

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION****Assembly Member Warren T. Furutani, Chair****WEDNESDAY, APRIL 14, 2010
STATE CAPITOL, ROOM 437
1:30 PM****ITEMS TO BE HEARD**

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ITEMS TO BE HEARD

ITEM 0559 LABOR & WORKFORCE DEVELOPMENT AGENCY AND 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

The **Labor and Workforce Development Agency (LWDA)** was established to address important issues relating to California workers and their employers. The LWDA is primarily responsible for three functions: labor law enforcement, workforce development, and benefit payment and adjudication. The LWDA plays a central role in the Economic and Employment Enforcement Coalition, the purpose of which is to help legitimate businesses and California workers combat the underground economy, through a combination of enforcement and education activities. LWDA is funded through reimbursements and the Labor and Workforce Development Fund.

	2008-09 (actual)	2009-10 (estimated)	2010-11 (proposed)
Expenditures	\$3,091,000	\$2,914,000	\$3,131,000
Personnel Years	15.6	16.2	16.2

The **Department of Industrial Relations (DIR)** protects the workforce in California, improves working conditions, and advances opportunities for profitable employment. The DIR is responsible for enforcing workers' compensation insurance laws, adjudicating workers' compensation claims, and working to prevent industrial injuries and deaths. The DIR also promulgates regulations and enforces laws relating to wages, hours, and conditions of employment, promotes apprenticeship and other on-the-job training, assists in negotiations with parties in dispute when a work stoppage is threatened, and analyzes and disseminates statistics which measure the condition of labor in the state.

	2008-09 (actual)	2009-10 (estimated)	2010-11 (proposed)
Expenditures	\$ 3,219,000	\$3,505,000	\$3,831,000
Personnel Years	2,537.7	2,714	2,725.8

DIR's General Fund appropriation was reduced by \$41 million to provide savings in 2009-10 Budget Act. This year, funding was further reduced to \$5.9 million as DIR is transitioning to be funded with other special fund sources.

ISSUE 1: ECONOMIC & EMPLOYMENT ENFORCEMENT COALITION (EEEC)

The EEEEC is made up of the agencies that are tasked with enforcing California's labor, health and safety, employment tax, and consumer protection laws. These agencies, each an expert in their own field, have come together to work collaboratively to enhance the education and enforcement activities they pursue.

This Budget Change Proposal requests to permanently establish 30 positions for the EEEEC at a cost of \$3.6 million in fiscal year 2010-11 and on-going. These positions would be allocated to the Department of Industrial Relations (29) and the Labor and Workforce Development Agency (1).

EEEC activities throughout the past four years have served to both enforce California's employment and tax laws and educate employers, employees and the public. Permanence will help provide the stability necessary to enhance program planning and continued staff commitment to the operation. Many investigators and other staff members have come to closely identify with EEEEC and wish to remain as long-term members of the operation. However, they are aware of the current temporary nature of the operations' funding and feel they presently have little choice but to consider opportunities outside EEEEC for employment security and advancement purposes.

Implementation is scheduled for July 2010 and will allow for a continuance of this effective program without disruption.

Funding Source

	2010-11	2011-12
Special Fund – Uninsured Employers' Benefit Fund	\$2,762,000	\$2,762,000
Special Fund – Unpaid Wage Fund	754,000	754,000
Reimbursements (for LWDA costs)	136,000	136,000
TOTAL	3,652,000	3,652,000

ISSUE 2: APPRENTICESHIP PUBLIC WORKS LAW ENFORCEMENT

The Division of Apprenticeship Standards (DAS) requests 2.5 positions and \$275,000 for 2010-11, and \$275,000 in subsequent years from the Apprenticeship Training Contribution Fund (ATCF) to ensure proper enforcement of apprenticeship labor code requirements on public works projects.

The increased resources requested by the proposal will allow the DAS Public Works Unit to: 1) effectively address the backlog; 2) resolve new cases in a timely manner; and, 3) initiate investigations based on the findings reported by field staff.

DAS develops and enforces apprenticeship standards for wages, hours, working conditions and the specific skills required for state certification as a journeyman in an occupation. Apprenticeship is a training system that is specifically designed to meet the skilled needs of industry and is a time-proven system of training that readily adapts itself to technological changes within industry, because industry is providing the training.

The Apprenticeship Training Contribution Fund (ATCF) was established in the 2000-01 fiscal year to be utilized to provide grant funding to apprenticeship programs statewide and to support the overall administration of the program. The source of revenue is from "training fund contributions" from contractors, who must make contributions in the amount established in the Prevailing Wage Rate publication for every worker.

DAS reports that backlog grew significantly from January 2009 to August 2009 in that an additional 531 cases were received, with approximately 67%, or 358, of these cases remaining open.

ISSUE 3: EMPLOYMENT TRAINING FUND SHIFT

The Division of Apprenticeship Standards (DAS) requests the elimination of \$3.3 million in Employment Training Fund (ETF) support, with a corresponding increase of \$3.287 million in appropriation in the Apprenticeship Training Contribution Fund (ATCF) to backfill the reduction. This request will eliminate all support from the ETF for DAS.

The ETF funding will be reallocated to Employment Development Department (EDD), Employment Training Panel (ETP) to support high-wage and high-skill job creation and retention in California, and the state's key industries and workforce initiatives, such as Career Technical Education, nurse training, and small business training.

This budget change proposal includes trailer bill language to remove the authority for continuous appropriation of the Apprenticeship Training Contribution Fund. This fund has never been continuously appropriated and because it now supports the Division of Apprenticeship Standards, it is no longer appropriate for the ATCF to have authority for a continuous appropriation.

ETP BACKGROUND

Established in 1982, the Employment Training Panel (ETP) works in partnership and leverages funds from other programs, such as Workforce Investment Board and community colleges, bringing various resources together to serve clients with multiple needs. The program is funded through special tax – the Employment Training Tax (ETT), levied on California employers who participate in the Unemployment Insurance system. The ETT was established solely to support the ETP program. No General Fund monies are used to support ETP.

In 2009-10, ETP received a Budget Act appropriation of \$56.1 million from the ETF. In addition to its appropriation, the reinvestment of an estimated \$10 million in disencumbered funds initially brought ETP's total funding to \$66.1 million. However, given a shortfall in revenues, the Panel's funding was reduced by \$17.6 million, resulting in \$8.7 million for new training contracts available in 2009-10. As of November 2009, ETP has expended all of these available new training funds, leaving a significant backlog of more than \$80 million in applications waiting future funding.

Historically, the annual appropriation to ETP from the Employment Training Fund (ETF) has been close to \$76 million. However, revenue shortfalls have impacted ETP's ability to meet the demand for training, but they have taken action to begin curtailing their expenditures while maximizing its limited funding. This is an issue the Subcommittee will have to address ETP's funding to retain core services while addressing budget implications that impact the Department of Social Services, who receives funds from the Employment Training Fund.

**ISSUE 4: LABOR COMPLIANCE PROGRAM ENFORCEMENT OF APPRENTICESHIP
LAW ON PUBLIC WORKS PROJECTS**

As a result of the passage of AB 395 (Fuentes) Chapter 438, Statutes of 2009, the Division of Apprenticeship Standards (DAS), within the Department of Industrial Relations, requests authority to add 2.5 positions at the cost of \$362,000 for 2010-11 and \$345,000 in subsequent years from the Apprenticeship Training funds. AB 395 provides authority to awarding bodies that implement an approved labor compliance program (LCP) to assist the Division of Apprenticeship Standards in the enforcement of prevailing rate wages laws and other requirements that apply to apprenticeships in public works projects through the operation of that approved labor compliance program.

This proposal will provide additional staff members to adopt regulations and establish an apprenticeship oversight structure for LCPs with respect to apprenticeship law enforcement. Additionally, these positions are needed to provide missing training in apprenticeship enforcement, be available to answer LCP questions about enforcement requirements, and review and assess penalties that occur as a result of a labor compliance program enforcement action. As currently staff, DAS states they cannot meet this newly created oversight function.

COMMENTS

With the passage of AB 395, awarding bodies will have the authority to enforce the prevailing wage laws that apply to apprenticeships through the operation of their approved labor compliance program. DAS's workload will be increased as a result of the potential monetary gain for awarding bodies. The awarding bodies will need training from DAS and will also be generating violations that DAS will have to review and provide a penalty assessment.

Current complaints DAS receives from LCPs are incomplete or are unusable in that, 1) the LCPs fail to provide the required documentation specified in Title 8, CCR section 231, and 2) that they refer the minimum situations, for example a single apprentice appearing to have worked unsupervised for a single afternoon, that may not establish even technical violations and do not warrant the time and expense of an investigation or enforcement. In order to properly conduct apprenticeship enforcement, LCPs need to be trained by the DAS to learn apprenticeship requirements and to be able to present completed investigations to the DAS for determination of penalties under Labor Code section 1777.7.

ISSUE 5: MANAGED CARE FUND APPROPRIATION REDUCTION

The Division of Workers' Compensation (DWC) is requesting to reduce the Managed Care Fund appropriation by \$282,000 that will support the current program staffing costs of approximately \$91,000 as well as reflect a reduction in anticipated fund revenue to the proposed amendment to California Code of Regulations, Sections 9779 subdivision (f) which will reduce the certification fees relative to the Health Care Organization (HCO) Program.

The Health Care Organization Program was established through AB 110 (Peace and Brulte), Chapter 121, Statutes of 1993, as part of a comprehensive workers' compensation reform. The program was intended to address cost-containment by providing a "managed care" option for medical treatment of injured workers. Due to a variety of factors, including administrative complexity in the HCO enabling legislation, and open rating for insurance premiums, managed care failed to grow in the way that had been anticipated. It is hopeful that the reduced fees will renew interest in the program and increase the number of participants. It's the intent of this change proposal that reduced fees renew the interest in the program and increase the number of participants.

Currently an amendment to California Code of Regulations, Section 9771 subdivision (f) has been proposed to reduce the certification fee from \$20,000 to \$2,500 to reflect a more reasonable fee for review of applications for HCO certification. Also proposed is an amendment to subdivision (g)(1) which will reduce the certification fee for Health Care Service Plans licensed by the Knox-Keene Health Care Service Plan Act from \$10,000 to \$1,000 to reflect a more reasonable fee for review of applications for HCO certification.

ISSUE 6: RETURN TO WORK FUND SUNSET

The Division of Workers' Compensation (DWC) is requesting the elimination of the Workers' Compensation Return to Work Fund (3031) appropriation of \$499,000 that is scheduled to sunset in January 2010, and the transfer of the fund balance of \$483,000 to the Workers' Compensation Administration Revolving Fund (0223). In addition, DWC requests to retain the one position, which administered the Return to Work program, to address the backlog due to the change in business practice from a paper system to a paper-less system. This position is and would continue to be funded through the Workers' Compensation Administration Revolving Fund.

COMMENTS

Assembly Bill 749 (Calderon), Chapter 6, Statutes of 2002, added Labor Code section 139.48 requiring the Administrator Director of the DWC to establish a Return-to-Work Program in order to promote the early and sustained return to work of an employee following a work-related injury or illness.

Senate Bill 899 (Poochigian), Chapter 34, Statutes of 2004, amended Labor Code Section 139.48 which assigned the task to DWC of establishing a program to pay workplace modification expense reimbursement from a newly created Workers' Compensation Return-to-Work Fund. Labor Code Section 139.48 (g) also allowed for transfers from the Workers' Compensation Administrative Revolving Fund. The fiscal year 2006-07 Return-to-Work Budget Change Proposal allowed for a transfer of \$500,000 between the funds to establish available funding for approved claim payments as well as provided one position to administer the new program relative to the new Workers' Compensation Return-to-Work Fund.

Labor Code Section 139.48 also states that this section remain in effect only until January 1, 2010, unless a later enacted statute before January 1, 2010, deletes or extends that date.

ISSUE 7: SB 313 WORKERS' COMPENSATION INSURANCE ENFORCEMENT

The Division of Labor Standards Enforcement (DLSE) is requesting approval for an augmentation of three positions and administrative costs totaling \$221,000 for fiscal year 2010-11 and \$363,000 annually thereafter to carry out workers' compensation insurance enforcement to comply with SB 313 (DeSaulnier), Chapter 640, Statutes of 2009. Funding for this proposal is requested from the Uninsured Employers Benefit Trust Fund (UEBTF), where increased deposits will offset costs. Effective date is January 1, 2011.

COMMENTS

DLSE through its Bureau of Field Enforcement (BOFE) is charged with enforcing laws requiring employers in the State of California to secure the coverage of workers' compensation insurance for any and all employees.

Under existing law, codified at Labor Code Section 3722, at the time the stop order is issued and served, the Director of Industrial Relations is required to issue and serve a penalty assessment requiring the uninsured employer to pay to the director, for deposit into the State Treasury to the credit of the UEBTF.

The Legislature's intent in the introduction of SB 313 was to create a more effective and enhanced penalty structure for employers that fail to maintain workers' compensation by increasing the per-employee assessment from \$1,000 to \$1,500 and by clarifying the alternative methodology of computing assessments. It was noted that prior to the enactment of SB 313 employers may face a penalty that is less than what their workers' compensation insurance costs would have been, thus creating a disincentive to have coverage. This law will be in effect January 1, 2011.

By increasing the amount of the penalty assessment from \$1,000 to \$1,500, using the per-employee method alone, the bill could increase contributions to the Uninsured Employers Benefits Trust Fund (UEBTF). In 2008, the BOFE conducted 9,413 inspections. Those inspections resulted in 2,738 citations for lack of workers' compensation coverage, upon the same ratio, this bill would increase the amount of contributions to the UEBTF by \$2.2 million. The new amount would be based on \$24,613,544 in assessed penalties and \$6,705,683 in collected penalties.

The Bureau stated that collections of penalties could be jeopardized without additional staff support the implementation of SB 313, and risk diverting existing staff from other required enforcement programs.

ISSUE 8: DIVISION OF OCCUPATIONAL SAFETY HEALTH FUND (DOSH) LOAN REPAYMENT

The Department of industrial Relations (DIR) is requesting to extend the repayment terms for the General Fund loan approved during the fiscal year 2009-10 May Revise. During that process, a General Fund loan to the Occupational Safety and Health Fund (OSH Fund) was approved in the amount of \$14.5 million with repayment of the loan scheduled for June 30, 2010. Due to cash flow needs that are predicated on the annual assessment on workers' compensation premiums for insured employers and a recent cap on that assessment, the Department of Industrial Relations (DIR) is requesting to extend the repayment date until June 30, 2011.

During the May Revise, the General Fund support of \$24.8 million was eliminated to assist with the state's fiscal crisis. In order to achieve the savings, a General Fund loan of \$14.5 million was provided for the OSH fund operating capital until the annual assessment revenue was collected which occurs around March of each year. Trailer bill language (ABx4 12) amended the Labor Code Section 62.5f (2) to cap the OSH Fund assessment at \$52 million annually until July 1, 2013, at which time it will revert back to the June 30, 2009 level, adjusted for inflation.

If DOSH's request is denied and expected to fully pay back their loan by June 30, 2010, DOSH will need another General Fund "bridge" loan to ensure sufficient operating income while waiting for the annual assessment revenue to arrive. It is estimated that as of July 1, 2010, the fund would only have an \$18.5 million fund balance to cover its costs until the assessment revenue is received around March 2011. Based on the fund's budget authority, the estimated fund balance as of July 1, 2010 would only be sufficient to cover costs through November 2010.

COMMENTS

DOSH is proposing to repay the first \$7 million towards the loan by June 30, 2010 with the remainder due and payable by June 30, 2011 to enable the department to manage its cash flow until the receipt of the 2010-11 assessment monies in January 2011.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) promotes California's economic growth by providing services to keep employers, employees, and job seekers competitive. The EDD connects employers with job seekers, administers the Unemployment Insurance, Disability Insurance, and Paid Family Leave programs, and provides employment and training programs under the federal Workforce Investment Act of 1998. Additionally, the EDD collects various employment payroll taxes including the Personal Income Tax, and collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

	2008-09 (actual)	2009-10 (estimated)	2010-11 (proposed)
Expenditures	\$20,535,512	\$30,434,290	\$26,117,982
Personnel Years	9,731.2	11,326.9	11,106.7

EDD is funded through a variety of special funds and General Fund support. For 2010-11, the Governor's January budget proposal provides \$47.5 million in General Fund support that correspondences to increases for projects detailed in the following issues to be discussed below.

ISSUE 1: AUTOMATED COLLECTION ENHANCEMENT SYSTEM (ACES)

This Budget Change Proposal requests a one-time augmentation of \$31,423,000 and 65 positions (61 Personnel Years) for fiscal year 2010-11 to fund the ACES project.

The ACES project will provide a fully integrated and automated tax processing solution that will use state-of-the-art employer tax collection, storage, audit and account management, and data retrieval technologies. With this new system, the EDD will maximize the effectiveness of EDD's tax administration and collection operations. In addition, the proposed system will also collect penalties and back-wages that are due to the Department of Industrial Relations (DIR). The ACES project is benefit-based where the additional revenue generated by the project will offset all project costs thereby minimizing risk for the State.

The Prime Solution Provider (PSP) selected to develop the ACES solution began development in September 2009. The solution will consist of a Commercial Off-The-Shelf (COTS) software package, site-specific configuration, custom development of Unemployment Insurance Rating functionality, and business process improvements. The fully integrated tax accounting and collection system is targeted for implementation by January 18, 2011.

This request includes trailer bill language that will grant the Employment Development Department authority to collect DIR liabilities once ACES is operational. Current statutes require the Franchise Tax Board (FTB) to collect monies owed to DIR.

COMMENTS

This is an on-going project modeled after the systems currently used by Franchise Tax Board and Board of Equalization, both of which experienced significant increases in revenue following their implementations. In addition, ACES will also provide the Labor and Workforce Development Agency with an opportunity to leverage automated collection processes and new technology services for the collection of penalties and back-wages that are due to DIR.

The ACES project has identified two types of benefits. The first benefit will be one-time increased revenue derived from implementation of an interim collection system that will use automated tools and modified business processes on accounts receivable balances that are not currently being actively pursued by a collector. The second benefit will be on-going increased revenue derived after full implementation of the proposed solution.

Funding Source

	2010-11	2011-12
General Fund	\$24,601,000	\$21,050,000
Unemployment Insurance Fund	3,532,000	3,022,000
Disability Insurance Fund	3,164,000	2,708,000
Employment Training Fund	63,000	54,000
EDD Contingent Fund	63,000	54,000
TOTAL	31,423,000	26,888,000

SUGGESTED QUESTIONS

1. Does the Legislature have to make a corresponding adjustment or change in statute for the Franchise Tax Board as part of adopting the trailer bill language changes?

STAFF COMMENTS

Staff recommends approval of budget change proposal.

ISSUE 2: SINGLE CLIENT DATABASE – ALTERNATIVE BASE PERIOD

This Budget Change Proposal requests an augmentation of \$25.8 million in budget for 123 new positions and 33 existing positions for 2010-11 activities for the Single Client Database Modernization (SCDB) and Alternative Base Period (ABP) projects.

Funding for the SCDB and ABP project activities will come from the Special Transfers for Unemployment Compensation Modernization funds provided under the American Recovery and Reinvestment Act (ARRA) of 2009 (\$11,064,000) and ABP administrative costs will be funded through existing Unemployment Insurance (UI) funds (\$14,782,000). Included in this request are the ongoing costs for processing the administrative workload associated with the ABP claims. For 2011-12 and beyond, the EDD may need to request State funds to support the ongoing administrative costs for the ABP program if sufficient federal funding is not available from the annual UI grant.

The Employment Development Department will use this portion of the ARRA grant to improve service levels to Unemployment Insurance claimants by continuing the SCDB and ABP projects. Both projects will increase efficiencies and update existing applications that help meet federal and state mandates. The updates to applications on EDD systems are critical because the existing systems are unable to meet high volume demands. Also, the SCDB and ABP projects are necessary in order for California to implement the alternative base period and qualify for additional Federal Stimulus Funds.

COMMENTS

On February 17, 2009, the American Recovery and Reinvestment Act (ARRA) was signed into law. A portion of the ARRA is known as the Special Transfer in Fiscal Year 2009 for Administration. This act provides a grant to states for Unemployment Insurance operations. The EDD is requesting budget authority to use this grant to improve services to UI claimants through two projects: SCDB Modernization and ABP.

Enacted in 2009, ABx3 29 requires the EDD to establish an alternative base period that expands UI eligibility results to determine if unemployed workers have sufficient wages to qualify for UI benefits. The ABP project would allow unemployed persons who fail to qualify for benefits under the existing base period to then have their eligibility determined under the alternative base period in which wages earned in the most recently completed calendar quarter can be counted. Currently, California's existing based period excludes earnings in the last three to six months of employment. The bill also requires that the ABP be established as soon as possible but no later than April 3, 2011.

EDD reports that they anticipate a five month delay for both the SCDB Modernization and ABP projects due to the recently enacted federal UI benefit extensions. This delay is attributed to the programming and testing efforts to implement the extensions because the same Information Technology (IT) staffing resources are needed to support the federal extensions and the two projects. Over a nine month period, the extensions paid out almost \$9 billion in additional UI benefit payments to new claimants.

Furthermore, a proposed database design solution to avoid resource contention with the federal extensions and to allow parallel development has been introduced by the project team and is being reviewed to submittal to the state Office of the Chief Information Officer (OCIO) for approval. This solution would delink the ABP functionality from the completion of the SCDB conversion as a temporary solution until the SCDB can be entirely converted.

ISSUE 3: DISABILITY INSURANCE AUTOMATION (DIA) PROJECT

This proposal requests a one-time augmentation of \$34,047,455 and 47 positions (44.6 Personnel Years) from the Disability Insurance (DI) fund for fiscal year 2010-11 for this multi-year project. The resources will be used for the fifth year of the Disability Insurance Automation (DIA) project to continue development of the DIA project, including the second year of Systems Integration (SI) DIA System. The proposed system will provide greater access to services for claimants, medical providers, and employers.

A DIA BCP for fiscal year 2009-10 was approved by the Legislature for \$11,298,841 and 26.7 Personnel Years (PYs) to begin the design, development, and implementation phase of the project. The DIA Project will contract with the same vendor and coordinate design and development of similar services as the EDD's Unemployment Insurance Modernization (UIMOD) Continued Claims Redesign (CCR) subproject. The DIA project and the CCR subproject will require similar claim processing and other generic services. The State is interested in sharing as much of these services under development between DIA and CCR as possible, and to pay for such services only once. Therefore, the DIA project start date was shifted from July 2009 to January 2010 to be more closely aligned with the CCR subproject to enable joint design and development of shared services.

The DIA is a multi-year project. Additional funding for fiscal years 2011-12, 2012-13 and 2013-14 will be requested in subsequent BCPs. Resources that have been allocated to the project and projected future resource needs are as follows:

SFY 2006-07	8.2 PYs	\$1,178,058	Actual
SFY 2007-08	11.2 PYs	\$1,684,635	Actual
SFY 2008-09	10.8 PYs	\$1,560,218	Actual
SFY 2009-10	28.5 PYs	\$11,138,675	One Time/Ongoing
SFY 2010-11	44.6 PYs	\$34,047,455	One Time/Ongoing
SFY 2011-12	59.9 PYs	\$39,215,512	One Time/Ongoing
SFY 2012-13	67.7 PYs	\$16,558,339	One Time/Ongoing
SFY 2013-14	42 PYs	\$6,862,757	Ongoing

8 Year Totals 272.9 PYs \$112,245,649

COMMENTS

This project provides an opportunity to conduct business transactions in a manner compliant with the Health Insurance Portability and Accountability Act (HIPAA) of 1996. Moving the DI program to a HIPAA compliant environment provides for the electronic transmission and intake of DI claims with medical providers with whom the Department shares claim data. This transaction to an electronic environment is consistent with California's initiative to provide services to citizens and businesses through e-government and is vital for the EDD in creating solutions with an emphasis on customer service.

ISSUE 4: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION

The Employment Development Department requests on-going funds of \$2,638,000 and 25 positions beginning in 2010-11 for the continued funding of Employment Development Department's involvement in a joint agency education and enforcement effort conducted by the Economic and Employment Enforcement Coalition. These resources will continue funding for various dedicated positions allocated specifically for the EEEC that are scheduled to expire June 30, 2010.

The EDD has been able to utilize these positions to effectively increase enforcement activities against California employers who intentionally and fraudulently evade employment tax laws by paying workers under-the-table and off-the books. The operations carried out by 25 positions can be divided into four categories:

1. Conduct vigorous and targeted enforcement sweeps against labor law violators;
2. Restore competitive equality to law-abiding businesses;
3. Education of business owners and employers on state and federal labor, licensing and employment tax laws; and,
4. Outreach to protect health, safety and benefit rights of workers.

Without these positions and associated funding, EDD will not be able to continue its proactive enforcement activities against the underground economy in targeted industries such as agriculture, construction, car washes, garment manufacturing, pallet manufacturing, restaurants, and auto body shops.

This proposal would be funded using the Employment Development Department's Contingency Fund (\$1,319,000) and the Disability Insurance Fund (\$1,319,000).

ISSUE 5: UNEMPLOYMENT INSURANCE MODERNIZATION (UIMOD) PROJECT
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This Budget Change Proposal requests a budget augmentation of \$13,905,000 from the Unemployment Fund and approval to redirect existing Unemployment Administration Fund resources of \$11,165,000 for fiscal year 2010-11. The resources will be used for the Unemployment Insurance Modernization (UIMOD) project to continue the design, development, and implementation phase of the project.

The UIMOD Project will build an infrastructure for the Unemployment Insurance (UI) call centers so that the workload can be better managed with more flexibility while at the same time reducing costs associated with the telecommunications infrastructure. Additionally, the project solution will help to eliminate the most labor-intensive activities inherent in the continued claims process and provide additional self-service capacity for customers allowing for a redirection of staff resources to other business functions within the UI Program, while also providing the Department with the opportunity to improve fraud detection and prevention capabilities through the development of new business processes and technologies.

The UIMOD project will be funded by a combination of Federal funds composed of Reed Act funds (\$66.1 million), UI Grant funds (\$78.6 million), and Special Transfers for Unemployment Compensation Modernization funds provided under the American Recovery and Reinvestment Act (ARRA) of 2009 (\$13.9 million). UIMOD is a multi-year project. Approval for redirection of UI funds for fiscal years 2011-12, 2012-13, and 2013-14 will be requested in subsequent BCPs. Resources that have been allocated to the project and projected future resource uses are as follows:

SFY 2003-05 – 2008-09	66.8 PYs	\$19,588,309	(\$12.1M Reed Act, \$7.5M UI Grant)
SFY 2009-10	38.8 PYs	\$19,837,187	(\$10.1M Reed Act, \$9.7M UI Grant)
SFY 2010-11	53.5 PYs	\$48,941,289	(\$23.9M Reed Act, \$11.2M UI Grant, \$13.9M Special Transfer)
SFY 2011-12	42.1 PYs	\$42,453,663	(\$19.6M Reed Act, \$22.9M UI Grant)
SFY 2012-13	24.8 PYs	\$14,111,021	(\$0.3M Reed Act, \$13.8M UI Grant)
SFY 2013-14	23.8 PYs	\$13,695,448	(\$13.7M UI Grant)

10 Years Totals	249.8 PYs	\$158,626,917	
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INFORMATION ONLY

The issues listed below are informational only, as these are issues the Department of Finance will update during May Revision.

ISSUE 6: OCTOBER 2009 REVISE – UNEMPLOYMENT INSURANCE PROGRAM

Employment Development Department has submitted a proposal requesting a decrease of 942.9 in Temporary Help Personnel Years (PYs). The administrative budget authority will decrease \$62.3 million with a benefits decrease of \$6.8 billion.

For 2010-11, this proposal requests an decrease of 1,245.9 in Temporary Help PYs. The administrative budget authority will decrease \$73.4 million with a benefits decrease of \$11.6 billion.

ISSUE 7: OCTOBER 2009 REVISE – CA UNEMPLOYMENT INSURANCE APPEALS BOARD (CUIAB) UNEMPLOYMENT INSURANCE PROGRAM

Employment Development Department has submitted a proposal requesting an increase of 25 positions (23.7 Personnel Years PYs) and a decrease of 131.6 in Temporary Help PYs (a total decrease of 107.9 PYs). The administrative budget authority will decrease \$11.1 million.

For 2010-11, this proposal requests an increase of 25 positions (23.7 PYs) and a decrease of 187 in Temporary Help PYs (a total decrease of 163.3 PYs). The administrative budget authority will decrease \$17.3 million.

ISSUE 8: OCTOBER 2009 REVISE – EDD AND CA UNEMPLOYMENT INSURANCE APPEALS BOARD (CUIAB) COMBINED FOR UI PROGRAM

Employment Development Department has submitted a proposal requesting an increase of 25 positions (23.7 Personnel Years) and a decrease of 1,074.5 in Temporary Help PYs (a total decrease of 1,050.8 PYs). The administrative budget authority will decrease \$73.4 million with a benefits decrease of \$6.8 billion.

For 2010-11, this proposal requests an increase of 25 positions (23.7 Personnel Years) and a decrease of 1,432.9 in Temporary Help PYs (a total decrease of 1,409.2 PYs). The administrative budget authority will decrease \$90.7 million with a benefits decrease of \$11.6 billion.

ISSUE 9: OCTOBER 2009 REVISE – DISABILITY INSURANCE PROGRAM

Employment Development Department has submitted a proposal requesting an increase of 2.4 Temporary Help Personnel Years, and an increase of \$245,000 in administrative funding with a benefits decrease of \$42.4 million.

For 2010-11, this proposal requests an increase of 49.9 Temporary Help PYs, and an increase of \$3,712,000 in administrative funding with a benefits increase of \$341 million.

ISSUE 10: OCTOBER 2009 REVISE – WORKFORCE INVESTMENT ACT PROGRAM

The Workforce Investment Act Title 1 funds are available through three programs: Adult, Youth Activities, and Dislocated Workers. The Adult program funds provide universal services to all adults, including training and other services to economically disadvantaged adults facing serious barriers to employment. Youth Activities program funds provide economically disadvantaged youth with training and other services to prepare them with the skills necessary to obtain unsubsidized employment, completion of secondary or post-secondary education, entrance into military service, or qualified apprenticeship training. Dislocated Worker program funds provide rapid response services to workers affected by plant closures and layoffs, and retaining and readjustment services.

In accordance with the Department of Labor (DOL) regulations, the Employment Development Department administers the WIA and ARRA WIA funds pursuant to the Governor's policy direction in consultation with the California Workforce Investment Board (CWIB).

For 2009-10, the EDD proposes an increase of \$39,920,251 in State Support and an increase of \$11,631,000 in Local Assistance for WIA Title 1 funding.

The increase in State Support will enable the EDD to allocate 15 Percent and 25 Percent carryforward funds from 2008-09, unspent 2008-09 ARRA WIA 25 Percent funds, and realign the current WIA spending plan that will allow the EDD to fully spend the 2009-10 WIA allocation.

For 2010-11, this proposal requests an increase of \$3.9 million in State Support and no change for Local Assistance.

ISSUE 11: OCTOBER 2009 REVISE – SCHOOL EDUCATION FUND

The School Education Fund (SEF) is a joint, pooled-risk fund administered by the Employment Development Department (EDD) that collects contributions based upon a percentage of total wages paid by public schools and community college districts. Money deposited in the SEF is used to reimburse the Unemployment Insurance Fund for the cost of UI benefits paid to former employees of those school employers that elected this option in lieu of paying the tax-rated UI method, as is required of private sector employers.

For 2009-10, Employment Development Department requests an increase in authority for the Unemployment Insurance benefits in the School Employees Fund by \$144.2 million.

For 2010-11, this proposal requests an increase in authority for the Unemployment Insurance benefits in the School Employees Fund by \$66.2 million.

The increases in Local Assistance costs and contribution rate for 2009-10 are due to the worsening downturn for school employers.