

P00
Workforce Development
Department of Labor, Licensing, and Regulation

Operating Budget Data

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$35,703	\$36,403	\$36,336	-\$67	-0.2%
Deficiencies and Reductions	0	0	-53	-53	
Adjusted General Fund	\$35,703	\$36,403	\$36,283	-\$121	-0.3%
Special Fund	15,468	12,048	12,790	742	6.2%
Deficiencies and Reductions	0	0	-20	-20	
Adjusted Special Fund	\$15,468	\$12,048	\$12,770	\$722	6.0%
Federal Fund	159,071	181,180	190,219	9,038	5.0%
Deficiencies and Reductions	0	0	-269	-269	
Adjusted Federal Fund	\$159,071	\$181,180	\$189,950	\$8,770	4.8%
Reimbursable Fund	4,916	6,347	6,454	107	1.7%
Adjusted Reimbursable Fund	\$4,916	\$6,347	\$6,454	\$107	1.7%
Adjusted Grand Total	\$215,157	\$235,979	\$245,457	\$9,479	4.0%

- After adjusting for a back of the bill reduction in health insurance, the fiscal 2017 allowance increases by \$9.5 million, or 4.0%. There is a \$121,000 decrease in general funds, or 0.3%. Special funds increase by \$722,000, or 6.0%, primarily due to changes in various contractual services. Federal funds increase by \$8.8 million, 4.8%.

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

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Personnel Data

	<u>FY 15 Actual</u>	<u>FY 16 Working</u>	<u>FY 17 Allowance</u>	<u>FY 16-17 Change</u>
Regular Positions	1,251.19	1,246.19	1,232.09	-14.10
Contractual FTEs	<u>141.26</u>	<u>221.36</u>	<u>79.08</u>	<u>-142.28</u>
Total Personnel	1,392.45	1,467.55	1,311.17	-156.38

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New
Positions

45.27 3.68%

Positions and Percentage Vacant as of 12/31/15

22.00 1.77%

- Regular positions decrease by a net of 14.10 in fiscal 2017. Position abolitions include 5.0 regular positions in the Office of Budget and Fiscal Services; 1.0 position in the Office of Human Resources; and 10.10 regular positions in the Division of Unemployment Insurance (DUI). This reduction was slightly offset by the addition of 2.0 regular positions in the Workforce Development Program.
- In fiscal 2017, there are 142.28 contractual full-time equivalents abolished with the most significant decreases in the Workforce Development Program and DUI.
- After accounting for the position abolitions, there are only 8.0 vacant positions. The fiscal 2017 budget requires 45.0 vacancies to meet turnover. It should be noted that the Department of Labor, Licensing, and Regulation disputes the number of vacancy positions (saying it is higher). Vacancy data is as received from the Department of Budget and Management.

Analysis in Brief

Major Trends

Adult Basic Education Students' Advancement: In fiscal 2014, there was a decrease in the number of general educational development (GED) test takers and high school diploma recipients through the Adult Basic Education program. This is likely due to the new more rigorous, computerized GED test.

Unemployment Cases Evaluated by Appeals Board: There was a decline in the number of unemployment insurance cases pending before the Board of Appeals in fiscal 2015.

Issues

Progress of the Employment Advancement Right Now Program: The Maryland Employment Advancement Right Now (EARN) program awarded 29 implementation grants in June 2014. The average grant was \$179,302. The EARN program was established by Chapter 1 of 2013 and at this point should have quantifiable data available to assess the success of the program. **The Department of Legislative Services (DLS) recommends that the EARN 2016 annual report include retention data for programs where it is available, a breakdown of the quantifiable measures used to determine efficiency and effectiveness of strategic partnerships, and quantitative employment data received from each partnership. DLS also recommends that the Business Economic and Community Outreach Network report that provided a performance evaluation of the program be submitted to the General Assembly.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

Unemployment Insurance Modernization: DUI is taking steps to modernize the technology associated with its three largest functions – benefits, contributions, and appeals. Maryland is currently collaborating with West Virginia to develop the new system. This update provides a progress report on the current status of this project.

Unemployment Insurance: With the continued relatively favorable employment picture in the State and lower claims activity, the balance of the Unemployment Insurance Trust Fund is at a level that allows Maryland employers to pay from the lowest cost table in calendar 2016, a decrease from calendar 2015 tax rates. Maryland's unemployment rate improved to 5.1% from 6.3% a year ago.

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New Computer-based GED Testing: In January 2014, the GED Testing Service rolled out a new assessment test to allow adult learners to earn high school credentials. The new GED test aligns with the new Common Core State Standards and the Office of Career, Technical, and Adult Education recommendations. The 2015 *Joint Chairmen's Report* requested a report on new GED testing options and implementation. This update summarizes the findings in the report.

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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 (DWDAL)** that 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 (DUI)** that 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.

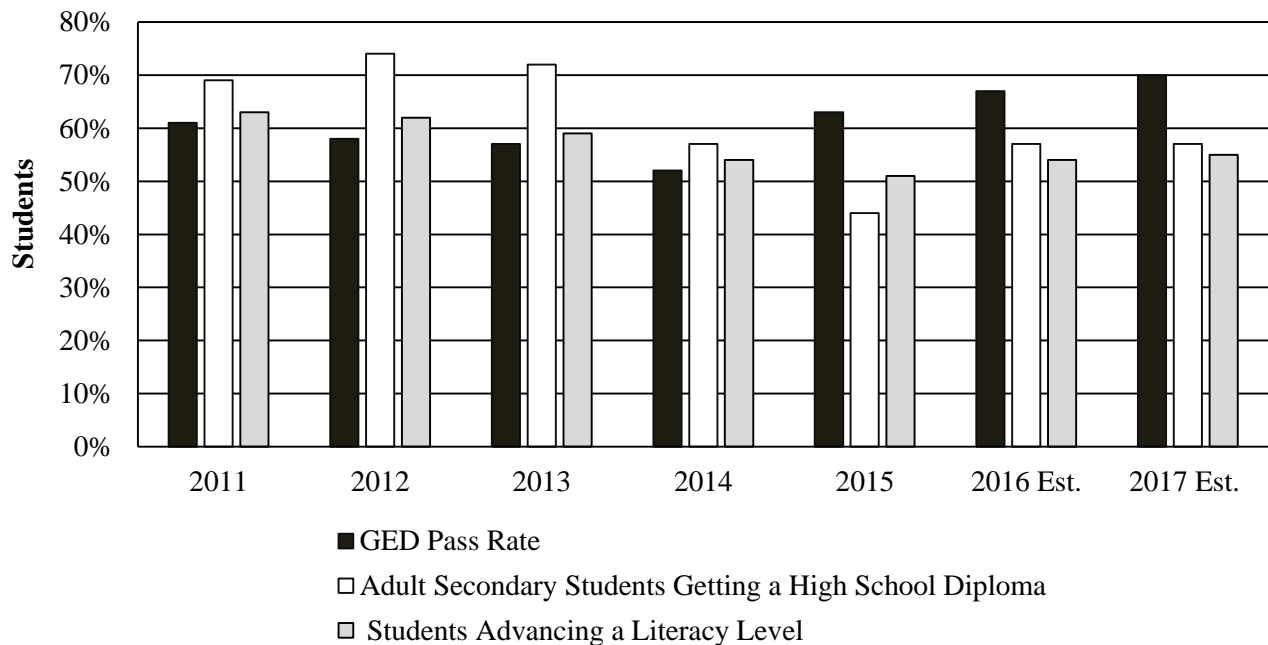
Performance Analysis: Managing for Results

1. Adult Basic Education Students' Advancement

The Office of Adult Education and Literacy Services within DLLR provides Adult Basic Education (ABE), general educational development (GED) testing, the Maryland External Diploma Program, and English as a Second Language services. Within ABE, there are different levels of literacy, and students can receive a certificate for completing the "intermediate low" and "intermediate high" classes as well as the basic level literacy course. As shown in **Exhibit 1**, in fiscal 2014, the

percentage of ABE students receiving a high school diploma, passing the GED, or advancing from one literacy level to another all fell compared to prior years. This decline coincided with the implementation of the new more rigorous GED testing format. While the number of high school diplomas issued decreased in fiscal 2015, the GED pass rate has increased while literacy level advancement dropped slightly.

Exhibit 1
Students GED, High School Diploma, and Advancing Literacy Level Rate
Fiscal 2011-2017 Est.



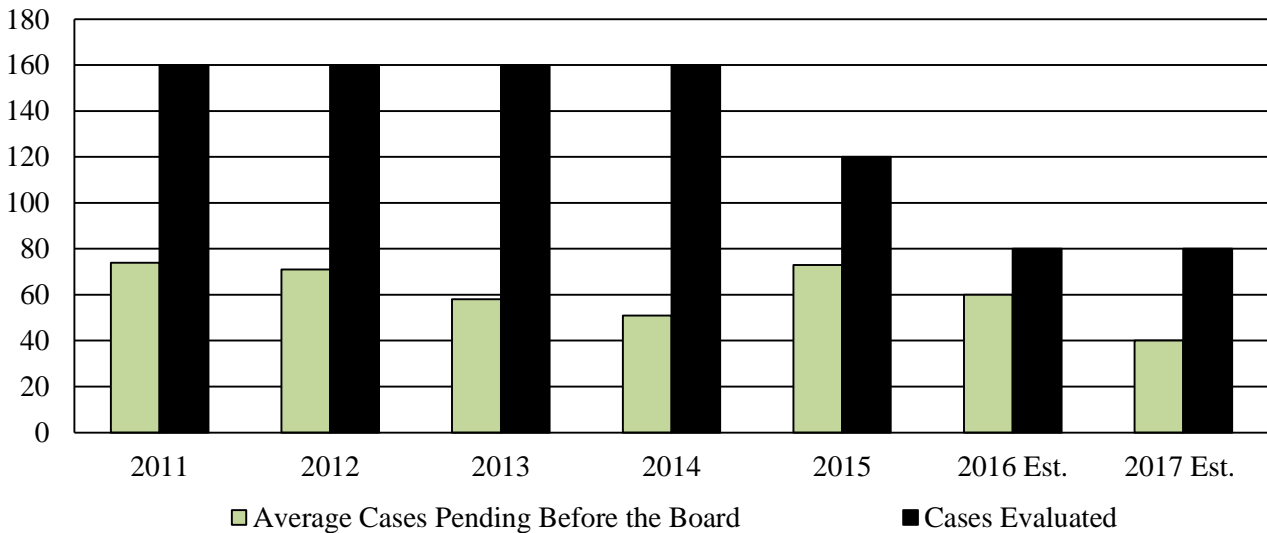
GED: general educational development

Source: Department of Budget and Management

2. Unemployment Cases Evaluated by Appeals Board

Exhibit 2 shows that the number of total cases being evaluated by the Unemployment Insurance Appeals Board has decreased steadily from 160 in fiscal 2011 to 120 in fiscal 2015. There was a slight increase in the number of cases pending before the board at 73 in fiscal 2015 after a drop in pending cases of 51 in fiscal 2014.

Exhibit 2
Cases Evaluated and Pending
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Fiscal 2016 Actions

Cost Containment

The Administration's fiscal 2016 cost containment strategy included a 2% across-the-board reduction in general funds. The 2016 cost containment reduction for DLLR Workforce Development is \$832,402, which includes:

- \$107,509 to the Employment Advancement Right Now (EARN) grants;
- \$225,000 due to the elimination of the Maryland Center for Construction Education and Innovation as a result of consolidation with the Governor's Workforce Investment Board;
- \$328,256 in personnel costs; and
- \$171,637 in GED subsidies that parallels the decline in test takers in fiscal 2016.

Proposed Budget

As seen in **Exhibit 3**, after adjusting for a back of the bill health insurance reduction, the fiscal 2017 allowance increased by \$9.5 million from the current working appropriation. There is a \$722,000 increase in special funds and an \$8.8 million increase in federal funds that drive the increase.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2015 Actual	\$35,703	\$15,468	\$159,071	\$4,916	\$215,157
Fiscal 2016 Working Appropriation	36,403	12,048	181,180	6,347	235,979
Fiscal 2017 Allowance	<u>36,283</u>	<u>12,770</u>	<u>189,950</u>	<u>6,454</u>	<u>245,457</u>
Fiscal 2016-2017 Amount Change	-\$121	\$722	\$8,770	\$107	\$9,479
Fiscal 2016-2017 Percent Change	-0.3%	6.0%	4.8%	1.7%	4.0%

Where It Goes:

Personnel Expenses

Retirement	\$1,994
Employee and retiree health insurance	1,517
Turnover	657
New positions (2.0 full-time equivalents (FTE)).....	199
Unemployment	162
Other fringe benefit adjustments	54
Abolished positions (16.0 FTEs)	-1,186
Regular earnings	-3,235

Division of Unemployment Insurance

Unemployment Insurance Modernization Project	14,568
Software licenses and maintenance	756
Training and consulting services	267
Grants.....	-66
Materials and supplies	-275
Processing equipment	-463
Statewide cost allocation	-634
Postage.....	-910
Contractual employees	-3,513

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Where It Goes:

Workforce Development and Workforce Innovation and Opportunity Act (WIOA)

Grants to Workforce Development areas based on the WIOA.....	1,689
Training and program development under the WIOA.....	840
Maryland Workforce Exchange software.....	373
Literary Pro LACES system upgrades (compliance with the WIOA).....	329
Office equipment leasing for job centers.....	34
Reprinting literature because of the WIOA.....	25
Employment Advancement Right Now grants.....	-156
Resource sharing agreement with One-stop Career Centers.....	-250
Technical assistance and better coordination of One-stop Career Centers.....	-700
Workforce Development Program contractual employees.....	-1,596

Adult Education and Corrections Education

Teacher training and other instructor costs.....	38
Adult Corrections travel.....	-30
Maryland Correctional Enterprise.....	-100
Pearson VUE for computerized general education development testing.....	-177
Travel for adult education specialist positions.....	-240
Adult education enrollment decline results in lower GED grants.....	-250

Data Management

Federal Accounting Report System (for the Office of Fiscal Services).....	453
Veeam software licenses (for the Office of Information Technology).....	53
Compellent system storage.....	47
Contract for archived employment data housed at the University of Baltimore.....	28
Software upgrades.....	28

Other Changes

Lower Appeals program increases.....	111
New janitorial contract and elevator maintenance (Office of General Services).....	101
Office of the Attorney General fees for legal services.....	51
Utilities.....	-120
Rent to the Department of General Services, subscriptions, and licenses.....	-148
Other contractual employees.....	-216
Department of Budget and Management assigned charges.....	-269
Other miscellaneous changes.....	-361

Total	\$9,479
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Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is \$72,985 in general funds, \$82,890 in special funds, and \$282,858 in federal funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Personnel and Regular Positions

There is a 14.10 reduction in regular positions in fiscal 2017 that results in savings of almost \$1.0 million. Position reductions include 5.0 positions in the Office of Budget and Fiscal Services; 1.0 position in the Office of Human Resources; and 10.10 positions in DUI. All 16.1 abolished positions were vacant. The Workforce Development Program added 2.0 regular positions. These positions are largely responsible for the management of the Maryland Eligible Training Provider List, which is maintained as a requirement of the Workforce Innovation and Opportunity Act (WIOA).

Aside from abolished positions, there is also a \$3.2 million decrease in regular earnings due to positions becoming vacant and being reclassified back to base levels.

DUI

Because there has been a decline in the number of claimants for unemployment, DUI has also reduced program costs to reflect current need. In addition to the 10.10 reduction in regular employees, there is a 91.28 full-time equivalent reduction in contractual employees. The reduction in contractual employees translates into a \$3.5 million decrease in costs. The contractual positions were also unfilled. There is also a \$463,000 decrease in equipment, a \$275,000 decrease in costs for supplies and materials, and a \$910,000 reduction in postage. More than offsetting these reductions is a \$14.6 million increase in federal funds for the UI Modernization project, which will upgrade and consolidate current UI processes. Additional information in this project is provided under the Updates section of this analysis.

Workforce Development and the WIOA

The WIOA is federal law that aligns the services provided by state and local governments in adult education, workforce development, and other employment centered services. To better align with the standards of the WIOA, there is a \$1.7 million increase in grants to local workforce development sites, an \$840,000 increase for training and program development, a \$329,000 increase for upgrades to the Literacy Pro LACES system, and a \$25,000 increase for printing to update literature. There was also a \$373,000 increase for upgrades to the Maryland Workforce Exchange website. Part of the transition to the WIOA standards includes a better coordination of the One-stop Career Centers, which results in a \$250,000 decrease due to resource sharing, and a \$700,000 decrease in technical assistance. More specifically, this reduction in cost is due to the closure of the One-stop Career Center in downtown Baltimore. This center's resources were transitioned to the two centers located in east and

west Baltimore. There is also a \$1.6 million decrease in contractual employees because of the expiration of projects and decrease in funding associated with Wagner-Peyser, which is the original legislation that created national employment offices. The EARN program had a decrease of \$156,000, which is a decrease in the distributed grant amounts for each of the partnerships. This leaves \$4.1 million for EARN grantees in fiscal 2017. **The Department of Legislative Services (DLS) recommends that DLLR explain the decision to cut funding for the EARN program.**

Adult Education and Corrections Education

Adult Education experienced a decline in enrollment that parallels the improvement of the economy, which is a common historical trend. As a result, there is a decrease of \$250,000 in adult education grants for GED participants. There is also a decrease of \$240,000 for travel and \$177,000 for the computerized GED testing.

Data Management and Other Changes

There is a \$453,000 increase in the Office of Budget and Fiscal Services for the new Federal Accounting Report System, which is data warehousing and financial reporting hardware and software. There is also a \$216,000 decrease in contractual employees.

Issues

1. Progress of the Employment Advancement Right Now Program

Chapter 1 of 2013 established the EARN program. The purpose of the EARN program is to create industry-led partnerships to advance the skills of the State's workforce, grow the State's economy, and increase sustainable employment for working families. 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 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 partnership plan; and
- job-readiness training and skills training that results in a credential or an identifiable skill.

Grant funds are awarded to support regional strategic industry partnerships in implementing workforce training plans designed to address industry workforce skill gaps and employ or advance workers within a targeted region or sector. Under the program, a partnership submits an application for a planning grant. The proposal must identify the members participating in the strategic industry partnership, include evidence of a shortage in skilled employment within a target industry, state a description of specific high-demand occupations, and outline specific training components that would result in individuals obtaining credentials or partnerships that maximize collaboration potential through direct financial or in-kind contributions from target industry members. There were 29 strategic partnerships that received grant funds beginning in June 2014 with many being renewed for another two-year grant term from October 2015 to June 2017. There are an additional 12 grantees that began receiving funding in April 2015.

Strategic industry partnerships are defined as a collaboration that brings together a regional group that may include employers, nonprofits, local governments, economic development entities, and a wide variety of other relevant partners to identify workforce needs for high-demand occupations within a target industry. There has to be a lead applicant for each strategic industry partnership who will be the fiscal agent to receive the actual grant funds. An eligible strategic industry partnership must have at least five employers from the target industry and representatives from two diverse entities. Each partnership must develop a workforce training plan with qualitative and quantitative data showing the shortage of positions, gaps in skills training, and large scale industry changes.

Noncertification Partnerships

A major element of the EARN program is the ability to offer a certifiable or identifiable skill. While most programs offer one or more recognized certifications, there are currently seven funded

programs that do not offer any certifications or job placement. **Exhibit 4** outlines the programs that do not offer certifications, the amount of their award, and the format of the program. **DLS recommends that the agency comment on the process used to determine the effectiveness and value of noncertification partnerships.**

Exhibit 4
Trainings That Do Not Provide Certifications

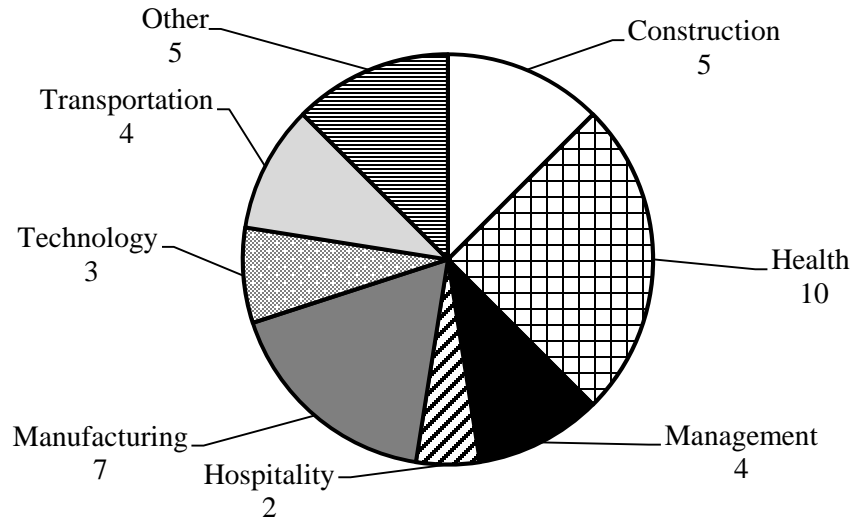
<u>Awardees</u>	<u>Grant Awarded</u>
CyberWorks	\$366,682
Specialized Nursing Bridge Program	216,500
mHealth	150,000
Welcome Back Behavioral Partnership	150,000
Building Employer-led Alliances for Careers in Hospitality	142,521
Bio Train	120,280
Purple Line Skills Strategic Partnership	100,000

Source: Department of Labor, Licensing, and Regulation

Manufacturing Partnerships

Exhibit 5 illustrates the breakdown of partnerships awarded funds by industry. When compared to the current labor trends in Maryland, many of the industry partnerships are in industries that are projected to grow. While this is true overall, it is important to note that there are seven manufacturing partnerships (17.5%), even though historically, manufacturing has been in decline in the State, and it has been projected by the U.S. Department of Labor (US DOL) that the manufacturing industry will continue to decline both in the short- and long-term labor market trends in Maryland. While there has been a decline in manufacturing, it is important to note that these programs coupled with other initiatives like Manufacturing Development Zones currently being proposed in SB 181 could be seen as an effort to maintain and grow the manufacturing sector. **Exhibit 6** illustrates the historical decline of manufacturing employment in Maryland. **DLS recommends that, given trends in the manufacturing section, the agency comment on how to engage in manufacturing partnerships that result in long-term job opportunities for participants.**

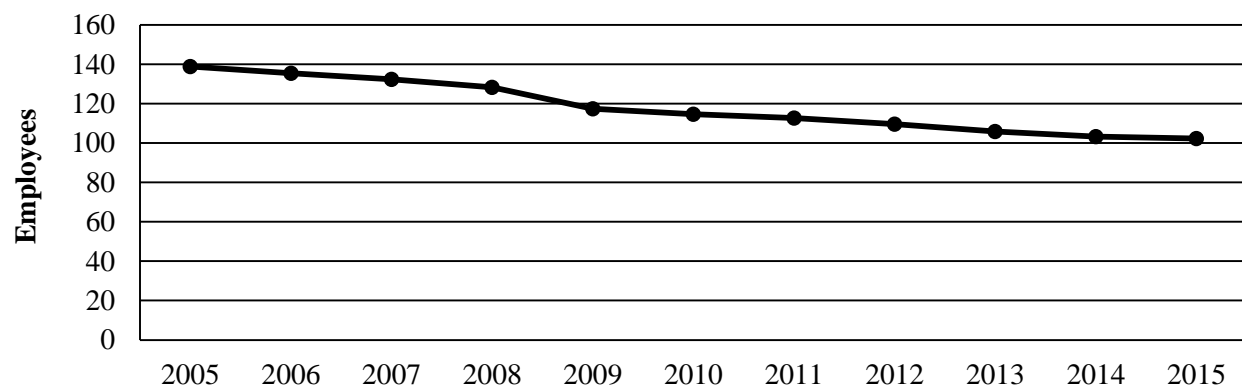
Exhibit 5
EARN Partnerships by Industry



EARN: Employment Advancement Right Now

Source: Department of Labor, Licensing, and Regulation

Exhibit 6
Manufacturing Jobs in Maryland
Fiscal 2005-2015
(Numbers in Thousands)

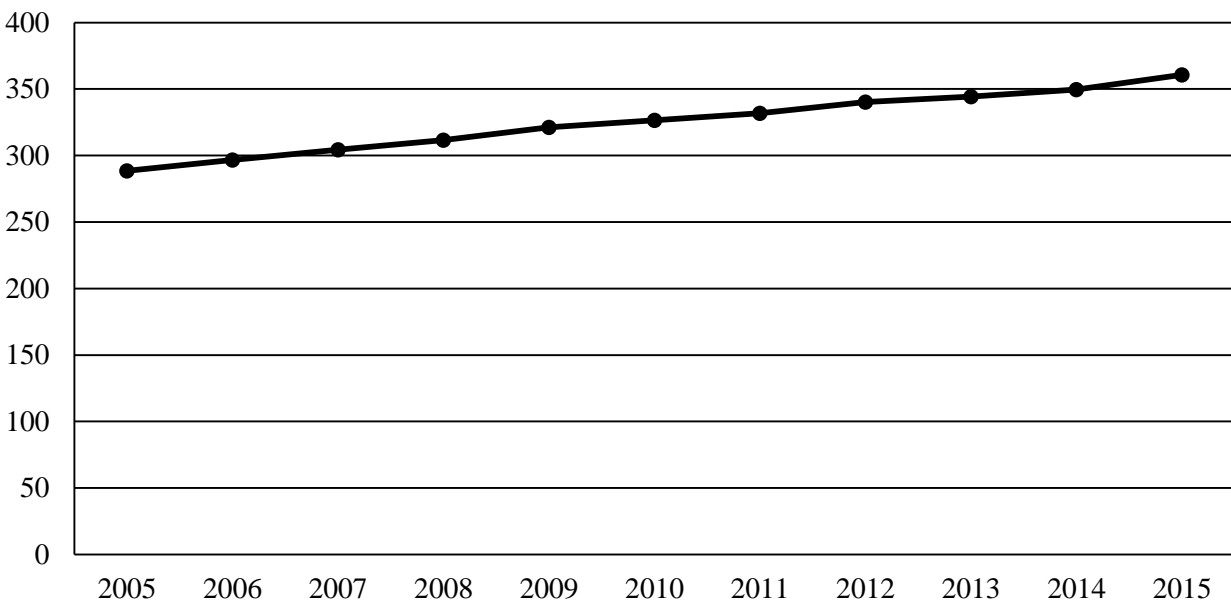


Source: U.S. Department of Labor, Bureau of Labor Statistics

Certified Nursing Assistant Partnerships

The EARN program currently has the highest number of partnerships in health, which appears to be appropriate as the health care industry has grown significantly in the last 10 years and is projected to continue to do so, as shown in **Exhibit 7**. Half of the health partnerships are Certified Nursing Assistant (CNA) programs. Within the five partnerships, there is significant variation in the amount spent per student. **Exhibit 8** shows the significant variance in the cost per student for the programs. While it is the case that some of the programs offer additional certifications coupled with the CNA and Geriatric Nursing Assistant (GNA) that may increase the overall cost of the program, it is not evident from the provided data that the programs with additional certifications have increased costs that parallel the addition of certifications offered. A random sample of CNA programs approved by the Maryland Board of Nursing have an average cost of \$1,171 per student with many programs costing \$1,000 including books and uniform. **DLS recommends that the agency comment on the variance in cost of the programs that provide CNA and GNA training.**

Exhibit 7
Health Care Positions in Maryland
Fiscal 2005-2015
(Numbers in Thousands)



Source: U.S. Department of Labor, Bureau of Labor Statistics

Exhibit 8
Variance in the Cost Per Student for CNA/GNA Programs

<u>Awardee</u>	<u>Certificates Offered</u>	<u>Award Amount</u>	<u>Participants</u>	<u>Cost Per Student</u>
Healthcare Mentorship Baltimore	CNA, GNA	\$150,000	18	\$8,333
Ready to Care	CNA, GNA, Mental Health, First Aid	140,598	30	4,687
Southern Maryland Healthcare Alliance	CNA, GNA	150,000	36	4,167
Healthcare Partnership of Prince Georges and Charles Counties	CNA, GNA, PCT	148,708	36	4,131
Baltimore Healthcare Partnership	CNA, GNA, PCT	368,868	216	1,708

CNA: Certified Nursing Assistant

GNA: Geriatric Nursing Assistant

PCT: Patient Care Technician

Note: Ready to Care trained 62 incumbents in mental health and first aid, which may slightly lower the cost per student.

Source: Department of Labor, Licensing, and Regulation

Annual Report and Quantifiable Data

Chapter 1 required the reporting of outcome measures to determine the impact and success of the program. These quantifiable measures have been outlined to the partnerships in their Solicitation for Implementation Grant Proposal guidelines. All grantees are required to track and report on:

- training participant outcomes;
- industry return on investment metrics;
- demography; and
- training participants' employment and wage status.

In addition, the EARN program, in partnership with Salisbury University (SU), developed a reporting outcome template. SU also worked to provide a third-party audit of the EARN program through their Business Economic and Community Outreach Network (BEACON), which is housed in the Perdue School of Business.

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The EARN program submitted a 2015 annual report to the General Assembly on December 31, 2015, but the report does not include any quantifiable data that would illustrate the information received from the entry and exit templates that each partnership uses or feedback from the BEACON audit that could appropriately illustrate the strengths and challenges of the program.

To date, a request for this information has been made to the agency, and the information has not been received. **DLS recommends that the EARN 2016 annual report include retention data for programs where it is available, a breakdown of the quantifiable measures used to determine efficiency and effectiveness of strategic partnerships, quantitative employment data received from each partnership. DLS also recommends that the BEACON report that provided a performance evaluation of the program be submitted to the General Assembly.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Unemployment Insurance Modernization

To accommodate the high number of unemployment benefit recipients, during the Great Recession, special measures were taken at the national level to maintain payment to families in need. This became a serious problem in Maryland because the technology currently being used for UI was not capable of making quick changes in UI formulas, payment dates, and other variables that were experienced as a part of those national actions. Updates that effected the recipients of weekly UI took weeks and hundreds of man hours from highly specialized technicians to facilitate. This adversely impacted UI recipients and their ability to receive proper payment in a timely fashion.

To circumvent any other unforeseen complications in payment and to update a 30-year-old system, DUI is taking steps to modernize the technology associated with its three largest functions – benefits, contributions, and appeals. Maryland is currently collaborating with West Virginia to develop the new system. This UI Modernization project is funded in large part by US DOL with \$23 million in federal funds for fiscal 2017. There is also \$500,000 in special funds in the fiscal 2017 allowance for UI. The contract for the new system was awarded in September 2015 with an expected implementation of the system by September 2019. The new system would integrate the three systems that are currently used for benefits, contributions, and appeals. The system would also allow for paperless processing of documents, enhanced security features, and a user friendly interface for employers, claimants, and appellants. As shown in **Exhibit 9**, the fiscal 2016 cost was projected at \$8,479,870 with a fiscal 2017 allowance is \$23 million.

Exhibit 9
Department of Labor, Licensing, and Regulation
Unemployment Insurance Modernization

Project Status ¹	Implementation			New/Ongoing Project:		Ongoing		
Project Description:	The Division of Unemployment (DUI) is taking steps to modernize the technology associated with its three largest functions: benefits (paying claimants), contributions (collecting employer taxes), and appeals (dispute arbitration). Maryland has collaborated with West Virginia to jointly address undertaking new systems.							
Project Business Goals:	Create a system that fosters claimant and employer self-service opportunities and improves the customer experience, is flexible enough to accommodate changes in law or policy, and has improved navigation for DUI staff.							
Estimated Total Project Cost ¹ :	\$79,940,249			Estimated Planning Project Cost ¹ :		\$		
Project Start Date:	April 2011			Projected Completion Date:		August 2019		
Schedule Status:	The project is in the Systems Development Life Cycle phase 5.							
Cost Status:								
Scope Status:								
Project Management Oversight Status:	Project manager assigned.							
Identifiable Risks:	Organizational culture is high risk as staff will need to relearn how to perform work with the new technology. Implementation is also high risk because implementation process timing is still unclear.							
Additional Comments:								
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	22,705	23,048	24,058	10,129	0.0	0.0	0.0	79,940
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$22,705.0	\$23,048.0	\$24,058.0	\$10,129.0	\$0.0	\$0.0	\$0.0	\$79,940

¹ Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the Systems Development Lifecycle (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. For planning projects, costs are estimated through planning phases. Implementation projects are required to have total development costs.

2. Unemployment Insurance

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 2016

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. In Table A, employers pay a minimum of 0.3% (on the first \$8,500 of annual wages of each employee) and a maximum of 7.5% (\$25.50 to \$637.50 per employee). The highest tax table (Table F) is used when the balance of the UI Trust Fund is not in excess of 3.0% of the total taxable wages. In Table F, employers pay a minimum of 2.2% and a maximum of 13.5% (\$187 to \$1,147.50 per employee).

The federal unemployment tax under the Federal Unemployment Tax Act (FUTA) is assessed on the first \$7,000 of annual wages of each employee. The standard FUTA tax rate for employers is 6.0%, but the rate is subject to an offset credit of up to 5.4% for employers who pay their state unemployment taxes on time. Employers in states that have received but not repaid loans from the federal government (called "credit reduction states") receive a lower offset credit and pay higher FUTA taxes. Employers in Maryland (Maryland does not have an outstanding loan) receive the full 5.4% offset credit and pay a FUTA tax of 0.6%, which means that the maximum FUTA tax per employee per year is \$42.00. States are required to have their state taxable wage base at a level that is at least the same or higher than the federal taxable wage base. States are also required to be in compliance with other federal requirements. To the extent that the federal government increases the federal taxable wage base above \$8,500, as has been discussed at the federal level, the General Assembly would have to increase the State taxable wage base and would likely have to make corresponding statutory adjustments to the tax tables.

The balance of the State's UI Trust Fund has fluctuated over the years, growing in good economic times to over \$1 billion in each of calendar 2006 and 2007, 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, 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 paid from Table C in calendar 2013, Table A in calendar 2014, and Table B in calendar 2015. The September 30, 2015 balance in the UI Trust Fund was approximately \$984.0 million, meaning that employers will return to paying from Table A in calendar 2016.

It is worth noting that many other states were also required to borrow funds from the federal government to ensure solvency of their trust funds; at its peak, the outstanding balance reached as high as \$41 billion across 29 states. Although Maryland was able to repay its loan within a single fiscal year, many states required several years for repayment, and four states still owe a combined \$6.8 billion on loans received in calendar 2008 or 2009.

The State's unemployment rate rose from 3.4% at year-end 2007 to 7.6% at year-end 2009, from which it has declined each year. As of September 2015, Maryland's unemployment rate was 5.1%. Initial claims grew from about 222,000 in calendar 2007 (18,500 monthly average) to a high of over 416,000 in calendar 2009 (35,000 monthly average). Initial claims began to fall in calendar 2010. By fiscal 2015 (calendar year data not yet available), initial claims fell to about 219,000, for an approximately 18,250 monthly average.

Exhibit 10 shows the recent history of Maryland's seasonally adjusted unemployment rate, the UI Trust Fund balance used to calculate the tax rate table (the prior year's September 30 balance), the tax rate table in effect, and the annual benefit payouts.

Exhibit 10
Maryland's Unemployment Rate, UI Trust Fund Balance,
And Annual Benefit Payouts
Calendar 2006-2016

Calendar Year	Percentage Unemployment Rate at End of Year¹	UI Trust Fund Balance as of Prior September 30 (\$ in Millions)²	Tax Rate Table in Effect	Annual Benefit Payouts³ (\$ in Millions)
2006	3.8	\$883.1	B	\$383.5
2007	3.4	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	6.9	273.4	F	795.7
2012	6.8	460.2	F	778.5
2013	6.1	794.5	C	736.2
2014	5.5	934.9	A	623.2
2015	5.1	904.6	B	336.8
2016	n/a	996.2 ⁴	A	n/a

DOL: U.S. Department of Labor

DLLR: Department of Labor, Licensing, and Regulation

¹ Data is from DOL: Unemployment rate as of December of each year, 2015 is as of August 2015.

² Data is from DLLR: 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.

³ Data is from DOL: 2015 payout amount is through July 31.

⁴ Preliminary cash balance. Final reconciliation is not complete as of October 8, 2015.

Note: The historic high unemployment rate for Maryland was 8.3% in August 1982, and the historical low was 3.3%, which has occurred several times.

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

3. New Computer-based GED Testing

DWDAL is responsible for maintaining updates for GED testing in Maryland. The 2015 *Joint Chairmen's Report* required that a report be issued outlining GED testing and testing options to illustrate the changes that have taken place as a result of the recent updates. The report was submitted on December 3, 2015.

Until January 2014, the GED test had only been available in a pencil and paper delivery format. The transition to a computerized format occurred because the national GED Testing Service began a new venture with the for-profit Pearson VUE. There was concern that the addition of a for-profit partner would negatively impact the cost of GED testing and that the new format and more rigorous test would be problematic for the adult education community. While the test is arguably more difficult, the increase in rigor coincides with the adoption of Common Core State Standards.

While it is difficult to compare direct costs from state to state because of the decentralized Adult Education model that many states use, the cost in Maryland has increased from \$102 per test (with the student paying \$45 and the State paying \$57) under the paper and pencil method to \$120 (with the student cost remaining the same and the State cost of \$75 per test taker). There was also a reduction in administrative costs because computerization reduced the need for test examiners and cut the cost associated with the transmission of answer sheets for scoring.

The increased difficulty of the new GED test coupled with the increased cost has been cited as cause for states to explore other testing options to determine high school equivalency. Both HiSET and the Test Assessing Secondary Completion (TASC) have been used by some states to test high school equivalency. Both tests are relatively new and have been aligned to some degree with Common Core Standards. Both tests also have lower associated costs than the new GED test. The HiSET test costs between \$50 and \$52 per test taker for the test and scoring, but states have been charging students \$90 to also cover administrative costs. TASC also costs about \$52 without accounting for administrative costs. While there is comparative data showing which states use which tests and the associated costs, more research would need to be done to develop a cost benefit analysis to determine the potential use of HiSET or TASC instead of, or in conjunction with, the current computerized GED test.

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Labor, Licensing, and Regulation – Workforce Development (\$ in Thousands)					
	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2015					
Legislative Appropriation	\$35,786	\$11,220	\$169,815	\$12,431	\$229,252
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-751	0	0	0	-751
Budget Amendments	700	5,151	19,276	-5,768	19,359
Reversions and Cancellations	-32	-903	-30,020	-1,747	-32,701
Actual					
Expenditures	\$35,703	\$15,468	\$159,071	\$4,916	\$215,157
Fiscal 2016					
Legislative Appropriation	\$35,513	\$11,968	\$178,144	\$6,347	\$231,972
Budget Amendments	891	80	3,036	0	4,007
Working					
Appropriation	\$36,403	\$12,048	\$181,180	\$6,347	\$235,979

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The 2015 legislative appropriation for DLLR – Workforce Development decreased by \$14,094,193. Cost containment decreased general funds by \$751,388. Budget amendments increased general funds by \$699,654 including:

- \$525,156 for a cost-of-living adjustment (COLA);
- \$141,891 for a realignment of the Office of Information Technology funds;
- \$158,790 for salary realignments;
- -\$130,244 for the Voluntary Separation Program (VSP); and
- \$4,061 for telecommunications.

As a result of prolonged vacancies within the department, \$31,674 was reverted back to the General Fund.

The special fund appropriation increased by \$4,248,252. Budget amendments increased special funds by \$5,150,914 including:

- \$42,545 for a COLA;
- \$1,040,828 for a realignment of Office of Information Technology funds;
- \$1,950,295 for an increase in unemployment insurance payments from US DOL;
- \$269,832 as a part of the Energy Performance Project;
- \$847,414, which was a special distribution from US DOL in fiscal 2013, specifically for fiscal 2015; and
- \$1,000,000 in response to the civil unrest in Baltimore City from April 27 to May 6, 2015, as a result of the death of Freddie Grey. In response to the unrest, DLLR has requested this funding for Baltimore City's YouthWorks summer jobs program, which matches youth between the ages of 14 and 21 with six-week work experiences with various employers.

There was a special fund cancellation of \$902,662 for revenue left over from UI and payments for employment training and computerized GED testing.

P00 – DLLR – Workforce Development

The federal fund appropriation decreased by \$10,744,343. Budget amendments increased federal funds by \$19,275,103 including:

- \$595,739 for a COLA;
- \$38,628 for the realignment of Office of Information Technology funds;
- \$233,976 for the Second Chance Act Technology Careers Training Project Awards;
- \$8,093,271 for an increase in UI payouts; and
- \$10,314,059 for the newly awarded Job Driven National Emergency Grant, which enhances services to Maryland’s long-term unemployed dislocated workers.

There was a federal fund cancellation of \$17,234,075 from the VSP and an overestimation for legal services, DWDAL, the Office of the Secretary, the Office of Employment Training, the Adult and Literacy Program, and UI.

The reimbursable fund decreased by \$7.5 million: \$5,767,823 through budget amendment because of a reduction of funds for the Office of Information Technology and \$1.7 million in cancellations.

Fiscal 2016

To date, the 2016 legislative appropriation has increased by \$4,006,884 including a general fund increase of \$890,795, a special fund increase of \$79,752, and a federal fund increase of \$3,036,337 to restore the 2% pay cut.

Audit Findings (Unemployment Insurance)

Audit Period for Last Audit:	February 1, 2011 – February 23, 2014
Issue Date:	February 2015
Number of Findings:	5
Number of Repeat Findings:	1
% of Repeat Findings:	20%
Rating: (if applicable)	n/a

Finding 1: **Certain target matches were not always performed timely, and match results were not always fully investigated.**

Finding 2: Certain delinquent benefit overpayment accounts were not always referred to the State's Central Collection Unit.

Finding 3: DUI stored sensitive personally identifiable information within a database in clear text.

Finding 4: Controls over a database were not sufficient to protect sensitive data.

Finding 5: Reimbursable employer accounts were not always fully collateralized and delinquent accounts were not always pursued.

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

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

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,251.19	1,246.19	1,232.09	-14.10	-1.1%
02 Contractual	141.26	221.36	79.08	-142.28	-64.3%
Total Positions	1,392.45	1,467.55	1,311.17	-156.38	-10.7%
Objects					
01 Salaries and Wages	\$ 98,399,427	\$ 106,622,490	\$ 107,126,160	\$ 503,670	0.5%
02 Technical and Spec. Fees	5,950,660	8,931,812	3,607,462	-5,324,350	-59.6%
03 Communication	4,055,915	5,128,922	3,897,966	-1,230,956	-24.0%
04 Travel	484,660	1,037,276	696,539	-340,737	-32.8%
06 Fuel and Utilities	909,919	1,016,908	897,157	-119,751	-11.8%
07 Motor Vehicles	261,324	228,494	240,095	11,601	5.1%
08 Contractual Services	18,462,875	31,652,996	47,333,770	15,680,774	49.5%
09 Supplies and Materials	1,383,541	1,766,086	1,476,664	-289,422	-16.4%
10 Equipment – Replacement	589,269	453,369	719,088	265,719	58.6%
11 Equipment – Additional	335,875	498,430	74,246	-424,184	-85.1%
12 Grants, Subsidies, and Contributions	80,711,832	74,188,368	75,145,945	957,577	1.3%
13 Fixed Charges	3,612,195	4,453,563	4,584,247	130,684	2.9%
Total Objects	\$ 215,157,492	\$ 235,978,714	\$ 245,799,339	\$ 9,820,625	4.2%
Funds					
01 General Fund	\$ 35,702,750	\$ 36,403,372	\$ 36,336,105	-\$ 67,267	-0.2%
03 Special Fund	15,467,761	12,047,938	12,790,103	742,165	6.2%
05 Federal Fund	159,070,922	181,180,492	190,218,781	9,038,289	5.0%
09 Reimbursable Fund	4,916,059	6,346,912	6,454,350	107,438	1.7%
Total Funds	\$ 215,157,492	\$ 235,978,714	\$ 245,799,339	\$ 9,820,625	4.2%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

**Fiscal Summary
DLLR – Workforce Development**

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
01 Executive Direction	\$ 6,751,700	\$ 6,279,783	\$ 6,360,627	\$ 80,844	1.3%
02 Administrative Adjudication	371,201	420,246	438,932	18,686	4.4%
05 Legal Services	3,603,653	4,019,515	4,285,423	265,908	6.6%
08 Equal Opportunity and Program Equity	328,170	325,567	342,894	17,327	5.3%
09 Governor’s Work Force Investment Board	631,161	533,848	543,571	9,723	1.8%
11 Appeals	1,360,940	1,437,347	1,436,643	-704	0%
12 Lower Appeals	6,067,293	6,751,599	6,288,501	-463,098	-6.9%
03 Office of Budget and Fiscal Services	5,582,072	5,907,744	6,279,384	371,640	6.3%
04 Office of General Services	6,202,071	6,357,108	6,552,273	195,165	3.1%
05 Office of Information Technology	6,674,397	7,360,099	7,709,948	349,849	4.8%
06 Office of Personnel Services	2,123,880	2,209,239	2,013,978	-195,261	-8.8%
07 Workforce Development Program	67,545,324	70,034,570	70,863,445	828,875	1.2%
12 Adult Education Program	3,332,057	4,115,312	4,361,469	246,157	6.0%
13 Adult Corrections Program	18,023,203	19,441,381	19,640,791	199,410	1.0%
14 Aid to Education	15,188,150	16,161,958	15,911,958	-250,000	-1.5%
01 Office of Unemployment Insurance	70,070,897	76,143,528	69,721,851	-6,421,677	-8.4%
02 Major Information Technology Development Projects	1,301,323	8,479,870	23,047,651	14,567,781	171.8%
Total Expenditures	\$ 215,157,492	\$ 235,978,714	\$ 245,799,339	\$ 9,820,625	4.2%
General Fund	\$ 35,702,750	\$ 36,403,372	\$ 36,336,105	-\$ 67,267	-0.2%
Special Fund	15,467,761	12,047,938	12,790,103	742,165	6.2%
Federal Fund	159,070,922	181,180,492	190,218,781	9,038,289	5.0%
Total Appropriations	\$ 210,241,433	\$ 229,631,802	\$ 239,344,989	\$ 9,713,187	4.2%
Reimbursable Fund	\$ 4,916,059	\$ 6,346,912	\$ 6,454,350	\$ 107,438	1.7%
Total Funds	\$ 215,157,492	\$ 235,978,714	\$ 245,799,339	\$ 9,820,625	4.2%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.