

**P00**  
**Workforce Development**  
Department of Labor, Licensing, and Regulation

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$27,730	\$35,204	\$36,055	\$851	2.4%
Contingent & Back of Bill Reductions	0	-857	-164	692	
<b>Adjusted General Fund</b>	<b>\$27,730</b>	<b>\$34,347</b>	<b>\$35,890</b>	<b>\$1,543</b>	<b>4.5%</b>
Special Fund	11,620	13,250	11,326	-1,925	-14.5%
Contingent & Back of Bill Reductions	0	-2	-67	-64	
<b>Adjusted Special Fund</b>	<b>\$11,620</b>	<b>\$13,248</b>	<b>\$11,259</b>	<b>-\$1,989</b>	<b>-15.0%</b>
Federal Fund	163,574	172,412	171,190	-1,222	-0.7%
Contingent & Back of Bill Reductions	0	-9	-871	-862	
<b>Adjusted Federal Fund</b>	<b>\$163,574</b>	<b>\$172,404</b>	<b>\$170,320</b>	<b>-\$2,084</b>	<b>-1.2%</b>
Reimbursable Fund	9,197	12,541	12,431	-110	-0.9%
<b>Adjusted Reimbursable Fund</b>	<b>\$9,197</b>	<b>\$12,541</b>	<b>\$12,431</b>	<b>-\$110</b>	<b>-0.9%</b>
<b>Adjusted Grand Total</b>	<b>\$212,120</b>	<b>\$232,540</b>	<b>\$229,899</b>	<b>-\$2,640</b>	<b>-1.1%</b>

- The fiscal 2015 allowance includes three deficiencies that impact the department's workforce development unit in fiscal 2014. Two negative deficiencies result in cost containment of \$201,592 in general funds. However, the third deficiency adds \$201,000 in general funds to the Adult Corrections Education program in order to reduce the program's turnover rate.
- The fiscal 2015 allowance declines, after contingent and back of the bill reductions, by over \$2.6 million, or 1.1%. The decrease is driven primarily by the loss of federal funds and special funds for specific workforce development grants. Adjustments to turnover rates account for much of the increase in general funds.

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

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## ***Personnel Data***

	<b><u>FY 13 Actual</u></b>	<b><u>FY 14 Working</u></b>	<b><u>FY 15 Allowance</u></b>	<b><u>FY 14-15 Change</u></b>
Regular Positions	1,291.39	1,292.59	1,286.19	-6.40
Contractual FTEs	<u>246.81</u>	<u>235.85</u>	<u>205.11</u>	<u>-30.74</u>
<b>Total Personnel</b>	<b>1,538.20</b>	<b>1,528.44</b>	<b>1,491.30</b>	<b>-37.14</b>

### ***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	54.02	4.20%
Positions and Percentage Vacant as of 12/31/13	113.30	8.77%

- The fiscal 2015 allowance reflects the abolition of 6.4 full-time equivalent (FTE) positions. The Division of Unemployment Insurance eliminated vacant positions for cost containment purposes and also because of the expected decline in workload of unemployment claims.
- Contractual staff declines by over 30.0 FTEs, primarily due to a change in the administration of General Educational Development (GED) examinations.
- The department reports over 113.0 vacancies at the end of calendar 2013, well above the amount needed to meet budgeted turnover.

## ***Analysis in Brief***

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### **Major Trends**

***Rate of Employment after Job Services:*** The department provides federal funding for various job services and training for adult, youth, and dislocated workers. Based on the rate at which program participants entered employment, the department is close to meeting its federal standards. Only adult participants in the department’s job services fail to meet the federal standard by a substantive margin.

***Resolution of Audit Findings:*** In fiscal 2014, the department began reporting a new performance measure that tracks the rate at which the department satisfies repeat legislative audit findings. The department is ensuring greater fiscal compliance in response to budget language that restricted funds in the Office of the Secretary until repeat audit findings are resolved to the satisfaction of the Office of Legislative Audits.

### **Issues**

***Progress of the Employment Advancement Right Now Program:*** Chapter 1 of 2013 established the Maryland Employment Advancement Right Now (EARN) program as a competitive grant program for industry-led partnerships that improve workforce training, job readiness, and skills training for the State’s workforce. The department recently awarded planning grants to various strategic partnerships and is preparing for the awarding of implementation grants. The fiscal 2015 allowance continues the funding for the EARN program at \$4.5 million in general funds. **The Department of Legislative Services (DLS) recommends that the department brief the budget committees on the early implementation of the EARN program and on the need for planning grants.**

***Status of the Unemployment Insurance Trust Fund:*** The balance in the Unemployment Insurance (UI) Trust Fund began to rebound in fiscal 2012. Additionally, benefit payouts have fallen each year since fiscal 2011. As a result, employers in the State will be able to pay from the lowest tax table (Table A) in calendar 2014. **DLS recommends that the department brief the budget committees on the status of the UI program and specifically on what Table A will mean for Maryland businesses and for the UI Trust Fund.**

### **Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce general funds for the Employment Advancement Right Now program to allow for the awarding of planning grants only in fiscal 2015.	\$ 3,600,000
<b>Total Reductions</b>	<b>\$ 3,600,000</b>

***P00 – DLLR – Workforce Development***

**P00**  
**Workforce Development**  
**Department of Labor, Licensing, and Regulation**

## ***Operating Budget Analysis***

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### **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 (IT); 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 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** (DUI) operates the federally funded unemployment insurance (UI) 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.

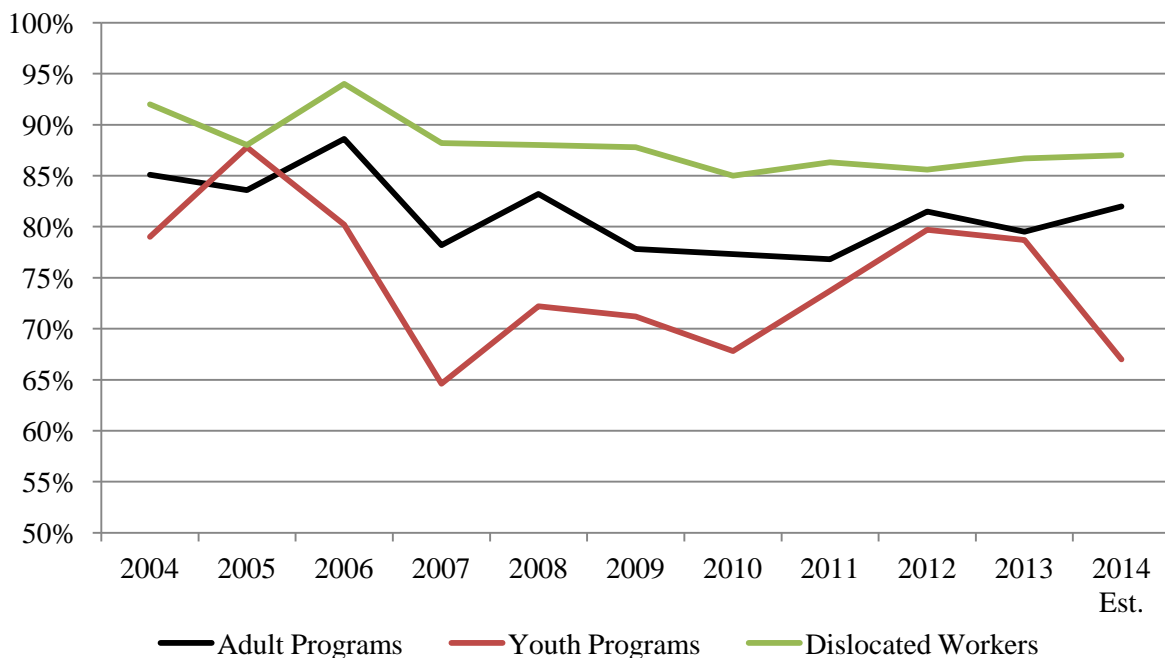
### **Performance Analysis: Managing for Results**

#### **1. Rate of Employment after Job Services**

Recent studies have shown that job retraining works best in periods of structural unemployment as opposed to cyclical unemployment. Further studies show that employers are more likely to hire more workers if they do not have to pay for training. To that end, the department provides federal funding for training for adult, youth, and dislocated workers.

**Exhibit 1** shows the “entered employment rate” for the individuals that participate in the department’s three federally prescribed training programs. The department tracks those individuals that have been assisted by departmental staff and have had intensive or training services. In fiscal 2013, only youth participants met the federal standard. In fact, youth participants far exceeded the federal standard of 65.0% in fiscal 2013. In that year, 78.7% of participants entered employment or an approved education program. Given that performance, the department should consider increasing its out-year goals beyond the federal minimums.

**Exhibit 1**  
**Workforce Development Programs**  
**Fiscal 2004-2014**



Source: Governor’s Budget Books, Fiscal 2005-2015

In contrast to the youth employment programs, the adult program and the dislocated worker program have failed to meet the federal standard in recent years. In fiscal 2013, adult participants enter the workforce at a 79.5% rate, falling short of the 82.0% federal standard. Participants in the dislocated worker program narrowly missed the mark of 87.0%, reaching 86.7% in fiscal 2013. Increased rates of employment are expected in fiscal 2014. This is due, in part, to the increase in federal workforce development grants that are discussed later in this analysis.

## **2. Resolution of Audit Findings**

In October 2011, the Office of Legislative Audits (OLA) released its audit findings related to the Office of the Secretary, the Division of Administration, and the Division of Workforce Development and Adult Learning. Many of the findings found that the department's IT office did not adequately secure its data, including personal information of UI beneficiaries. For example, auditors found that personal information on those making UI claims was often transmitted in plain text instead of encrypted text. Such information can be intercepted and read. When the data was encrypted, the auditors found that the code was relatively easy to interpret. Furthermore, the department's website was not monitored for suspicious activity, and web security software did not protect the department's database.

The Joint Audit Committee continues to be concerned with the number and frequency of repeat audit findings across State agencies. In an effort to see these findings satisfactorily resolved, the committee has asked the budget committees to consider action in the agency budgets where repeat findings occur. Language was included in the fiscal 2014 budget bill that restricted \$150,000 in general funds in the Office of the Secretary until OLA submits a report confirming that the findings were resolved.

The department's Program Analysis and Audit Office has an objective of utilizing audit recommendations to improve program performance. To measure progress toward that objective, and in response to the budget language, the department has included a new performance measure in its Managing for Results submission. The department is now reporting the percent of legislative audit repeat findings that are cleared. In fiscal 2013, the department reported that it resolved 85% of repeat audit findings, and it expects to clear 100% of findings in fiscal 2014. It should be noted, however, that OLA has yet to report to the budget committees confirming this resolution, and the fiscal 2014 funds are still withheld.

## **Fiscal 2014 Actions**

### **Proposed Deficiency**

The fiscal 2015 allowance includes several fiscal 2014 deficiencies that impact the department's workforce development units. Two deficiencies implement cost containment actions under the Office of the Secretary. Small savings are achieved by reducing office supplies and computer services. Additionally, the department was able to reallocate some communication expenses to federal and special funds.

The allowance also includes a fiscal 2014 general fund deficiency of \$201,000 in order to decrease the turnover rate under the Adult Correction Education program. In the 2009-2010 cost containment initiative, the department held open additional vacancies in the program and increased the turnover rate. This has led to the cancelation of classes and other adult correction educational services. In fact, at some institutions, some occupational classes are no longer offered.

### *P00 – DLLR – Workforce Development*

The fiscal 2014 turnover for the Adult Correction Education program is currently budgeted at 8.4%. The deficiency will allow that rate to fall to 7.0% allowing about 3.0 positions to be filled. The turnover rate again falls for the program to 4.7% in fiscal 2015. Currently, the program has 18.0 vacancies in a total staff of 155.5 full-time equivalents (FTE) (11.6% vacancy rate).

### **Cost Containment**

There are three across-the-board withdrawn appropriations that offset the increase in deficiency appropriations. This includes reductions to employee/retiree health insurance, funding for a new Statewide Personnel IT system, and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel, the Department of Information Technology (DoIT), and the State Retirement Agency (SRA), respectively. For the workforce development units of the department, the cost containment savings total approximately \$868,000 across all funds.

### **Proposed Budget**

The fiscal 2015 allowance decreases by over \$2.6 million, or 1.1%, as shown in **Exhibit 2**. The decline is largely driven by the termination of various workforce development grant funds in fiscal 2014.

**Exhibit 2**  
**Proposed Budget**  
**DLLR – Workforce Development**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
2014 Working Appropriation	\$34,347	\$13,248	\$172,404	\$12,541	\$232,540
2015 Allowance	<u>35,890</u>	<u>11,259</u>	<u>170,320</u>	<u>12,431</u>	<u>229,899</u>
Amount Change	\$1,543	-\$1,989	-\$2,084	-\$110	-\$2,640
Percent Change	4.5%	-15.0%	-1.2%	-0.9%	-1.1%

**Where It Goes:**

**Personnel Expenses**

Turnover adjustments .....	\$3,265
Annualized cost-of-living and other salary adjustments.....	2,873
Retirement .....	-100
Abolished/transferred positions .....	-309
Employee and retiree health insurance .....	-2,296
Other fringe benefit adjustments .....	-2,675

**Other Changes**

Major information technology upgrade for Unemployment Insurance (UI) Division .....	11,818
Subsidy for increased General Educational Development (GED) fee.....	291
Net change to contractual salaries .....	260
Equipment purchases .....	-212
Aid to education grants.....	-628
One-time grant for transportation industry training.....	-761
UI postage.....	-1,007
One-time costs to transition to electronic GED testing .....	-1,040
UI printing, maintenance, computer and other costs .....	-1,070
Decline in pass through grants under UI .....	-1,518
One-time funding for limited English proficient literacy grants .....	-1,768
Loss of National Emergency grants.....	-3,983
Loss of federal Trade Adjustment Act funds.....	-3,825
Other .....	45

**Total** **-\$2,640**

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

## **Cost Containment**

There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of the DBM – Personnel and SRA. The savings for the workforce development units of the department is about \$1.1 million across all funds.

## **Workforce Development**

The Division of Workforce Development and Adult Learning was the recipient of grant funding in fiscal 2014 that is not anticipated in the fiscal 2015 allowance. In total, workforce development and education grants decline by approximately \$10.9 million, primarily in federal funds. The largest components of these grant funds are derived from the National Emergency Grant and the Trade Adjustment Act grant. The Trade Adjustment Act program is designed to develop the workforce skills of workers who have been displaced as a result of increased imports or shifts in production out of the country. Specifically, funds provide job training, job search services, case management services, and relocation assistance to workers that do not have the skills to compete in the existing market. Also, the National Emergency Grants temporarily expand the service capacity of Workforce Investment Act Dislocated Worker training and employment programs at the state and local levels by providing funding assistance in response to large, unexpected economic events which cause significant job losses. Much of the grant funds were used to provide assistance to those workers impacted by the closure of RG Steel in 2012.

The fiscal 2015 allowance also declines due to a loss in federal funds from the U.S. Department of Education through the federal Adult Education and Family Literacy Act. Grants under the Act are awarded for civics education and integrated literacy services for individuals who are immigrants and other limited English proficient populations. Also, reimbursable funds decline due to the termination of grant funds from the Maryland Department of Transportation to provide workforce development services to individuals interested in highway construction training opportunities.

There are several changes in the allowance that are a result of a new General Educational Development (GED) testing process. The nonprofit organization that provides GED testing has developed a new test that is entirely computerized. In fiscal 2015, the test will no longer be provided in paper form. One-time costs to update the department's GED database and transcript system are no longer in the allowance. Additionally, with the advent of the new test, the department is collaborating with academic partners to provide computer lab space to give the GED tests. As such, the department does not need to provide testing space or proctors. The allowance shows the decline in contractual staff of 21.7 FTEs for a savings of about \$186,000. The savings in the allowance are partially mitigated by the policy decision to subsidize a portion of the fee for the new test. The test fee is currently set by the provider at \$120. This is an increase of \$70 over the previous paper test fee. The fiscal 2015 allowance includes funds (\$749,000) to subsidize the increased cost for an estimated 10,700 tests.

## **Unemployment Insurance**

The fiscal 2015 allowance for the administration of the State's UI program declines by almost \$3.1 million from the fiscal 2014 working appropriation. This is partially due to the decline in the pass-through grant that the division administers on behalf of the U.S. Department of Labor that benefits the federal Information System Support Center. But the majority of the decline relates to the expectation that unemployment claims will continue to decline.

At the peak in fiscal 2010, there were 402,813 UI claims filed. In each year since 2010, the number of claims filed has fallen. In fiscal 2013, claims fell to 306,856, a 23.8% decline from the peak. The trend is expected to continue in fiscal 2015. The allowance reflects a significant decline in federal funds for postage costs (\$1 million); printing costs (\$168,000); maintenance (\$460,000); and computer and other outside services (\$442,000). The division also eliminated vacant positions for a savings of approximately \$309,000. Partially mitigating these savings is an increase in contractual payroll. The division relies heavily on contractual staff due to the cyclical nature of the work. The allowance includes an upward salary adjustment for the contractual staff of about \$625,000 in federal funds.

It should be noted that some of these savings are due to the expiration of the federally mandated Extended Unemployment Compensation (EUC) program. If the U.S. Congress renews the program, these costs may again increase. The department would be eligible for additional federal funds to administer the EUC, which may be brought into the fiscal 2015 appropriation by budget amendment.

Finally, the fiscal 2015 allowance increases by \$11.8 million in federal funds for a project that would completely replace the division's legacy IT system including claims, tax, and appeals systems. The project is part of a three-state consortium to procure the new system. The U.S. Department of Labor realizes efficiencies on multi-state large scale procurements. Maryland has been designated as the lead procuring state in the consortium that also includes Vermont and West Virginia. With the fiscal 2015 allowance, Maryland will be responsible for procuring the consortium's management office, legal support, and the development vendor. Total project cost is expected to be \$71.0 million over several fiscal years.

## ***Issues***

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### **1. Progress of the Employment Advancement Right Now Program**

Chapter 1 of 2013 established the Maryland Employment Advancement Right Now (EARN) program. The program is designed to create industry-led partnerships to advance the skills of the State's workforce, grow the State's economy, and increase sustainable employment. Specifically, the program provides general fund grants on a competitive basis for:

- an approved strategic industry partnership for development of a plan consistent with the purpose of the Maryland EARN Program;
- workforce training programs and other qualified programs that provide industry-valued skills training to individuals that result in a credential or identifiable skill consistent with an approved strategic industry partnership plan; and
- job-readiness training and skills training that results in a credential or an identifiable skill.

Under the original legislation, an application for a grant must identify the members participating in the strategic industry partnership and include evidence of a shortage in skilled employment within a target industry, a description of specific high-demand occupations, and the specifics of training programs that would result in individuals obtaining credentials or identifiable skills. The competitive grant process must give priority to strategic industry partnerships that maximize the potential of the collaboration through direct financial or in-kind contributions by members of the target industry.

### **Introduction of Planning Grants**

The program intends for its grantees to be in the form of strategic partnerships that may consist of employers in a specific industry sector working with government agencies, educational organizations, economic development organizations, or labor and community groups. In order to ensure that employers and other potential applicants understood the strategic partnership concept and understood what skills gaps needed to be addressed, the department developed a planning grant component to the EARN program.

A request for planning grant applications was issued in October 2013. Planning grants are capped at \$25,000 and are meant to identify training needs and to ensure the involvement of multiple employers and partner organizations. The department is encouraging a data-driven approach to the planning phase of the program. The ultimate goal of the planning grant is to identify critical skills gaps in industry sectors that are driven by the new partnerships and are supported by data. Additionally, the department anticipates that the planning phase will result in more informed and responsive grant applications for the implementation phase.

### *P00 – DLLR – Workforce Development*

In November 2013, the department received 68 planning grant applications. In late December 2013, the department awarded planning funds to 29 applicant groups in the following industry sectors:

- 8 – Healthcare/Health Information Technology
- 4 – Manufacturing
- 3 – Construction
- 3 – Green industries
- 3 – Cybersecurity
- 3 – Retail/Hospitality
- 2 – Biotechnology
- 2 – Logistics
- 1 – Marine industry

Awards averaged \$22,000, and recipients may use the funds for studies of skills gaps, surveys of employers, consultants, or any other tool to develop a strategic industry partnership workforce training plan.

### **Implementation Grants**

The second phase of the program includes the awarding of implementation grants. These grants will fund training opportunities that are identified, in part, on the results of planning grants. However, partnerships that were not recipients of the planning grant may apply for the implementation grants.

A one-year schedule that includes both planning and implementation grant solicitations is ambitious. In the first half of the fiscal year, the department focused on outreach and marketing of the program. This included three webinars to introduce the concept of industry partnerships, to identify target industries, and to mobilize partnerships. The schedule through the end of fiscal 2014 includes:

- January 23 – Conference for planning grantees
- January 29 – Solicitation for implementation grants released
- January 31 – Implementation grants pre-proposal conference
- March 31 – Implementation grants due

- May – Implementation grants announced
- June – Implementation funds awarded

The fiscal 2015 allowance includes \$4.5 million for the program, of which approximately \$140,000 is budgeted for contractual staff to implement the program. The remainder is to be distributed as grants.

**The Department of Legislative Services (DLS) recommends that the department brief the budget committees on the early implementation of the EARN program and on the need for planning grants.**

## **2. Status of the Unemployment Insurance Trust Fund**

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 states for deposit in their respective UI trust funds.

### **The UI Trust Fund and Outlook for Employer Taxes in Calendar 2014**

Legislation enacted in Maryland in 2005 altered Maryland's UI charging and taxation system by creating a series of experience tax rate tables that are based on the balance in the Maryland UI Trust Fund. An employer's unemployment experience determines the rate charged within each table. If the balance of the UI Trust Fund exceeds 5% 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.

The balance of the UI Trust Fund has fluctuated over the years, growing in good economic times to over \$1 billion in each of calendar 2007 and 2008 and diminishing in bad economic times to a level that required the UI Trust Fund to borrow \$133.8 million from the federal government in February 2010. Despite an infusion of \$126.8 million of federal modernization incentive funds in May 2010 and with the repayment of the borrowed funds by December 2010, the balance of the UI Trust Fund remained at a level that required Maryland employers to pay from the highest tax table from 2010 through 2012. Due to the more favorable employment picture in the State and lower claims activity (resulting in a significantly increased balance of the UI Trust Fund), employers will pay from Table A in calendar 2014.

The State's unemployment rate rose from 3.6% at year-end 2007 to 7.6% at year-end 2009, from which it has declined slightly. As of August 2013, Maryland's rate was 7.0%. At its peak in fiscal 2010, there were 402,813 UI claims filed. However, by fiscal 2013, initial claims fell to about 307,000, for an approximately 26,000 monthly average.

**Exhibit 3** shows the balance of the UI Trust Fund on September 30 of each year since 1999, the annual payout amounts since 1999, and Maryland's seasonally adjusted unemployment rate each year since 1999. Also shown in Exhibit 3 are the tax tables employers paid from during calendar 2006 to 2013 and will pay from during calendar 2014.

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**Exhibit 3**  
**Maryland's Unemployment Rate, UI Trust Fund Balance,**  
**and Annual Benefit Payouts**  
**Calendar 1999-2014**

<b>Calendar Year</b>	<b>Percentage Unemployment Rate at End of Year<sup>1</sup></b>	<b>UI Trust Fund Balance as of Prior September 30 (\$ in Millions)<sup>2</sup></b>	<b>Tax Rate Table in Effect</b>	<b>Annual Benefit Payouts<sup>3</sup> (\$ in Millions)</b>
1999	3.5	\$741.6		\$265.0
2000	3.5	815.8		261.4
2001	4.5	882.8		394.5
2002	4.4	866.9		498.9
2003	4.3	824.7		512.1
2004	4.3	638.5		430.8
2005	3.8	703.6		384.7
2006	3.7	883.1	B	383.5
2007	3.6	1,032.5	A	433.3
2008	5.8	1,057.8	A	785.2
2009	7.6	895.4	B	1,068.8
2010	7.4	301.7	F	900.7
2011	7.3	273.4	F	716.8
2012	7.2	460.2	F	767.3
2013	7.0	794.5	C	749.0
2014	n/a	954.7	A	n/a

DLLR: Department of Labor, Licensing, and Regulation

DOL: Department of Labor

UI: unemployment insurance

<sup>1</sup>Data is from DOL: unemployment rate for 2013 is as of August 2013.

<sup>2</sup>Data is from DLLR: calendar 2003 includes \$142.9 million of Reed Act funds provided by the federal government. Calendar 2010 includes \$133.8 million in borrowed funds (February 2010) and \$126.8 million in federal modernization funds (May 2010); borrowed funds were repaid in full by December 2010.

<sup>3</sup>Data is from DOL: 2013 payout amount is a fiscal year total.

Note: The historic high unemployment rate for Maryland was 8.3% in August 1982, and the historical low was 3.3% in March 2000.

Source: U.S. Department of Labor; Department of Labor, Licensing, and Regulation

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## **Federally Funded Benefits**

Eligible claimants may receive up to 26 weeks of regular UI benefits from the State UI Trust Fund. In addition to State UI benefits, in 2008, federal law established EUC benefits for 47 weeks for UI claimants who have exhausted regular UI benefits for a total of 73 weeks of regular and EUC. Under the federal Middle Class Tax Relief and Job Creation Act of 2012, as of June 2012, EUC is comprised of four tiers: Tier 1 – additional 14 weeks; Tier 2 – additional 14 weeks if the State unemployment rate is at least 6%; Tier 3 – additional 9 weeks if State unemployment rate is at least 7%; and Tier 4 – 10 weeks if the State unemployment rate is at least 9%.

As a result of the State's current unemployment rate, Maryland triggered back "on" to Tier 3 EUC as of Sunday, October 6, 2013. Tier 3 EUC provides only nine weeks of benefits. Since the EUC program ended by federal law in December 2013, not all eligible claimants received all weeks of EUC.

## **Impact of the Federal Government Shutdown**

A budget impasse at the federal level in October 2013 led to a shutdown of the federal government that spanned 16 days. Based on the 2012 American Community Survey, approximately 280,000 Maryland residents work full-time for the federal government, not including the uniformed military. During the shutdown, only "essential" employees reported to work, leaving thousands of Maryland residents without pay.

According to the department, over the course of the shutdown, over 21,000 UI claims were filed, and over 5,000 weeks of benefits were paid. However, the Federal Employee Retroactive Pay Fairness Act has ensured that federal employees will be retroactively paid for the period they were furloughed. Maryland statute considers the payment of both unemployment benefits and back payments to be overpayment and requires recovery and repayment of those benefits.

The division has established procedures to recover overpayments including contacting claimants; making repayment schedules; and if necessary, sending collection letters, intercepting tax returns, or offsetting future benefits. To date, the division has recovered about 60% of the related overpayments. Additionally, the federal government will reimburse the UI Trust Fund for all benefits paid to its employees and will be repaid only when and if overpayments are repaid by the claimants. Accordingly, the UI Trust Fund will be ultimately unaffected by the federal government shutdown.

**DLS recommends that the department brief the budget committees on the status of the UI program and specifically on what Table A will mean for Maryland businesses and for the UI Trust Fund.**

## ***Recommended Actions***

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	<b><u>Amount Reduction</u></b>	
1. Reduce grant funds under the Employment Advancement Right Now program to allow the awarding of only planning grants in fiscal 2015. In fiscal 2014, the introduction of planning grants, in addition to implementation grants, has led to an ambitious schedule for the program. Implementation grants are not expected to be awarded until June 2014. This action would delay the second series of implementation grants until fiscal 2016, allowing for more time to follow and track the first round of implementation grants and more time to implement the second round of planning grants.	\$ 3,600,000	GF
<b>Total General Fund Reductions</b>	<b>\$ 3,600,000</b>	

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets DLLR – Workforce Development (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2013</b>					
Legislative Appropriation	\$27,195	\$7,848	\$158,805	\$9,876	\$203,724
Deficiency Appropriation	414	0	1,759	0	2,173
Budget Amendments	663	4,928	7,630	1,209	14,429
Reversions and Cancellations	-542	-1,156	-2,860	-1,888	-6,446
<b>Actual Expenditures</b>	<b>\$27,730</b>	<b>\$11,620</b>	<b>\$165,333</b>	<b>\$9,197</b>	<b>\$213,879</b>
<b>Fiscal 2014</b>					
Legislative Appropriation	\$34,612	\$10,370	\$158,378	\$11,543	\$214,903
Budget Amendments	591	2,881	14,035	998	18,504
<b>Working Appropriation</b>	<b>\$35,204</b>	<b>\$13,250</b>	<b>\$172,412</b>	<b>\$12,541</b>	<b>\$233,407</b>

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

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## **Fiscal 2013**

Actual expenditures surpassed the original appropriation in fiscal 2013 due to deficiency appropriations and budget amendments. A general fund deficiency (\$413,571) was used to upgrade the current GED tracking system to be compatible with the new national testing standards. The federal fund deficiency (\$1,758,941) was used to supplement the department's adult education programs and specifically provided grants for civics education and integrated English literacy services to individuals who are immigrants and other limited English proficient populations.

The original fiscal 2013 appropriation was also increased by \$772,921 across special and federal funds due to a budget amendment increasing funds for the cost-of-living and other salary adjustments. Special funds increased by an additional \$4.9 million within the UI division. Of this total, \$3.0 million was deposited into the State's UI Trust Fund from the federal government. It was then transferred from the trust fund into the fiscal 2013 budget for efficiency upgrades and workload improvement initiatives. The remaining special funds were transferred into the budget because it was determined that federal funds may not be used to pursue UI penalty and interest monies.

Budget amendments also increased federal funds during the fiscal year. Specifically, the budget increases by \$5,214,510 in federal funds to the Division of Workforce Development and Adult Learning. Funds were made available through the federal Workforce Investment Act and were passed through to local workforce investment areas according to a federal formula based on a variety of employment variables. Funds were used to provide additional workforce training services to individuals seeking employment. A portion of the funds remained unspent at year's end to be canceled and re-appropriated in the current fiscal year.

Reimbursable funds increased by \$125,000 in fiscal 2013 due to a budget amendment that transferred funds from the Maryland Higher Education Commission (MHEC) to the department's Adult Learning program in order to provide activities and services to promote awareness of postsecondary education opportunities to low-income individuals and families. An additional budget amendment increased reimbursable funds (\$786,859) due to a memorandum of understanding between the department and the Maryland State Department of Education (MSDE) to provide correctional education services. Similarly, the Department of Human Resources provided funds to the department to assist non-custodial parents with work search services. Finally, reimbursable funds increased due to a budget amendment providing funds from the Department of Juvenile Services to provide training opportunities to the juvenile population. Much of these funds remained unspent at the end of the fiscal year. It is assumed that funds will be made available again in the current fiscal year.

In fiscal 2013, State agencies were assessed a fee for development of a new Statewide Personnel System. That year, the State spent approximately 48% of this major IT project's appropriated budget, with the remainder reverted to the general fund. DLLR's share of this reversion was \$388,362.

The remaining changes in the appropriation resulted from budget amendments that realigned funds, in part, between the Workforce Development divisions and the Business Regulation divisions of the department, which are discussed in another analysis.

## **Fiscal 2014**

The original general fund appropriation increased by over \$591,000 in fiscal 2014. The majority of the increase is related to the cost-of-living and other salary adjustments. The remaining changes in the appropriation resulted from budget amendments that realigned funds, in part, between the workforce development divisions and the business regulation divisions of the department which are discussed in another analysis.

The original fiscal 2014 special fund appropriation increased by \$2.9 million over the original appropriation. The main driver of the increase was a budget amendment for \$1.9 million in special funds for UI. Funds will be used to offset the costs of staff, communications, and supplies. Funds are derived from monetary penalties and interest on violations of unemployment statutes. The U.S. Department of Labor has determined that federal funds may not be used to collect penalty and interest fines. As such, these special funds are being used for those enforcement activities. Additionally, a budget amendment transferred \$900,000 in special funds from the Dedicated Purpose Account for adult education and job training programs. The funds were made available to counteract the impact of federal sequestration. Special funds also increased during fiscal 2014 due to the cost-of-living and other salary adjustments.

Fiscal 2014 budget amendments increased the original federal fund appropriation by over \$14 million. The most significant change added \$6,955,445 in federal funds to the Division of Workforce Development and Adult Learning. Funds are available through the Trade Adjustment Assistance Extension Act from the U.S. Department of Labor. The program is designed to develop the workforce skills of workers who have been displaced as a result of increased imports or shifts in production out of the country. Specifically, funds are being used to provide job training, job search services, case management services, and relocation assistance to workers that do not have the skills to compete in the existing market. Additionally, the division received \$2,735,420 in federal funds from the U.S. Department of Education through the federal Adult Education and Family Literacy Act. Grants under the Act are awarded for civics education and integrated literacy services for individuals who are immigrants and other limited English proficient populations. Similarly, the division also received \$2,760,974 in federal funds from the Reemployment and Eligibility Assessments grant program from the U.S. Department of Labor. Funds are used to expand current services related to job searches, assessments, and training. Maryland was eligible for these additional funds due to an unemployment rate trigger that also expanded benefits under the Emergency Unemployment Compensation Act. Finally, the division received \$379,801 in federal funds from the U.S. Department of Justice through the Second Chance Act Technology Careers Training Demonstration Projects Awards. Specifically, the funds are used to establish and provide technology career training programs for incarcerated adults and juveniles. Federal funds also increased during fiscal 2014 due to the cost-of-living and other salary adjustments.

***P00 – DLLR – Workforce Development***

Reimbursable funds increased by \$997,753 in fiscal 2014 due to three budget amendments. The first amendment transferred \$7,736 in funds from MHEC to the department in order to promote awareness of postsecondary educational opportunities to low income individuals. Secondly, MSDE provided \$230,000 in reimbursable funds to the department in order to upgrade data collection systems for the adult and correctional education programs. Finally, the Maryland Department of Transportation provided \$760,017 in reimbursable funds to provide workforce development services to individuals interested in highway construction training opportunities.

The remaining changes in the appropriation resulted from budget amendments that realigned funds, in part, between the Workforce Development divisions and the Business Regulation divisions of the department which are discussed in another analysis.

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

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	1,291.39	1,292.59	1,286.19	-6.40	-0.5%
02 Contractual	246.81	235.85	205.11	-30.74	-13.0%
<b>Total Positions</b>	<b>1,538.20</b>	<b>1,528.44</b>	<b>1,491.30</b>	<b>-37.14</b>	<b>-2.4%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 93,968,255	\$ 102,599,863	\$ 104,126,713	\$ 1,526,850	1.5%
02 Technical and Spec. Fees	6,082,222	8,496,194	8,756,535	260,341	3.1%
03 Communication	4,493,522	5,506,335	4,507,942	-998,393	-18.1%
04 Travel	637,075	722,897	821,799	98,902	13.7%
06 Fuel and Utilities	681,378	626,077	753,832	127,755	20.4%
07 Motor Vehicles	341,631	328,727	276,647	-52,080	-15.8%
08 Contractual Services	18,783,526	29,313,939	33,585,225	4,271,286	14.6%
09 Supplies and Materials	2,324,857	2,053,917	2,087,801	33,884	1.6%
10 Equipment – Replacement	1,231,877	1,427,394	1,060,053	-367,341	-25.7%
11 Equipment – Additional	530,925	752,142	907,013	154,871	20.6%
12 Grants, Subsidies, and Contributions	80,052,458	77,439,747	69,539,258	-7,900,489	-10.2%
13 Fixed Charges	2,986,387	4,139,904	4,578,633	438,729	10.6%
14 Land and Structures	6,221	0	0	0	0.0%
<b>Total Objects</b>	<b>\$ 212,120,334</b>	<b>\$ 233,407,136</b>	<b>\$ 231,001,451</b>	<b>-\$ 2,405,685</b>	<b>-1.0%</b>
<b>Funds</b>					
01 General Fund	\$ 27,729,628	\$ 35,203,735	\$ 36,054,676	\$ 850,941	2.4%
03 Special Fund	11,619,763	13,250,495	11,325,795	-1,924,700	-14.5%
05 Federal Fund	163,573,999	172,412,270	171,190,227	-1,222,043	-0.7%
09 Reimbursable Fund	9,196,944	12,540,636	12,430,753	-109,883	-0.9%
<b>Total Funds</b>	<b>\$ 212,120,334</b>	<b>\$ 233,407,136</b>	<b>\$ 231,001,451</b>	<b>-\$ 2,405,685</b>	<b>-1.0%</b>

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

**Fiscal Summary  
DLLR – Workforce Development**

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
0A Department of Labor, Licensing, and Regulation	\$ 14,137,982	\$ 20,786,872	\$ 21,377,502	\$ 590,630	2.8%
0B Division of Administration	18,519,212	19,477,939	20,145,676	667,737	3.4%
0G Division of Workforce Development and Adult Learning	110,612,187	116,963,428	104,565,012	-12,398,416	-10.6%
0H Division of Unemployment Insurance	68,850,953	76,178,897	84,913,261	8,734,364	11.5%
<b>Total Expenditures</b>	<b>\$ 212,120,334</b>	<b>\$ 233,407,136</b>	<b>\$ 231,001,451</b>	<b>-\$ 2,405,685</b>	<b>-1.0%</b>
General Fund	\$ 27,729,628	\$ 35,203,735	\$ 36,054,676	\$ 850,941	2.4%
Special Fund	11,619,763	13,250,495	11,325,795	-1,924,700	-14.5%
Federal Fund	163,573,999	172,412,270	171,190,227	-1,222,043	-0.7%
<b>Total Appropriations</b>	<b>\$ 202,923,390</b>	<b>\$ 220,866,500</b>	<b>\$ 218,570,698</b>	<b>-\$ 2,295,802</b>	<b>-1.0%</b>
Reimbursable Fund	\$ 9,196,944	\$ 12,540,636	\$ 12,430,753	-\$ 109,883	-0.9%
<b>Total Funds</b>	<b>\$ 212,120,334</b>	<b>\$ 233,407,136</b>	<b>\$ 231,001,451</b>	<b>-\$ 2,405,685</b>	<b>-1.0%</b>

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.