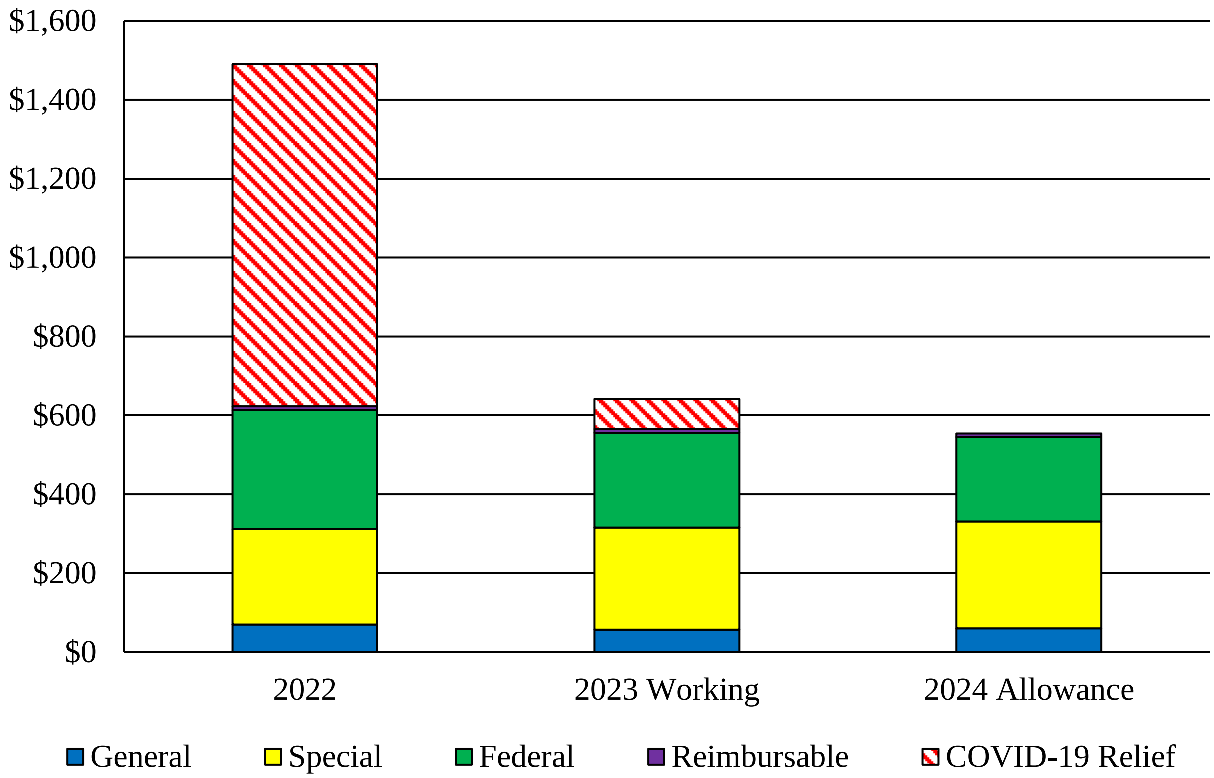
# P00
# Maryland Department of Labor

## *Executive Summary*

The Maryland Department of Labor (MDL) is responsible for administering workforce development, adult education, and unemployment insurance (UI) programs. The department also includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades.

## *Operating Budget Summary*

**Fiscal 2024 Budget Decreases $87.2 Million, or 13.6%, to $554.3 Million**
**($ in Millions)**




Note: COVID-19 relief funding consists of federal funds from the American Rescue Plan Act, including $830 million provided in fiscal 2022 to replenish the Unemployment Insurance Trust Fund. The fiscal 2023 working appropriation includes deficiency appropriations including this agency's share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

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- Excluding COVID-19 relief funding, the fiscal 2024 allowance decreases by $10.8 million, or 1.9%, compared to fiscal 2023 after accounting for deficiencies. The decrease is due to federal funds declining by $26.8 million, primarily from one-time funding in fiscal 2023 for the Maryland Works for Wind initiative. General funds increase by $3.5 million, or 6.2%, driven by a new mandate of $1.0 million for the Career Pathways for Health Care Workers program (Chapter 403 of 2022).

## *Key Observations*

- ***UI Administrative Costs Exceed Available Federal Funding:*** Although UI claims volume has returned to prepandemic levels, the department continues to contend with high levels of fraudulent activity. In fiscal 2022 and 2023, the federal funding provided by the U.S. Department of Labor (DOL) has been insufficient to cover the department's costs to administer the UI program, resulting in the use of $15.0 million in general funds in fiscal 2022 and $23.9 million in federal State Fiscal Recovery Funds from the American Rescue Plan Act (ARPA) in fiscal 2023. It is expected that the department will need additional supplemental funding, including an estimated $16.0 million to cover costs in federal fiscal 2023, although the amount of ongoing support that may be needed is unclear.

- ***Expanded Workforce Development Funding:*** In the fiscal 2022 and 2023 budgets, the State directed $75.0 million in federal State Fiscal Recovery Funds from the ARPA to supplement workforce programs administered by local workforce development boards. In fiscal 2023, $25.0 million in general funds was provided in the Dedicated Purpose Account (DPA) to expand apprenticeship programs.

- ***Family and Medical Leave Insurance (FAMLI) Lacks Implementation Funding:*** Chapter 48 of 2022 established the FAMLI Program to provide up to 12 weeks of paid leave to covered individuals. Governor Wes Moore recently released $10.0 million in general funds provided in the fiscal 2023 budget for initial program implementation, although no additional funding is included in the fiscal 2024 allowance.

### Operating Budget Recommended Actions

1. Add language restricting general funds until a report is submitted by the Office of Legislative Audits indicating that the Maryland Department of Labor has taken corrective action on repeat audit findings.

2. Add language restricting funds for the Electronic Licensing Modernization project until a report is submitted.

# *Operating Budget Analysis*

## Program Description

MDL administers employment service and adult learning programs and is also responsible for licensing and regulating various businesses, professions, and trades. In addition to administrative offices, which include the Governor's Workforce Development Board, the department contains the following divisions:

- **Workforce Development and Adult Learning** operates workforce development programs, including job services, the Workforce Innovation and Opportunity Act (WIOA), 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.

- **Unemployment Insurance** operates the 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 UI tax contributions from employers.

- **Labor and Industry** is responsible for safety inspections of boilers, elevators, amusement rides, and railroads. The division also enforces certain protective labor laws and administers the Maryland Occupational Safety and Health (MOSH) Act. The division's mission is to protect Maryland citizens' health, safety, and employment rights.

- **Occupational and Professional Licensing** includes boards and commissions that license, regulate, and monitor 26 different professions and trades. The division's mission is to ensure that regulated occupations and professions have practitioners that are competent and compliant with State laws, regulations, and standards.

- **Racing**, which houses the Maryland Racing Commission, regulates thoroughbred and harness racing tracks across the State. The division's responsibilities include assigning racing days, regulating wagering on races, collecting the wagering tax, licensing all racetrack employees, and operating a testing laboratory. The division also pays the salaries and stipends of all racetrack employees that are appointed by the Maryland Racing Commission.

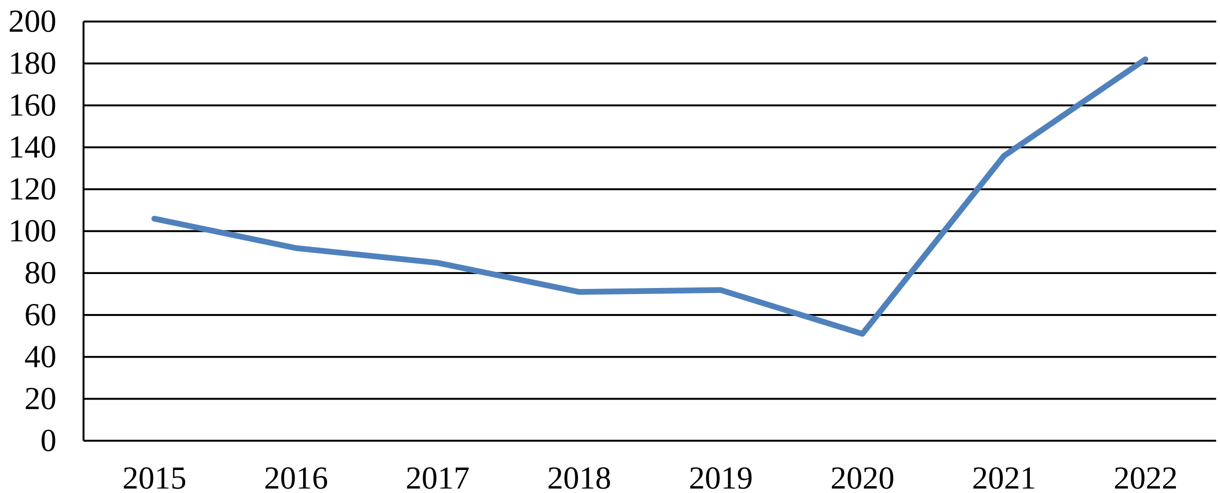
- **Financial Regulation** charters, licenses, registers, and regulates commercial banks; trust companies; credit unions; mortgage lenders, originators, brokers and servicers; collection agencies; and consumer loan companies, among other entities. Its mission is to ensure appropriate licensing, registration, and compliance with laws in order to maintain the safety and soundness of Maryland's financial services industry and protect financial services consumers.

## *Performance Analysis: Managing for Results*

### 1. Occupational Safety and Health Complaints Continued to Rise in 2022

The MOSH Act generally requires employers to provide each employee with employment and a place of employment that are safe and healthful and free from recognized hazards that cause or are likely to cause death or serious physical harm to the employee. MDL is responsible for administering the MOSH program, including investigating health and safety complaints. **Exhibit 1** shows the number of occupational health and safety complaints investigated by the department from fiscal 2015 to 2022. Complaints increased significantly in fiscal 2021 due to the COVID-19 pandemic and continued to increase in fiscal 2022. MDL attributes the increase in part to awareness of worker rights following a federal campaign to encourage workers to file complaints as well as increasing complaints in fiscal 2022 associated with many employees returning to the workplace.

**Exhibit 1**
**Occupational Safety and Health Complaints Investigated**
**Fiscal 2015-2022**




Source: Governor's Fiscal 2024 Budget Books

MDL indicates that the department does not have jurisdiction over complaints related to facial coverings, social distancing, or occupancy restrictions. MDL refers such complaints to local health departments, and these types of complaints are not reflected in Exhibit 1. MDL also does not collect data on the number of complaints referred to other entities. The COVID-19-related complaints that MDL did investigate typically involved other sanitation and respiratory protection issues, such as emergency department employees not wearing respirators while performing intubation. These complaints reflect only a small share of MOSH investigations annually, and investigating complaints takes precedence over conducting preventive inspections.

## Fiscal 2023

### Proposed Deficiencies

The fiscal 2024 budget includes several proposed deficiencies related to MDL programs for fiscal 2023:

- a withdrawal of $3.9 million in federal funds for the Office of Unemployment Insurance due to the lack of availability of federal funds to cover the costs of administering the UI program. The use of nontraditional fund sources for UI program administration is discussed further in Issue 1 of this analysis;

- $600,000 in general funds to support personnel costs for racetrack operations. This funding correctly captures salaries for racetrack employees that were previously not budgeted and also reflects an increase in the daily rate for veterinarians;

- $287,500 in special funds for travel costs in the Division of Financial Regulation in order to support the resumption of prepandemic levels of activity; and

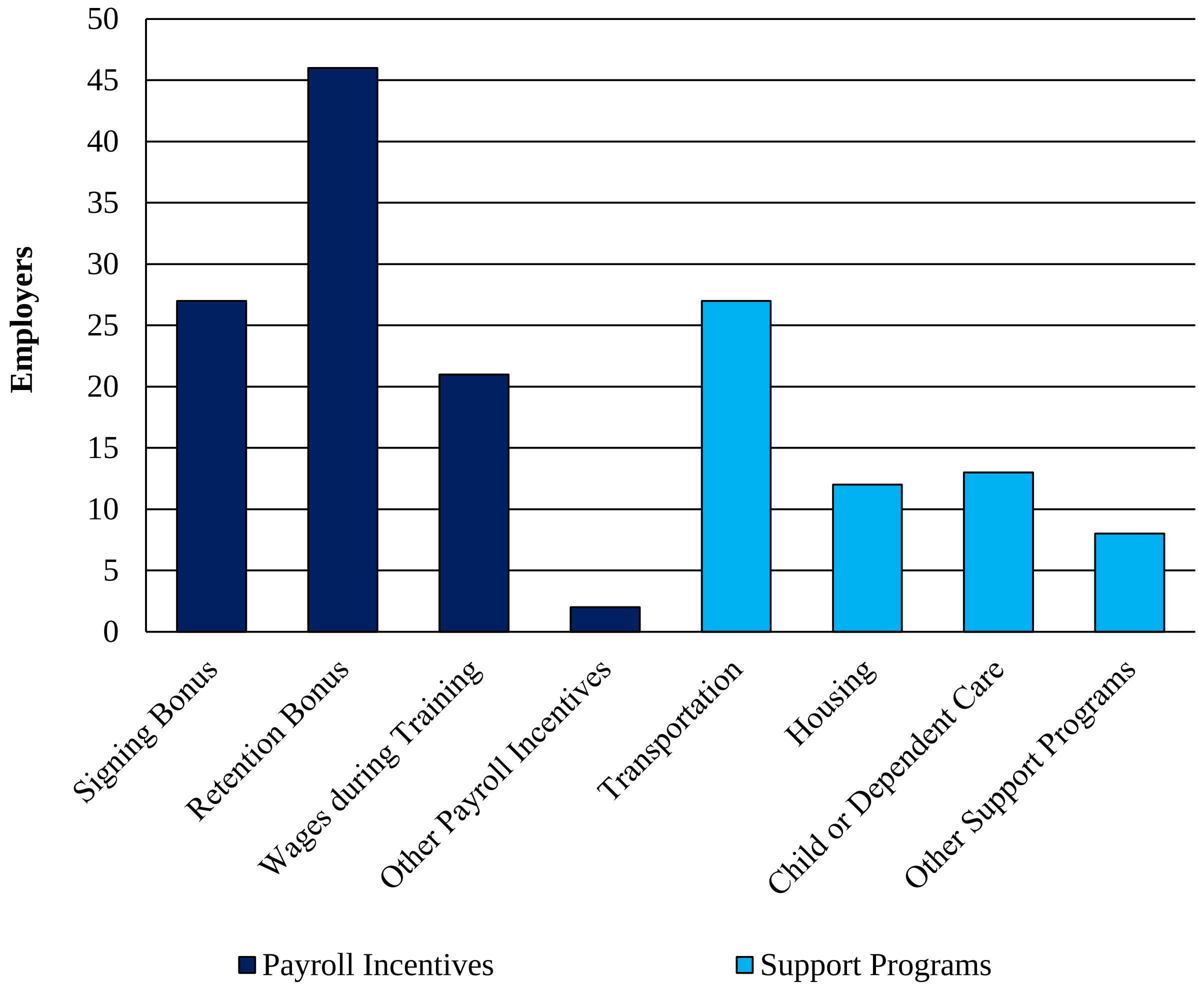
- two proposed deficiency appropriations with no net impact across the department to shift $762,262 in general funds from the Office of Workforce Development to the Governor's Workforce Development Board. These funds represent the first year of funding for the Career and Technical Education Committee and the Skills Standard Advisory Committee, created through the Blueprint for Maryland's Future.

### One-time Funding in Fiscal 2023

#### Jobs That Build

Governor Lawrence J. Hogan, Jr. announced the Jobs That Build Initiative in October 2022, with the goal of alleviating workforce shortages in the construction industry in the context of a tight job market and increasing State and federal spending on infrastructure projects. The initiative is funded in fiscal 2023 with $15.0 million in federal funds from the ARPA State Fiscal Recovery Fund. MDL used this funding to provide grants to Maryland-based employers engaged in infrastructure projects in the State for these employers to provide recruitment and retention incentives for employees. Eligible incentives included signing or retention bonuses as well as funding to support transportation, housing, or child care costs for employees. The maximum funding award per company depended on the company size but could be up to $500,000, with a maximum incentive of $10,000 per employee. As of early February 2023, MDL had awarded $13.6 million to 57 employers on a first-come, first-served basis, and the department expects to exhaust all available program funds soon. **Exhibit 2** shows the incentives these employers offered by type, benefitting more than 2,100 employees. There is no funding in the fiscal 2024 allowance to continue the program.

**Exhibit 2**
**Jobs That Build Incentives by Category**




Source: Maryland Department of Labor

### Maryland Works for Wind

In August 2022, MDL was awarded $23.0 million in federal funds from the U.S. Economic Development Administration (EDA) under the ARPA Good Jobs Challenge competitive grant program to use for the Maryland Works for Wind initiative. The initiative aims to work with industry leaders to provide training to develop the workforce for the offshore wind industry, focusing on individuals impacted by the pandemic as well as on individuals with barriers to employment such as formerly incarcerated individuals and other underserved populations. MDL expects to provide training for more than 4,000 individuals.

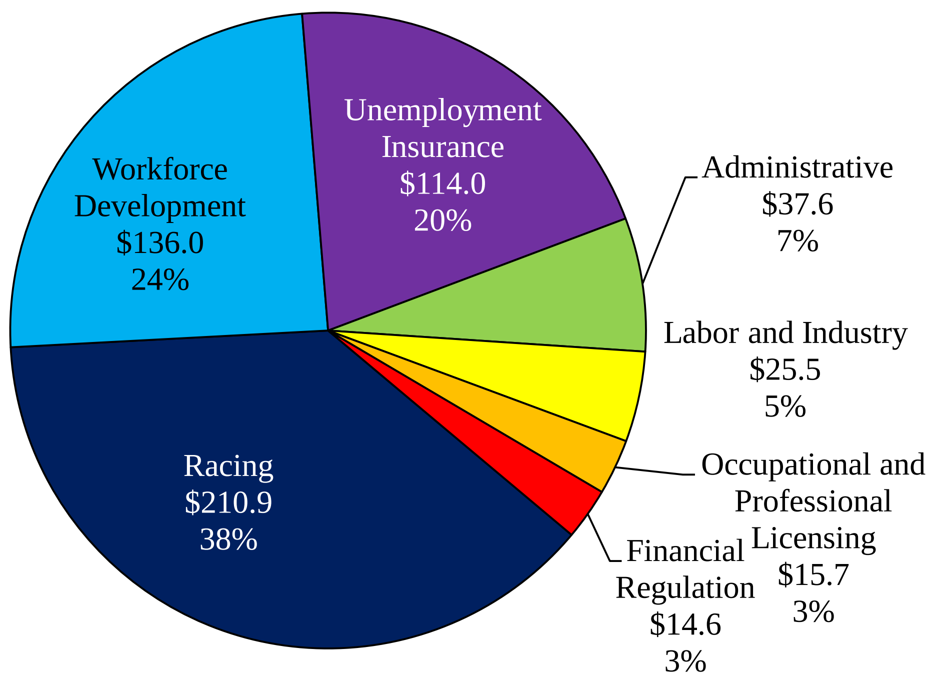
MDL and training providers are currently engaged in the program design phase of the initiative, with providers developing training curricula and lining up necessary technical expertise and supplies, and MDL developing related policies and providing technical assistance. MDL is also in the process of procuring welding and heavy equipment operator simulators to be used for training at six correctional institutions as well as contracting for a Global Wind Organisation training program to be offered on the Eastern Shore. MDL expects the implementation phase of the program to begin in July 2023 and last through September 2025.

The fiscal 2023 working appropriation includes $22.4 million in federal funds from the EDA award for the program, while the fiscal 2024 allowance includes the remaining $600,000. In addition to the federal funding, the Maryland Works for Wind initiative plans to leverage $30 million in other State and private funding, including $2.8 million from the Maryland Energy Administration’s Maryland Offshore Wind Workforce Grant Training Program, $8.0 million in Strategic Energy Investment Funds earmarked for Employment Advancement Right Now clean energy jobs initiatives (of which $3.5 million has been appropriated from fiscal 2021 through the fiscal 2024 allowance), $10 million in private funding from Danish energy company Ørsted, and an estimated $9 million from other public and private partners.

## Fiscal 2024 Overview of Agency Spending

The fiscal 2024 allowance totals $554.3 million. As shown in **Exhibit 3**, the Division of Racing accounts for 38% of the fiscal 2024 allowance. Most of the funding for this division is from gaming revenue, which is used for local impact aid for localities that house casinos or racetracks as well as for racetrack facility redevelopment and horse racing purses. Actual racing operations account for less than 1% of the overall fiscal 2024 allowance. Workforce development programs account for nearly a quarter of the budget, while 20% is for UI.

**Exhibit 3**
**Overview of Agency Spending**
**Fiscal 2024 Allowance**
**($ in Millions)**




Note: The fiscal 2024 allowance does not reflect salary enhancements that are budgeted in the Statewide Account within the Department of Budget and Management.

Source: Governor's Fiscal 2024 Budget Books

## Proposed Budget Change

As shown in **Exhibit 4**, the fiscal 2024 allowance decreases by $87.2 million compared to the fiscal 2023 working appropriation after accounting for proposed deficiency appropriations. This decrease is driven by federal funding provided in fiscal 2023 for workforce development boards ($37.5 million), the Maryland Works for Wind initiative ($21.8 million), UI program administration ($20.7 million), and the Jobs that Build program ($15.0 million). Special funds increase by $12.2 million, or 4.7%, mostly due to increases in video lottery terminal revenues for horse racing and local impact aid. General funds increase by $3.5 million, or 6.2%, driven by a new mandate of $1.0 million for the Career Pathways for Health Care Workers program.

**Exhibit 4**
**Proposed Budget**
**Maryland Department of Labor**
**($ in Thousands)**

| How Much It Grows: | General Fund | Special Fund | Federal Fund | Reimb. Fund | Total |
|---|---|---|---|---|---|
| Fiscal 2022 Actual | $69,851 | $241,843 | $1,169,389 | $9,272 | $1,490,355 |
| Fiscal 2023 Working Appropriation | 56,850 | 258,474 | 317,172 | 9,020 | 641,515 |
| Fiscal 2024 Allowance | 60,358 | 270,635 | 213,974 | 9,328 | 554,295 |
| Fiscal 2023-2024 Amount Change | $3,508 | $12,161 | -$103,198 | $309 | -$87,221 |
| Fiscal 2023-2024 Percent Change | 6.2% | 4.7% | -32.5% | 3.4% | -13.6% |

| Where It Goes: | Change |
|---|---|
| **Personnel Expenses** | |
| Employee and retiree health insurance | $5,803 |
| Turnover rate decreased from 7.9% to 5.0% | 2,584 |
| Annualization of November 2022 4.5% cost-of-living adjustment | 1,610 |
| Reclassifications to fund hiring at above-base salaries | 263 |
| Social Security contributions | 157 |
| Other fringe benefit adjustments | -100 |
| Salaries and wages | -1,405 |
| **Workforce Development** | |
| Career Pathways for Health Care Workers (Chapter 403 of 2022) mandated funding | 1,000 |
| Office supplies | 282 |
| Maryland New Start Grant Program (Chapter 485 of 2022) mandated funding | 200 |
| Federal funds for Trade Adjustment Assistance based on projected program activity | -1,000 |
| Funding for contractual positions, including reduction of 37.5 full-time equivalents | -1,358 |
| Workforce Innovation and Opportunity Act formula grants estimate | -4,374 |
| Apprenticeship funding transferred from Dedicated Purpose Account in fiscal 2023; $20 million remains available to transfer | -5,000 |
| One-time funding for Jobs That Build program in fiscal 2023 | -15,000 |
| Federal funding in fiscal 2023 for Maryland Works for Wind initiative | -21,772 |
| Remainder of ARPA funding for workforce boards appropriated in fiscal 2023 | -37,500 |
| **Unemployment Insurance** | |
| Funding for contractual positions | 3,301 |

| **Where It Goes:** | **Change** |
|---|---|
| UI information technology modernization project completed | -3,064 |
| Contract costs for Office of Unemployment Insurance | -25,365 |
| **Horse Racing, Based on BRE Estimates** | |
| Local jurisdictions' share of VLT and table games revenues | 6,929 |
| Purse Dedication Account | 3,900 |
| Racetrack Facility Renewal Account | 889 |
| Lottery revenue for Anne Arundel due to hold harmless provision (Chapter 692 of 2021) | -489 |
| **Other Changes** | |
| E-Licensing Modernization information technology project | 2,793 |
| Funding for contractual positions throughout the department, other than UI and workforce development | 593 |
| Department of Information Technology services allocation | 433 |
| Contract costs for Office of Occupational and Professional Licensing | 408 |
| Division of Financial Regulation cyber auditor contract | 282 |
| Maryland Occupational Safety and Health administrative hearings allocation | 183 |
| Software maintenance for the Safety Inspection Unit | 99 |
| Other changes | 78 |
| Contract costs for instructional supplies and tablets for correctional education | -191 |
| Maryland Small Business Retirement Savings Board one-time supplemental funding in fiscal 2023 | -250 |
| Rent | -2,139 |
| **Total** | **-$87,221** |

ARPA: American Rescue Plan Act
BRE: Board of Revenue Estimates
UI: unemployment insurance
VLT: video lottery terminal

Note: Numbers may not sum to total due to rounding. The fiscal 2023 working appropriation includes deficiency appropriations including this agency's share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

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## Electronic Licensing Modernization Project

The fiscal 2024 allowance includes $2.8 million in special funds to modernize the licensing system used by the Division of Occupational and Professional Licensing to manage the intake, tracking, and processing of applications and licenses. This funding represents the division's second attempt to complete the project after funding was initially provided beginning in fiscal 2019. The project experienced several setbacks, and the selected contractor ultimately declared bankruptcy in March 2022.

Fiscal 2023 funding of $2.0 million is expected to be provided using funds MDL had transferred to the Department of Information Technology (DoIT) for the first modernization attempt under a June 2019 memorandum of understanding, although this funding has not yet been added to MDL's budget. MDL identified sufficient funding as a high risk for the Electronic Licensing Modernization (ELMo) project, given that $1.1 million of the $4.0 million in MDL funds originally set aside for the project were expended in the first attempt.

Estimates of the project cost are also uncertain, with MDL anticipating completing the project within the previous $6.0 million estimate, while the Department of Budget and Management (DBM) plans $9.3 million for the project through fiscal 2026. Funding for the project is provided from available revenues and fund balance from various occupational licensing boards and commissions, of which $2.9 million remains available from the previous attempt. The fiscal 2022 closing balances of the division's special funds total $2.0 million. **MDL should comment on the overall costs of the project, the reason for the discrepancy in cost estimates, and how the project would be completed if licensing board revenues and fund balances are insufficient to cover project costs.**

MDL advises that the department plans to contract with a vendor that has significant experience implementing similar occupational licensing systems that can be customized to fit MDL's needs, in order to avoid repeating mistakes from the last modernization attempt. MDL, in consultation with DoIT, has identified multiple vendors with the relevant expertise and plans to engage one through an existing DoIT statewide contract without issuing a competitive procurement.

Although MDL seeks to avoid the pitfalls of the prior attempt, a project plan has not yet been established. MDL plans to onboard a project manager to oversee the project once a vendor is selected. **The Department of Legislative Services (DLS) recommends restricting funding for the project until MDL provides a report documenting the steps taken by the department to ensure the project's success, including details on the program requirements and intended capabilities of the system, the vendor selection process, a breakdown of project costs, and an implementation plan and timeline.**

Additional details related to the ELMo project are included in **Appendix 7**.

## *Personnel Data*

| | FY 22 Actual | FY 23 Working | FY 24 Allowance | FY 23-24 Change |
|---|---|---|---|---|
| Regular Positions | 1,355.17 | 1,340.17 | 1,340.57 | 0.40 |
| Contractual FTEs | 278.82 | 455.61 | 286.08 | -169.53 |
| **Total Personnel** | **1,633.99** | **1,795.78** | **1,626.65** | **-169.13** |

***Vacancy Data: Regular Positions***

| | | |
|---|---|---|
| Turnover and Necessary Vacancies, Excluding New Positions | 68.50 | 5.11% |
| Positions and Percentage Vacant as of 12/31/22 | 165.90 | 12.38% |
| Vacancies Above Turnover | 97.40 | |

- From the end of calendar 2021 to the end of calendar 2022, the department's vacancy rate increased from 9.5% to 12.4%. The largest increases in vacancies occurred in the Office of Unemployment Insurance (increasing from 6% to 14%), the Office of Workforce Development (increasing from 7% to 13%), and the MOSH program (increasing from 18% to 28%). More than half of MDL's vacancies have been open for 6 months or fewer, while nearly a quarter are long-term vacancies exceeding 12 months.

- MDL indicates that MOSH inspectors are often recruited by federal agencies, contractors, and the Maryland Department of Transportation (MDOT). In order to improve retention, MDL created a new classification in fiscal 2023 to extend the career pathway for MOSH inspectors to a higher grade. The fiscal 2023 budget also included funding for annual salary review adjustments for MOSH officers. MDL hires for MOSH inspectors in groups that undergo intensive training for the first two years, and MDL is currently engaged in recruitment for the 2023 class.

- There is a net decrease of nearly 170 contractual full-time equivalents (FTE) across the department, with the largest decreases in the Office of Unemployment Insurance (131 FTEs), the Division of Workforce Development and Adult Learning (38 FTEs), and Racetrack Operations (15 FTEs), offset by increases in Executive Direction (7 FTEs) and the Governor's Workforce Development Board (8 FTEs). MDL attributes the declines to the conversion of contractual staff to open regular positions as well as to declining UI claims following pandemic highs. The increases are for additional communications, policy, and legislative support and for the Career and Technical Education Committee, created through the Blueprint for Maryland's Future.

# *Issues*

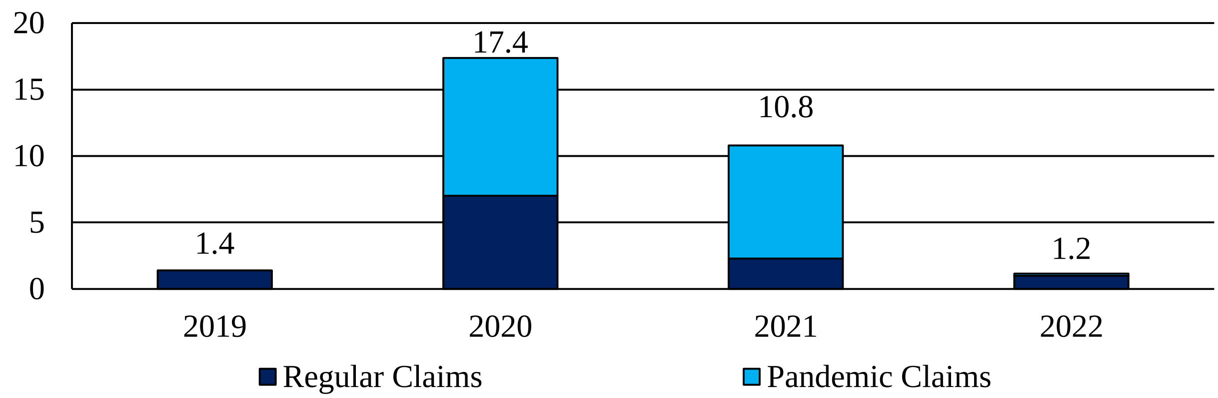
## 1. Unemployment Insurance

Since the beginning of the COVID-19 pandemic, the volume of UI claims, including both regular and federal pandemic UI programs, has exceeded the level that MDL can handle with existing resources. As a result, the department has contracted with several outside providers for call center staff augmentation, claims adjudication, fraud prevention, and other services. Federal pandemic UI programs created through COVID-19 relief legislation ended in September 2021, and regular UI claims have decreased to a level consistent with the experience prior to the pandemic. However, MDL continues to struggle in meeting established timeliness standards, and administrative costs for the UI program remain elevated as the department continues to deal with increased levels of fraudulent activity. Administrative costs for the UI program now significantly exceed the amount of available funding provided by DOL.

### Claims Volume Decreases but Processing and Appeals Backlogs Remain

As shown in **Exhibit 5**, MDL handled an unprecedented volume of claims during the COVID-19 pandemic, due both to regular claims as well as the major expansion in eligibility from the newly created federal pandemic UI programs. Following the end of the pandemic programs in September 2021 and as the economy improved and more people returned to work, claims volume declined and returned to a level consistent with prepandemic levels.

**Exhibit 5**
**Unemployment Insurance Continued Claims Volume**
**Calendar 2019-2022**
**(In Millions)**

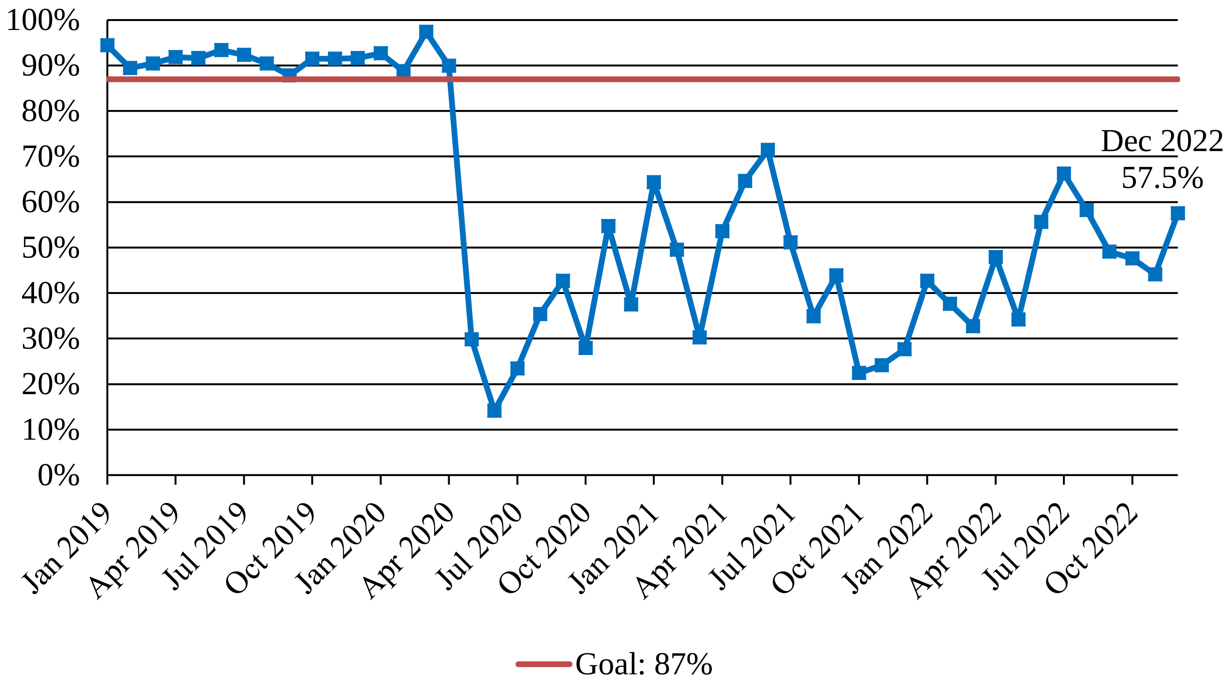



Note: Continued claims in the pandemic programs extend beyond the end of those programs in September 2021 due to the timing of when the claims were processed.

Source: U.S. Department of Labor

Given the high volume of claims during the pandemic, MDL struggled to pay benefits to claimants in a timely manner. DOL has set a timeliness standard that 87% of claimants receive benefits within three weeks of filing an initial claim. As shown in **Exhibit 6**, MDL has historically achieved this goal but has fallen far short since the beginning of the pandemic because of the overwhelming number of claims filed. MDL continues to perform well below prior levels despite lower claims volume and the end of federal programs, with fewer than 60% of initial claims paid within 21 days in each month since August 2022. MDL contends that the DOL timeliness data is not reflective of how quickly MDL makes initial determinations on claims, because, for example, if an individual was initially denied within the three-week timeframe but later won an appeal, this individual would not count in the DOL data as receiving a first payment within three weeks. MDL provided data instead on the percentage of claims for which an appealable determination is made within 21 days, with a goal of 92%. MDL began tracking this data in June 2022, and based on this measure, MDL has also not achieved the goal of 92% since October 2022.

**Exhibit 6**
**Unemployment Insurance Claims Paid within 21 Days of Initial Claim**
**Calendar 2019-2022**

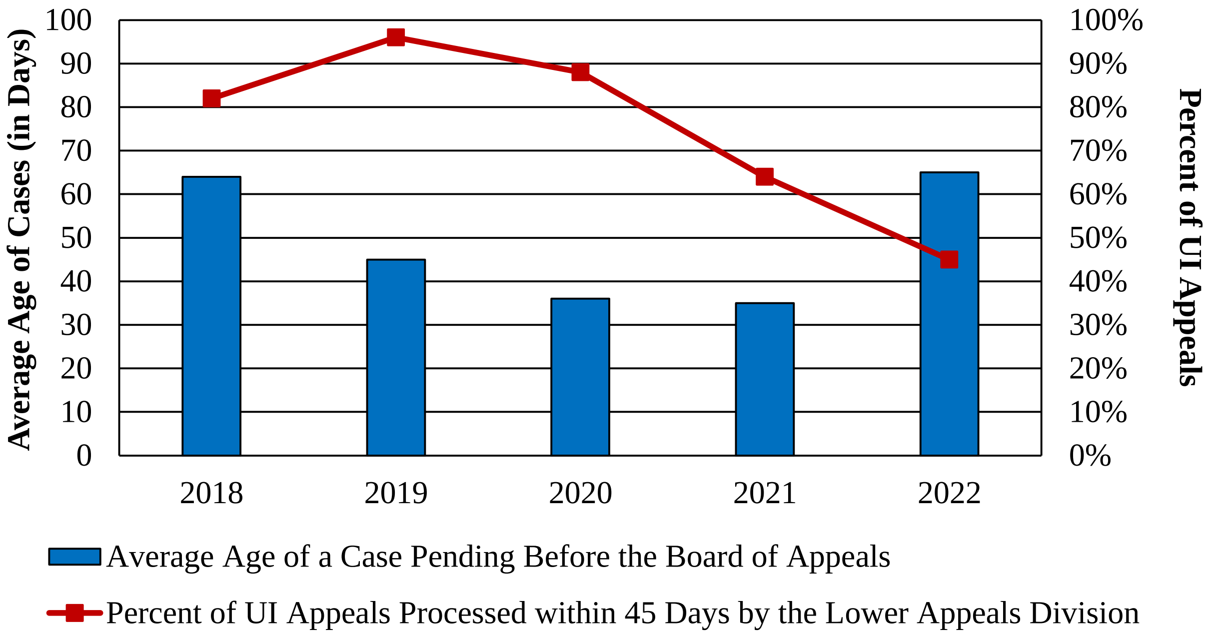



Note: This data is for regular unemployment insurance claims only. Neither the U.S. Department of Labor nor the Maryland Department of Labor report timeliness data for the federal COVID-19 unemployment insurance programs.

Source: U.S. Department of Labor

The timeline to process appeals has also lagged behind established targets. The industry standard is for an appeal to be processed by the Lower Appeals Division (LAD) within 45 days. In the case that a claimant is not satisfied with the decision of LAD, they may request an appeal from the Board of Appeals that has a processing time goal of 40 days. **Exhibit 7** shows that while the Board of Appeals was generally handling appeals cases within the 40-day timeframe in fiscal 2020 and 2021, the appeals backlog grew in fiscal 2022, with an average pending case age of 65 days. In addition, LAD only processed 45% of appeals cases within its 45-day target in fiscal 2022, down from 88% in fiscal 2020 and 64% in fiscal 2021. MDL indicates that progress in clearing the case backlog is ongoing, with overtime approved for LAD and Board of Appeals staff and additional hearings conducted on weekends and evenings.

**Exhibit 7**
**Case Processing Time for the Lower Appeals Division and Board of Appeals**
**Fiscal 2018-2022**




UI: unemployment insurance

Source: Governor's Fiscal 2024 Budget Books

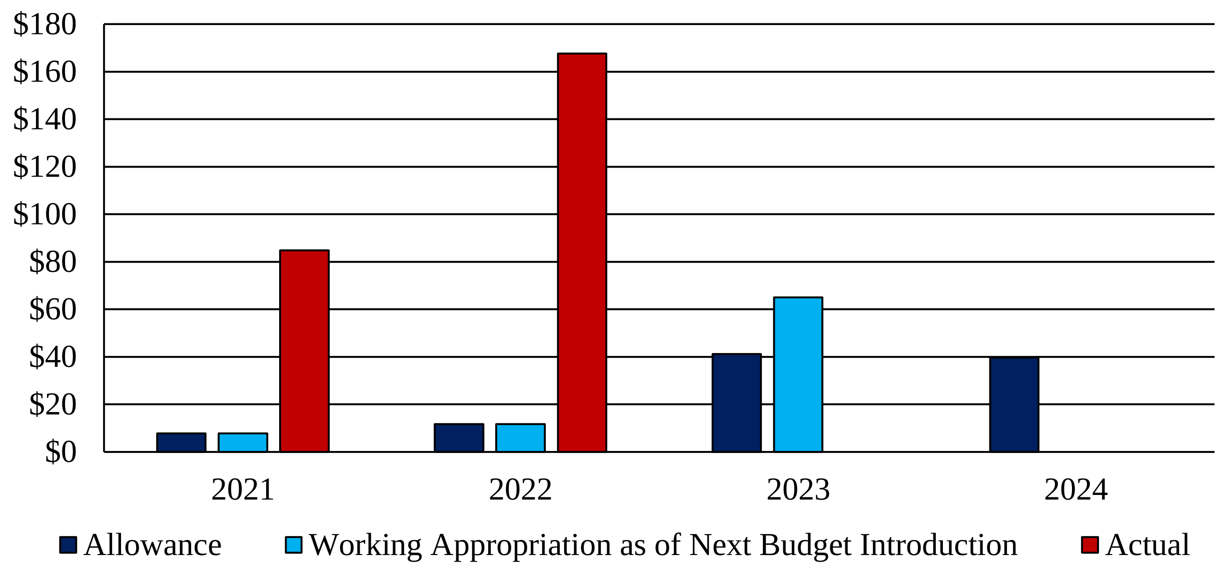
## Fraudulent Activity

Although overall claims volume has returned to prepandemic levels, the level of fraudulent activity remains elevated. MDL indicates that of all initial claims filed in calendar 2022, 36% were determined to be fraudulent. The investigation of potentially fraudulent claims places a burden on staff time, with MDL estimating that once flagged, investigating a claim for fraud takes at least half an hour on average. DOL awarded $12.3 million in one-time supplemental funding to MDL for fraud prevention efforts, and MDL has contracted with LexisNexis Risk Solutions to provide identity verification services and combat fraud. The contract totals $7.3 million, covering the period from May 2021 to May 2023, and MDL expects to extend the contract by one year before issuing a new request for proposals.

## Contracts and Staffing

In order to handle the claims volume during the pandemic, MDL contracted with several vendors for UI call center staffing, adjudicating claims, and dealing with increased fraud. Funding for contracts for the Office of Unemployment Insurance declines by $25.4 million from the fiscal 2023 working appropriation to a total of $39.7 million in the fiscal 2024 allowance. This is primarily due to $23.9 million in ARPA funds that are reflected in the fiscal 2023 appropriation but provided to cover prior-year contract costs (discussed further under the Supplemental Funding Needs heading). However, as shown in **Exhibit 8**, the working appropriation and allowance have not accurately reflected the UI program's contract costs in recent years. MDL has explained that contract costs are generally expected to decrease along with claims volume, and MDL estimates approximately $30 million in combined contract costs in each of fiscal 2023 and 2024 for the call center staffing, fraud prevention, and call center technology system vendors.

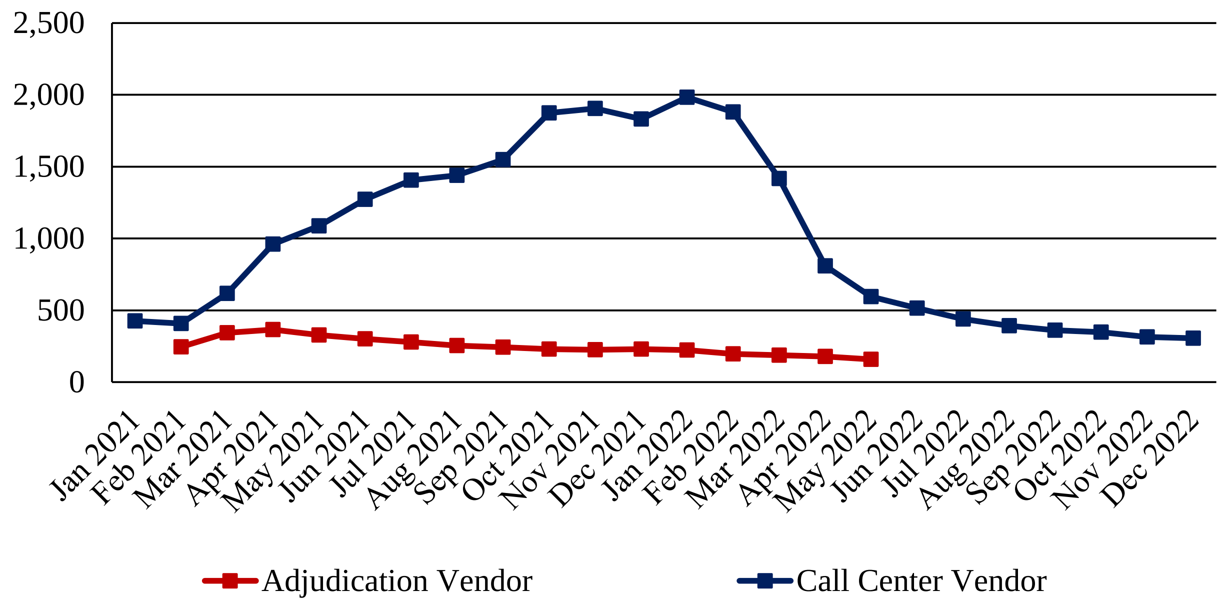
**Exhibit 8**
**Contract Costs for the Office of Unemployment Insurance**
**Fiscal 2021-2024**
**($ in Millions)**




Source: Governor's Fiscal 2021 to 2024 Budget Books

MDL's reliance on vendor contracts for call center staffing and claims adjudication has decreased significantly. **Exhibit 9** shows the staff resources utilized through these contracts over time, which peaked in January 2022 at a total of more than 2,200 vendor staff. As of December 2022, MDL was using 307 staff through its call center contract. MDL's contract for claims adjudication services ended in May 2022. As of January 2023, MDL reported 324 filled regular staff positions in the Office of Unemployment Insurance, which represents a vacancy rate of 14%. The fiscal 2024 allowance also includes 101 contractual FTEs in the Office of Unemployment Insurance.

**Exhibit 9**
**Unemployment Insurance Vendor Staffing**
**Calendar 2021-2022**




Source: Maryland Department of Labor

MDL plans to continue to use a mix of regular, contractual, and vendor staff to administer the UI program. The current contract with the call center vendor is in place through December 2023, and MDL is in the process of developing a new procurement for ongoing call center support that will allow the department to flexibly add staff capacity in the case of a future surge in demand.

MDL is also reviewing proposals for a new omni-channel contact center system to manage call center interactions and integrate with other UI information systems, with a goal of implementing the first phase of the new system by July 2023. Additional details on this major information technology (IT) project can be found in **Appendix 6**.

## Supplemental Funding Needs

The cost of administering the State's UI program is typically federally funded, with allocations from DOL provided based on claims volume. However, the federal funding provided by DOL has been insufficient to cover the department's costs in recent years. MDL used $15.0 million in general funds for UI administration in fiscal 2022, and the fiscal 2023 working appropriation also includes $23.9 million in federal ARPA State Fiscal Recovery Funds to cover the DOL funding shortfall in federal fiscal 2022. MDL estimates that an additional $16.0 million will be needed to cover the federal fiscal 2023 shortfall. DBM has set aside a further $26.1 million in ARPA funds for UI administration in case it is needed, although this funding has not yet been added to MDL's budget. The fiscal 2024 allowance does not reflect any potential additional needs. The extent to which ongoing supplemental funding will be required is unclear.

**MDL should comment on the anticipated need for continued State support to fund UI administrative costs in fiscal 2023, 2024, and coming years.**

## Issues Identified in Audits

The Office of Legislative Audits (OLA) released two audits related to the UI program in calendar 2022: one related to employer contributions (findings listed in **Appendix 3**); and one related to benefits payments (findings listed in **Appendix 4**). The audit related to employer contributions found that MDL did not adequately verify that tax collections reconciled with employer accounts or were properly recorded and that MDL did not have formal policies for pursuing the collection of delinquent employer accounts, among other findings. The audit related to benefits payments also identified several issues, including:

- lack of comprehensive procedures to identify potentially fraudulent payments, including not comprehensively verifying eligibility of individuals using foreign Internet Protocol (IP) addresses to file claims and not conducting regular matches to verify that recipients were not incarcerated, deceased, or active State employees;

- lack of procedures to detect and prevent duplicate benefit payments, including the BEACON IT system allowing for multiple weekly certifications for the same benefit week as well as allowing for filing for both regular and pandemic claims in the same benefit week; and

- lack of adequate review and oversight, particularly of vendor staff, including no procedures in place to verify the propriety of manual staff and vendor adjustments to claimant income based on documentation review, and not conducting supervisory reviews of claims and adjudications processed by claims center and vendor staff. The issue of adjudication reviews not being consistently performed predated the pandemic period.

According to MDL, many of the issues identified were due to inadequacies of the BEACON system, which was implemented during the audit period. The auditors acknowledged that the system vendor was responsive to requests for additional capabilities and was able to make changes once auditors identified system deficiencies.

**Due to the number of repeat audit findings contained in the benefits payments audit issued by OLA as well as the nature of the findings, DLS recommends adding budget bill language restricting funds in MDL until OLA submits a report indicating that corrective action has been taken to satisfactorily address the repeat findings contained in the audit report.**

## 2. Apprenticeships

Apprenticeship programs have garnered attention in recent years as a way to alleviate workforce challenges and serve the needs of a diverse set of employers and workers, and funding for Maryland's registered apprenticeship programs has increased significantly. MDL is responsible for approving new apprenticeship programs as well as changes to current programs and ensuring compliance with State and federal requirements. Apprenticeships are available to individuals aged 16 and older and may last from one to six years, although most are three to four years, and involve a minimum of 144 hours of classroom instruction per year and at least 2,000 hours per year of on-the-job training.

### Expanded Funding

The fiscal 2023 budget included $25.0 million in general funds in the DPA to be expended over multiple years to support the expansion of apprenticeship programs. A December 2022 budget amendment transferred the first $5.0 million of this funding from the DPA to MDL for the department to initiate programs that support a growing pool of employers sponsoring apprenticeships, increase occupational and demographic diversity among apprentices, and improve engagement with educational institutions at both the high school and postsecondary levels. **Exhibit 10** shows the department's detailed proposal for using this $5.0 million in support of these goals. Legislation introduced in the 2023 session, SB 104 and SB 413, would establish an Apprenticeship 2030 Commission to study and make recommendations on the expansion of apprenticeship programs, and, if enacted, the recommendations of this commission could also guide the use of this expanded funding.

**Exhibit 10**
## Proposed Initiatives for Registered Apprenticeship Programs

| Program | Purpose | Funding |
|---|---|---|
| Apprenticeship Sponsor Development Fund | Fund full-time apprenticeship coordinators for registered apprenticeship sponsors. | $2 million (20 awards times $100,000 per award) |
| Related Instruction Reimbursement Program Expansion | Supplement existing federal funding to defray registration costs for sponsors, training for applicants, and support services for underrepresented apprentices with high barriers to entry. | $1 million ($2,500 per apprentice times 400 apprentices) |
| School-to-Apprenticeship Pathway Grant Expansion | Support paid apprenticeships for high school students; fund capacity expansion with prioritization for programs linked to local schools and CTE programs. | $800,000 ($4,000 per apprentice times 200 apprentices) |
| Degree Apprenticeship Pathway Grant | Reimburse postsecondary institutions for apprenticeship program administration and tuition/fee reimbursements for participating students; intended to incentivize community colleges and universities to align degree requirements with apprenticeship instruction. | ~$1 million (Awards to 10 institutions, providing $6,000 to $12,000 per apprentice) |
| Apprenticeship DEI Initiative Pilot: Childcare | Provide seed money to create group child care for well-established building trade apprenticeship programs to attract more underrepresented groups (women, young families, and single parents). | ~$300,000 (1 or 2 awards times $150,000 each) |

CTE: Career and Technical Education
DEI: diversity, equity, and inclusion

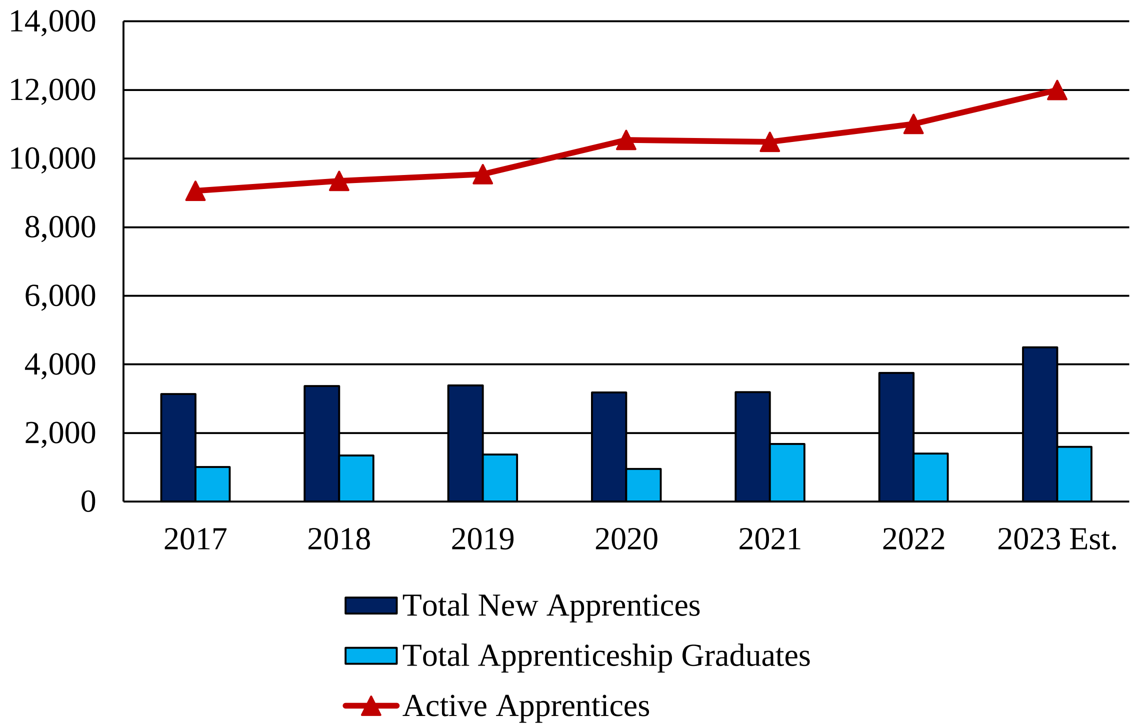
Source: Maryland Department of Labor

The $25.0 million from the DPA represents a significant expansion of funding for apprenticeship initiatives. Excluding any funds that may be transferred from the DPA, the fiscal 2024 allowance for apprenticeship programs totals $4.6 million, including $1.9 million in federal funds to support the expansion of State apprenticeship programs, $1.0 million in general funds for the apprenticeship income tax credit, $750,000 in general funds for a law enforcement cadet apprenticeship program, and $400,000 in special funds from the State Apprenticeship Training Fund for grants for pre-apprenticeship programs.

## Growth in Active Apprentices

As shown in **Exhibit 11**, prior to the expansion of State funding, the number of active apprentices had already been growing steadily in recent years and surpassed 11,000 in fiscal 2022. This growth is due in part to the expansion of the careers in which apprenticeships can be obtained beyond traditional construction trades.

**Exhibit 11**
**Participation in Registered Apprenticeship Programs**
**Fiscal 2017-2023 Est.**




Source: Governor's Fiscal 2024 Budget Books

## Public Sector Apprenticeship Workgroups

Committee narrative in the 2022 *Joint Chairmen's Report* (JCR) requested that MDL establish three workgroups on public sector apprenticeships at the State and local level, focusing on the health care, transportation, and public safety sectors. Each workgroup was tasked with (1) identifying the extent of public sector vacancies in each sector; (2) reviewing related apprenticeship programs in other states or internationally; and (3) identifying apprenticeship opportunities in jobs with the greatest barriers to recruitment and training, including opportunities for degree apprenticeship programs and high school apprenticeship programs. Each workgroup submitted an interim report in December 2022 detailing its progress on these issues, with final reports due in June 2023. Analysis and recommendations from the interim reports are summarized as follows:

- ***Health Care:*** The workgroup examined vacancies and apprenticeship opportunities for occupations including nursing assistants, licensed and registered nurses, and community health workers, although other occupations such as behavioral health professionals may be topics for future sessions. There are currently two registered apprenticeship programs in Maryland for community health workers with 16 active apprentices as well as one existing apprenticeship program for licensed practical nurses offered through the Baltimore Alliance for Careers in Healthcare. Certified Nursing Assistant was previously approved in Maryland as an apprenticeable occupation, although there are currently no active apprenticeship programs. The workgroup also heard a case study of a new registered nurse (RN) apprenticeship program in Alabama, which was created out of the flexibilities allowed for student nurses during the COVID-19 emergency. Lastly, the report offered three potential models for growing healthcare apprenticeships in Maryland: (1) scale existing apprenticeships through the formation of Joint Apprenticeship and Training Committees and/or through leveraging high school Career and Technical Education programs; (2) develop degree apprenticeship programs, such as a pathway for nurses working as RNs to pursue a Bachelor's of Science in Nursing; and (3) cultivate a model of apprenticeship led by the Maryland Department of Health as sponsor and employer.

- ***Transportation:*** The workgroup identified all classifications across MDOT units with a vacancy rate exceeding 25% as of October 2022, with the highest vacancy rate noted as 66% for the Maryland Port Administration's (MPA) Electro-Mechanical Crane Tech classification. Several apprenticeship programs have been in development across MDOT, including a Maryland Transit Authority program for bus maintenance that is planned to launch by the end of calendar 2023, a cybersecurity apprenticeship program in the Transportation Secretary's Office, and a program within MPA for the Heavy Equipment Maintenance Technician classification. This last program has been put on hold because of a lack of available mentors due to high turnover. The report highlighted MDOT's suitability for the expansion of apprenticeship programs due to its high demand for skilled trades, centralized classification and compensation system independent from DBM, and existing capacity for in-house training.

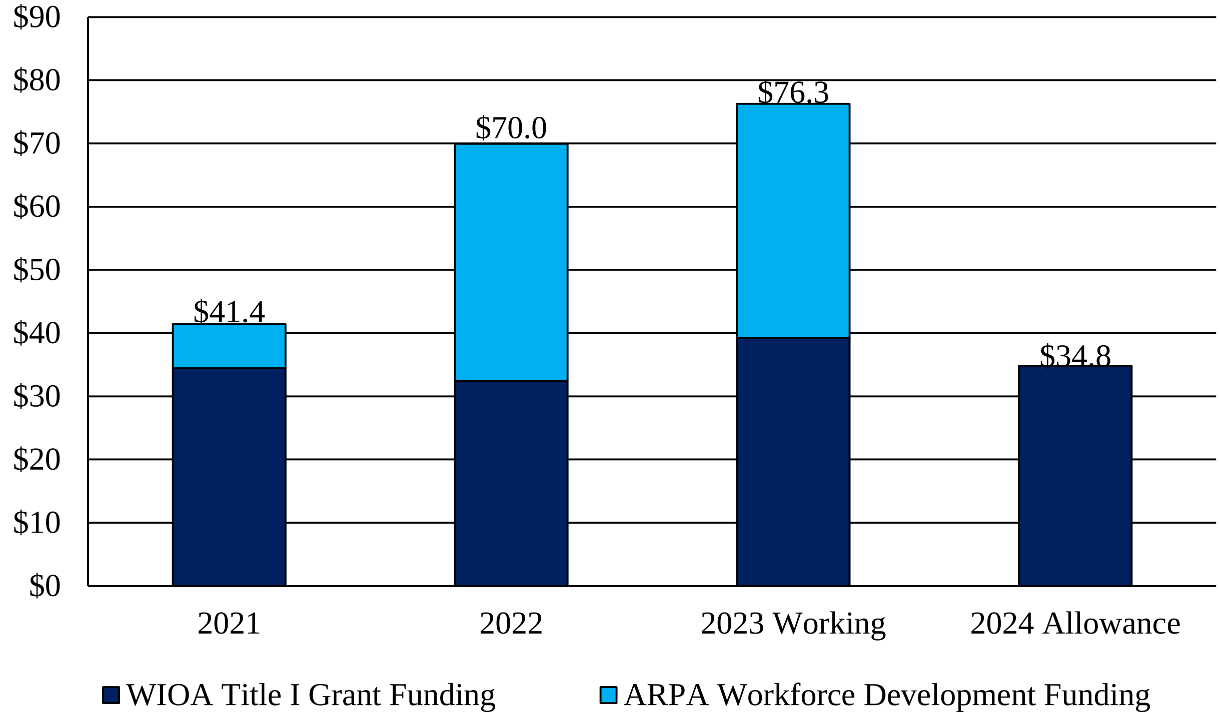
- ***Public Safety:*** The workgroup analyzed vacancies and training and recruitment processes for correctional officers (CO), police officers, and community supervision officers. The report identified two active cadet apprenticeship programs in Maryland, one in Baltimore City and one in Baltimore County. In addition, a California case study noted that apprenticeships are a statutorily mandated training model for COs. Finally, the report set out three potential models for apprenticeship in public safety occupations: (1) programs sponsored by individual State and local departments; (2) a joint committee of multiple employers, training providers, and labor organizations; or (3) a statewide commission to create a shared pool of resources and standardized training.

The JCR further requested that the University System of Maryland (USM) collaborate with MDL and other educational institutions to report on the feasibility of creating degree apprenticeship programs for students starting in high school and any changes in law, college policies, and resource allocations that would be required to develop two pilot programs in fiscal 2024. USM identified potential benefits of degree apprenticeship programs, including wages and employee rights and protections for participating students during schooling, the availability of funding to defray the costs of tuition, and reducing turnover for participating employers. USM formed two subcommittees focused on teacher apprenticeship and nursing apprenticeship. The teacher apprenticeship subcommittee recommended exploring several models for teacher apprenticeships through conducting a survey of teacher education pathways, incentivizing collaboration between local school systems and higher education, and creating pilots using each model. The nursing apprenticeship subcommittee noted that a pilot program is underway by the University of Maryland School of Nursing in partnership with the University of Maryland Medical System, under which nursing students work alongside and are mentored by staff nurses, although the program would be difficult to replicate at scale. In general, employer support for training costs would reduce the barriers for nurses to upgrade their certifications. The USM-led workgroup and degree apprenticeships are discussed further in the budget analysis for Higher Education Overview – HIGHED.

## 3. ARPA Funding for Workforce Development

The federal WIOA Title I programs represent the largest source of funding for MDL's workforce development programs, and the State significantly expanded upon these programs in recent years through the allocation of additional federal funds available through the ARPA State Fiscal Recovery Fund, as shown in **Exhibit 12**. Chapter 39 of 2021 (RELIEF Act) provided $7 million in ARPA funds for workforce development in fiscal 2021, and the fiscal 2022 and 2023 budgets each provided $37.5 million to supplement regular WIOA program funding. All of the fiscal 2022 funding was distributed to local workforce areas (LWA) according to the same formula as WIOA adult program funds, while language in the fiscal 2023 Budget Bill restricted $430,000 to be retained by MDL for oversight purposes with the remainder distributed to LWAs. In total, $76.3 million is included in the fiscal 2023 working appropriation for WIOA and ARPA workforce grant funding, while $34.8 million is included in the fiscal 2024 allowance. **Appendix 8** details the ARPA funding provided to each LWA.

**Exhibit 12**
**Workforce Development Funding**
**Fiscal 2021-2024**
**($ in Millions)**




ARPA: American Rescue Plan Act
WIOA: Workforce Innovation and Opportunity Act

Source: Maryland Department of Labor

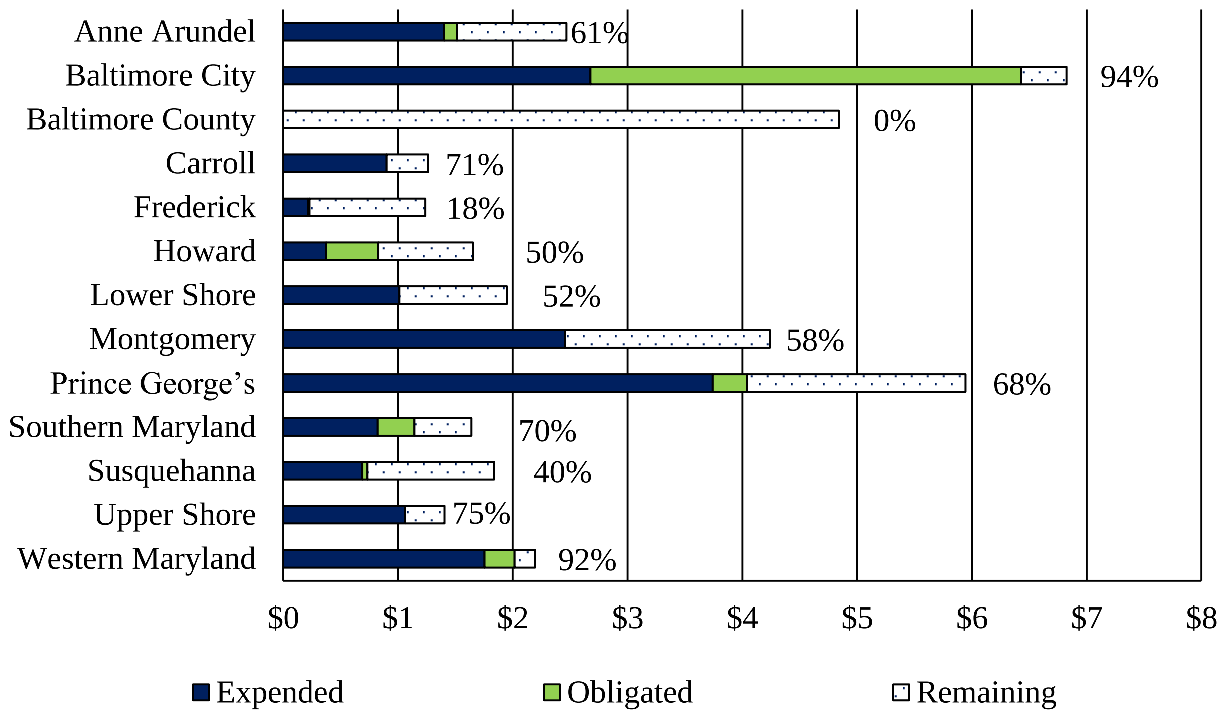
WIOA Title I includes three formula-funded programs: Adult; Youth; and Dislocated Worker. All three programs offer similar services but to different target populations. The WIOA Title I funds for all three programs are primarily distributed to the State's 13 LWAs based on formulas that take into account each area's shares of unemployed and economically disadvantaged individuals. LWAs use the funding to provide basic career services, such as job search assistance; individualized career services, such as development of an individual employment plan or short-term training in interviewing skills; and more substantial training services through eligible providers, such as community colleges or apprenticeship programs. WIOA career services are available to all adults with priority for low-income adults. MDL also seeks to prioritize individuals with barriers to employment through targeted outreach as well as pilot programs focused on specific populations, including recent immigrants, youth aging out of foster care, or homeless job seekers.

## Use of Supplementary ARPA Funds

Each LWA submitted plans to MDL detailing how the supplemental ARPA funds would be used. In general, there are fewer restrictions on the use of ARPA funds compared to regular funding through the WIOA. In addition to using the funds to provide training, job search assistance, and supportive services, many jurisdictions elected to spend funds from the RELIEF Act on one-time investments such as mobile career centers or on uses not supported by regular WIOA funding. For example, Howard County noted in its plan that RELIEF Act funds would be used to serve customers that do not meet WIOA eligibility criteria but are still in need, such as the asset-limited, income-constrained, employed (ALICE) population, and multiple LWAs noted the opportunity to offer training outside the regular WIOA training system in in-demand skills such as welding, coding, and biotechnology. LWAs are directing funding to serve populations disproportionately impacted by the pandemic, such as low-income households and individuals that lost jobs due to pandemic closures; to support pandemic-impacted small businesses through wage subsidies; and to provide training in impacted or high-growth sectors such as health care, biotechnology, and IT. Several LWAs are also using ARPA funds to provide digital literacy training.

MDL reviews quarterly programmatic and fiscal reports submitted by each LWA. **Exhibit 13** shows the progress each LWA has made in expending funds from its fiscal 2022 ARPA award as of December 2022. The exhibit also shows the percentage of funds obligated by each LWA. Overall, LWAs have expended $17.1 million, or 46%, of the $37.5 million available in fiscal 2022 and committed a further $5.3 million for an overall obligation rate of 60%. LWAs have until June 2026 to expend these funds.

**Exhibit 13**
**ARPA Workforce Development Expenditures by Local Workforce Area**
**As of December 2022**
**($ in Millions)**




ARPA: American Rescue Plan Act

Note: Data only reported through November 2022 for Baltimore City and through September 2022 for Southern Maryland.

Source: Maryland Department of Labor

Several LWAs have fully expended their earlier RELIEF Act grants, and 88% of the RELIEF Act funds have been obligated. Obligation rates for the fiscal 2022 ARPA award range from 0% in Baltimore County (although the county has expended 99% of its earlier RELIEF Act award) to 94% in Baltimore City. Low obligation rates are not necessarily a concern, as LWAs may choose to take time setting up new programs that take advantage of the one-time flexible funding. MDL is providing technical assistance to the LWAs in administering the additional funding and reports that the LWAs are generally capable of managing the significant expansion of funds. However, at least two LWAs (the Carroll County and Howard County LWAs) identified difficulties in hiring staff as a barrier to program implementation, although these challenges stem at least in part from the recent division of these two LWAs from the former unified Mid-Maryland LWA in July 2021.

## 4. Family and Medical Leave Insurance Implementation

Chapter 48 established the FAMLI program, which will provide up to 12 weeks of benefits to a covered individual who is taking leave from employment due to caring for certain family members, the individual's own serious health condition, or a qualifying exigency arising out of a family member's military deployment. The weekly benefit is based on an individual's average weekly wage and is indexed to inflation. Required contributions to the program, which are shared between employers and employees, are also based on employee wages. Generally, employers with 15 or more employees must contribute to and participate in the program. Contributions to the program are to begin October 1, 2023, and claims for benefits are to begin January 1, 2025.

### Required Studies and Considerations for Implementation

Chapter 48 required that MDL and DLS conduct studies on the estimated costs of the program, the appropriate contribution rate and cost-sharing formula between employers and employees, the implementation of paid family leave programs in other states, and the capability and capacity of MDL to implement and administer the FAMLI program. MDL contracted with the Jacob France Institute at the University of Baltimore for a study that focused on the cost of maintaining solvency and paying benefits to covered individuals, and Milliman, Inc. also provided a related actuarial analysis of program costs and cash flows. **Exhibit 14** shows estimated costs by these consultants for program administrative expenses and benefits payments as well as estimated claims. The various estimates for total program expenditures, including both administrative expenses and benefit payments, ranged from an average of $1.5 billion to $2.1 billion annually over the first three years of benefits (calendar 2025 to 2027). Administrative start-up costs for the FAMLI program are estimated at $60.0 million across calendar 2023 and 2024.

**Exhibit 14**
**Family and Medical Leave Insurance Program Cost and Claims Estimates**
**($ in Millions)**

| | Start-up Costs | Average Annual Administrative Expenditures, 2025-2027 | Average Annual Total Program Expenditures, 2025-2027 | Average Annual Claims, 2025-2027 |
|---|---|---|---|---|
| Milliman, Inc. | $60.0 | $111.6 | $1,573.8 | 184,985 |
| Jacob France Institute: Worker PLUS Model | 60.0 | 108.1 | 1,459.8 | 310,387 |
| Jacob France Institute: Econometric Model | 60.0 | 153.9 | 2,078.5 | n/a |

Note: Start-up costs represent administrative expenses for calendar 2023 and 2024. Total Program Expenditures include both administrative expenses and benefit payments. The two Jacob France Institute estimates rely on differing modeling techniques and data on workers' leave-taking behaviors.

Source: Maryland Department of Labor Consultant Reports

DLS contracted with the Spring Consulting Group to study administrative costs and models for the program, including the trade-offs associated with MDL administering the FAMLI program directly versus contracting with a third party to manage the program or aspects of the program. The consultant report is expected to be published in February 2023. Generally, it is anticipated that benefits of outsourced program management would include lower start-up costs and a shorter implementation timeline, while drawbacks would include a loss of control in the development of program procedures and protocols.

Among states with paid family and medical leave programs, California, New Jersey, Rhode Island, and Washington administer their programs directly, while Connecticut contracts with an insurance company to administer claims, and Massachusetts opted for a hybrid approach involving directly administering claims but outsourcing certain functions including call center services. Additional states that more recently enacted family and medical leave programs, including New Hampshire and Vermont, are in the process of adopting more outsourced program models.

The actuarial study conducted by Milliman, Inc. also provided an analysis of various employer and employee cost-sharing percentages, ranging between 25% employer-paid/75% employee-paid and 75% employer-paid/25% employee-paid. Based on assumptions of the fund balance required to maintain solvency, Milliman estimated total contribution rates as a percentage of taxable wages ranging from 0.88% (25% employer-paid) to 0.94% (75% employer-paid) would be required. Contribution rates recommended by the Jacob France Institute were slightly higher, ranging from 0.90% to 1.20%. Generally, the required total contribution rate increases as the employer cost-share increases due to the contribution exemption for employers with fewer than 15 employees. MDL must set the total rate of contribution and establish the employer and employee cost-sharing percentages by June 1, 2023.

## Funding and Implementation Timeline

In the fiscal 2023 budget, $10.0 million in general funds for FAMLI implementation was restricted in the Rainy Day Fund appropriation, which Governor Moore released in January 2023. The fiscal 2024 allowance does not include any further funding for the FAMLI program. Generally, program implementation costs will require the use of general funds until employer and employee contributions to the FAMLI Fund are sufficient to cover the costs of administration. MDL has advised that the department plans to use the initial $10.0 million to begin onboarding staff, developing the required rules and regulations, and identifying vendor and technology needs and conducting related procurements. However, given the timing and level of available funding, it is expected that the program will not be ready to begin accepting contributions by the statutory deadline of October 2023, and legislation to make adjustments to the timeline will likely be considered.

In addition to administrative expenses, the State will also incur costs under the FAMLI program related to employer contributions for State employees, as well as employer contributions on behalf of community providers and employee contributions for employees making less than $15 per hour. **Exhibit 15** shows estimates of these costs in fiscal 2025 (the first full year of contributions), based on employer contribution shares ranging from 25% to 75% and the estimates of total contribution rates reported by Milliman, Inc. Depending on the employer share, total estimated State contributions range from $53.0 million to $120.5 million. DLS notes that HB 549 and SB 555 (Fair Wage Act of 2023) are Administration bills that propose to increase the State's minimum wage to $15.00 per hour effective October 1, 2023. If enacted, this legislation would lessen State expenditures shown in Exhibit 15.

## Exhibit 15
# Estimates of FAMLI Contributions Paid by the State
### Fiscal 2025
### ($ in Millions)

| | 25% Employer Share | 50% Employer Share | 75% Employer Share |
|---|---|---|---|
| Total Contribution Rate | 0.88% | 0.91% | 0.94% |
| Employer Contributions – State Employees | $19.1 | $40.0 | $61.7 |
| *General Fund Costs* | *7.2* | *15.1* | *23.3* |
| Employer Contributions – Community Providers | 16.4 | 33.8 | 52.6 |
| Employee Contributions – Workers Earning Less Than $15 Per Hour | 17.5 | 12.1 | 6.3 |
| **Total Contribution Costs Paid by the State** | **$53.0** | **$85.8** | **$120.5** |

FAMLI: Family and Medical Leave Insurance

Note: Chapter 48 of 2022 specified that it is the General Assembly's intent that the State pay the required FAMLI employer contribution for community providers that are funded by the Behavioral Health Administration, the Developmental Disabilities Administration, or the Medical Care Programs Administration to serve individuals with mental disorders, substance-related disorders, or a combination of those disorders or developmental disabilities. It is also the General Assembly's intent, through June 30, 2026, that the State pay the covered employee's required FAMLI contribution if the employee earns an hourly wage of less than $15 per hour.

Source: Milliman, Inc.; Department of Legislative Services

# *Operating Budget Recommended Actions*

1. Add the following language to the general fund appropriation:

   , provided that since the Maryland Department of Labor (MDL) has had four or more repeat audit findings in the fiscal compliance audit issued by the Office of Legislative Audits (OLA) on November 15, 2022, $100,000 of this agency's administrative appropriation may not be expended unless:

   (1) MDL has taken corrective action with respect to all repeat audit findings on or before November 1, 2023; and

   (2) a report is submitted to the budget committees by OLA listing each repeat audit finding along with a determination that each repeat finding was corrected. The budget committees shall have 45 days from the receipt of the report to review and comment to allow for funds to be released prior to the end of fiscal 2024.

   **Explanation:** The Joint Audit and Evaluation Committee has requested that budget bill language be added for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each agency is to have a portion of its administrative budget withheld pending the adoption of corrective action by the agency and a determination by OLA that each finding was corrected. OLA shall submit a report to the budget committees on the status of repeat findings.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Status of corrective actions related to the MDL Division of Unemployment Insurance – Part 2 audit | OLA | 45 days before the release of funds |

2. Add the following language to the special fund appropriation:

   , provided that $2,793,000 of this appropriation made for the purpose of the Electronic Licensing Modernization information technology project may not be expended until the Maryland Department of Labor submits a report to the budget committees documenting the plans to implement the project, including details on the program requirements and intended capabilities of the system, the vendor selection process, a breakdown of the project costs, and an implementation timeline. The report shall be submitted by August 1, 2023, and the budget committees shall have 45 days from the date of the receipt of the report to review and comment. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled if the report is not submitted to the budget committees.

**Explanation:** The language restricts funding for the Electronic Licensing Modernization (ELMo) project until the Maryland Department of Labor (MDL) submits an implementation plan for the project, including details on the project requirements, vendor selection process, costs, and timeline.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Report on the ELMo project | MDL | August 1, 2023 |

## Appendix 1
## 2022 *Joint Chairmen's Report* Responses from MDL

The 2022 JCR requested that MDL prepare 6 reports. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Providing Our Workers Education and Readiness (POWER) Apprenticeship Act:*** The POWER Apprenticeship Act requires that each contractor or subcontractor awarded a contract for at least $500,000 for a capital construction project that receives at least $1 million in the State's capital budget to be affiliated with a registered apprenticeship program and use apprentices in each covered craft that is used, or to make payments either to the State Apprenticeship Training Fund or directly to a registered apprenticeship program. The report notes that the Department of General Services (DGS) updated its Capital Grants Booklet in its November 2021 edition to include an explanation of the POWER Apprenticeship Act and related reporting requirements. MDL also drafted a letter in August 2022 to be sent to all capital grantees and contractors identified by DGS to notify them of their obligations under the POWER Apprenticeship Act. Despite these efforts to inform impacted contractors, MDL reports that, as of the time of the submission of the report, no contractors or subcontractors had submitted information to MDL's tracking portal, and MDL is unable to provide data on the number of covered projects and associated apprentices.

- ***Report on UI Processes:*** The committees requested a report on the implementation of recent legislation related to MDL's processing of UI claims. The report provided an example of an email that was sent to claimants with pending claims at least once every three weeks with a basic status update noting the claim is awaiting adjudication. In addition, MDL noted that the department is working with its IT vendor to add a status tracker to the web portal with a more detailed explanation of issues. The status tracker is expected to be added by March 2024. The addition of this status tracker is part of a larger effort to improve equitable access to the web portal using a DOL equity grant. The report did not address the ability to provide claimants with an anticipated timeline for resolution and also did not include the requested examples of how tracking information appears in the BEACON system. Finally, MDL provided data on the percentage of initial claims not paid within 21 days for each week in May through July 2022, with the percent of claims not paid within this timeframe ranging from 27% to 64%. MDL noted that the timeliness standards established by Chapters 49 and 65 of 2021 relate to the completion of claims (paid or denied) rather than to the payment of claims. The report also asserts that since August 2021, 97% of claims requiring adjudication have been adjudicated within 8 weeks, meeting the established standard. Further discussion of the UI program can be found in Issue 1 of this analysis.

- ***Interim Reports on Public Sector Apprenticeship Pathways:*** The committees directed MDL to establish three workgroups on public sector apprenticeships at the State and local level, focusing on the health care, transportation, and public safety sectors. Each workgroup was tasked with identifying the extent of public sector vacancies in each sector; reviewing related apprenticeship programs in other states or internationally; and identifying apprenticeship opportunities in jobs with the greatest barriers to recruitment and training, including opportunities for degree apprenticeship programs and high school apprenticeship programs. Each workgroup submitted an interim report in December 2022 detailing its progress on these issues, with final reports due in June 2023. Further discussion of these workgroups and apprenticeship programs can be found in Issue 2 of this analysis.

- ***Report on the Feasibility of Creating Degree Apprenticeship Programs:*** The committees requested that the USM collaborate with MDL and others to report on the feasibility of creating degree apprenticeship programs for students starting in high school and any changes in law, college policies, and resource allocations that would be required to develop two pilot programs in fiscal 2024. USM formed two subcommittees focused on teacher apprenticeship and nursing apprenticeship and submitted a report in December 2022 that summarized the potential benefits of degree apprenticeship programs and the activities of each subcommittee. Further discussion of this report and apprenticeship programs can be found in Issue 2 of this analysis and in the budget analysis for the Higher Education Overview – HIGHED.

## Appendix 2
# Audit Findings - Division of Occupational and Professional Licensing

| | |
|---|---|
| Audit Period for Last Audit: | January 30, 2017 – March 31, 2021 |
| Issue Date: | March 2022 |
| Number of Findings: | 3 |
| Number of Repeat Findings: | 2 |
| % of Repeat Findings: | 67% |
| Rating: (if applicable) | n/a |

***Finding 1:*** **The Division of Occupational and Professional Licensing did not have sufficient procedures to ensure that individuals who were issued occupational and processional licenses had met all required qualifications.**

***Finding 2:*** The Division of Occupational and Professional Licensing ’s collection procedures did not ensure that all collections were properly recorded and deposited.

***Finding 3:*** **The Division of Occupational and Professional Licensing did not reconcile its record of the Home Improvement and Real Estate Guaranty Funds to the State’s accounting records to ensure that all related cash transactions were properly accounted for and recorded.**

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

**Appendix 3**

## Audit Findings – Division of Unemployment Insurance
## Part 1 – Unemployment Insurance Tax Contributions

This audit is discussed further in Issue 1 of this analysis.

| | |
|---|---|
| Audit Period for Last Audit: | April 17, 2017 – November 15, 2020 |
| Issue Date: | May 2022 |
| Number of Findings: | 6 |
| Number of Repeat Findings: | 0 |
| % of Repeat Findings: | 0% |
| Rating: (if applicable) | n/a |

***Finding 1:*** The Division of Unemployment Insurance did not reconcile tax collections from employers to amounts posted to employer accounts receivable records to ensure amounts posted to employer accounts were valid and complete.

***Finding 2:*** The Division of Unemployment Insurance had not verified that unemployment tax collections were properly deposited and recorded since the implementation of BEACON in September 2020 due to the inability to generate certain required reports from the BEACON system.

***Finding 3:*** The Division of Unemployment Insurance did not regularly conduct data matches to identify employers who had not registered with the Division of Unemployment Insurance, as required by State law, and did not always follow up on the results of the matches that were performed.

***Finding 4:*** The Division of Unemployment Insurance did not ensure reimbursable employers provided sufficient collateral to protect the State in the event claims are paid on their behalf.

***Finding 5:*** The Division of Unemployment Insurance did not have formal policies for pursuing collection of delinquent employer accounts and discontinued pursuing delinquent accounts in September 2020 due to BEACON system deficiencies.

***Finding 6:*** Access to process critical employer tax related transactions and functions within BEACON was not adequately restricted.

## Appendix 4
# Audit Findings – Division of Unemployment Insurance
# Part 2 – Unemployment Benefits

This audit is discussed further in Issue 1 of this analysis.

| | |
|---|---|
| Audit Period for Last Audit: | April 17, 2017 – November 15, 2020 |
| Issue Date: | November 2022 |
| Number of Findings: | 13 |
| Number of Repeat Findings: | 4 |
| % of Repeat Findings: | 31% |
| Rating: (if applicable) | Unsatisfactory |

***Finding 1:*** The Division of Unemployment Insurance did not conduct certain critical matches used to identify potentially fraudulent or improper claims. The auditors conducted three matches to replicate four of the discontinued Division of Unemployment Insurance matches and identified at least $32.3 million in potentially improper payments.

***Finding 2:*** **The Division of Unemployment Insurance did not have comprehensive procedures to ensure that individuals filing claims using a foreign IP address were eligible to receive benefits, including 3,724 claimants that received benefit payments totaling $3.6 million.**

***Finding 3:*** **The Division of Unemployment Insurance did not ensure claimants who were full-time students were eligible for benefits and that all claimants were enrolled in the Maryland Workforce Exchange System, as required.**

***Finding 4:*** The Division of Unemployment Insurance did not have procedures to help prevent and detect duplicate benefit payments. The auditors' analysis disclosed $43.3 million in potentially duplicate payments made to 12,500 claimants between April 2020 and December 2021 that were not identified or investigated by the Division of Unemployment Insurance.

***Finding 5:*** The Division of Unemployment Insurance did not conduct timely verifications of income reported by applicants for Pandemic Unemployment Assistance benefits and did not ensure manual adjustments processed by the Division of Unemployment Insurance and contract employees were proper.

***Finding 6:*** **The Division of Unemployment Insurance did not adequately review regular claims and adjudications processed by claims center Division of Unemployment Insurance employees and temporary staff, and output reports of manual wage entries could not be generated from BEACON for verification purposes.**

***Finding 7:*** **The Division of Unemployment Insurance did not establish sufficient controls over reissued debit cards and did not ensure the proper disposition of funds remaining on expired debit cards.**

***Finding 8:*** The Division of Unemployment Insurance did not properly account for potentially fraudulent benefits totaling $493.9 million that were removed from claimants' debit cards.

***Finding 9:*** The Division of Unemployment Insurance did not ensure amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments.

***Findings 10 through 13:*** Redacted cybersecurity-related findings.

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

## Appendix 5
## Audit Findings – Division of Labor and Industry

| | |
|---|---|
| Audit Period for Last Audit: | March 19, 2018 – February 15, 2022 |
| Issue Date: | January 2023 |
| Number of Findings: | 1 |
| Number of Repeat Findings: | 1 |
| % of Repeat Findings: | 100% |
| Rating: (if applicable) | n/a |

***Finding 1:*** **The Division of Labor and Industry had not established adequate accountability and control over certain collections.**

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

**Appendix 6**

# Labor Omni-channel Contact Center System

## Major Information Technology Project

## Maryland Department of Labor

This and other contracts for the Office of Unemployment Insurance are discussed further in Issue 1 of this analysis.

| **New/Ongoing:** Ongoing | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Start Date:** October 2021 | | | | **Est. Completion Date:** June 2024 | | | | |
| **Implementation Strategy:** Agile | | | | | | | | |
| **($ in Millions)** | **Prior Year** | **2023** | **2024** | **2025** | **2026** | **2027** | **Remainder** | **Total** |
| **FF** | $0.000 | $0.000 | $3.261 | $3.211 | $0.000 | $0.000 | $0.000 | $6.472 |
| **Total** | **$0.000** | **$0.000** | **$3.261** | **$3.211** | **$0.000** | **$0.000** | **$0.000** | **$6.472** |

- ***Project Summary:*** The Labor Omni-channel Contact Center System (LOCCS) is intended to manage call center interactions between UI claimants and Division of Unemployment Insurance staff. The project will deploy a commercial off-the-shelf (COTS) solution that will provide interactive voice response, workforce optimization, quality management, voice recording, and transcription, among other functionalities. The project has three phases: (1) ability to support UI claimants calling the department; (2) adding functionality to support calls for other users, such as employers, as well as handling public facing emails and webforms; and (3) integration of LOCCS with the BEACON and Salesforce systems.

- ***Need:*** The volume of UI claims during the COVID-19 pandemic stressed MDL's existing UI call center beyond what the department could manage, and MDL procured outside call center services to handle the increased workload. Once the current contract for outsourced call center services ends, the LOCCS system will provide a modernized and consolidated platform for managing the call center needs of the Division of Unemployment Insurance.

- ***Observations and Milestones:*** During the 2022 session, MDL anticipated that the contract would be awarded in July 2022. However, as of February 2023, an award has not yet been made, and MDL is in the process of reviewing proposals.

- ***Concerns*:** The first phase of the LOCCS project must be complete when the contract for outsourced call center services ends, which is currently December 2023. The department has identified several risk factors for the project, including insufficient staffing, dependence on DoIT infrastructure, and the potential need for custom modifications to the COTS system.

- ***Other Comments:*** DBM did not identify fiscal 2023 funding for this project, although DLS notes that the fiscal 2023 working appropriation includes $3.3 million for the LOCCS project.

## Appendix 7
# Electronic Licensing Modernization
### Major Information Technology Project
### Maryland Department of Labor

This project is discussed further in the Proposed Budget Change section of this analysis.

| **New/Ongoing:** Ongoing | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Start Date:** September 2022 | | | | **Est. Completion Date:** June 2026 | | | | |
| **Implementation Strategy:** Agile | | | | | | | | |
| **($ in Millions)** | **Prior Years** | **2023** | **2024** | **2025** | **2026** | **2027** | **Remainder** | **Total** |
| **SF** | $0.000 | $2.030 | $2.793 | $2.573 | $1.864 | $0.000 | $0.000 | $9.260 |
| **Total** | **$0.000** | **$2.030** | **$2.793** | **$2.573** | **$1.864** | **$0.000** | **$0.000** | **$9.260** |

- ***Project Summary:*** The project will modernize and update both the back-end and front-end licensing systems for the Division of Occupational and Professional Licensing in order to streamline office procedures and enhance online services to applicants, licensees, and consumers.

- ***Need:*** The department uses the licensing system to oversee 21 licensing boards and commissions. The current system is outdated, and many system customers use technologies not supported by the legacy system.

- ***Concerns:*** This project is the second attempt to modernize the system, after the first attempt stalled, and the contractor filed for bankruptcy. Available funding has been identified as a high risk for this project, as $1.1 million was already expended on the first attempt, and current cost estimates vary from $6.0 million to $9.3 million. Although MDL seeks to avoid the pitfalls of the prior attempt, a project plan has not yet been established. MDL plans to onboard a project manager to oversee the project once a vendor is identified.

- ***Other Comments:*** Other identified project risks include data conversion from the legacy system and challenges related to organizational culture and training for system users. DLS notes that the fiscal 2023 appropriation identified in the table has not yet been added to the fiscal 2023 budget.

## Appendix 8
# ARPA Funding by Local Workforce Area

| Local Workforce Area | RELIEF Act Fiscal 2021 | ARPA Fiscal 2022 | ARPA Fiscal 2023 |
|---|---|---|---|
| MDL Oversight | $0 | $0 | $430,000 |
| Anne Arundel | 451,500 | 2,467,500 | 2,290,926 |
| Baltimore City | 1,537,900 | 6,825,000 | 6,616,995 |
| Baltimore County | 903,000 | 4,841,250 | 4,296,413 |
| Carroll | 218,987 | 1,263,750 | 1,100,979 |
| Frederick | 247,100 | 1,237,500 | 1,245,552 |
| Howard | 336,113 | 1,653,750 | 1,638,494 |
| Lower Shore | 399,700 | 1,950,000 | 1,816,430 |
| Montgomery | 686,700 | 4,241,250 | 4,459,521 |
| Prince George's | 829,500 | 5,943,750 | 6,279,658 |
| Southern Maryland | 328,300 | 1,638,750 | 1,816,430 |
| Susquehanna | 338,800 | 1,837,500 | 2,161,181 |
| Upper Shore | 267,400 | 1,406,250 | 1,282,622 |
| Western Maryland | 455,000 | 2,193,750 | 2,064,799 |
| **Total** | **7,000,000** | **37,500,000** | **37,500,000** |

ARPA: American Rescue Plan Act
MDL: Maryland Department of Labor

Note: The Mid-Maryland local workforce area split into two separate local workforce areas for Carroll and Howard counties, effective July 1, 2021.

Source: Maryland Department of Labor

**Appendix 9**
**Object/Fund Difference Report**
**Maryland Department of Labor**

| Object/Fund | FY 22 Actual | FY 23 Working Appropriation | FY 24 Allowance | FY 23 - FY 24 Amount Change | Percent Change |
|---|---|---|---|---|---|
| **Positions** | | | | | |
| 01 Regular | 1,355.17 | 1,340.17 | 1,340.57 | 0.40 | 0% |
| 02 Contractual | 278.82 | 455.61 | 286.08 | -169.53 | -37.2% |
| **Total Positions** | **1,633.99** | **1,795.78** | **1,626.65** | **-169.13** | **-9.4%** |
| **Objects** | | | | | |
| 01 Salaries and Wages | $ 131,206,353 | $ 140,857,183 | $ 153,588,594 | $ 12,731,411 | 9.0% |
| 02 Technical and Special Fees | 14,872,729 | 19,873,720 | 19,013,495 | -860,225 | -4.3% |
| 03 Communication | 3,814,177 | 4,276,162 | 3,611,771 | -664,391 | -15.5% |
| 04 Travel | 939,533 | 1,448,019 | 1,837,856 | 389,837 | 26.9% |
| 06 Fuel and Utilities | 1,033,491 | 795,203 | 813,241 | 18,038 | 2.3% |
| 07 Motor Vehicles | 882,632 | 758,120 | 624,457 | -133,663 | -17.6% |
| 08 Contractual Services | 191,473,403 | 96,888,556 | 72,723,176 | -24,165,380 | -24.9% |
| 09 Supplies and Materials | 3,595,572 | 1,812,014 | 1,964,467 | 152,453 | 8.4% |
| 10 Equipment – Replacement | 888,148 | 1,528,539 | 1,476,513 | -52,026 | -3.4% |
| 11 Equipment – Additional | 201,373 | 1,820,860 | 70,921 | -1,749,939 | -96.1% |
| 12 Grants, Subsidies, and Contributions | 1,132,560,433 | 364,447,879 | 294,214,890 | -70,232,989 | -19.3% |
| 13 Fixed Charges | 6,005,249 | 6,298,932 | 4,355,284 | -1,943,648 | -30.9% |
| 14 Land and Structures | 2,881,500 | 0 | 0 | 0 | 0.0% |
| **Total Objects** | **$ 1,490,354,593** | **$ 640,805,187** | **$ 554,294,665** | **-$ 86,510,522** | **-13.5%** |
| **Funds** | | | | | |
| 01 General Fund | $ 69,850,917 | $ 55,569,582 | $ 60,357,825 | $ 4,788,243 | 8.6% |
| 03 Special Fund | 241,843,219 | 257,194,702 | 270,635,134 | 13,440,432 | 5.2% |
| 05 Federal Fund | 1,169,388,856 | 319,021,399 | 213,973,533 | -105,047,866 | -32.9% |
| 09 Reimbursable Fund | 9,271,601 | 9,019,504 | 9,328,173 | 308,669 | 3.4% |
| **Total Funds** | **$ 1,490,354,593** | **$ 640,805,187** | **$ 554,294,665** | **-$ 86,510,522** | **-13.5%** |

Note: The fiscal 2023 appropriation does not include deficiencies. The fiscal 2024 allowance does not include salary adjustments that are budgeted in the Department of Budget and Management.

**Appendix 10**
**Fiscal Summary**
**Maryland Department of Labor**

| Program/Unit | FY 22 Actual | FY 23 Wrk Approp | FY 24 Allowance | Change | FY 23 - FY 24 % Change |
|---|---|---|---|---|---|
| 0A Department of Labor | $ 32,192,008 | $ 33,233,226 | $ 35,475,316 | $ 2,242,090 | 6.7% |
| 0B Division of Administration | 21,332,200 | 18,658,224 | 20,734,309 | 2,076,085 | 11.1% |
| 0C Division of Financial Regulation | 10,893,093 | 12,902,226 | 14,581,461 | 1,679,235 | 13.0% |
| 0D Division of Labor and Industry | 19,571,086 | 22,313,557 | 25,479,019 | 3,165,462 | 14.2% |
| 0E Division of Racing | 200,007,120 | 198,538,648 | 210,911,382 | 12,372,734 | 6.2% |
| 0F Division of Occupational and Professional Licensing | 9,903,477 | 12,028,725 | 15,664,213 | 3,635,488 | 30.2% |
| 0G Division of Workforce Development and Adult Learning | 149,463,321 | 210,087,605 | 124,679,676 | -85,407,929 | -40.7% |
| 0H Division of Unemployment Insurance | 1,046,992,288 | 133,042,976 | 106,769,289 | -26,273,687 | -19.7% |
| **Total Expenditures** | **$ 1,490,354,593** | **$ 640,805,187** | **$ 554,294,665** | **-$ 86,510,522** | **-13.5%** |
| | | | | | |
| General Fund | $ 69,850,917 | $ 55,569,582 | $ 60,357,825 | $ 4,788,243 | 8.6% |
| Special Fund | 241,843,219 | 257,194,702 | 270,635,134 | 13,440,432 | 5.2% |
| Federal Fund | 1,169,388,856 | 319,021,399 | 213,973,533 | -105,047,866 | -32.9% |
| **Total Appropriations** | **$ 1,481,082,992** | **$ 631,785,683** | **$ 544,966,492** | **-$ 86,819,191** | **-13.7%** |
| | | | | | |
| Reimbursable Fund | $ 9,271,601 | $ 9,019,504 | $ 9,328,173 | $ 308,669 | 3.4% |
| **Total Funds** | **$ 1,490,354,593** | **$ 640,805,187** | **$ 554,294,665** | **-$ 86,510,522** | **-13.5%** |

Note: The fiscal 2023 appropriation does not include deficiencies. The fiscal 2024 allowance does not include salary adjustments that are budgeted in the Department of Budget and Management.