship Standards in the Division of Employment and Training (DET) in DWD, has the primary responsibility for monitoring apprenticeship programs in Wisconsin. Through a cooperative agreement between the federal government and the state, the Bureau of Apprenticeship and Training of the U.S. Department of Labor works with DWD staff to administer the apprenticeship program in the state. A basic part of the Wisconsin apprenticeship system is the contract between the employer and each apprentice that must be approved by the Bureau of Apprenticeship Standards. The state Bureau in DWD is responsible for ensuring that all provisions of the contract are met. The Bureau is primarily funded through the unemployment

administration, apprenticeship appropriation. Base level funding for the appropriation is \$1,771,200 FED and 13.85 FED positions.

2. The Job Service Bureau in DET provides labor exchange services to businesses and job seekers through the JobCenterOfWisconsin.com Internet site and staff-assisted services in the state's job centers. The Job Service is part of the state's one-stop delivery system that provides a range of employment-related services through Job Centers. Job Centers consolidate a variety of employment and training services in one location, but the programs themselves remain distinct, with funding from different state and federal sources. Services offered at Job Centers include: (a) adult, youth, and dislocated worker assistance, including rapid response services during major layoffs; (b) Trade Adjustment Assistance (TAA) for displaced workers; (c) services for participants in the W-2 and the FoodShare programs; (d) job search assistance; (e) vocational rehabilitation; (f) adult basic education and literacy; (g) unemployment insurance (UI) profiling and reemployment services; (h) older worker programs; and (i) veterans employment services. In addition, JobCenterOfWisconsin.com is operated by the job center system and DWD, and provides an employment exchange linking employers and job seekers. Wisconsin is divided into 11 workforce investment areas (workforce development areas) that are led by workforce development boards (WDBs). Each board is responsible for oversight of the job centers in its area. There are currently 22 job centers operating in Wisconsin.

3. The Job Service Bureau provides a variety of employment-related services to individuals including job search assistance, job referral, placement assistance, unemployment insurance reemployment services, and recruitment services. Other services such as assessment of skill levels, abilities and aptitudes, career guidance, job search workshops, and referral to training may also be available. Services are delivered in one of three modes: (a) self-service; (b) facilitated self-help; and (c) staff assisted. In addition to referring job seekers to available jobs, services offered to employers include assistance in developing job order requirements, matching job seeker experience with job requirements, skills and other attributes, assisting employers with special needs or hard-to-fill job orders, assisting with job restructuring, and arranging job fairs. The Job Service Bureau has 2008-09 base level funding of \$11,708,500 FED, 152.0 FED positions, \$2,226,400 PR, and 28.0 PR positions.

4. Under the Unemployment Insurance Amendments of 1993 (P.L. 103-152), states were required to do the following: (a) identify UI claimants likely to exhaust their regular UI benefits and who will need job search assistance services to make a successful transition to new employment; (b) refer identified claimants to reemployment services; (c) collect follow-up information relating to services provided; and (d) meet other requirements determined by the Secretary of Labor. In response to these provisions, DWD has implemented a worker profiling and reemployment services program to move individuals from unemployed and UI claimant status to employment. Profiling can mean the manner in which individuals are identified for services or refer to the entire process of identification, referral to services, and employment and follow-up. DWD has implemented the Worker Profiling and Reemployment Services (WPRS) system to provide more intensive, case management type services to customers. Job Centers are the main locations at which the worker profiling and reemployment program services are provided. However, claimants are also

referred to services at other sites, if appropriate.

5. When an application for a new unemployment insurance claim is filed, Unemployment Insurance Division staff identify claimants who do not have a recall to work, are not in school, and are not affiliated with a union hiring hall. Staff identify the claimant's employer, and compile information about the claimant's occupation, job tenure, and education level to develop an individual profiling record in the unemployment insurance database. Payment of the first UI benefit check triggers the profiling selection process. When the first benefit payment is made, a mathematical calculation, based on information compiled about the claimant, determines the probability that UI benefits will be exhausted. In general, individuals selected for profiling are permanently separated from their jobs and have a high probability of exhausting their UI benefits. Reemployment services provided include an initial orientation about re-employment, Job Center services, and JobCenterOfWisconsin.com services. Services can also include referrals to workshops, including job search or career development workshops, or to other Job Center services, such as Workforce Investment Act (WIA) or veterans employment programs. DWD provides reemployment services to approximately 10,000 UI claimants per year. Currently, profiling and reemployment services to UI claimants are allocated \$561,200 PR and 7.4 PR positions.

6. Federal Reed Act monies are excess federal unemployment insurance taxes from accounts in the federal unemployment trust fund that are transferred to the states when the balances in certain federal accounts exceed statutory limits. The federal Job Creation and Worker Assistance Act of 2002 provided an \$8 billion nationwide distribution of Reed Act funds without the statutory balances being exceeded. Wisconsin received a distribution of \$166.2 million, which was placed in the state unemployment reserve fund. Reed Act funds can only be used for UI benefits, UI administration, and employment services administration. Federal law requires that Reed Act funds for administration must be appropriated by the Legislature to identify the purpose and amounts to be expanded. In addition to funding UI benefit payments, the Legislature has authorized the use of Reed Act funds for administration of the state apprenticeship program under provisions of 2003 Wisconsin Act 33 and for funding bank service costs and unemployment insurance administration under provisions of 2005 Wisconsin Act 25.

7. Reed Act provisions authorize states to set aside obligated amounts of Reed Act funds to protect those funds from being depleted. To ensure that a portion of Reed Act funds in the unemployment reserve fund would be available for administrative functions, DWD petitioned and received approval from the U.S. Department of Labor to place in subaccounts: (a) \$12,734,000 for administration of the apprenticeship program; (b) \$7,894,537 for bank service fees; and (c) \$2,000,000 for UI administration. DWD indicates that it took this action to preserve the flexibility to use Reed Act funds for authorized administrative activities. The Department estimates that at the end of 2008-09, a total of \$6,055,700 will remain in the bank service fees subaccount, and \$10,990,900 will remain in the apprenticeship program administration appropriation. The \$2,000,000 placed in the UI administration subaccount has already been expended. All remaining Reed Act monies in the UI reserve fund have been used to pay UI benefits.

8. In February, 2009, DWD released the financial outlook report for the state UI

reserve fund. The report projected the status of the fund through 2013, based on the December, 2008, economic forecast from the Department of Revenue. The forecast for the UI fund projected substantial unemployment throughout the forecast period, with UI benefits ranging from \$894 million to \$1.648 billion during the forecast period. The highest UI tax schedule (Schedule A) would take effect in 2010 and remain in effect throughout the forecast period. The year-end balance in the state UI reserve fund is projected to be in deficit beginning in 2009. The closing balance is estimated to be -\$696 million in 2009, decrease to -\$1,245 million in 2011, and then increase to -\$497 million in 2013. When the reserve fund is depleted, the state borrows funds from the federal government that are sufficient to cover benefit payments. Interest is typically charged on borrowed funds. However, the Department of Labor has suspended interest charged on borrowed federal funds through December 31, 2010. The forecast indicates that the state will borrow an estimated \$300 to \$400 million for benefit costs for February, March, and April. The loan is expected to be repaid in early May, but additional borrowing is forecast for May through July, and for subsequent three-month periods throughout 2009. If, as the forecast projects, the high unemployment continues, then borrowing is anticipated for 2010 and subsequent years. Interest payments on funds borrowed from the federal government are not included in the forecast, because they must be derived from a source other than the UI reserve fund. The source of interest payments in past years was a special assessment on employers. As noted, no interest will be charged for funds borrowed in 2009 and 2010. Finally, the forecast indicates that the projections included are based on the December, 2008, economic forecast. If the economy declines at a faster rate than the official forecast, then the balance of the UI reserve fund will deteriorate more rapidly.

9. The state unemployment rate (seasonally adjusted) for March was 8.5%, compared to 4.4% for March, 2008. The March unadjusted rate was 9.4%. For the week of April 17<sup>th</sup> through the 19<sup>th</sup> there were 21,708 initial claims for unemployment insurance, compared to 10,830, for the same week one year ago. Similarly, continued claims for UI insurance for the week were 182,443, compared to 83,360 for the same week last year.

10. As noted, the bill would provide an additional \$1,050,000 in 2009-10 and \$1,400,000 in 2010-11 and modify the apprenticeship administration statutory appropriation to authorize the use of funds deposited in the appropriation for administration and service delivery of employment and workforce information services, including delivery of reemployment assistance services to unemployment insurance claimants. The funds would be used as a component of a comprehensive effort to expand the UI reemployment activities to reach a broader group of individuals needing the services. Of the total Reed Act funds appropriated, \$784,800 in 2009-10 and \$1,046,500 in 2010-11 would be allocated to Job Services, while \$265,200 in 2009-10 and \$353,500 in 2010-11 would be allocated to the Bureau of Unemployment Insurance Benefits. The funds would be used for 11 positions in Job Services and 4.0 in UI Benefits. The UI positions would assist in identifying reemployment candidates, while the 11 job service positions would be used to provide support in each of the state's WDBs. In addition, \$7.2 million in American Recovery and Reinvestment Act (ARRA) Wagner-Peyser funds that have been allocated to DWD would be used to hire 50 employment and training specialist, two-year project positions to be field and assessment staff providing reemployment services. Funds would also be used to provide support and enhancements to job centers and WisCareers. The third source of funds for expanded reemployment

activities would be \$3.8 million from a separate allocation of ARRA UI administration funds. These federal funds can be used for staff-assisted reemployment services for UI claimants. The Department would use this ARRA funding to hire new staff for the reemployment initiative. However, the Joint Committee on Finance must approve the appropriation of these funds.

11. As noted, Legislative approval is required to use the Reed Act funds for reemployment activities. DWD indicates that the petition to place Reed Act funds into subaccounts for administration of the state apprenticeship program, bank service account costs, and UI administration was intended to preserve the option of using the funding for those purposes. Authorizing Reed Act funding for job services would place an additional claim on those one-time funds.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to provide increased funding of \$1,050,000 in 2009-10 and \$1,400,000 in 2010-11 in the unemployment administration, apprenticeship appropriation to provide reemployment services to unemployment insurance claimants. In addition, modify the statutory appropriation language for the unemployment administration, apprenticeship appropriation to allow appropriation funds to be used for administration and service delivery of employment and workforce information services, including delivery of reemployment assistance services to unemployment insurance claimants.

2. Delete the Governor's recommendation

<b>ALT 2</b>	<b>Change to Bill</b>
	Funding
FED	-\$2,450,000

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