

# House Finance and Appropriations Human Services Subcommittee

## Testimony of Terry M. Thomas, Assistant Director, Ohio Department of Job and Family Services

April 5, 2007

Chairman Stewart, Ranking Member Brown, and Members of the Subcommittee, my name is Terry Thomas. I am Assistant Director with responsibilities for Services to Employers, Ohio Department of Job and Family Services (ODJFS). It is a pleasure to stand today before the very same Subcommittee that I staffed for the Legislative Service Commission during my initial year of state service in 1979.

The Services to Employers Division of ODJFS is comprised of three offices: the Office of Workforce Development; the Office of Unemployment Insurance; and, the Office of Local Operations. Together, these three offices provide a variety of complementary and closely coordinated services designed to assist Ohio workers and businesses realize their greatest degree of economic well-being.

In recent years, less than one percent of the cost of services provided by these offices has been funded by General Revenue, with the vast majority supplied by federal grants from the U.S. Department of Labor or dedicated employer taxes.

I would like to highlight several program areas that are undertaking initiatives designed to maximize the impact and utilization of these federal resources to expand both the quality and quantity of services to Ohio's employers and job seekers.

### **Workforce Development**

The development of Ohio's workforce is the primary focus of the Strickland-Fisher Administration's economic development effort. Even before he assumed office, Governor Strickland commissioned me to lead the Ohio Talent Tiger Team, representing key stakeholders and experts in the fields of economic and community development, education, business, and labor to recommend strategies to develop and support Ohio's talent agenda. Our report, "*Setting Ohio's Talent Agenda*," which is before you, embraces the following vision:

*"Ohio will be a leader in talent development – giving the state's employers a competitive edge by meeting and exceeding their needs for customized, flexible*

*and industry-driven skills training, and in helping pay family-sustainable wages and to succeed in the 21<sup>st</sup> century global economy.”*

One of the primary strategies that will be implemented over the FY 2008 - 2009 biennium is to reprogram existing resources to establish and support a regional industry sector initiative, for developing Ohio's future economic engine. The Ohio Skills Bank will align state and federal funding streams to finance regional sector solutions in the Ohio Department of Development's 12 economic development regions. In doing so, we will be patterning our efforts after the Labor Department's WIRED initiative and similar initiatives in the neighboring states of Indiana, Michigan, and Pennsylvania.

This program will be complemented by the Ohio Workforce Guarantee to target dollars to industries in growth sectors and to attracting more growth industries to the state. This initiative, which is modeled after successful programs in the Carolinas, pledges to train the skilled workers needed for companies expanding or locating in Ohio and creating at least 20 new jobs.

The Workforce Investment Act (WIA) provides the centerpiece for these and other public workforce development efforts in Ohio. WIA appropriations, budgeted to increase by over 11% for FY 2008, are used to support a statewide system of One-Stop Centers administered by 19 local Workforce Investment Boards, provide basic assessment and career development services, support basic educational and occupational training services to youth, adults and dislocated workers, and fund pilot and demonstration projects intended to improve the effectiveness of Ohio's workforce development efforts.

Ohio's workforce system has historically underutilized these federal funds leading to the accumulation of unnecessarily large unspent reserves. The Executive Budget reflects the expanded use of federal waivers and elimination of unneeded restrictions that have limited the use of these federal funds, thereby increasing the numbers of Ohioans served by over 10,000 during the next biennium.

In addition to the new initiatives already described, we will use available federal resources to enhance those programs that have demonstrated effectiveness, such as Ohio's Registered Apprenticeship program. This program has operated effectively since 1937, but has lacked the state investment to expand its cost-effective model to meet the demands of high-growth industries in Ohio. Currently, over 16,000 Ohioans are registered apprentices in about 200 different occupations. Ninety five hundred (9,500) Ohio employers use the registered apprenticeship training method to create highly skilled workers who, upon completion, receive nationally recognized credentials. Ohio's apprentices currently pay over \$600 million in taxes and earn family sustainable wages.

Our budget initiative will enable Ohio to continue these critical services and expand opportunities to an additional 4,800 apprentices in 150 new programs over the biennium. In addition, it will provide for expanded efforts for the development of articulation agreements with colleges and universities, further enhancing the value of the apprenticeship credential by providing credits towards an associate's degrees.

Another initiative that will expand services utilizing existing federal funding is the set aside of \$6 million for expanded job opportunities and special services for youth residing in low-income communities. These federal resources will leverage local investments to provide employment and training opportunities for up to an additional 2,500 youth during the biennium in both Ohio's urban core areas as well as in distressed rural areas of our state.

### **Unemployment Compensation**

The impact of Ohio's lengthy recovery from recession continues to affect the Unemployment Compensation benefits claims workload. There were 640,365 initial claims for unemployment in FY 2006, a 4% reduction from 2005 but still 30% higher than in FY 2000. Even the minor reduction in workload of the past year may be short lived. Over the first eight months of FY 2007, we have experienced an 8% increase in filed claims over FY 2006. ODJFS paid \$1.04 billion in unemployment benefits in 2006. We project the amount of benefits to be paid in FY 2007 will be about \$1.06 billion.

The current Ohio trust fund balance is \$293.1 million. By contrast, at the end of FY 2000, prior to the last recession, Ohio's trust fund balance was a comparatively robust \$2.16 billion. Despite the fact that the declining trust fund balance has triggered the highest tax rate provided for in Ohio law, the state's unemployment tax of an average \$230 per employee remains below the national average.

One issue that continues to pose problems is the return that Ohio receives from Washington on federal unemployment taxes paid by Ohio employers. These dollars are redistributed to states to administer the unemployment programs, employment services, veterans' services, labor statistics and payment of federally financed benefits such as extended benefits. According to the Department of Labor, in CY 2005, for every dollar in federal unemployment taxes paid by Ohio employers, only 49 cents was returned to the state. The total amount received from the federal government continues to be lower than the levels of the 1980's, and remains insufficient to support the actual costs of administering the program. The inequitable return of federal taxes paid by Ohio employers creates additional challenges for identifying necessary resources to invest in the infrastructure

needed to effectively utilize emerging technologies to maximize service efficiencies.

### **The Public Employment Service**

The purpose of the Public Employment Service is to provide universal access to services that:

- Assist job seekers in finding work,
- Assist employers in finding skilled workers, and
- Provide priority assistance to military veterans to overcome barriers to finding employment.

Our Office of Local Operations is organized to provide the most efficient means to re-employ unemployment benefits customers. By combining unemployment benefit assistance with an aggressive job referral and re-employment service, Local Operations works to shorten the amount of time customers need unemployment benefits. This returns workers back to jobs and keeps employer tax rates low.

This structure differs from many other states which have separated the unemployment and employment functions into different agencies. As a result, many of these same states are struggling with unnecessarily long average duration on unemployment and difficult re-employment coordination efforts.

The Office of Local Operations operates by the philosophy that transactional processes, for example processing an unemployment claim, are best handled in a centralized, streamlined manner utilizing automation wherever possible, while relational processes, such as working with a laid-off worker to define job search strategies, are best handled in-person.

To that end, Local Operations maintains a total of 22 field offices (6 call centers and 16 processing centers) with roughly 670 employees. The call centers and processing centers provide unemployment compensation benefits via telephone and the Internet. Calls from customers are directed to the first available service representative in the state creating a single virtual call center. We maintain a standard of 80% of all calls handled by a live person in 30 seconds or less. In 2006, we handled 1,186,710 customer calls, averaging 98,893 calls a month.

By partnering with like-service providers at locally-operated One-Stops in each of Ohio's 88 counties, Local Operations has been able to realign and expand the

efforts of its employment services and veterans' services staff, from simply facilitating job matches to providing expertise in labor market information, employer outreach initiatives, re-employment services, Rapid Response services, services under the Trade Adjustment Act, and other value-added programs.

Over the past two fiscal years, we have served as a national pilot project for re-employment services, connecting individuals laid off from declining industries with retraining services at Ohio's One-Stops. During that period, we have increased the number of face-to-face orientations for unemployment recipients from 13,000 in FY 2006 to 23,000 in FY 2007. We expect to complete over 28,000 orientations during each year of the FY 2008 - 2009 biennium. Ohio's reemployment services pilot is unique in the nation due to the close coordination with our community colleges and adult career-technical centers to provide assessments of transferable skills to assist workers to realistically evaluate their career options. Roughly 250 ODJFS employees provide employment services.

### **Veterans' Employment Services**

In addition to priority access to all services provided by the public employment service, an additional 80 state employees are located throughout the state in One-Stops as well as other Veterans' services facilities to assist veterans with reemployment and training issues. Ohio continues to expand our fundamental commitment to providing needed services to our veterans. To that end, we supplement the basic Veterans Employment and Training grant with WIA Discretionary and Rapid Response funds to provide resources dedicated to needed training and supportive services for our returning veterans and those other veterans and spouses needing additional assistance to reenter the civilian labor market.

We also anticipate increasing the marketing of the Military Injury Relief Fund, to increase resources generated by the tax check off and private donations to support our injured veterans with the goal of expanding the available resources to \$2 million per year over the next biennium.

### **System Automation**

There are three primary systems used to support unemployment compensation and the public labor exchange. In FY 2005, we implemented the Ohio Job Insurance system (OJI) representing a significant reengineering of the aging benefits system. As a result, claimants have the ability to file by either telephone or Internet and employers have online access to their entire claims history. Currently 20 to 25% of initial claims and over one-third of continued claims are filed via the Internet. Approximately 95% of customers are electing to receive benefits payments electronically, either by electronic funds transfer or by using the debit card

introduced last year. The continuing improvement of system capabilities will support additional progress towards full realization of potential service level enhancements and cost savings associated with the automation of these processes.

In FY 2004, a redesign of the workforce development reporting and public labor exchange system entered its final stages. The reporting system became fully operational in FY 2004, resolving a long-standing issue with the U.S. Department of Labor over the reliable reporting of outcome data. As a result, Ohio was able to document that we met or exceeded all federal performance standards under the Workforce Investment Act (WIA) for the first time since the inception of WIA in 1999. Progress continues with the redesign of the labor exchange portion of the system with significant enhancements completed during FY 2007.

Over the coming biennium, we expect to further enhance our automated system capabilities to support the integration of our system with a broader array of data from Ohio's economic development and education systems as well as the management of an expanded set of performance metrics aligned to the achievement of the knowledge, skills, attitudes, and behaviors needed for success in growth sectors of Ohio's economy.

A third system used to support Unemployment Compensation in Ohio is the Unemployment Tax system. The current tax system is 30 years old, which affects its stability and limits our ability to make use of recent technological advances. The new system, Employer Resource Information Center, or ERIC, will further expand our capabilities for allowing employers to electronically transact business with ODJFS in addition to the Ohio Business Gateway. By automating a substantial portion of tasks currently performed by state staff through the utilization of imaging technology, we expect to also realize efficiencies to the workflows and document storage costs for benefit processes. Once the system goes live in late 2007, employers will have a means to manage their accounts online and have available substantially more information about their tax account than was ever possible in the past.

We are also beginning work on technology upgrades to the Unemployment Compensation Review Commission. This project will take advantage of the OJI architecture and information flow to make the UCRC and UC interfaces more efficient. We will also realize efficiencies in the MIS operation, as there will be fewer technologies and software to be supported on an ongoing basis.

## **Federal Employment Issues**

Several legislative issues being discussed by the U.S. Congress could directly impact Ohio's budget. These issues include the reauthorization of both the Workforce Investment Act and the Trade Adjustment Act and potential enhancements to the unemployment insurance system. The dialogue around each of these issues will have significant implications for Ohio as well as the other states of the industrial Great Lakes region. The economic changes of the recent decades have had a disproportionate impact on our region challenging the capacity of our systems to respond. Each of the issues above will potentially affect the funding formulas, client populations to be served, and the types of services provided, increasing the need for state system design and policy development as well as the tracking of a significantly broader array of expenditures and outcomes.

Mr. Chairman, thank you for your attention. I would be happy to answer any questions that you or your colleagues might have.