URBAN INSTITUTE

http://www.urban.org/

2100 M Street NW
Washington, DC 20037-1264

# The Public Workforce System's Response to Declining Funding After the Great Recession

**Stephen A. Wandner**

Working Paper 5

**Unemployment and Recovery Project**

## Unemployment and Recovery Project

This report was supported by a grant from the Ford Foundation to study unemployment and the Great Recession, Grant Number 1110-0674. Any opinions expressed herein are solely the author's and should not be attributed to the Ford Foundation, the Rockefeller Foundation, the Urban Institute, the Urban Institute's trustees, or other Urban Institute funders.

This working paper is part of the Unemployment and Recovery project, an Urban Institute initiative to assess unemployment's effect on individuals, families, and communities; gauge government policies' effectiveness; and recommend policy changes to boost job creation, improve workers' job prospects, and support out-of-work Americans. Major funding for the project comes from the Rockefeller and Ford Foundations.

# The Public Workforce System's Response to Declining Funding After the Great Recession


## Stephen A. Wandner


This paper examines how state workforce agencies served large numbers of unemployed workers during the years after the Great Recession, despite declining program and administrative resources. To spur reemployment, the federal government responded to high unemployment with supplemental funding for states to provide unemployment insurance (UI) beneficiaries and other job seekers with reemployment services and training. Supplemental funding, however, was exhausted by late 2010, and the public workforce system had to continue serving large numbers of unemployed workers at the very time its funding declined sharply.

To assess state responses to declining federal budgets for workforce programs, this paper uses two new surveys of state UI administrators and workforce administrators fielded during fall 2012. The surveys queried administrators about how they adapted during the two-year period beginning July 2010—a period of declining resources. The survey results indicate that state agencies used various combinations of approaches in response to declining federal grants. For example, a few states supplemented federal funding with their own funds while others increased automation, changed the mix of services provided, and decreased the number of workers served.

## The Great Recession and the Policy Response

The Great Recession began in December 2007 and ended in June 2009. Precipitated by a financial crisis, it was the most severe economic downturn since the Great Depression. Large numbers of workers became unemployed, and many remained unemployed for historically long periods of time. Despite the recession's end in mid-2009, the unemployment situation did not improve markedly in the next three years. Most of the United States remained in an employment "recession" even as the gross domestic product resumed slow growth.

Historically, the UI program has responded to recessions before other workforce programs do, as was the case during the Great Recession. Because the UI program is a mandatory budget program, when the number of unemployed workers applying increases, the program pays out more regular UI benefits to newly unemployed workers without new congressional appropriations. As the recession began, states paid more benefits to more unemployed workers, drawing down their

Unemployment Trust Fund accounts. Later, when state accounts were depleted, they borrowed from the federal government; some borrowed from the private sector by issuing bonds.

Given the severity of the recession, the 26-week regular UI program quickly became insufficient for workers who remained unemployed. UI beneficiaries exhausted their entitlement to regular UI benefits, and many remained unemployed without further income support. The wait for claims at UI call centers lengthened, and local workforce offices' response to requests for UI claims assistance also slowed.

In June 2008, the federal government responded by providing additional benefits, as it has done in almost all post–World War II recessions, but the severity of this recession led to a much more comprehensive program than in the past. Beyond the regular 26-week program, the permanent 13-week Extended Benefit program was modified to be more widely available, the temporary Emergency Unemployment Compensation (EUC) program was enacted, and other temporary improvements were made. Together, the three UI programs increased potential durations of UI benefits up to 99 weeks in many states, far longer than in the past. These programs were modified over time, but many recession responses continued with program extensions, including the most recent December 2012 extension of EUC through the end of 2013.

The Workforce Investment Act (WIA) and Wagner-Peyser Act Employment Service (ES) programs also provided more services to more workers, at first using current staff and current budget funding. Newly unemployed workers, however, flooded the local workforce offices and call centers, and staff-assisted services reached their limits. In February 2009, the American Recovery and Reinvestment Act (ARRA) was enacted as a $787 billion stimulus package covering a wide range of initiatives, including a recession response for workforce and UI programs. The basic WIA Adult and Dislocated Worker programs received $1.75 billion in additional funding. The basic ES program received $150 million, along with $250 million in special funding for Reemployment Services grants. The UI program received $500 million for program administration and improvement, as well as $7 billion to provide states with incentives to expand UI eligibility (table 1). These appropriations were one-time measures programs could use until they were exhausted, but they were not extended.

## Table 1. Major ARRA Workforce Program Initiatives and Funding Levels

| ARRA funding category | Funding amount ($ billions) |
|---|---|
| UI administration | 0.50 |
| UI modernization | 7.000 |
| Wagner-Peyser Act grants to states | 0.150 |
| Wagner-Peyser Act Reemployment Services | 0.250 |
| WIA Adult | 0.500 |
| WIA Dislocated Workers | 1.250 |
| WIA Dislocated Worker National Reserve | 0.200 |
| High Growth and Emerging Industry Grants | 0.750 |
| WIA Youth | 1.200 |
| Job Corps | 0.250 |
| YouthBuild | 0.050 |
| Community Service Employment for Older Americans | 0.120 |

*Source:* Bradley and Lordeman (2009).

## ARRA Funding Was Exhausted while Unemployment Remained High

By mid-2010, ARRA one-time funding for workforce programs and UI administration had been largely exhausted. The UI program was still facing large numbers of claimants who remained unemployed for long periods of time. The ES and WIA programs, also serving large numbers of workers, had expanded their programs sharply. State WIA programs had followed the U.S. Department of Labor guidance that accompanied ARRA fund allocation, entreating the state programs to not only quickly serve more workers but also provide more participants with training (Wandner 2012).

Policymakers were particularly concerned about providing continued reemployment services to the long-term unemployed—EUC recipients. After ARRA funds were exhausted in 2010, the Obama administration in mid-2011 unsuccessfully proposed legislation that would have provided Reemployment Services grants of $200 per EUC recipient. A similar provision was enacted in February 2012 as part of the Middle Class Tax Relief and Job Creation Act, but ultimately the grant per participant was reduced to $85—though the normal cost of robust in-person reemployment services is $300 to $400.

The budget for workforce programs, however, had been stagnant and slowly declining for several years before the Great Recession. The Great Recession did not change this trend. It simply added an overlay of one-time funding that was expended or obligated during 2009 and 2010. Thus, by the middle or end of 2010, states found that their total workforce resources had declined below pre-recession levels (table 2).

### Table 2. Workforce Program Budgets, Program Years 2007–2012 ($000)

| Year | Wagner-Peyser Act | WIA Adult | WIA Dislocated Workers |
|---|---|---|---|
| 2007 | 715,883 | 826,105 | 1,112,046 |
| 2008 | 703,377 | 861,540 | 1,183,840 |
| ARRA[a] | 400,000 | 500,000 | 1,250,000 |
| 2009 | 703,576 | 861,540 | 1,183,840 |
| 2010 | 703,576 | 860,116 | 1,182,120 |
| 2011 | 702,169 | 770,921 | 1,063,432 |
| 2012 | 700,642 | 770,811 | 1,008,151 |

*Source:* Wandner (2012).

a. February 2009–September 2010

The decline in funding meant that state workforce programs had to supplement federal funding and/or reduce costs by reducing the number of workers served, changing the mix of services, and altering the methods of providing services. The change in methods was generally away from one-on-one in-person services to automated, group, or less-intensive services. Overall, states' responses to the federal budget cuts led to fewer clients receiving services and less intensive services for those who did. On net, expenditures per participant declined.

Per participant expenditures had been declining substantially for some time, although temporary ARRA funding briefly halted the slide. For example, ES expenditures per participant were approximately $60 in early 2006 but declined to approximately $35 in early 2009; ARRA supplementation raised ES expenditures per participant to above $40, but they fell to about $30 by the beginning of 2011. A similar change occurred for WIA Dislocated Workers, where expenditures per person were as high as $1,700 in early 2006 but declined to approximately $700 in early 2009. With ARRA funding, WIA Dislocated Worker expenditures per participant increased briefly to above $800 but declined to approximately $600 as ARRA funding was exhausted (Eberts, Wandner, and Cai 2012).

Thus, with their ARRA funding exhausted, state workforce agencies faced continuing high workloads without supplemental funding to serve demand for training and reemployment services. In contrast, UI benefit funding (but not administrative funding) continued at recessionary levels as Congress repeatedly extended the EUC program.

State workforce administrators confronted decisions about how to manage their training and reemployment service programs with reduced resources. The remainder of this paper examines how WIA/ES and UI administrators adapted to reduced resources. Responses are from two surveys covering the period from July 2010 through September 2012.

The first survey gathered information from administrators who oversaw the WIA and ES programs; the second obtained information from UI administrators. The surveys were designed by the National Association of State Workforce Agencies (NASWA) and the author for both research and policy purposes. NASWA's research arm, the Center for Employment Security Education and Research, fielded the surveys in late 2012.

The surveys specifically inquired about states' responses to declining federal funding for the workforce system during the two years after the Great Recession. The survey period for WIA and ES covered July 1, 2010, through June 30, 2012, to align with the WIA/ES program year. For the UI program, the survey period ended September 30, 2012, as the program operates by the federal fiscal year. Forty-four states responded to the UI survey, while 45 responded to the workforce administrator survey. The surveys were designed to be of use by NASWA and its member agencies.

## WIA and Wagner-Peyser Act Programs after the Great Recession

WIA and Wagner-Peyser Act program funding increased greatly during 2009 and 2010, making use of annual grants from the federal government and temporary ARRA supplemental funding. Wagner-Peyser Act funding increased in-person employment services for all workers, while Reemployment Service grants covered only UI recipients. The WIA program served dislocated workers, disadvantaged adults, and youth. By the end of 2010 states had exhausted their ARRA funding, though unemployment and the demand for services remained at recessionary levels. State workforce programs either had to have supplemental funding above their annual federal grants, or they had to cut back programs, services, staffing, or participants served.

### Supplementing with State Funding

Despite the shortage of federal funding to serve the flow of unemployed workers to local workforce offices, states generally did not supplement federal funding. Twenty-nine of the 45 state agencies reporting, or two-thirds (64 percent), provided no state supplemental funding, even as overall federal funding declined. In 16 states that did supplement federal funding, Wagner-Peyser Act programs were by far the most frequently supplemented programs, with 11 supplementing those programs. Five states supplemented WIA funding.

The sources of supplemental funding included state general revenue, Reed Act funds, UI Penalty and Interest funds, and state special funds, including state UI offset funds.[1] Such funding, however, was limited. In the case of Reed Act funds, few states had any remaining funds from a 2002 $8 billion Unemployment Trust Fund distribution. One state using its share of Reed Act funds indicated that these were nearing depletion.

## Reducing Costs

With most states not supplementing their federal grants for WIA and ES programs, the great majority had to reduce WIA and ES costs. They did so with respect to ARRA-funded projects and programs by reducing training and other expensive services, making other changes in their mix of services, reducing staff, and providing automated and group services instead of one-on-one staff-assisted services. For example, many states indicated declines in staffing through attrition or layoffs. As a result, staff caseloads increased, and the provision of one-on-one services (and sometimes business services) declined. The most frequently cited reductions occurred in the WIA programs, particularly Summer Employment Programs and individual job training. The basic Wagner-Peyser Act program changed less, although the quantity of Reemployment Services declined. States generally did not discuss tradeoffs in service mix, but Rhode Island increased low-cost Wagner-Peyser Act activities by reducing funds for higher-cost WIA training.

Some states reduced costs by scaling back or eliminating projects that had received ARRA funds. In fact, four-fifths (82 percent) had to reduce or eliminate major WIA or ES projects that had been funded by the ARRA.

To make things worse, with ARRA funding reductions, governors had less WIA money to use on statewide and local initiatives and projects. Governors had made considerable use of WIA funds statutorily set aside for discretionary projects before the bulk were distributed to local workforce areas. The federal government reduced these set-asides from 15 to 5 percent of annual state WIA grants. This greatly reduced state discretion in using WIA funding for state and local projects. An overwhelming majority of states (92 percent) reported eliminating major projects due to the reduction. Projects most mentioned as having been eliminated or curtailed were current statewide and special projects and initiatives, new initiatives, youth programs and initiatives, incentive awards for local areas, and incumbent worker training programs.

While there was great financial pressure to cut back on projects and initiatives, some states resisted. Forty-two percent were able maintain funding for one or more major WIA or Wagner-Peyser Act projects or initiatives. States indicated that the most frequently maintained programs were Reemployment Services, Reemployment and Eligibility Assessments, and general Wagner-Peyser Act services (nine states). Other maintained programs included special and innovation projects, those for summer youth and incumbent workers, WIA training, and business services.

## Changing the Mix of Reemployment Services

Services provided by the local workforce offices vary considerably in cost. Training services may cost 10 or more times as much as core services; intensive services are also more expensive. Thus, as the flow of clients into the local workforce office overwhelmed the resources available to serve them, offices frequently substituted less expensive for more expensive services. State administrators revealed that more expensive WIA services were offered less frequently after ARRA funds were exhausted. States had to find cheaper ways to serve workers coming to the local offices. During the post-ARRA period, 69 percent of states reported that the participants receiving WIA training decreased. In addition, 65 percent of states reported that participants receiving WIA intensive services decreased.

Thus, the rich service mix that was initiated in 2009 and continued into 2010 could not be sustained. With increased ARRA funding in early 2009, the Department of Labor urged state agencies to place program emphasis on training, which increased sharply during 2009 and early 2010 (Eberts et al. 2012). However, with extra ARRA funding exhausted in late 2010, states found they could not sustain those higher levels.

## Using Less Costly Employment and Reemployment Services

Most states either shifted toward less costly Wagner-Peyser employment services during this period (47 percent), or the service mix remained the same (49 percent). Among the states that shifted to less costly services, most (14 states) converted staff assisted one-on-one services to more automated self-services and online services. Two states began substituting one-on-one staff-assisted services with group services to reduce costs.

ARRA funding provided a big boost to Reemployment Services with the introduction of $250 million for Reemployment Services grants. Not surprisingly, many states could not maintain the number of UI claimants receiving Reemployment Services when they lost these grants. A near-equal number of states reported increasing numbers of regular UI claimants receiving RES (42 percent) as decreasing (38 percent). In 20 percent of the states, the number remained the same.

The Reemployment Services mix remained nearly the same in 42 percent of states, while 33 percent shifted toward a less costly RES service mix and 25 percent toward a more costly RES service mix. States that changed to a less costly mix eliminated one-on-one services, used more automated self-services, reduced face-to-face time with clients, or moved to group services (Delaware, Hawaii, West Virginia). Seven of the states that reduced staff assistance said that they did so through automated and self-services.

Several states, one being South Carolina, did not change their service mix but increased the number of workers served. In a number of states, circumstances, including federal mandates, necessitated more staff-assisted services and more intensive services. Some states, such as West Virginia, offset the need for more costly RES with the use of group activities.

### Reducing Workforce Program Staffing

State workforce programs generally could not maintain the staffing structure they had built with ARRA funding. More than 80 percent reported significant staff reductions in each major workforce program, including WIA Adult, WIA Youth, the Employment Service, and Reemployment Services.

In states that reported staff reductions, the most important methods were permanent staff attrition and temporary positions being allowed to expire. Layoffs and staff reassignments were also used. A few states also used furloughs and other means (table 3).

**Table 3. Methods of Reducing Full-Time Equivalent Staff for Major Workforce Programs, Including Permanent and Temporary State and Local Staff, by Number of States, July 1, 2010–June 30, 2012**

| | No significant reductions | Attrition of permanent staff | Expiration of temporary positions | Layoffs of permanent staff | Furloughs | Staff reassignment | Other means |
|---|---|---|---|---|---|---|---|
| WIA Adult | 13 | 19 | 17 | 10 | 4 | 10 | 4 |
| WIA Dislocated Worker | 12 | 19 | 16 | 9 | 4 | 12 | 3 |
| WIA Youth | 16 | 17 | 13 | 8 | 4 | 9 | 4 |
| Wagner-Peyser Act Employment Services | 13 | 24 | 22 | 5 | 5 | 13 | 0 |
| Reemployment Services for Regular UI Claimants | 14 | 18 | 20 | 4 | 5 | 13 | 0 |

*Source:* Stephen A. Wandner and NASWA, Survey of State WIA and Employment Service Administrators, 2012.

Several staffing strategies were described by states: hiring permanent staff with ARRA funding and then retaining new staff based on anticipated attrition (Alabama), increasing the number of Wagner-Peyser Act and Reemployment Services staff by hiring temporary staff into permanent positions that became open due to attrition, eliminating intermittent staff, implementing voluntary retirement programs (Massachusetts), and allowing attrition of permanent full-time (Virginia) and part-time (New Jersey) staff.

## Implementing Alternative Delivery Systems

Maintaining a full-service one-stop career center is expensive. To yield substantial savings, 42 percent of states reported reducing the number of one-stops.

One-stops declined during the mid-2000s, from approximately 3,600 in 2003 and 2004 to below 3,000 by the end of 2008 (table 4). ARRA funding arrested the decline, and the number increased slightly in 2009 and 2010. With ARRA funding largely exhausted by September 2010, however, the decline resumed. One-stops declined by 10 percent between September 2010 and April 2013.

### Table 4. Number of One-Stop Career Centers in the United States, 2003–2013

| Date | Comprehensive OSCCs | Affiliate OSCCs | Total |
|---|---|---|---|
| December 29, 2003 | 1,955 | 1,627 | 3,582 |
| December 28, 2004 | 1,945 | 1,638 | 3,583 |
| December 29, 2005 | 1,900 | 1,559 | 3,459 |
| December 29, 2006 | 1,864 | 1,401 | 3,265 |
| December 29, 2007 | 1,773 | 1,395 | 3,168 |
| December 31, 2008 | 1,801 | 1,149 | 2,950 |
| December 31, 2009 | 1,853 | 1133 | 2,986 |
| September 28, 2010 | 1,867 | 1,133 | 3,000 |
| March 31, 2011 | 1,854 | 1,075 | 2,929 |
| April 30, 2012 | 1,756 | 1,034 | 2,793 |
| April 11, 2013 | 1,741 | 953 | 2,694 |

*Source:* U.S. Department of Labor, CareerOneStop web site, http://www.servicelocator.org.

Most of the decline in local workforce offices was in smaller affiliate offices rather than larger comprehensive offices. Between December 2003 and January 2013, more than 600 affiliate offices closed, while only 200 comprehensive offices closed. Affiliate offices may have only one or a few partners (most often the Employment Service and at least one other workforce partner), while comprehensive offices have partner programs required under the Workforce Investment Act. Since affiliate offices are more likely to be located in rural areas, the availability of services outside urban centers is likely to have declined substantially. Yet rural workers have been shown to need workforce services, and to have difficulty making long trips to comprehensive offices and accessing one-stops remotely (Dunham et al. 2005).

Eighty percent of states reducing the number of one-stops implemented alternative service delivery approaches between July 1, 2010, and June 30, 2012. The most frequently cited measure (14 states) was enhancing the capacity and accessibility of virtual services. The other measures from highest to lowest number of responses were providing services at libraries and other public facilities, using mobile one-stop career centers, taking other measures, and increasing the number of satellite offices (table 5).

**Table 5. Alternative Service Delivery Approaches Expanded or Initiated, by Number of States, July 1, 2010–June 30, 2012**

| Alternative delivery approach | Number of states |
|---|---|
| Enhancing the capacity and accessibility of virtual services | 14 |
| Providing career services at libraries and other public facilities | 12 |
| Using mobile one-stop career centers | 7 |
| Other | 5 |
| Increasing the number of satellite offices | 2 |

*Source:* Stephen A. Wandner and NASWA, Survey of State WIA and Employment Service Administrators, 2012.

## Increasing Automation

An overwhelming majority of states (82 percent) increased automation of program administration or program services. Of these states, many reported that automation enabled them to serve more customers (70 percent), as well as to improve quality for some customers (60 percent). But 30 percent reported that automation diluted service quality for some or all customers. Forty-three percent reported that automation reduced costs, and a quarter reported that it reduced the number of required staff. Most states (60 percent) reported changes in local or state administration of workforce programs.

Automation of program services included UI claims taking, online UI eligibility reviews, job search and job matching (including providing information about job openings and job orders), career assessments, Reemployment Services orientation, labor market information, and virtual job fairs.

Automation of program administration included staff training, program and financial reporting, case management, approved training provider processing and listing, and individual training account invoicing. States reported that the greatest impacts of automation were enabling them to provide services to more customers (26 states) and to improve the quality of services (22 states) (table 6).

**Table 6. Effect of Increased Automation on State Administrative Processes and Service Provision, State Responses**

| Type of response | Number of state responses |
|---|---|
| Enabled serving more customers | 26 |
| Improved quality of services to some or all customers | 22 |
| Reduced cost | 16 |
| Diluted services quality for some or all customers | 11 |
| Reduced number of staff needed | 9 |
| Other | 5 |

*Source:* Stephen A. Wandner and NASWA, Survey of State WIA and Employment Service Administrators, 2012.

*Note:* Some states gave multiple responses.

Clearly, automation was implemented to reduce costs and staff, with the hope that more customers could be served without degrading quality. Several states (Georgia, Hawaii, Maryland, South Dakota, Tennessee) pointed out that the move to automated self-services affects customers differently: technically savvy and more educated customers can do well, while others suffer a decline in quality and feel alienated.

### Taking Other Cost-Cutting Measures

Over 70 percent of states reported other cost-cutting measures. At least two states mentioned travel restrictions (Idaho, Missouri, Washington, Wyoming), staff training reductions or online training (Massachusetts, North Dakota, New York), increased use of online services and technology (New Jersey, Ohio, Virginia), reduced overhead and support or centralized administration (Florida, Pennsylvania, Washington), reductions in services or service options (Colorado, North Carolina), and reduced materials for clients or putting them online (Oklahoma, Wyoming).

### Assessing Impact on the Quality of Customer Experience

Very few of the 45 participating states indicated that cost-reduction measures improved the customer experience, but responses were split between whether the customer experience was diminished or not significantly impacted (table 7). Overall, the survey responses provided little to suggest any improvement for customers. One-on-one services were generally replaced with computer-delivered or group services. Intensive and training services diminished, and there were long waits until staff were available to provide services. Exceptions were the District of Columbia opening two new local offices and South Carolina enhancing Reemployment Services activity. This is not likely an accident, considering these two states were among the minority able to supplement funding for services.

**Table 7. Impact of WIA/Employment Service State and Local Cost-Cutting Measures on Customer Experience by Type of Impact, July 1, 2010–June 30, 2012**

| | No significant impact | | Improved customer experience | | Diminished customer experience | |
|---|---|---|---|---|---|---|
| | % | *n* | % | *n* | % | *n* |
| Customer wait times | 42.2 | 19 | 2.2 | 1 | 55.6 | 25 |
| Lines | 57.8 | 26 | 2.2 | 1 | 40.0 | 18 |
| Access to services | 44.4 | 20 | 13.3 | 6 | 42.2 | 19 |

*Source:* Stephen A. Wandner and NASWA, Survey of State WIA and Employment Service Administrators, 2012.

### Changing Program Administration

Twenty-seven states reported major changes in state or local workforce program administration between July 2010 and June 2012. Current or recent changes described most often (in 11 states) were reorganizations, reassignments, mergers, and consolidations (Alabama, Arizona, Colorado, Florida, Georgia, Idaho, Maryland, North Carolina, Oklahoma, Tennessee, and Wyoming), representing these changes, except for a merger of workforce investment boards in Arizona and local services consolidation in Ohio. Four state workforce programs merged with commerce or economic development agencies—Florida, North Carolina, Oklahoma, and South Carolina. Business reengineering occurred in six states—Colorado, Minnesota, Missouri, Nevada, Texas, and Washington. The remaining 18 states made no such changes.

Looking to the future, 20 states were considering program and administrative changes. These included consolidating local workforce investment boards into a single statewide board, as well as streamlining and consolidating to deal with current and possible future funding reductions.

## State Unemployment Insurance Programs after the Great Recession

State UI agencies received formula funding for program administration based on program activity nationally and by state. UI program administration funds have been declining since FY 2009 as the economy has improved and the number of expected UI beneficiaries and UI benefit payments has declined (table 8).

**Table 8. UI Administrative Funding, FY 2009–2012 ($000)**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| UI administration funding level | 2,629,638 | 3,264,637 | 3,185,645 | 3,179,254 | 3,165,142 |

*Source:* U.S. Department of Labor (2013).

The decline in UI administrative funding has been exacerbated by losing one-time administrative funding from the ARRA. The ARRA provided $500 million in additional funding, recognizing that the surge in UI beneficiaries would strain the UI program, especially the many older UI computer systems, as well as the telephone call centers and voice response systems for taking UI claims. After these funds were committed or exhausted, continued high unemployment and UI claims activities caused state UI administrators to adjust administration to bring costs in line with available funds and to anticipate future funding reductions, since states did not supplement federal UI administrative funds.

In addition to losing ARRA funds, Congressional delays in extending EUC caused many states administrative difficulty. During these legislative gaps, states could not pay benefits; afterward, they needed to locate claimants and resume EUC payments. Many states pointed to the continuing decline in UI administrative funding, which resulted in staff reductions as funds to cover salaries decreased.

Despite the reduction in new UI claims after the peak of the recession, record unemployment durations and continuation of the EUC program resulted in large numbers of claimants and payments. In addition, the Middle Class Tax Relief and Job Creation Act mandated new requirements for the public workforce system, particularly that states provide Reemployment

Eligibility and Assessments and Reemployment Services (REA/RES) to all EUC claimants, with the modest reimbursement of $85 for each.

### Staff Reductions

Between October 1, 2010, and September 30, 2012, two-thirds of states reduced staff in at least one UI functional area. Roughly 50 percent of states reduced staff in the initial and continued claims core business functions. The more specialized adjudication, appeals, and tax functions were less likely to experience staff reductions. About a third of states (35 percent) reduced staff in the adjudication and appeals functions, and 28 percent did so in the tax function. States achieved these reductions largely through a combination of permanent staff attrition and expiration of temporary positions. A handful of states reported layoffs of permanent staff, furloughs, and staff reassignment (table 9).

**Table 9. Reductions in Staffing (Full-Time Equivalents) by Core Business Divisions, October 1, 2010–September 30, 2012**

| | Intake/claims | | Continued claims | | Adjudication | | Appeals | | Tax | |
|---|---|---|---|---|---|---|---|---|---|---|
| | % | *n* | % | *n* | % | *n* | % | *n* | % | *n* |
| No significant reductions | 48.8 | 21 | 53.5 | 23 | 65.1 | 28 | 65.1 | 21 | 72.1 | 31 |
| Attrition of permanent staff | 27.9 | 12 | 25.6 | 11 | 25.6 | 11 | 20.9 | 9 | 20.9 | 9 |
| Expiration of temporary positions | 30.2 | 13 | 23.3 | 10 | 11.6 | 5 | 20.9 | 9 | 9.3 | 4 |
| Layoffs of permanent staff | 16.3 | 7 | 16.3 | 7 | 11.6 | 5 | 11.6 | 5 | 16.3 | 7 |
| Furloughs | 11.6 | 5 | 9.3 | 4 | 9.3 | 4 | 9.3 | 4 | 9.3 | 4 |
| Staff reassignment | 11.6 | 5 | 9.3 | 4 | 11.6 | 5 | 7.0 | 3 | 14.0 | 6 |
| Other means | 4.7 | 2 | 4.7 | 2 | 4.7 | 2 | 0.0 | 0 | 0.0 | 0 |

*Source:* Stephen A. Wandner and NASWA, Survey of State WIA and Employment Service Administrators, 2012.

Some states have reduced staff in anticipation of future budget shortfalls. Atypically, interstate claims increased in North Dakota, from workers moving in to take advantage of its booming oil industry. The California UI program suffered from UI staff accruing significant leave after the state imposed a three-day-per-month furlough during the peak of the recession. Because staff have been required to use their leave as workload has declined, fewer staff are available to serve claimants.

### UI Program Automation

The great majority of states (84 percent) increased automation of UI administration during the post-recession period:

- Introduced or upgraded systems for taking initial and continued claims by telephone and mail
- Modified or improved the voice response system for claims filing
- Introduced or improved work-search reporting, via online or voice response systems
- Upgraded call centers
- Converted benefit payments from paper checks to electronic payment or debit cards
- Automated nonmonetary determinations and appeals processes
- Automated REA and Worker Profiling and Reemployment Services processes
- Automated online weekly filing for short-time compensation
- Automated repayment of overpayments or introduced Internet or credit card payments
- Automated the State Information Data Exchange System (SIDES)[2]
- Introduced, improved, or encouraged employers to pay UI tax online
- Introduced or enhanced automation of tax auditing
- Automated administrative processes, for example, field auditor software or paperless Benefit Accuracy Measurement forms
- Automated National Directory of New Hires operations

Of the states that increased automation, 69 percent reported improved service quality for some or all customers, 53 percent reported reduced program costs, and 31 percent reported other effects. Automation also allowed states to serve many more claimants without greatly increasing staffing. In fact, 22 percent reduced the number of required staff. Some states indicated that wait times were reduced or eliminated, but, also, service quality diminished and potential for fraud increased. Only 8 percent reported that automation diluted service quality for some or all customers (table 10).

### Table 10. Impact of Increased Automation on UI State Agency Processes

| Impacts | % | *n* |
|---|---|---|
| Improved quality of service to some/all customers | 69.4 | 25 |
| Reduced cost | 52.8 | 19 |
| Other | 30.6 | 11 |
| Reduced number of staff needed | 22.2 | 8 |
| Diluted service quality for some/all customers | 8.3 | 3 |
| Don't know | 5.6 | 2 |

*Source:* Stephen A. Wandner and NASWA, Survey of State UI Administrators, 2012.

*Note:* States were permitted more than one response.

## Staff-Assisted UI Customer Service

For October 1, 2010, through September 30, 2012, 58 percent of states did not increase staff-assisted UI customer services (other than REA/RES) at their one-stops, over the phone, or through other means. Over half the states (56 percent) reported a reduction in the quality of customer service for call center wait times, while three-quarters observed no change in lines for in-person UI benefit filing and 44 percent reported diminished customer service in other aspects. Few states believed that customer service improved (table 11).

### Table 11. Impact on UI Customer Service by Change in Call Center Wait Times, Lines for In-Person Filling and Other Aspects of Customer Service, October 1, 2010–September 30, 2012, Percentage of States and Number of States

| | No change | | Improved customer service | | Diminished customer service | |
|---|---|---|---|---|---|---|
| | % | *n* | % | *n* | % | *n* |
| Call center wait times | 23.3 | 10 | 20.9 | 9 | 55.8 | 24 |
| Lines for in-person filing | 74.4 | 32 | 2.3 | 1 | 23.3 | 10 |
| Other aspects of customer service | 41.9 | 18 | 14.9 | 6 | 44.2 | 19 |

*Source:* Stephen A. Wandner and NASWA, Survey of State UI Administrators, 2012.

Except in states with Internet-only claims filing, states generally indicated increased wait time for claims taking. Some also indicated delays in adjudication, resolution of nonmonetary issues, and payment due to nonmonetary issues. Some states had particular problems, such as a shortage of Spanish speakers in New Mexico and a July mass layoff in Rhode Island. Maine reported that National Directory of New Hires cross-matches and EUC REA/RES have increased both detected eligibility issues that require fact-finding and wait times to schedule fact-finding. However, toward the end of the period, several states found wait times declining and customer service improving.

Some states introduced new staff-assisted services:

- Different kinds of cross-training and service provision
- Redirection of ES staff to assist UI claimants (Montana, New Hampshire)
- Cross training of UI staff to help at call centers (Louisiana)
- UI assistance (Missouri) and adjudication (Louisiana)
- Help for career center staff with UI issues (Missouri)
- Additional in-person orientations (Vermont)
- Workshops (Iowa )
- Basic computer skills (New Hampshire)
- Office hours on Saturdays during peak load periods (Michigan) and on Saturdays and evenings (Iowa).

## Major Postponed, Reduced, or Eliminated ARRA-Funded Projects and Initiatives

The large majority of states (81 percent) did not have to postpone, reduce, or eliminate any major projects or initiatives funded by the $500 million ARRA distribution for UI administration. Eight states that did postpone or eliminate projects listed technology initiatives, such as UI information technology modernization for UI benefits, tax, and adjudication systems. One also mentioned postponing infrastructure modernization.

### Major Postponed, Reduced, or Eliminated Non-ARRA-Funded Projects and Initiatives

Seventy percent of states did not have to postpone, reduce, or eliminate any major project funded with non-ARRA special distribution funds. Of the 13 states affected, some postponed or delayed online benefits, tax, and adjudication systems. Several delayed work on the SIDES earnings verification system and the Treasury Offset Program (TOP),[3] as well miscellaneous projects. Among the reasons for these postponements were limited information technology staff, the need to implement EUC extensions and the EUC REA/RES program, other projects (such as updating UI benefit payment systems) being given higher priority, and legislative mandates (e.g., the Maine legislative mandate to implement a new short-time compensation program).

### New REA/RES Requirement

Middle Class Tax Relief and Job Creation Act provisions requiring EUC claimants receive REA/RES, as well as the new EUC work-search provisions, caused new problems in 2012. The Act required that states provide all EUC claimants with REA/RES, for which they would be reimbursed $85 per EUC claimant. REA/RES normally costs more than $85 per person. In fact, in 2011, the proposed American Jobs Act would have provided $200 per claimant to provide a more robust set of services. As a result, the survey asked states whether they were supplementing the $85.

Most states (60 percent) did not use additional funding sources to supplement the required $85 per claimant for REA/RES services. The largest additional funding source (in 23 percent of the states) was Wagner-Peyser Act funds. Other funding sources included EUC administrative funds, WIA funds, state funds, and the ARRA UI special $500 million distribution. Most states were not able to estimate the supplementation they provided. Three provided estimates varying between $5 and $34 per EUC claimant. However, based on several states' comments, it is not clear whether all states considered and calculated the cost of core and other services to which UI claimants were referred (table 12).

### Table 12. Sources of Funding Supplementation to Provide RES and REA Services to EUC Claimants

| Source of funds | % | *n* |
|---|---|---|
| No other sources | 60.5 | 26 |
| Wagner-Peyser Act funds (to provide core or intensive services) | 23.3 | 10 |
| EUC administrative funds (to perform eligibility assessments) | 16.3 | 7 |
| WIA funds (to provide core and intensive services) | 14.0 | 6 |
| State funds | 11.6 | 5 |
| Other | 11.6 | 5 |
| Recovery Act $500 million special distribution | 4.7 | 2 |

*Source:* Stephen A. Wandner and NASWA, Survey of State UI Administrators, 2012.

EUC claimants were required to attend REA sessions in person, but not other services (e.g., labor market information, skills assessment, orientations). Most states voluntarily provided other required services in-person only, such as labor market information (67 percent), skills assessment (70 percent), and orientations (81 percent) (table 13).

### Table 13. Methods of Providing Labor Market Information, Skills Assessment, and Orientation Services

| | In-person only | | Remote only | | Claimant chooses remote or in person | | Varies by area | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| | % | *n* | % | *n* | % | *n* | % | *n* | % | *n* |
| Labor market information | 67.4 | 29 | 7.0 | 3 | 11.6 | 5 | 23.3 | 10 | 2.3 | 1 |
| Skills assessment | 69.8 | 30 | 4.7 | 2 | 16.3 | 7 | 14.0 | 6 | 2.3 | 1 |
| Orientation | 81.4 | 35 | 4.7 | 2 | 4.7 | 2 | 14.0 | 6 | 2.3 | 1 |

*Source:* Stephen A. Wandner and NASWA, Survey of State UI Administrators, 2012.

## Additional/Optional Services

States reported providing additional services beyond those mandated by law: 74 percent referred claimants to appropriate training, 65 percent provided additional reemployment services, 54 percent provided individual or group career counseling, and 49 percent provided specialized assessment. These additional services were likely funded through non-UI funds (table 14).

### Table 14. Additional Services Provide by States

| | % | *n* |
|---|---|---|
| Referral to appropriate training | 74.4 | 32 |
| Additional reemployment services | 65.1 | 28 |
| Job search counseling and development or review of an individual reemployment plan | 62.8 | 27 |
| Individual and group counseling | 53.5 | 23 |
| Comprehensive and specialized assessments | 48.8 | 21 |
| None | 14.0 | 6 |

*Source:* Stephen A. Wandner and NASWA, Survey of State UI Administrators, 2012.

Only eight states increased the provision of reemployment services. These states delivered additional services to between 10 and 100 percent of UI claimants: 100 percent in Massachusetts, 85 percent in Missouri, 50 percent in Delaware and Idaho, 20 percent in Washington, 15 percent in Hawaii and Oregon, and 10 percent in Louisiana.

### Challenges Administering In-Person REA for EUC Claimants

The great majority of states (77 percent) faced challenges in administering the in-person REA requirement. The most often-cited challenge (72 percent) was claimants not appearing for scheduled appointments or services. This might be due to initial start-up and communications issues that could be resolved if the program continues. Roughly half of states reported challenges with scheduling appointments, federal reporting, and claimant frustration. Other often-cited challenges included adjudication issues related to failure to participate (42 percent) and staff training and experience (34 percent) (table 15).

#### Table 15. Challenges to Implementing In-Person REA Requirements

| | % | *n* |
|---|---|---|
| Claimants not appearing for scheduled appointments or services | 72.2 | 24 |
| Scheduling appointment | 57.6 | 19 |
| Federal reporting | 51.5 | 17 |
| Claimant frustration with participation requirements | 45.5 | 15 |
| Adjudicating issues related to failure to participate in required REA/RES | 42.4 | 14 |
| Staff training and experience | 39.4 | 13 |
| Required use of merit staff | 27.3 | 9 |
| Notifying claimants of the new requirements | 27.3 | 9 |
| Other | 27.3 | 9 |
| Facilitating one-on-one sessions for claimants who have to travel long distances | 24.2 | 8 |
| Funding | 18.2 | 6 |
| Communicating with and serving ESL claimants | 18.2 | 6 |

*Source:* Stephen A. Wandner and NASWA, Survey of State UI Administrators, 2012.

States generally reported about start-up problems, particularly the short start-up period to plan and implement the program, the delay in receiving reporting instructions from the Department of Labor, and the need for extensive cross-training. Ongoing problems included high no-show rates (although several states indicated that this was a start-up issue that has been largely solved), lack of space, service partners' lack of resources, and drains on resources (e.g., Montana indicated that REA claimants received four to six times as many reportable services as regular Wagner-Peyser Act participants). Two state UI programs indicated that they were able to handle their part of the REAs, but some partners were having difficulty.

### Reasons for Waiving REA/RES Participation

States gave three reasons for waiving the REA/RES requirement:

1. UI claimants completed participation in similar services while receiving regular UI or other UI benefits (15 states).
2. An unreasonably long commute to the local workforce office was ruled a justifiable cause (14 states).
3. Other reasons, including that claimants were already in approved training, were union members subject to a hiring hall, were employer-attached workers subject to recall, were receiving partial benefits, or were interstate claimants (14 states).

### Impacts of EUC REA/RES Provisions on the States

Most states did not estimate the impacts of the new EUC REA/RES provisions. Reasons included that the program was too young for states to assess its impacts. Other reasons were time or resource constraints, the lack of a comparison group, and the lack of electronic tracking capability. States did consider some additional outcomes of EUC REA/RES programs, including a reduction in work-search errors of the Benefit Accuracy Measurement program, a drop in continued claims for EUC, a significant increase in self-directed use of services, and more disqualifications for inadequate work search (table 16).

**Table 16. Impact of EUC REA/RES Provisions on the States**

| | % | *n* |
|---|---|---|
| Impacts not estimated | 83.7 | 36 |
| More positive reemployment outcomes | 11.6 | 5 |
| Reduction in average duration of UI | 9.3 | 4 |
| Reduction in UI eligibility | 7.0 | 3 |
| Reduction in proportion of claimants exhausting benefits | 7.0 | 3 |
| Other | 7.0 | 3 |
| Reduction in average EUC payments | 4.7 | 2 |

*Source:* Stephen A. Wandner and NASWA, Survey of State UI Administrators, 2012.

## Conclusions

Resources declined for both workforce and unemployment insurance programs during the post-recessionary period between 2010 and 2012, while they continued to serve recessionary levels of unemployed workers. The two programs dealt with this asymmetrical problem in different ways.

### Workforce Programs

State workforce agencies experienced a decline in funding after the Great Recession. Most states did not supplement federal funding, and even those states that did only replaced some part of it. Most state supplementary funding went to Wagner-Peyser Act Employment Services.

Funding declines resulted in a variety of declines in workforce programs. Further, the mix of program services changed sharply and less intensive services replaced more intensive services, with training and intensive services declining substantially. States, however, tried to maintain core services, Employment Services, and Reemployment Services.

In addition, the great majority of states reduced staff. Most states reduced one-on-one staff assisted services, replacing some with automated and group services.

### Unemployment Insurance

The UI program did not suddenly lose benefit payment funding with the loss of ARRA funds. The regular UI program continued to be funded out of the Unemployment Trust Fund, even if individual state accounts ran out of funds and were forced to borrow from the federal government or the private sector. Similarly, Extended Benefits and Emergency Unemployment Compensation continued to be paid from federal general revenue and receive full funding.

Funding to administer the UI program declined to normal federal formula funding levels as the $500 million in ARRA funds were exhausted. Funding for administration, however, was inadequate: two-thirds of states reported staff reductions in at least one major functional area. States responded with increasing automation along a range of UI functions, with many reporting both increased efficiency and improved service. Staff-assisted customer services declined. A majority of states observed diminished customer service, and only a few believed customer service improved. Most states, however, did not have to postpone, reduce, or eliminate major projects and initiatives.

The great majority of states had significant problems implementing the new REA/RES requirement for EUC claimants. Despite the modest federal reimbursement of $85 per EUC claimant, most states did not supplement funding for REA/RES or provided only a small supplement, but many did rely on services from other established programs.

## References

Bradley, David H., and Ann Lordeman. 2009. "Funding for Workforce Development in the American Recovery and Reinvestment Act (ARRA)." Washington DC: Congressional Research Service.

Dunham, Kate, Annelies Goger, Jennifer Henderson-Frakes, and Nichole Tucker. 2005. *Workforce Development in Rural Areas: Changes in Access, Service Delivery, and Partnerships*. ETA Occasional Paper 2005-07. Washington DC: U.S. Department of Labor, Employment and Training Administration.

Eberts, Randall W., Stephen A. Wandner, and Jing Cai. 2012. "Data Analysis of the Implementation of the American Recovery and Reinvestment Act Workforce Development and Unemployment Insurance Provisions." Unpublished.

U.S. Department of Labor. 2013. *FY 2013: Congressional Budget Justification Employment and Training Administration, State Unemployment Insurance and Employment Service Operations*. http://www.dol.gov/dol/budget/2013/PDF/CBJ-2013-V1-09.pdf.

Wandner, Stephen A. 2012. "The Response of the U.S. Public Workforce System to High Unemployment during the Great Recession." Unemployment and Recovery Project Working Paper 4. Washington DC: The Urban Institute.

## Notes

1. Reed Act distributions are allocations of Unemployment Trust Fund moneys states can use for a variety of public workforce purposes. In 2010, Reed Act funds were still available in some states from a special 2002 distribution of a portion of the Unemployment Trust Fund. States collect penalties and interest from delinquent employers, which can be used for purposes other than UI benefit payments. Some states make funding available for a variety of workforce services by reducing their state UI tax rates and offsetting that reduction with a state tax not subject to Unemployment Trust Fund restrictions on use of funds.

2. The SIDES program is a tool to speed UI benefit determinations and reduce overpayments. The web-based system enables state UI agencies to exchange information with employers or their representatives on the circumstances of a job separation.

3. TOP is a program for recovering debts to states due to employees' failure to report earnings or delinquent employer contributions. The Treasury offsets federal tax refunds to collect such debts.

## About the Author

**Stephen A. Wandner** is a visiting fellow with the Urban Institute's Center on Labor, Human Services, and Population.