



P.O. Box 9046 • Olympia WA 98507-9046

September 16, 2014

Mr. David Schumacher, Director
Office of Financial Management
P.O. Box 43113
Olympia, WA 98504

Dear Mr. Schumacher,

Enclosed is the Employment Security Department's 2015-2017 biennial operating budget submittal. This budget reflects the department's third reduction in force in the last four years. This budget reflects a reduction of more than 300 FTEs, or 20 percent of the department's staff. In total, the department will have reduced about 1,300 FTEs since December 2010. This budget also removes projected federal revenue of \$77.5 million.

Our proposal aligns agency expenditures with projected revenues. We had to make many tough decisions to live within our revenues. Some services were significantly reduced due to the underlying gap between revenues and expenditures. The majority of the positions eliminated as a result of our reduction of FTEs will occur in October this year. The budget requests \$19.5 million in appropriation authority from available state administrative contingency and employment services funds and prioritizes resources to meet the vision and goals of the Employment Security Department.

ESD Vision: The right job for each person, every time.

ESD Goals:

- **Employers** - Employers have the skilled, stable workforce they need to thrive.
- **Employment system** - Washington's integrated workforce development system efficiently and effectively supports the unemployment, employment and career needs of employers and job seekers.
- **Developing job seekers** - Individuals have the information, competencies and workplace experience they need to be job-ready as they enter the workforce.
- **ESD employees** - ESD employees are valued, empowered and engaged at work and can develop their skills and careers.

Our budget request includes one policy and performance level decision package, which is for continued funding to implement our consolidated Unemployment Tax and Benefit (UTAB) system. Funding for the initial phase of UTAB was provided in the 2014 supplemental budget.

If you have questions or concerns about our budget, please contact Carole Holland, Chief Financial Officer, at (360) 902-9423.

Sincerely,

Dale Peinecke, Commissioner

**State of Washington
Decision Package**

Agency: 540 Employment Security Department
Decision Package Code/Title: 9F Federal Funds Adjustment

Budget Period: 2015-2017

Budget Level: M2 – Inflation and Other Rate Changes

Recommendation Summary Text:

The Employment Security Department (ESD) has significantly more appropriation authority in General Fund – Federal, Appropriation 020 and the Unemployment Compensation Account, Appropriation 080 than current estimates of federal revenue. The department also has a significant number of unfunded FTEs. ESD requests a technical adjustment to reflect expected revenues and FTEs.

Agency Total

<u>Fiscal Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
Operating Expenditures			
001-2 General Fund-Federal	(\$763,000)	(\$7,524,000)	(\$8,287,000)
119-2 Unemployment Compensation Account	(\$29,401,000)	(\$20,363,000)	(\$49,764,000)
Total Operating Expenditures	(\$30,164,000)	(\$27,887,000)	(\$58,051,000)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
Staffing			
FTEs	(800.0)	(800.0)	(800.0)

Package Description

What is the problem or opportunity the agency wants to address?

The department's expenditure authority is overstated for the 2015-2017 Biennial Operating Budget in General Fund-Federal (001-2) and Unemployment Compensation Account (119-2).

What specific performance outcomes does the agency expect?

The department requests the appropriation authority level in General Fund-Federal (001-2) and Unemployment Insurance Administration (119-2) reduced to represent current revenue estimates. This is a technical correction to the expenditure authority for the department.

Exactly how does the agency want to address this problem or opportunity?

To bring the appropriation authority in line with revenue estimates, the department recommends adjustments to Fund 001-2 and Fund 119-2.

What will the package funding actually buy?

N/A

Department Contact: Trent Howard (360) 902-9425

Narrative Justification and Impact Statement

What desired results will be achieved?

N/A

What undesired results will be reduced?

N/A

Will efficiency increase and if so, how?

N/A

Will outputs change and if so, how?

N/A

What is the expected impact on clients, services provided, citizens or other agencies or governments?

None

Performance Measure Detail

Is this decision package essential to implement a strategy identified in the agency's strategic plan? If so, please describe.

N/A

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?

N/A

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process? If so, please describe.

N/A

What are the other important connections or impacts related to this proposal?

None

What alternatives were explored by the agency, and why was this alternative chosen?

What are the consequences of adopting or not adopting this package?

The department's appropriation authority would be overstated.

What is the relationship, if any, to the state capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure Revenue Calculations and assumption:

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A-Salaries & Wages	(\$15,342,000)	(\$14,184,000)	(\$29,526,000)
B-Employee Benefits	(\$4,274,000)	(\$3,951,000)	(\$8,225,000)
C-Professional Service Contracts	(\$92,000)	(\$85,000)	(\$177,000)
E-Goods and Other Services	(\$6,364,000)	(\$5,884,000)	(\$12,248,000)
G-Travel	(\$103,000)	(\$95,000)	(\$198,000)
J-Capital Outlays	(\$76,000)	(\$71,000)	(\$147,000)
N-Grants, Benefits & Client Services	(\$3,913,000)	(\$3,617,000)	(\$7,530,000)
Total	(\$30,164,000)	(\$27,887,000)	(\$58,051,000)

What costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

➤ *Budget impacts in future biennia*

N/A

➤ *One-time versus ongoing functions and costs*

➤ N/A

**State of Washington
Decision Package**

Agency: 540 Employment Security Department
Decision Package Code/Title: AB Federal Funds Revenue Shortfall

Budget Period: 2015-17

Budget Level: M2 – Inflation and Other Rate Changes

Recommendation Summary Text:

The Employment Security Department (ESD) projects lower federal revenues and requests funding to cover a portion of the projected shortfall. The requested funds are in addition to actions taken to reduce more than 300 FTEs, reflecting a 20 percent reduction in staff. ESD needs additional authority for its state funds to meet minimal service delivery requirements.

Agency Total

<u>Fiscal Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
Operating Expenditures			
001-2 General Fund - Federal	\$(1,145,000)	\$(1,544,000)	\$(2,689,000)
119-2 Unemployment Insurance Admin-Federal	\$(7,955,000)	\$(8,856,000)	\$(16,811,000)
120-1 Administrative Contingency Account-State	\$1,600,000	\$2,300,000	\$ 3,900,000
134-1 Employment Services Administrative-State	\$7,500,000	\$8,100,000	\$15,600,000

Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	0	0	0

Revenue	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
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Package Description

As part of the budget planning process, the department performed a comprehensive evaluation of anticipated revenues and expenditures through the 2015-2017 Biennium. The evaluation included projecting anticipated revenues and expenditures through state fiscal year 2017 for approximately 40 funding sources, including two state employment system funding sources, the Administrative Contingency Account (120-1) and the Employment Services Administrative Account (134-1).

ESD identified an anticipated \$9.5 million shortfall between revenues and expenditures in FY 2015 and a \$34 million to \$38 million shortfall in the 2015-17 biennium. The revenue shortfall was attributed primarily to the Unemployment Insurance Administration grant and the Wagner-Peyser grant.

The department undertook an extensive budget process that identified core functions by division, established targets by revenue source, and prioritized spending based on input from staff and partners as well as alignment with the strategic plan.

The spending plan developed from this process includes using state employment system funds to reduce the department's leased space and investing in tools to assist with meeting essential functions given the reduced staffing levels. Several assumptions were made when estimating anticipated revenues and expenditures, including:

- Caseload projections;
- Reduced federal revenues for sequestration;
- Projected staff vacancy rate;
- Increased costs for retirement, health insurance and employee cost of living;
- Increased interagency payments, if known; and
- Reductions in building leases.

Federal funds are not increased when the state makes decisions to increase employee pay or benefits costs. Although the legislature has not yet identified increases in wages and benefits, the ESD spending plan allows for modest increases in these areas. Federal funds have decreased over the last few years due to reduced caseloads, lower reimbursement by the federal government for services provided and federal sequestration. In addition, new requirements are anticipated based on the authorization of the Workforce Innovation and Opportunity Act of 2014, which reinforces the need for improved Workforce tools.

The department identified actions that could be taken immediately to reduce spending to address the 2015 shortfall. The majority of these reductions continue in the 2015-17 biennium. Actions included:

- Holding open vacancies and eliminating unfilled positions;
- Reducing duplicative or unnecessary mailing costs by communicating to ESD customers and staff electronically;
- Reducing the number of printers and printing double-sided copies; and,
- Offering employees the option to voluntarily reduce hours.

The department's plan to align expenditures within expected revenues includes the following strategies to reduce costs and align expenditures within expected revenues:

- Close district tax offices in Yakima and North Seattle;
- Close the Lynnwood Adjudication Center;
- Offer voluntary separation to employees;

- Work with the Department of Enterprise Services to reduce facility lease costs;
- Initiate a reduction in force of approximately 335-340 FTE, with approximately half reduced by eliminating vacant funded positions.

The majority of the remaining shortfall still resides in the Unemployment Insurance grant and the Wagner-Peyser grant. Portions can be covered in existing expenditure authority of the Administrative Contingency Account (120-1) and Employment Services Administrative Account (134-1). However, a significant increase is needed to avoid additional resource reductions immediately.

The projected federal funds with shortfalls for the 2015-17 biennium are as follows:

Wagner-Peyser Grant	\$13.0 million
Unemployment Insurance Administration Grant	\$8.4 million
Veterans Grant	\$2.0 million
Workforce Investment Act State Administration Grant	\$650,000
Bureau of Labor Statistics	\$1.23 million
Workforce Information Grant (One-stop)	\$812,000

Based on the current actions and projections, the department will require increased expenditure authority in the Employment Services Administrative Account (134-1) and Administrative Contingency Account (120-1) by \$19.5 million in the 2015-2017 biennium.

What specific performance outcomes does the agency expect?

The agency will realize a decline in performance outcomes. Providing this funding will result in a lower decline in performance outcomes. With the proposed level of funding and the planned reduction in FTEs, the agency does expect longer waiting lines and fewer services available at WorkSource offices, longer call center wait times, and longer times for processing unemployment claims.

Exactly how does the agency want to address this problem or opportunity?

Increase appropriation authority to avoid reductions in force. The agency also is working with its Workforce system partners to redesign service delivery.

What will the package funding actually buy?

The decision package will pay for staffing to provide services to job seekers and Unemployment Insurance claimants.

Department Contact: Trent Howard (360) 902-9425

Narrative Justification and Impact Statement

What desired results will be achieved?

To provide minimum essential services and additional on-line tools to serve employers and job seekers.

What undesired results will be reduced?

Further layoffs due to reduced federal funds and insufficient authority for state funds.

Will efficiency increase and if so, how?

With the proposed on-time investment in tools, the department will be able to enhance services to employers and job seekers and meet new federal requirements for data.

Will outputs change and if so, how?

N/A

What is the expected impact on clients, services provided, citizens or other agencies or governments?

Even with new tools, some services will be reduced or eliminated from some offices. The department has worked with its partners to identify mitigation strategies. Without the state funds identified in this decision package, service hours will be reduced and some WorkSource offices closed.

Performance Measure Detail

Is this decision package essential to implement a strategy identified in the agency's strategic plan? If so, please describe.

This request will provide the department with the necessary resources to maintain and improve services delivered to job seekers and Unemployment Insurance claimants

Values: Serving customers; empowering people; strengthening partnerships; acting with integrity; anticipating future needs; achieving goals.

Vision: The right job for each person, every time.

Mission: We partner to connect employers and job seekers—supporting transitions to new jobs and empowering careers.

Goal: Washington's integrated workforce development system efficiently and effectively supports the unemployment, employment and career needs of employers and job seekers.

Does this decision package provide essential support to one or more of the Governor’s Results Washington priorities?

This decision package supports Goal 2 of the Governor’s Results Washington by providing the necessary staff to assist job seekers find jobs and increase employment rate. This package also supports Goal 5 by helping to meet standards for customer service.

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process? If so, please describe. **New**

**instructions, this has been eliminated from the OFM instructions. Leave blank in BDS—
Text will not be reflected on your Decision Package Report**

What are the other important connections or impacts related to this proposal?

The department is currently reducing staffing levels by approximately 335-340 FTE due to revenue shortfalls and anticipated cost increases related to personnel. Further reductions will be necessary if increased spending authority is denied.

What alternatives were explored by the agency, and why was this alternative chosen?

The alternative explored was to reduce staff to a level to which this could be funded under current authority. It was deemed that alternative would leave far fewer resources and services for job seekers and Unemployment Insurance claimants.

What are the consequences of adopting or not adopting this package?

The Unemployment Insurance and Employment Services programs would need to reduce approximately 140 additional FTEs by the start of Fiscal Year 2016.

What is the relationship, if any, to the state capital budget?

This is not related to the state capital budget.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

N/A

Expenditure Revenue Calculations and assumption:

Revenue projections were based on Federal funds being reduced by 5 percent per year due to sequestration. Expenditures were based on current spending assumptions, reduced by 335-340 FTE, and the following assumptions:

- Projected caseloads;
- Projected staff vacancy rate;
- Increased costs for retirement, health insurance and employee cost of living; and

- Increased interagency payments, if known
- Changes in building lease assumptions
- Investment in tools to assist staff

The department assumes offsetting reductions in General Fund-Federal and Unemployment Administration accounts. Adjustments to FTEs, reduction of 800 FTEs in each year, are included in the Federal Fund Adjustment decision package.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A – Salaries & Wages	\$0	\$0	\$0
B – Employee Benefits	\$0	\$0	\$0
C – Contracted Services	\$0	\$0	\$0
E – Goods and Services	\$0	\$0	\$0
G – Travel	\$0	\$0	\$0
J – Capital Outlays	\$0	\$0	\$0
Total	\$0	\$0	\$0

What costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are ongoing costs and the authorized level will continue as long as revenue is available in the Administrative Contingency Account (120-1) and Employment Services Administrative Account (134-1).

**State of Washington
Decision Package**

Agency: 540 Employment Security Department
Decision Package Code/Title: N0 UTAB New Benefits System

Budget Period: 2015-2017

Budget Level: PL – Policy Level

Recommendation Summary Text:

The department requests continued funding for increasing the efficiency of the unemployment insurance system during the 2015-2017 biennium through the Unemployment Tax and Benefit (UTAB) New Benefits System project.

Agency Total

<u>Fiscal Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
Operating Expenditures			
119-2 – Unemployment Comp Admin – Federal	\$8,377,000	\$10,758,000	\$19,135,000
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	20.5	20.5	20.5

Package Description

What is the problem or opportunity the agency wants to address?

The department received funding in the Fiscal Year 2014 Supplemental Operating Budget to begin the development of the UTAB project. This decision package is to secure the expenditure authority to proceed with the next steps in building the UTAB system.

The new benefits system is designed to maximize flexible data sharing and interoperability with NGTS and other state systems. This project aligns with the department’s strategy to adopt systems that share information across organizational and system boundaries. UTAB will deliver a system that utilizes a responsive web design to provide a seamless and flexible user experience across a wide range of devices, both desktop and mobile.

The department will build on methodologies used for NGTS, and is committed to agile project development and implementation methodologies, which respond to change in a timely manner and deliver customer-facing value through the life of the project. The department intends to exploit Lean process improvements and agile project methodologies to best position the agency during the course of this technology investment, as well as setting ourselves up for future development projects. The department has been working with the Office of the Chief

Information Officer (OCIO) and the Department of Enterprise Services (DES) to contract for the project on an agile basis. The overall investment plan has been approved by the OCIO.

This system will allow the department to use common accounting, correspondence, workflow, electronic payment, benefit charging and reporting modules, integrate unemployment and reemployment systems with a focus on employer and job seeker customers.

The department estimates project cost at \$43.6 million with an additional \$1.1 million estimated in maintenance over 5 years after project implementation (FY20 – FY25).

Exactly how does the agency want to address this problem or opportunity?

To secure the appropriation authority required to continue the project and to stay in line with the project/investment plan as provided to the OCIO. As of September 2014, the project is on schedule.

What will the package funding actually buy?

Funding this decision package will allow the department to continue working on the replacement of an unstable, legacy unemployment benefits system, by integrating 15 separate computer systems, increasing efficiency and accuracy in processing claimant information, services and payments.

Department Contact: Trent Howard (360) 902-9425

Narrative Justification and Impact Statement

What desired results will be achieved?

The UTAB New Benefits System project will result in an up-to-date benefit payment system that will provide accurate information and process claims more efficiently than GUIDE, the agency's existing benefit payment system. The new system will be programmed to incorporate legislative changes to the benefit program and will be more efficient to update and maintain. The GUIDE replacement will also build on successes realized from the NGTS project that went live in March 2014 and will be designed with flexible interfaces that allow the new system to readily share data and interoperate with NGTS and other state systems.

What undesired results will be reduced?

The technology upon which GUIDE is based matured in the 1970s. Due to the limited capabilities of both the hardware and software architecture, the system has little flexibility. Thousands of patches have been added since the original development to compensate for its many limitations, and each patch has added to the complexity that has made the system more difficult to maintain. The existing systems cannot be programmed effectively to incorporate current and future benefit program requirements. All information systems reach a point in their usable life cycle where the complexity induced by coding changes causes significant processing problems that makes a new system a better alternative. The 2012 feasibility study confirmed that GUIDE has reached this state in its life cycle where continued updates are no longer a viable option.

Will efficiency increase and if so, how?

GUIDE was designed in the early 1980s to support a fixed service delivery structure. At that time, claimants were interviewed in-person at Job Service Centers located throughout Washington. The primary means to document claim history was by paper. Data regarding claimants was manually entered by agents and data entry operators.

Since then, the service delivery structure has significantly changed. Job Service Centers no longer exist. Today claims are submitted by phone and received by intake agents in the claim centers. Claimants also have the option to file initial and weekly claims on the department's website. Tomorrow the department will need a system that can support mobile computing and "apps."

GUIDE was designed to support a service delivery system that no longer exists, and the system is too rigid to adapt to the department's current service delivery model. In order to deliver services, the department's technical and business staffs have developed ancillary methods using Microsoft Access databases and Excel spreadsheets to support business processes. These workarounds are cumbersome, inefficient and require that:

- To provide even basic services to initial claimants when seeking to file a claim, claim center agents must have five separate applications open concurrently;
- Claim center adjudicators who make decisions regarding eligibility must have six applications open when they make claimant eligibility decisions;
- Numerous technical issues are encountered in keeping the many applications and databases synchronized, leading to contradictory data being provided to staff by the various systems; and
- An unreasonably disproportionate amount of staff time is required to both operate and maintain the ancillary systems.

In addition, the department struggles with identifying and hiring staff that have expertise in legacy mainframe systems. Upgrading to modern system architecture will alleviate these issues.

Will outputs change and if so, how?

Rather than a patchwork of systems with incongruent data, ESD will have one system of record, ensuring data integrity and accuracy for the benefit program. Additionally, ESD will have employees who are trained and knowledgeable in the technology.

The UI program must comply with provisions of the Social Security Act and associated federal regulations, and provisions of the Revised Code of Washington (Title 50) and Washington Administrative Code (Title 192). These allow flexibility concerning benefit amounts based on specific conditions. Collectively, the statutes and regulations address:

- Eligibility for and payment of unemployment benefits;
- Required notices to claimants and employers;
- Claimant and employer reporting requirements;
- Requirements for job separations;
- Requirements for claimants to be available for work while receiving benefits;
- Job search requirements while claiming benefits;
- Allowable deductions from benefits;
- Effect of training and school attendance on benefits;
- Specific rules for occupations in special categories;
- Benefit overpayments, and resulting notices, assessments and collections;
- Impact of claimant fraud on benefits;

- Recovery of benefit overpayments;
- Extended benefits after regular benefits when certain economic conditions are present;
- Special programs, including Shared Work, Training Benefits, Commissioner Approved Training, Self-Employment Assistance Program (SEAP) Program; and
- Assessment of overpayments.

What is the expected impact on clients, services provided, citizens or other agencies or governments?

Implementation of a new benefit system will result in unemployment program services that are better managed with more accurate information, handled more efficiently. Failure to proceed with the new system will have an adverse effect on claimants and services when the GUIDE system fails at some point in the future.

The department is required to share tax and benefits data with selected government entities through various GUIDE interfaces. The proposed system is designed to preserve these interfaces and therefore eliminate costs to other agencies. Departmental data shared with other agencies will be more timely and accurate due to improvements in the core functionality the new benefit system.

Performance Measure Detail

Is this decision package essential to implement a strategy identified in the agency’s strategic plan? If so, please describe.

The UTAB New Benefits System project is the department’s number one technology priority due to the fragility of the current systems. This request is essential in ensuring that the department has the necessary tools to maintain and improve a stable, efficient UI tax system. Development of the UTAB New Benefits System contributes in many ways to the department’s strategic goals, specifically supporting the following elements of the agency’s strategic plan:

Values: Serving customers; empowering people; strengthening partnerships; acting with integrity; anticipating future needs; achieving goals.

Vision: The right job for each person, every time.

Mission: We partner to connect employers and job seekers—supporting transitions to new jobs and empowering careers.

Goal: Washington’s integrated workforce development system efficiently and effectively supports the unemployment, employment and career needs of employers and job seekers.

Measures: Average duration of unemployment; wage upon re-employment.

Leading indicators:

- Number of UI claimants enrolled with WorkSource.
- Average duration for those claiming UI benefits.
- Number of long-term unemployed.

This goal addresses the following challenges:

- Inadequate integration of UI and WorkSource processes and technology.

- Aging IT systems; few self-help features.
- Lack of effective use of mobile computing and social media.
- Lack of integration and consistency of WorkSource services and operations.
- More efficient and effective staffing

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?

A quality and reliable benefits administration system supports the following priorities of Governor Inslee:

Priority: Prosperous Economy

Ensure our businesses have the world-class workforce they need:

- Timely and accurate benefits payments help provide a healthy Unemployment Insurance Trust Fund and a stable workforce in Washington State.
- The department manages \$1.3 billion annually in unemployment insurance benefits payments. These benefits protect vulnerable families by relieving financial distress during periods of economic instability. Unemployment insurance benefits also produce a multiplier effect in local economies experiencing an economic downturn, stimulating economic activity and, ultimately, job growth.

Streamline state government to better support private-sector business growth:

- Implementation of a new benefits system will allow greater self-service by UI claimants and allow claimants to spend more time getting back to work rather than navigating today's cumbersome and archaic benefits processes. Employers will have a more streamlined process for responding to notices when an employee files for unemployment insurance.

Increase the speed of Washington's commerce:

- A new benefits administration system will reduce the complexity of each transaction and increase efficiency. It will support greater self-service through Internet and mobile applications with increased user security.

Priority: Efficient, Effective and Accountable Government

Empower state employees to find efficiencies through greater use of Lean Management:

- Lean methodologies are currently implemented in the UI claims centers and are central to the development of requirements for UTAB New Benefits System, with business process specialists embedded in the project to ensure that functionality is as closely aligned to the needs of the end customer as possible. The New Benefits System is necessary to support front-line employees on their Lean implementation efforts
- UTAB New Benefits System requirements in the UI claims centers are standardized and well documented, based on Lean work. The agency has conducted a gap analysis that will allow a focused development effort to address current shortcomings resulting in a flexible system capable of incorporating efficiencies identified in the future.

Streamline state government:

- Replacing the obsolete benefits system will make UI claims operations more efficient, strengthening government's ability to achieve results efficiently.

- UTAB will streamline agency operations resulting in greater efficiency for both employers and claimants navigating our UI claims management processes.

What are the other important connections or impacts related to this proposal?

The problems described above represent an ever-expanding deficiency that indicates GUIDE (*including its ancillary sub systems*) is at the end of its useful life. While the timing is unpredictable, it is apparent that GUIDE’s inflexibility and complexity resulting from constant changes and patching will eventually lead to unpredictable results reducing system integrity and negatively impacting benefit operations, including the timely payment of claimant benefits. The unemployment insurance program must remain in conformity, compliance with federal, state, and law; failure to do so jeopardizes up to \$400 million in federal administrative funding and tax credits for Washington employers.

The UI program must comply with provisions of the Social Security Act and associated federal regulations, and provisions of the Revised Code of Washington (Title 50) and Washington Administrative Code (Title 192). These allow flexibility concerning benefit amounts based on specific conditions. Collectively, the statutes and regulations address:

- Eligibility for and payment of unemployment benefits;
- Required notices to claimants and employers;
- Claimant and employer reporting requirements;
- Requirements for job separations;
- Requirements for claimants to be available for work while receiving benefits;
- Job search requirements while claiming benefits;
- Allowable deductions from benefits;
- Effect of training and school attendance on benefits;
- Specific rules for occupations in special categories;
- Benefit overpayments, and resulting notices, assessments and collections;
- Impact of claimant fraud on benefits;
- Recovery of benefit overpayments;
- Extended benefits after regular benefits when certain economic conditions are present;
- Special programs, including Shared Work, Training Benefits, Commissioner-Approved Training, Self-Employment Assistance Program (SEAP) Program; and
- Assessment of overpayments.

What alternatives were explored by the agency, and why was this alternative chosen?

The department considered the following alternatives with replacing GUIDE:

1. ***Leaving GUIDE and its related systems as is (i.e., continuing the current practice of patching the core computer system and its ancillary sub systems).***

As demonstrated in the recently completed feasibility study, the department is in desperate need of a single, integrated, modern system to support its UI Benefits program. Future changes or extensions of unemployment insurance benefits are likely to result in the department being unable to modify the GUIDE system to accommodate such changes. At that point, the Washington state unemployment insurance system will be broken.

2. Transferring a computer system from another jurisdiction that may be able to provide flexibility to support at least five years of changes in unemployment insurance legislation and policy.

This alternative was set aside due to the fact that no state has a modernized system that meets Washington's business needs. Only Minnesota (2007) and Ohio (2010) have completed modernized UI systems. It is estimated that transferring either system would require a rewrite of more than 50 percent of the code. A rewrite at this level is not cost-effective. The OCIO has encouraged ESD to consider innovative delivery options, such as COTS and Software as a Service (SaaS) solutions. Such solutions have only recently become available in the Unemployment Insurance arena. ESD will consider such systems and their ability to interface with other ESD and statewide systems.

3. Developing a new computer system that provides the flexible use and needed data integrity for at least 15 years of system life and leverages the investment already made in development of the UTAB/NGTS system.

This is the preferred alternative because it will build upon the successes already realized in the UTAB/NGTS project. The UTAB New Benefits System will be designed with flexible interfaces that allow the new system to readily share data and interoperate with NGTS and other state systems. It will provide flexibility to respond to federal and state legislation, provide employers a single point of UI communication, and provide flexibility in the use of staff resources. The enterprise solution for tax and benefits is the best alternative for the department.

4. Installing a Commercial off the Shelf (COTS) system.

At the time of project inception, a COTS solution alternative that supports the UI benefits program was not available. The department remains open to viable alternatives.

What are the consequences of adopting or not adopting this package?

GUIDE will soon be unable to respond to required changes resulting from state legislation or federal action, or will produce unanticipated results and/or result in a failure of the system. This aging, obsolete system requires replacement in order to provide the flexibility to adequately support both the benefits and tax programs.

The GUIDE system is "mission critical" for the payment of unemployment benefits. Not funding the changes and requirements identified in the feasibility study will place both the statutorily mandated and mission-critical benefits systems in jeopardy. The unemployment insurance program must remain in conformity and compliance with federal and state law; failure to do so jeopardizes up to \$400 million in federal administrative funding and tax credits for Washington employers.

Failure to proceed with the new benefits system will result in an adverse effect on department customers and services if the computer system fails at some point in the future, or if there are no staff trained in the old technology available to make future changes. The state has already made a substantial investment in UTAB/NGTS and the staff training on the technologies underlying UTAB/NGTS. Moving forward with this project would result in maximizing the substantial investments in the UTAB/NGTS system from the past three biennia, which can only be attained through a completed system.

What is the relationship, if any, to the state capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

In order to satisfy federal requirements for an appropriation of Reed Act funds to the department, the bill requesting appropriation of these funds should include the following proviso language:

“\$19,135,000 of the unemployment compensation administration account—federal appropriation is provided from amounts made available to the state by section 903(g) of the Social Security Act (Reed Act). This amount is provided solely for the replacement of the unemployment insurance benefit system for the employment security department. The amounts provided in this subsection are conditioned on the department satisfying the requirements of the project management oversight standards and policies established by the office of the chief information officer.

Expenditure Revenue Calculations and assumption:

Expenditure assumptions below are based on a feasibility study the department performed in 2012. Due to federal and state legislative changes to the benefits program in recent years, the department added twenty-five percent contingency funding to each fiscal year.

Object Detail	FY 2016	FY 2016	Total
A-Salaries & Wages	\$1,494,000	\$1,498,000	\$2,992,000
B-Employee Benefits	\$418,000	\$420,000	\$838,000
C-Contracted Services	\$5,034,000	\$7,527,000	\$12,561,000
E-Goods and Services	\$380,000	\$428,000	\$808,000
G-Travel	\$11,000	\$13,000	\$24,000
J -Capital Outlays	\$620,000	\$451,000	\$1,071,000
T-AS&T (Indirect)	\$420,000	\$421,000	\$841,000
Total	\$8,377,000	\$10,758,000	\$19,135,000

What costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Based on the projected phases of the project the biennial breakout is as follows:

Biennia	Estimate/Actuals
2013 – 2015	\$3,809,000
2015 – 2017	\$19,135,000
2017 – 2019	\$20,718,000
Total	\$43,662,000