



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #843

Workforce Solutions -- Grow Wisconsin Reed Act Initiative (DWD -- Employment, Training, and Vocational Rehabilitation Programs)

[LFB 2005-07 Budget Summary: Page 537, #5]

CURRENT LAW

The Job Service Bureau in the Department of Workforce Development (DWD) provides reemployment services to unemployment insurance (UI) benefit recipients. UI benefit claimants who are likely to exhaust their benefits are provided services through job centers that are designed to place these individuals in jobs. In fiscal year 2004-05, \$1,640,000 FED and 19.42 FED positions are allocated to these activities. In addition, the Bureau is providing reemployment services in Milwaukee and Oshkosh designed to strengthen connections between the UI and Job Service systems through a U.S. Department of Labor (DOL) demonstration grant. Funding of \$600,000 FED and 4.5 FED positions are provided in 2004-05 for these activities.

GOVERNOR

Provide expenditure authority of \$1,000,000 FED, reallocate 5.9 FED positions, and convert 7.1 PR positions to FED annually to establish a reemployment initiative to return UI recipients to work more quickly and in higher-wage, higher-demand jobs. The funding would be provided through the appropriation used to fund the Department's apprenticeship programs with federal Reed Act monies.

DISCUSSION POINTS

1. The Job Service Bureau provides labor exchange services to businesses and job seekers through the state JobNet online job listing software and staff-assisted services in the state's Job Centers. The Job Service is an integral part of the state's one-stop delivery system that provides

a range of employment-related services through Job Centers. Job Centers consolidate a variety of employment and training services in one location, but the programs themselves remain distinct, with funding from different state and federal sources. Services offered at Job Centers include: (a) adult, youth, and dislocated worker assistance, including rapid response services during major layoffs; (b) Trade Adjustment Assistance (TAA) for displaced workers; (c) services for participants in the W-2 and the Food Share programs; (d) job search assistance; (e) vocational rehabilitation; (f) adult basic education and literacy; (g) unemployment insurance profiling and reemployment services; (h) older worker programs; and (i) veterans employment services. There are 78 Job Centers operating in the state. Sixty-six of the centers are comprehensive centers providing a full range of core services. Twelve of the centers are affiliated or satellite centers that provide specialized or partial services but are linked to a comprehensive Job Center in the area.

2. Job Service provides a variety of employment-related services to individuals including job search assistance, job referral, placement assistance, unemployment insurance reemployment services, and recruitment services. Other services such as assessment of skill levels, abilities and aptitudes, career guidance, job search workshops, and referral to training may also be available. Services are delivered in one of three modes: (a) self-service; (b) facilitated self-help; and (c) staff assisted. In addition to referring job seekers to available jobs, services offered to employers include assistance in developing job order requirements, matching job seeker experience with job requirements, skills and other attributes, assisting employers with special needs or hard-to-fill job orders, assisting with job restructuring, and arranging job fairs. The Job Service Bureau has 2004-05 funding of \$20,526,500 PR, 304.66 PR positions, \$259,000 FED, and 1.0 FED position. However, 29.45 PR positions, 16.93 FED positions, and \$67,600 PR would be deleted in DWD under AB 100. The Department has not yet determined how to distribute the reductions across its Bureaus. The majority of job service staff provide labor exchange services.

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

4. The worker profiling and reemployment services system begins with staff in the Division of Unemployment Insurance identifying ("profiling") all UI benefit claimants to select those claimants who are most likely to exhaust their regular UI benefits. Profiling criteria include factors related to industry, occupation, length of employment, education level, and the local area unemployment rate. Program staff then determine the number of claimants they can meet with during the week and letters are sent to a corresponding number of claimants who are most likely to

exhaust benefits, inviting them to come to the Job Center to meet with a Job Service staff member. Initially, claimants participate in a group workshop followed by one-on-one case management activities. Services provided start with an orientation session at the Job Center advising claimants of the availability and benefit of reemployment services such as resumé and interview assistance. In some cases, an individual assessment is made of the claimant's needs. Based on an individual reemployment service plan, the claimant may be referred to additional services specific to the individual's needs. Reemployment services also provide intensive job search and job placement assistance. Individuals who are selected for the reemployment program are required to participate in all activities identified as necessary by staff in order to continue eligibility for UI benefits. The Department indicates that, for the past two program years, an average of 20,481 UI claimants have been referred to Job Service for reemployment services.

5. More specific aspects of the worker profiling and reemployment program include identifying the available group of UI claimants as those in the first five weeks of a benefit claim who: (a) do not have an employment recall expectation from their former employer; (b) are not enrolled in approved training; (c) are not enrolled in the federal Workforce Investment Act (WIA) dislocated worker program; and (d) are not attached to a union hiring hall. Specific services provided include: (a) initial orientation; (b) referral for intensive assessment; (c) job placement services and referrals to employers; (d) resumé development; (e) job search workshops; (f) referral to education and training programs provided by Job Center partner agencies. Staff functions include: (a) serving as reemployment services orientation instructors; (b) tracking attendance through a data processing system; (c) conducting individual reemployment assessments with each claimant to determine service needs; (d) assisting in completing the reemployment service plan identifying services and activities required for continued eligibility for UI benefits; and (e) providing referrals to services required for reemployment.

6. The worker profiling and reemployment services program is provided 19.42 positions and \$1,640,000 in total funding from two sources. The program is provided \$941,800 FED in federal Wagner-Peyser monies and 11.53 FED positions, and \$698,200 PR in UI interest and penalty funds and 7.89 PR positions.

7. DWD and the U.S. Department of Labor are jointly conducting a demonstration project to test new methods to better connect unemployment insurance claimants with available reemployment services. Project activities include: (a) improving data sharing between the UI internet initial claims system and Job Centers to develop a comprehensive work registration system; (b) increasing interaction between the UI program and Job Centers by connecting UI benefit claimants with one-stop services such as skills assessment, employment plan development, practice interviewing, work search workshops, job and training referrals, and employer contacts; (c) assisting unemployed workers to more rapidly return to work or connect with WIA skills training, particularly in a key target industry that needs skilled workers. The demonstration project is targeted to Milwaukee and Oshkosh due to the proximity to industry clusters that have high-wage jobs and demand for workers. Services are provided for a four-week period and between 480 to 600 claimants participate in a year. DWD received a DOL one-time grant of \$600,000 in 2004 in funding, and 4.5 positions are working on the project.

8. The reemployment initiative included in AB 100 would expand the current worker profiling and reemployment services program to provide unemployment insurance recipients with more direct access to reemployment services including basic skills such as interviewing, resumé building, and skill assessments. Department staff would work with technical colleges and other providers to develop training programs for high-wage, high-demand jobs. Staff would also develop direct connections with businesses, and focus employment on areas of the state with the highest rates of profiled unemployment insurance claimants including Milwaukee, Racine, Kenosha, Janesville, and Green Bay. Annual funding of \$1,000,000 FED in Reed Act monies would be provided and 13.0 FED positions would be reallocated within the Job Service Bureau to administer the expanded profiling and reemployment services.

9. Federal Reed Act monies are excess federal unemployment insurance taxes from accounts in the federal unemployment trust fund that are transferred to the states when the balances in certain federal accounts exceed statutory limits. A March, 2002, distribution of \$8 billion nationwide was made without the statutory balances being exceeded. Wisconsin received a distribution of \$166.2 million, which was placed in the state unemployment reserve fund. The individual funding transfers of Reed Act monies require special legislation for each allocation. Reed Act funds can only be used for UI benefits, UI administration, and employment services administration.

10. Prior to the current biennium, Reed Act funds were used to fund 2.0 FED project positions for supplemental apprenticeship staff for 1999-00 and 2000-01, (base level expenditure authority was continued in the 2001-03 biennium) and \$40,000 was appropriated in 2001-02 for repair of the roof of the Fond du Lac Job Center. Between 2000 and 2002, Wisconsin received \$6.9 million in new Reed Act money as a result of federal account balances being exceeded. These funds were appropriated for development and implementation of the UI tax and accounting information technology system. A total of \$3.6 million in 2003-04 and \$3.3 million in 2004-05 was spent for the system. DWD is currently using Reed Act funds from the March, 2002, disbursement as follows: (a) \$1.228 million in each year for administration of the apprentice program; (b) \$2.5 million in each year for the tax and accounting data information technology system; and (c) \$1.0 million for banking fees incurred by the unemployment reserve fund. The balance of the March, 2002, federal distribution is in the state unemployment reserve fund. The Department estimates that the 2004-05 year-end balance for the special Reed Act distribution will be \$156.8 million.

11. Under AB 100, the special Reed Act funds would be appropriated as follows: (a) \$1,588,400 in 2005-06 and \$1,598,400 and 13.85 FED positions in 2006-07 for administration of the apprentice program; (b) \$1,000,000 and 13.0 FED positions annually for a reemployment initiative; and (c) \$1,020,000 annually for banking fees.

12. A concern has been raised that using Reed Act funds for the Grow Wisconsin reemployment initiative, as recommended by the Governor, could ultimately lead to increased unemployment insurance contributions (taxes) paid by employers. This could occur because the state charges higher UI tax rates if the balance in the unemployment reserve fund falls below certain thresholds. Conversely, tax rates will be decreased if the balance in the fund exceeds certain

thresholds.

13. As mentioned above, the state's balance of Reed Act monies is currently deposited in the unemployment reserve fund. Therefore, it is argued that any expenditure of these revenues could potentially cause UI taxes to be increased sooner than otherwise would be the case or cause potential tax reductions to be delayed.

14. The estimated balance in the unemployment reserve fund at the end of 2004 was \$776 million. The next higher tax rate schedule would not apply until the balance fell below \$300 million, and the next lower rate schedule would not apply until the balance exceeded \$900 million. Therefore, it is unlikely that the Governor's recommendation to spend an additional \$2 million in Reed Act funds on the reemployment initiative in the 2005-07 biennium would have any near-term impact on UI tax rates. However, over a longer period of time the cumulative impact of the additional expenditures could trigger a tax increase or delay a reduction in the tax rates. More information about the unemployment reserve fund and UI tax rates is presented in LFB Paper #842, which addresses the use of Reed Act monies for the state's apprenticeship program. That paper also includes more detailed information about the allowable uses of Reed Act funds and how the funds have been used by other states.

15. For individual employers, the proposed reemployment program could potentially reduce taxes. An employer's unemployment tax rate is based on the employer's unemployment experience. This experience is reflected in an employer account balance in the unemployment reserve fund. The account balance is the net of all tax payments less benefit charges for that employer. To determine the applicable contribution rates, each June 30, the balance in an employer's unemployment reserve fund account is calculated and divided by the employer's taxable payroll for the preceding four calendar quarters. This computation yields a "reserve percentage," which serves as an indicator of the status of the employer's account in relationship to the size of the employer's taxable payroll. A positive reserve percentage indicates that an employer has paid more in contributions than its employees have drawn in benefits, while a negative reserve percentage indicates that the opposite is true. To determine an employer's contribution rate, the employer's reserve percentage is compared to a related reserve percentage rate in a statutory table. Since an employer's reserve percentage serves as a relative indicator of the employer's unemployment experience, the employer's contribution rate will increase as the employer lays off an increasing number of employees. The required contribution payment an employer must make is calculated by multiplying the employer's taxable payroll by the employer's contribution rate. This payment is then credited to the employer's account. To the extent that the reemployment program shortens the duration of an employee's benefit claims, less is charged to the employer's account. As a result, the employer's reserve percentage, and possibly the contribution rate would improve. However, the impact of reducing employee benefit claims is likely to be slight, unless a significant number of former employees are involved, or the business is small and has few employees.

16. The Governor's proposal would reallocate 5.9 PR positions and convert 7.1 PR positions to FED within the Job Service Bureau to administer the proposed reemployment program. These positions currently provide contract employment services to Workforce Development Boards

and W-2 agencies and employment services to regular Job Service clients. The Department indicates that allocating the positions to the reemployment program would provide a more direct return on investment than the current activities. Remaining Job Service staff would continue to provide those services. Moreover, DWD has been experiencing reductions in contract services due to the elimination of the workforce attachment and advancement program and reductions in W-2. However, the level of services available to dislocated and unemployed individuals who were not selected for the reemployment program would be reduced.

17. The current worker profiling and reemployment services program provides services to about 20,500 UI claimants per year with 19.42 positions and \$1,640,000 in annual funding. The Department estimates that, by providing such services, it is able to return UI claimants to work more quickly and reduce benefits charged to former employers and the unemployment reserve fund. Participants in the job service program exhaust UI benefits 51% of the time compared to 54% of the time for individuals who do not receive services. The duration of benefits for participants in the reemployment program is the same as for individuals who participate in regular job service programs. The reemployment program focuses on individuals more likely to exhaust benefits. DWD indicates that claimants receiving reemployment program services represent about 20% of the available pool of eligible UI claimants. In fiscal year 2003-04, the Department was only able to provide services to 20,919 UI claimants, while the pool of eligible claimants for that year was 107,959. The Department has proposed providing the \$1,000,000 annually in Reed Act funds to provide reemployment services to eligible UI claimants who currently are prevented from participating in the worker profiling and reemployment services program, because of a lack of resources. DWD estimates that an additional 14,100 UI claimants could be provided services with the additional funding and positions.

ALTERNATIVES

1. Approve the Governor's recommendation to provide expenditure authority of \$1,000,000 FED, reallocate 5.9 FED positions, and convert of 7.1 PR positions to FED annually to establish a reemployment initiative for unemployment insurance recipients. The funding would be provided through the appropriation created for funding the Department's apprenticeship programs with federal Reed Act funds.

2. Maintain current law.

<u>Alternative</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$2,000,000	\$0	- \$2,000,000
2006-07 POSITIONS (Change to Bill)	- 7.10	7.10	0.00

Prepared by: Ron Shanovich