

Maryland Department of Labor

FY 2024

Response to Department of Legislative Services Budget Analysis

House

Education and Economic Development Subcommittee

(Appropriations Committee)

February 16, 2023

Senate

Education, Business and Administration Subcommittee

(Budget and Taxation Committee)

February 20, 2023

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MDL should comment on the overall costs of the project, the reason for the discrepancy in cost estimates, and how the project would be completed if licensing board revenues and fund balances are insufficient to cover project costs.

The funding currently available for the project is \$4M. The goal is to complete the project within budget. If the project exceeds this amount and funding is not available the Agency will reevaluate the scope and request additional funds as necessary.

Labor is working with DoIT and has identified at least three vendors who can provide a Commercial Off-the-Shelf “COTS” system that will meet the program requirements for this project. Once the review is complete and the scope of work finalized more definitive project estimates will be available.

If the estimates exceed the available funding, the agency will reevaluate the scope of work to determine the funding needs.

The Department of Legislative Services (DLS) recommends restricting funding for the project until MDL provides a report documenting the steps taken by the department to ensure the project’s success, including details on the program requirements and intended capabilities of the system, the vendor selection process, a breakdown of project costs, and I in implementation plan and timeline.

Labor concurs with this recommendation.

Unemployment Insurance

Supplemental Funding Needs

The cost of administering the State’s UI program is typically federally funded, with allocations from DOL provided based on claims volume. However, the federal funding provided by DOL has been insufficient to cover the department’s costs in recent years. MDL used \$15.0 million in

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general funds for UI administration in fiscal 2022. The fiscal 2023 working appropriation includes \$23.9 million in federal ARPA State Fiscal Recovery Funds to cover the DOL funding shortfall in federal fiscal 2022. MDL estimates that an additional \$16.0 million will be needed to cover the federal fiscal 2023 shortfall. DBM has set aside a further \$26.1 million in ARPA funds for UI administration in case it is needed, although this funding has not yet been added to MDL's budget. The fiscal 2024 allowance does not reflect any potential additional needs. The extent to which ongoing supplemental funding will be required is unclear.

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

Based on current analysis, UI projects a total of \$42.2M in state revenue is required to cover operating expenses in FY 2023. This includes a DBM set aside of \$26.1M in ARPA funds and \$16.1M in addition funding. The Department is working closely with the Department of Budget and Management to monitor this and explore options to address any shortfall.

In FY 24, UI is projected to reduce spending by 30% over FY 2023 once the Labor Omni Channel Communications System (LOCCS) is in place. This will allow Labor to reduce its dependency on the virtual call center vendor contract. Assuming current base grant funding plus a modest 3% increase, UI anticipates \$13.7M additional revenue will be needed in FY24 and \$12.1M in FY 25. Should any future unforeseen events occur that significantly impact the state's economic position, Labor would be required to reevaluate the needs of the program.

The additional funding will address continued efforts to reduce backlogs, combat high levels of fraud and to implement appropriate measures and system upgrades to address recent audit findings. Coupled with this, UI has seen a significant increase in personnel costs in recent years. A classification study in 2019 resulted in new positions and career pathways being created with salaries rising 16% on average. With the recent generous step increases and COLAs, UI's personnel costs now account for 83% of the overall base grant budget. Salary increases have outpaced base grant funding both in the current year and the out years and Labor must maintain its staffing levels to meet customer service demands.

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USDOL has asked Congress to appropriately fund all UI programs in the future. Without additional federal funding it is anticipated UI will continue to require fiscal support from the State.

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

Labor is working with OLA to address and correct outstanding findings and concurs with the recommendation.