

**Employment Security Department  
2007-09 Strategic Plan**

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# Executive Summary

## Who We Are

The Employment Security Department is the state unemployment insurance agency, with responsibility for benefit payment and tax assessment. It is a leader in the state workforce development system and partner in the WorkSource system. The department is the state's major developer and provider of labor market information. It also is the state AmeriCorps affiliate, providing service opportunities and volunteer assistance to local communities.

## What We Do

The Employment Security Department provides three major services: the state unemployment insurance-program; a range of workforce development and employment services through the WorkSource partnership; and the state's primary source and provider of labor-market information and economic analysis. The department also operates the Washington Service Corps, providing assistance to Washington communities and service opportunities for corps members and volunteers.

**Unemployment Insurance (UI).** The department has operated the state's Unemployment Insurance program since its inception in the 1930s. The program paid more than \$821 million in unemployment benefits in 2005 to 250,992 unemployed Washington residents who were unemployed through no fault of their own. The program provides services to eligible individuals through two telephone call centers and the Internet. The department also collects employer taxes that pay for unemployment Insurance benefits and administrative costs. Taxes are collected by mail, on-line and through the department's network of district tax offices. The department engages in aggressive efforts to prevent and detect inappropriate payments and overpayments and to ensure that claimants are actively seeking work.

**Employment Services/WorkSource.** The department is a leader in workforce development in the state, primarily working through WorkSource, a multi-agency partnership with local workforce development councils (WDCs), community and technical colleges and non-profit service providers helping job-seekers find appropriate work or access to workforce training. Services are provided at local one-stop workforce development centers around the state and on the Internet. The department is the fiscal and oversight agent for federal Workforce Investment Act funds in the state that fund Worksource activities. At the local level, the department's efforts are focused on matching job-seekers with employment opportunities. The department also provides other services for local WDCs on a contract basis and a range of support services to the partnership, such as information-technology capacity and systems and a large proportion of partnership facilities. The department provides workforce development services to a range of targeted populations, from low-income adults looking for work, to individuals trying to get off welfare and into a job, to veterans looking to find work and better jobs and to a range of others populations, as well as providing services to all job-seekers and to the general public.

**Labor Market and Economic Analysis.** The department is the state's primary developer and provider for labor market information and a source of economic analysis. It receives contract grants from the U.S. Department of Labor. Information is provided to decision-makers such as the state's Economic and Forecast Council, Office of Financial Management, and Legislature, to local WDCs, educators, students, researchers and the general public. A wide range of information is provided to job-seekers and employers, including information on job vacancies, benefit levels, occupational demand and skill needs. Information is available through paper publications and on the Internet through the department's Web sites, such as the Workforce Explorer ([www.workforceexplorer.com](http://www.workforceexplorer.com)) web site. The department also provides economic analysis for a wide array of users around the state.

**Washington Service Corps.** The Service Corps provides service opportunities for approximately 750 AmeriCorps members annually and also operates the state's Reading Corps. Corps members recruit and oversee the work of thousands of volunteers; together, they work on a wide range of community service projects around the state, including reading tutoring, housing, homeland security, environment and human services efforts. More than 11,500 students were tutored last year as a result of the work of Service Corps members. The Corps is largely funded through the federal Corporation for National and Community Service, also known as AmeriCorps.

**Operational Support.** The direct services provided by the department are supported by a range of support functions, including information technology, human resources, facilities, budget and performance management, and communications. The department provides a wide range of services on-line and many key functions are highly automated. The department owns two buildings, leases numerous facilities, and has a total of 80 leases, sub-leases and rental agreements. The department is working hard to become a performance management leader in the state. Its GMAP efforts are rigorous and involve key agency leadership in weekly reviews of performance.

## **Challenges**

The department, which is primarily federally funded, is facing declining revenues from most of its funding sources. Federal discretionary domestic spending is constrained and is likely to remain so for some time. The combination of increased defense and domestic security spending, higher health care costs, significant tax reductions and the impending retirement of baby boomers is increasingly limiting department funding levels.

Unemployment insurance administration is facing reductions because the federal administrative formula was changed in 2002 in ways that do not provide adequate funding for the state. During the 2005 legislative session, the Legislature authorized federal Reed Act funding to allow the Unemployment Insurance Program to downsize, automate and become more efficient. The Workforce Investment Act budget is declining nationally, and the state now receives a smaller share of national funding because of the healthy economy. Both that act and Temporary Assistance for Needy Families Act (legislation that authorizes and funds welfare reform) are long past due for reauthorization, but both houses of Congress have been unable to agree on provisions. Depending on what final legislation looks like, the state could face significant fiscal

and operating difficulties. Funding for the Department of Labor's Bureau of Labor Statistics (that supports labor market and economic analysis in the state) also is facing declines. Only the relatively modest share of the department's budget that does not come directly from the federal government is not facing the prospect of ongoing declines over the plan period.

Over the next few years, the Legislature may reexamine unemployment insurance issues because the program has more funds available to pay benefits than is needed for long-term sustainability at current benefit levels and current law.

The department faces a problem of aging computer network and other infrastructure systems. Continuing to operate on aging network and computing systems significantly increases risks to department businesses of infrastructure failure with consequences to users of department services and to the public.

## **What We Propose to Do**

The department is planning significant changes to respond to federal fiscal pressures and to raise the bar for performance and quality. These changes will involve major efforts by the department's operating and support units.

**Unemployment Insurance (UI).** The program will focus on enhancing performance and providing excellent service. The department will refocus its tax program to ensure that employers pay their fair share of taxes by clarifying policy for employers and internal staff who audit employers tax records. It also will do more to detect and collect claimant and employer fraud, including moving to targeted tax audits. It also is automating a wide range of functions over the plan period, including moving to cash cards rather than checks as a way to provide benefits; using technology to improve service through the telecenters; and installing virtual routing, (which will allow calls to move to wherever in the state there is capacity), among other projects.

To achieve a sustainable operating budget over the next few years, the UI program will:

- Review its functions and activities;
- Administratively eliminate any activities not required by law and not crucial to the core mission;
- Work with stakeholders to examine functions and propose that the Legislature eliminate some functions currently mandated by state law; and
- Support the Legislature and stakeholders with ideas and information as they consider ways to both reduce the Unemployment Insurance Trust Fund level and improve the program.

**Employment Services/WorkSource.** The department will play a leadership role in the workforce development system. It will move to focus on individuals most in need and most likely to benefit from assistance. It will identify those individuals and the services most likely to benefit them. It will increase its focus on one-on-one assessment of targeted job-seekers, and to help match them with appropriate jobs. The department will:

- return unemployment insurance claimants to work more quickly and effectively;

- immediately provide reemployment services to who need help finding jobs;
- ensure that claimants who are competitive in the job market are looking for work;
- improve the quality of job referrals made to employers; and
- increase placements in regional industries, customizing WorkSource services to meet regional needs.

The department will work to make WorkSource more financially sustainable through:

- making efficiencies in the central office staff;
- consolidating information management into a single technology system (WorkSource's SKIES system);
- reducing operations costs;
- improving facility efficiency including reducing and consolidating facilities; and,
- identifying new funding sources to support WorkSource.

**Labor market and economic analysis.** The department will integrate labor-market information thoroughly into the Workforce system. It will work with local agency staff and workforce development councils to share products and tools and also will develop new information products and tools to meet emerging needs around the state. The department also will seek new sources of funding for labor market and economic analysis, including fee-for-service markets, while reducing costs.

**Operational Support.** The department will set a high standard for performance management. It will use its strategic plan as a template, implementing it using budget allocations, performance agreements and reviews, and GMAP measurement. These efforts are already beginning and will be supported with automation as funding permits. Over time, the department will provide performance and budget information to managers at the desktop level and raise manager skill levels in performance management and budgeting. The department currently is engaged in a bid-based budget process, in which managers are preparing bids for every function based on current level funding, reduced levels and enhanced levels.

Over the plan period, the department will work to reduce overhead and facility costs. This will involve standards to reduce facility costs for remodels, new locations and space reconfigurations. It will involve a standard for timely facility-location decisions when leases are renewed. It also will involve efforts at other non-payroll cost savings, such as copy machines, utilities and travel.

While reducing overhead and facility costs, where appropriate, some additional investments are likely needed in the near-term (e.g., for automation). The department has not sufficiently invested in the underpinnings and infrastructure of its information technology system and the department will work to remedy these problems. Many efforts to improve quality or reduce costs involve automation efforts, and these will involve investment in the near-term.

The department's human resources efforts also will automate routine functions to allow human resources staff to provide more consulting assistance to department managers. Human resources will be a focus of efforts to increase operating performance, and the department will work to become a performance-based organization.

# **Mission Statement**

The mission of the Employment Security Department is to promote Washington's economic security by helping people and businesses succeed in the workforce marketplace.

## Statutory Authority References

Following are the enabling laws that authorize the establishment and operation of Employment Security Programs:

- **Title 50 RCW** provides the authority for administering the Employment Service Program, the Unemployment Insurance Program, the Administrative Contingency Fund, the Employment Security Administrative account (claimant placement), and other dedicated programs administered by the department.
- **RCW 43.79.010** provides authority for collecting and disseminating labor market information; and for administering programs relating to the Commission for National Community Service providing work-experience through community service.
- **RCW 50.65.030** provides authority for the Washington Service Corps.
- **RCW 41.48.060** provides for the Federal Social Security coverage, the Old Age and Survivor's Insurance Program (OASI) for employees of Washington State and of local governments via a joint state-federal agreement.
- **PL 105-220**, relating to the federal Workforce Investment Act (WIA), codifies the one-stop service delivery system and brings multiple federal programs for the public labor exchange (Wagner-Peyser), veterans, older workers, adult literacy and disabled under a state planning and service-delivery umbrella. The Employment Security Department is charged with administering the Workforce Investment Act in Washington State.
- **PL 104-193 and RCW 74.08.090** establish the WorkFirst program. The department provides WorkFirst employment-related services under contract with the Department of Social and Health Services.

# Commissioner's Vision

Employment Security's mission includes helping people succeed throughout their working lives. As a leader in the workforce development system, we are committed to enhancing the economic security of Washington's workers. The Employment Security Department (ESD) helps employers find workers, helps people develop their skills and find jobs, and helps people who lose their jobs make it through tough times by providing financial assistance. These services promote economic stability and growth for the state as a whole.

In all that we do, Employment Security is an organization that is accountable. We are fair and respectful in our interactions with customers, truthful and accurate in what we say and write, and focused on results. As holders of the public trust, we use our resources effectively and continually improve the quality of the services we provide. Each person who works for Employment Security takes responsibility for and contributes to the agency's success.

As we move forward, we must identify ways to measure our success, set meaningful goals, develop action plans to achieve those goals, monitor our progress, and adjust our plans as we learn. The agency's overriding strategic goals are to:

- Improve the agency's statewide reputation and standing.
- Become a high-performance culture that recognizes and rewards excellence.
- Build a realistic fiscal foundation for the future.
- Ensure that all managers and supervisors develop their own and their staff's abilities, paying particular attention to leadership, teamwork, communications, decision-making, and technical competence.

As each division within the agency develops its budget and outlines its strategic goals and objectives, the Commissioner expects the agency to achieve the following.

## Vision for Unemployment Insurance

The Unemployment Insurance (UI) Program provides timely and accurate support to unemployed, protects the solvency of the unemployment insurance trust fund, and operates a tax system that ensures that employers pay their fair share of taxes. The program is recognized across the nation for being innovative, efficient, and effective. It builds and maintains excellent working relationships with partners, customers, and interest groups.

To achieve this vision, the Unemployment Insurance Program should:

- Focus on operational excellence. Continue using data and measures to improve performance in all areas of your operation.
- Clarify existing policies, procedures, and communications (letters, Web site, etc.) using plain language so that both claimants and employers understand their rights and obligations under the unemployment insurance system.
- Enhance efforts to prevent fraud. Focus more attention on targeted audits, employers who knowingly attempt to avoid their unemployment taxes, and businesses who have not registered as required.

- Continue efforts to reduce costs and become financially stable.
- Promote services (such as Shared Work) that can help employers reduce the cost of unemployment while keeping workers employed.
- Improve systems and partnership with WorkSource to help ensure that unemployment insurance claimants return to appropriate work as quickly as possible.

## **Vision for Managing and Delivering Employment Services (WorkSource)**

The Employment Security Department is responsible for exercising leadership for the overall WorkSource system, for providing quality administration and oversight for the partnership, and for providing direct services that connect job-seekers with employers. The department serves as the anchor and operations lead for most of the job-placement and job-order functions in WorkSource. This strategic plan represents the state interests in the WorkSource system and the department is collaborative with and responsive to its WorkSource partners in carrying out the plan. Each employer and job seeker who visits WorkSource is treated with dignity and respect, and is provided with support and services focused to his or her needs. WorkSource helps people better their lives.

To achieve this vision, the WorkSource system should:

- Enhance the service and support provided to people in poverty. This includes but may not be limited to WorkFirst recipients and others.
- Enhance the services provided to all unemployment insurance claimants. Help them to quickly find new and appropriate work. Identify tools and practices that can most effectively serve this population.
- Build data and measurement systems that provide timely, accurate, and usable information on how well the operation is being managed, for use by managers and WorkSource partners. Also, create evaluation systems, such as GMAP, that assess the effectiveness of WorkSource programs and identify opportunities for improvement.
- Ensure that clients who receive the greatest amount of attention are obtaining successful outcomes. Specifically consider whether people who receive intensive services are getting jobs, how to tell and how to change the type of service and the way this service is delivered to improve outcomes?
- Improve WorkSource business services so that the inventory of overall job orders increases and customer satisfaction improves.
- Within each of the 12 workforce development areas, customize and concentrate services to support the key industries in that geographic area (i.e., programs to help agriculture in Central Washington). Concentrate more resources on these regional industries.
- Ensure efficient administration and oversight of federal funds by monitoring fiscal resources and policy directives. Serve as a clearinghouse for information and best practices for system improvement. Devise and implement demand-driven employment and training initiatives and projects.

## **Vision for Labor Market and Economic Analysis (LMEA)**

LMEA provides accurate, timely, and useful workforce and economic information that helps job seekers, employers and policy-makers make informed decisions.

To achieve this vision, Labor Market and Economic Analysis should:

- Focus on how to better integrate/align your services/reports with unemployment insurance, WorkSource and the workforce development councils.
- Enhance your processes for measuring your performance and assessing its impact. Actively seek feedback from customers (job seekers, employers, WorkSource staff, private and public educational providers, state and federal partners, researchers, and ordinary citizens) and use the feedback to enhance the quality, usefulness and accessibility of services.
- Implement strategies to increase revenues into Labor Market and Economic Analysis and reduce costs.

## **Vision for Operational Support**

All of Employment Security's support functions operate in a transparent, seamless and coordinated manner to ensure agency staff are equipped with the information and tools they need to achieve our mission. The department's operational support divisions are considered the most efficient and effective in state government.

To achieve this vision, the operational support units should:

- Ensure a stable information technology (IT) environment that enables both the agency and the WorkSource system to work efficiently and effectively.
- Move the agency toward an enterprise-oriented approach to technology, one that uses common platforms, programming language, etc., across the entire agency. The agency should have one highly interconnected infrastructure, not a variety of non-integrated systems.
- Design and organize Employment Security's Web site with end users in mind, with a seamless look and feel that presents the department as a unified agency rather than a confederation of divisions and offices, and which maximizes the site's use as a dispenser of information and Employment Security services.
- Identify ways to be more effective in conserving resources and reducing costs. Develop systems and tools to provide useful and timely data to managers that help them to make important decisions.
- Create and enhance human resource systems to ensure managers are provided effective support in hiring, supervising and developing staff.
- Enhance efforts to improve Employment Security's reputation by employing a variety of methods to communicate externally and internally about Employment Security services and accomplishments.

# Goals, Objectives, Strategies, Performance Measures

## Unemployment Insurance: Benefits and Tax

The department operates the state's Unemployment Insurance Program. The program paid more than \$821 million in unemployment benefits in 2005 to 250,992 unemployed individuals around the state who were unemployed through no fault of their own. The average recipient collected \$295 each week and claimed benefits for about 15 weeks.

The program is funded through two taxes on employers doing business in the state. One tax, the State Unemployment Insurance Tax Act (SUTA), funds unemployment benefits, with benefit levels set at the state level and tax proceeds held in a dedicated account in the Federal Treasury. The other tax, the Federal Unemployment Tax Act (FUTA), pays the costs for running the state's employment security programs, including unemployment insurance administration. The proceeds are held in the Federal Treasury, and the states are funded based on a federal formula.

For each dollar that is paid out in unemployment benefits, \$2.15 is generated into the economy, according to a recent report from the U.S. Department of Labor. This is due to both the direct injection of dollars and the spread of those dollars throughout the economy, also known as the multiplier effect.

The program faces significant administrative fiscal risk over the strategic plan period. A fundamental problem has existed for many years with the federal administration of unemployment insurance administrative funding. Federal taxes paid by employers are categorized within the unified federal budget, and states receive back less in administrative funding than their employers pay into the program. The inevitable surpluses were held at the federal level and used to mask the size of the federal budget deficit rather than allocated back to states to fund required administrative costs. On rare occasions, Congress would authorize release of some of these funds to the states under a Reed Act distribution, with the largest such distribution by far occurring in 2002. Washington and some other states managed through this problem by automating and becoming more efficient.

In 2002, the federal Department of Labor exacerbated the underlying problem by adopting a resource justification model for allocating administrative funding to states. The model, initially developed to justify additional administrative funding by Congress, was instead used to reallocate existing funding among states. The result is a structural deficit for Washington's Unemployment Insurance Program.

The Legislature responded to this problem in 2005 by allocating federal Reed Act funding to allow the program to downsize and become more efficient. This funding is supporting automation initiatives and efficiency efforts identified for action in this strategic plan.

In contrast to the shortfall in administrative funding, the department has more money than necessary to pay benefits at current benefit levels given current statutory provisions. The federal standard for a fiscally health unemployment insurance system is one that can pay benefits for a full year during a recession. The state currently exceeds that standard and with the current law's tax levels, the Unemployment Insurance Trust Fund level is projected to continue to grow. There are many reasons for this growth.

In recent years, the Legislature has been the scene of significant disputes over unemployment insurance taxes and benefits. These have included disputes between business groups over the relative equity of the tax system, as well as disputes between business and labor groups over benefits provided to claimants (which in the past were much higher than national averages). These disputes led to numerous legislative conflicts, with significant legislation passed in 2002, 2003, 2005 and 2006. Each year, new legislation revised major elements of laws that had been enacted merely a year or two before.

The Legislature in 2003 enacted landmark legislation that significantly changed the unemployment insurance tax system, reduced benefits, and set rules for judging disputes over many categories of job separation. There were numerous changes enacted that year, and their impacts and interactions are complex. The legislation was intended to make taxes more closely match employer layoff experience and to lower employer taxes over time.

Employer costs were lowered by reducing the system's socialized costs, the costs shared by all employers. These costs declined by eliminating charge relief grant to certain employers through the Marginal Labor Force Attachment law. Socialized costs also declined because of provisions that reduced the reasons claimants could receive benefits after having quit or been fired from a job.

However, the legislation also included a number of provisions intended to provide extra system funding to try to ensure solvency. Like any insurance program, a solvent system should have forward funding mechanisms that are sufficient to ensure enough money to cover future payouts. The 2003 provisions included making experience-rated taxes slightly higher than actual costs for many employers; adding a new social tax with a relatively high minimum rate (the social tax covers the system costs shared by all employers); making new employers pay more than the average costs for their industry; and requiring successor employers to pay the rate of their predecessor business rather than a lower "industry average" tax rate for that business. The legislation also raised the total costs for employers who were at the maximum tax rate by adding the costs of meeting the system's social costs on top of the experience-rated portion of the tax rate.

Many of these tax changes interact and generate additional revenues. Projections of the consequences of these changes in 2003 were conservative. In particular, the impacts of reducing the allowable reasons for losing a job could not be forecast in advance. These eligibility changes had larger than expected effects on reciprocity rates--the proportion of all unemployed individuals who actually receive benefits. The program saw sharp reductions in program

eligibility with reciprocity declining from 53 percent in 2002 to 33 percent in 2005, a 20 percent drop, down to a rate near or below the national average.

Unemployment insurance taxes are calculated on a four-year rolling average. When the 2003 legislation was enacted, the state was in recession. Over the next four years, through 2007, employer taxes will reflect that higher recession-level experience with benefit payouts. Employers will not see the full impacts of the reductions in tax rates from the 2003 legislation until their 2008 tax bills.

In 2005, the Legislature passed EHB 2225, which reversed some of the benefit cuts for most workers but reduced weekly benefits calculations for all claimants, and it set up a joint task force to try to resolve these long-running disputes. In 2006, the Legislature passed legislation (ESSB 6885) that restored unemployment insurance benefit levels to pre-2003 levels (while maintaining the benefit eligibility reductions enacted in 2003), while reducing unemployment insurance taxes. However, despite the tax decreases and increased benefit levels of the 2006 legislation, the trust fund balance remains at a high level and is projected to accumulate more funding than necessary to pay required benefits over the plan period.

The department will support legislators and stakeholders with ideas and information regarding possible changes to unemployment insurance taxes and benefits to reduce the Trust Fund level and improve the unemployment insurance system during the 2007 legislative session.

In addition, the department will take a number of administrative actions described in this strategic plan that will help reduce unemployment insurance taxes. They include:

- Significantly strengthening efforts to deter and detect fraud and overpayments;
- Moving unemployment insurance claimants into jobs faster, including efforts to consistently apply the unemployment insurance work test (referring claimants to job openings and providing sanctions for failure to apply or accept work).

The Department is continuing to refocus its tax and wage program to ensure that employers pay the appropriate amount of taxes. This will involve additional revisions to tax and wage manuals and other guidance materials in order to increase the focus on consistent enforcement efforts and to incorporate recent legislative changes into the program. It also means targeting audits to those industries and employers most likely to be under-reporting their taxes to ensure that they pay their fair share of taxes.

The department will do more to prevent, detect and collect claimant overpayments. The department will also expand its efforts to prevent, detect and collect claimant and employer fraud. During the 2006 legislative session, funding was appropriated to allow the department to do more to reduce fraud. This strategic plan identifies actions to implement this funding, much of which will take place in the coming year, prior to June 2007.

The department as a whole is moving toward becoming a high-performance organization, with greater responsibility and reward for individual and group performance. The focus of the

Unemployment Insurance Program during the plan period is stability. The plan identifies actions the program is taking to implement this direction.

This section includes the strategic plan elements for both the benefit and tax activities of unemployment insurance. Most of the planned actions for these functions are so intertwined that they are presented as one section. We have identified areas where objectives or strategies focus on benefits or tax alone.

## **Goal 1: Operational excellence with increased program quality and improved financial stability.**

The Unemployment Insurance Program is increasingly focused on improving the quality of its operations and becoming a high-performance organization. These efforts outlined below are intended to both improve program quality and to respond to the fiscal shortfall the program is facing. Becoming a performance-based organization and focusing on operational excellence will require addressing a range of human-resource and service- delivery issues.

The cost of human resources, both salaries and personnel benefits, is the largest portion of the unemployment insurance budget. Given the structural shortfall in the program's budget, a rigorous focus on productivity and operational excellence are key components of achieving fiscal sustainability. The program cannot afford high staff turnover, losing productivity through the lack of succession planning, delays in the hiring process, or an unskilled workforce.

### ***OBJECTIVE 1: Be a performance-based organization.***

#### ***Strategies***

- Improve the hiring process by identifying knowledge, skills and abilities for each position.
- Improve recruiting, screening and selection processes to fill vacancies.
- Ensure performance expectations are clearly defined and communicated.
- Improve program performance by reducing the turnover of staff, by developing incentives and rewarding performance, and by containing training costs through appropriate classifications and pay.
- Maintain a well-trained seasonal workforce in the telecenters.
- Develop and implement a succession plan.
- Continue using data and measures to improve performance in all areas of operation. This includes ensuring that all managers seek to understand performance through measurement and have the tools at their disposal to assess performance at individual levels, where appropriate.
- Increase the use of automated reports to reduce redundancy and increase individual efficiency using management tools to drill down and identify performance problems in time to ensure individual performance is enhanced.
- Review and revise documents, web sites and interactive voice technology scripts to meet Plain Talk standards.

- Build capacity to meet demands for high quality data.

***OBJECTIVE 2: Increase employer awareness of agency programs and policies that can reduce their unemployment insurance costs.***

***Strategies***

- Increase employer awareness of the department’s standby policy, the Training Benefits program and the Shared Work Program and their benefits.
- Provide additional means for the employers to contact the department when they want to discuss issues or have questions that are not specifically related to unemployment insurance taxes or benefits.

***Performance Measures***

- Meeting and being above the national average for federal benchmarks, such as first payment timeliness (unemployment benefits), non-monetary 21-day timeliness, separation and non-separation quality scores, and new employer status determinations.
- Meeting the federal standard for 13 tax-quality measures.

**Goal 2: Long-term financial stability for the administration of the Unemployment Insurance Program.**

The current level of administrative spending for the Unemployment Insurance Program exceeds new federal funding anticipated in future years. The program is looking to increase financial stability in a number of ways. Key approaches include increasing operational efficiency, improving program excellence and using technology to automate tasks. The program is reducing program costs using a bid process based on a Priorities of Government model and is reviewing program functions. It also is also exploring options for reducing state mandates not funded by the federal government, and seeking additional funding for the program from the Legislature.

Technology will be a key to achieving fiscal stability for the program. Washington’s Unemployment Insurance program already is among the most technologically advanced in the country. Among other uses, it uses technology to direct phone calls within telecenters, and to provide information about callers to telecenter agents. It uses data mining tools to identify fraud and computerized tools to identify possible job matches for unemployment insurance claimants. Financial stability could be gained by automating a range of functions to improve program productivity. This goal identifies initiatives to stabilize information technologies, reduce on-going operational costs of the program and enhance customer access to information and services.

***OBJECTIVE 1: Reduce unemployment insurance administrative costs, efficiently implement system changes, and use technology to increase customer access to information and services.***

## **Strategies**

### **Unemployment Insurance Benefits**

- Implement direct deposit and evaluate the feasibility of using cash cards to eliminate paper checks to unemployment recipients.
- Reevaluate the GUIDE mail stream to reduce or eliminate multiple mailings to one address (GUIDE is the automated unemployment insurance benefit system).
- Provide an option for employers to respond to claimant separation and other official notices over the Internet or electronically.
- Develop a fact-finding tool for the Internet-based initial claim application to collect upfront separation information from the claimant.
- Explore and identify options for reducing the costs of the data network.
- Stabilize telephone technologies in the telecenters by implementing virtual routing, simplifying routing strategies and skill sets, and improving reporting (drill-down capability).
- Acquire a call-monitoring system for the telecenters to improve the quality of customer service by agents, to use supervisor time more efficiently, to improve complaint resolution, and to aid agent training and improve individual performance.

### **Unemployment Insurance Tax**

- Increase efforts to have smaller employers file and report electronically.
- Stabilize or replace the TAXIS system to meet today's business needs and future requirements (TAXIS is the automated Unemployment Insurance tax system).

### **Unemployment Insurance Benefits and Taxes**

- Train program managers to oversee technology-related projects.

## ***OBJECTIVE 2: Identify and achieve savings by examining program functions.***

### **Strategies**

- Reduce costs through a bid process (on the model of the Priorities of Government process) as part of the agency's internal budget allocation process.
- Using the new bid process, review functions, programs and activities that may not be essential to the core mission of the program.
- Identify and eliminate redundancy in program operations.

## ***OBJECTIVE 3: Examine program requirements not reimbursed by the federal government and consider requesting elimination of those with low value to reduce long-term costs.***

### **Strategies**

- Review legislatively-mandated program functions not required and reimbursed by the federal Department of Labor.
- Work with the Unemployment Insurance Advisory Committee (composed of business and labor stakeholders) to identify functions that are of lower value and could be eliminated.
- Request legislative changes to reduce long-term costs.

**OBJECTIVE 4: Secure a long-term, stable funding source of the unemployment insurance program to cover costs of the system that are not provided through federal appropriations.**

**Strategies**

- Explore innovative and creative options for alternative funding sources for long term fiscal stability for the UI program.
- Work with the Unemployment Insurance Advisory Committee to review funding options to pursue.

**Performance Measure**

- Annual revenues equal to or exceeding expenses while maintaining quality performance results consistent with legislative and stakeholder expectations.

**Goal 3: Deter and detect fraud and strengthen integrity programs.**

The integrity of the Unemployment Insurance Trust Fund is enhanced when all employers pay the taxes that they owe, and when qualified workers have access to unemployment benefits when they need them and draw out only the amount to which they are entitled. Preventing, detecting, and collecting benefit overpayments and unpaid taxes will better protect the interests of honest employers who are paying into the system. It will also protect the safety net that supports workers who lose their jobs through no fault of their own.

The department is engaged in a top-to-bottom review and alteration of the tax audit system. The program is moving away from overwhelmingly random audits toward a system using technology and leads to target audits to those areas where under-reporting is most likely to occur.

This detection and enforcement effort will go hand-in-hand with the department's enhanced efforts to deter fraud. The department received support and funding for a substantial increase in fraud and overpayment during the 2006 legislative session and is proceeding to implement those expanded efforts.

**OBJECTIVE 1: Deterring and detecting fraud and abuse within the program, and collecting monies lost to the trust fund.**

**Strategies**

- Use news media and advertising to inform customers of “get tough” emphasis.
- Provide education and fraud training to staff.
- Use legislation or regulatory changes to enhance fraud penalties.
- Enhance the audit program using technology.

- Establish a tax-fraud unit to focus on State Unemployment Tax Act (SUTA) dumping and the underground economy (unregistered employers illegally avoiding unemployment insurance taxes).

***OBJECTIVE 2: Enhance the audit and compliance program for employer taxes to collect underpaid taxes, interest and penalties.***

***Strategies***

- Move from a random audit to a targeted audit program.
- Enhance the audit program using technology and leads.
- District Tax Office staff will be requesting more audits based upon information they have available in the field.
- Increase employer education effort.

***Performance Measures***

- Decreases in inappropriate payments to claimants.
- Increases in overpayment prevention, identification and collection.
- Increases in identifying and collecting unreported and under-reported tax premiums.

**Goal 4: An unemployment insurance system that is fiscally sound and sustainable for the long run with appropriate tax and benefit levels.**

The Unemployment Insurance Trust Fund currently has more funding than needed to pay benefits at current benefit levels and statutory provisions, with more than enough money to pay benefits for a full year during a serious recession, the federal standard for fiscal soundness. Moreover, the Trust Fund is projected to continue accruing funds for some time that exceed its projected fiscal needs.

The Trust Fund level is in part a measure of the current healthy state economy, but it also reflects the forward-funding provided to the system in the 2003 legislation and to the lower rate of unemployed workers who qualify for benefits. Despite the 2006 legislation that lowered taxes and increased benefits, Trust Fund levels remain high and are increasing.

While there are federal standards for a fiscally sound Unemployment Insurance system, there are no such standards for tax or benefit levels. States have diverged sharply on the character and levels of taxation and benefits since unemployment insurance was created in 1935. These ultimately are values issues that must be determined by legislatures and governors; stakeholders often have significant differences of opinion on these matters. However, we can cite criteria for a healthy system, as follows:

A healthy unemployment insurance system should be fiscally sound--able to respond effectively to sudden and severe economic downturns. Benefits should provide decent levels of support for unemployed workers who have lost their jobs through no fault of their own and benefit levels should be related to their prior incomes. Workers should be ready, able and available to work and should be actively seeking work, ideally work with some relation to their skills and former wage levels. Taxes should be applied equitably among business taxpayers. Taxes should be high enough to support such a system, and no higher.

The department intends to work with the Legislature and stakeholders by providing ideas and information regarding possible changes to unemployment insurance taxes and benefits during in the 2007 legislative session and subsequent legislative sessions.

***OBJECTIVE 1: Reduce the Unemployment Insurance Trust Fund balance to levels consistent with long-term fiscal stability and make appropriate improvements to the Unemployment Insurance Program.***

***Strategies***

- Support the Legislature and stakeholders on how to achieve long-term sustainability and to make improvements in the Unemployment Insurance system.

***Performance Measure***

- Fiscally sound unemployment insurance system with benefit costs and employer taxes aligned and an adequate fiscal reserve.

## **WorkSource (One-Stop WorkSource System)**

WorkSource is a partnership that provides a range of workforce development services in local one-stop centers around the state and on the Internet. Services include assessment, job placement, job-finding skill development, job referrals and funding for training. Some of these services are provided to anyone who wants them, while others are linked to specific federal funding sources.

The partnership includes Employment Security, 12 local Workforce Development Councils (WDCs), community and technical colleges and local non-profit service providers. The partnership is largely federally funded, with much of the funding coming from the federal Workforce Investment Act (WIA). There are a wide range of other funding sources, with major funding coming from the WorkFirst contract with the Department of Social and Health Services, federal Wagner-Peyser funds, Veterans Act, and the Trade Adjustment Act. This funding is used to assist welfare recipients leave welfare, to help dislocated workers find new careers, to help veterans re-enter the workforce, to help low-income adults find better jobs and to be a source of information and assistance to all job-seekers.

The Department plays a leadership role in the overall WorkSource system. The Employment Security Department has the lead in system-wide administration--funding WDCs, and monitoring their plans, spending and performance. The Department also provides job-matching and job-finding skill development services in local one-stop centers and operates the Go2WorkSource.com web site. It also provides the technological infrastructure for the partnership, funds a large proportion of facilities; and operates some local one-stop centers through contracts with local WDCs.

During the strategic planning period, WorkSource is facing long-term funding declines as a result of federal budget problems. Reauthorizations of federal laws, shifts in federal program support and changes in how the state workforce system is structured all could result in significant changes to the program. For more detail, see the discussion on page 45 in the Appraisal of External Context section.

During the plan period, Employment Security will work to reduce its operating costs and those of the partnership as a whole, while trying to help the partnership remain strong and continue to provide high-quality services to the public.

The department will play a leadership role along with system partners in responding constructively to the fiscal and policy challenges facing the partnership. It will place a priority on assisting people who need the most help finding work and will provide more one-on-one contact with some users. The department will step up efforts to ensure that claimants actively look for work, and will impose appropriate sanctions for non-compliance. In addition, the department will work to improve the quality of its job-matching efforts at the local level, increasing the quality of job referrals and the number of job placements to regional employers in local areas. This involves referring job-seekers with the right skills and in the right numbers to local employers to

meet their workforce needs. The goal is to effectively meet the job placement needs of job-seekers while meeting the workforce needs of local industries.

## **Goal 1: Focus services to those job-seekers who would benefit most from WorkSource services.**

The department's WorkSource business line is facing the prospect of declining funding. In this situation, the department has decided to focus its attention on those job-seekers who need the most help finding sustainable employment. Employment Security will undertake significant efforts to identify these populations quickly and accurately. The department will work to assess what they need for successful job placement and will provide or refer these job-seekers to the most effective services, and track and report the results of these efforts. The department also will examine business practices that are duplicative or redundant among programs. The department will maintain a close working relationship with WorkSource partners in developing this effort and in continuing to implement the other requirements of the WorkSource system.

This refocusing of department efforts is likely to result in reduced services to job-seekers that need less help finding work. However, resource rooms, referrals to job orders and automated labor market information will continue to be available to all job-seekers through WorkSource. Services also will continue to be available to incumbent workers to get better jobs or continue working.

### ***OBJECTIVE 1: Develop processes and methods to identify individuals who need WorkSource assistance most and increase job placement services to them.***

Populations who may need this intervention include WorkFirst participants, veterans, youth, ex-offenders, older workers, individuals with disabilities, individuals with language barriers and those who lack the education or training to compete for good jobs.

#### ***Strategies***

- Create a business model that will include a strong focus on assessment and increased staff involvement with job-seekers who would need and benefit most from such efforts.
- Work to identify characteristics of job-seekers who need assistance to find appropriate employment and would benefit most from Department service through the use of data mining and data analysis.
- Develop assessment processes to review individuals when they enter local offices.

### ***OBJECTIVE 2: Determine which services work best for job-seekers who need the most help finding jobs.***

#### ***Strategies***

- Determine which services work best for job-seekers who need help finding appropriate employment and would benefit most from WorkSource assistance using data mining and data analysis.

- Research the best practices of other states that focus on similar job seeker populations.

### **Performance Measures**

- Number and percentage of job-seekers getting jobs in 90 days after receiving WorkSource services.

## **Goal 2: Return Unemployment Insurance (UI) claimants served by WorkSource to work more quickly and effectively.**

The department intends to increase the rate and speed at which unemployment insurance claimants return to work by actively engaging claimants in appropriate re-employment efforts. The primary focus of this effort will be to immediately provide reemployment services to those claimants who lack the job-seeking skills to effectively find work.

The department also has the statutory mandate to ensure that those claimants who have desired work skills are actively looking and to appropriately sanction those who don't.

***OBJECTIVE 1: Determine better methods to connect Unemployment Insurance claimants to reemployment services. Target those claimants who would most benefit from reemployment activities and develop strategies to move them into employment quickly.***

### **Strategies**

- Research which employment interventions are most effective for people on unemployment.
- Use the base-year employer query to identify opportunities for employers to rehire former workers.
- Create customized rapid response reemployment services for dislocated claimants.
- Develop and implement methods to improve the number of claimants who contact the employer to whom they are referred, and reduce the time it takes to verify the results of referrals.
- Enhance the amount of data exchanged between the WorkSource case management system (SKIES) and the unemployment insurance benefit system (GUIDE).

***OBJECTIVE 2: Integrate funding for job placement for Unemployment Insurance claimants that increases effectiveness and leverages limited resources.***

### **Strategies**

- Participate in the study U.S. Department of Labor study on the effectiveness of the Job Search Review (JSR) Program measured by shortened duration on unemployment insurance. The program focus is on eligibility review and job referral services.
- Apply new WorkSource appraisal tools to evaluate effectiveness.
- Develop common policies between WorkSource and the Unemployment Insurance Program about how services will be delivered in local offices.

***OBJECTIVE 3: Consistently apply the Unemployment Insurance work test to increase Unemployment Insurance claimant accountability.***

***Strategies***

- Clearly communicate to claimants their obligation to return to work as quickly as possible and inform them about WorkSource reemployment services.
- Train WorkSource staff on applying the Unemployment Insurance Work Test.
- Identify claimants that are not actively looking for work as evidenced in their work search and report that information to the unemployment insurance telecenter as a potential benefit eligibility issue.

***Performance Measures***

- The number and percentage of Unemployment Insurance claimants getting jobs within 90 days after receiving WorkSource services.
- Percentage of benefits used by unemployment insurance claimants utilizing WorkSource services.

**Goal 3: High-quality job referrals, increased job placements in regional industries and customized services to meet regional needs.**

The Department will focus on improving the quality of job referrals to local employers and on increasing job placements for regional employers. The goal is to meet job-seeker needs for appropriate employment by working more effectively with local employers to identify more jobs. This model engages both business and the job seeker in tailored recruitment strategies and it encourages local WorkSource offices to organize their operations in line with the predominant regional industries.

***Objective 1: Provide employers with qualified applicants and the right number of applicants to meet their needs.***

***Strategies***

- Develop and implement standards for quality job orders across the WorkSource system.

***OBJECTIVE 2: Customize the services of local areas and meet the needs of regional industries in order to provide opportunities for job-seekers.***

***Strategies***

- Develop and implement local plans with identified steps to meet regional industry recruiting and placement requirements.
- Build WorkSource staff knowledge of specific industries, their job specifications and occupational competencies and of available employment opportunities.
- Contract for an employer survey to determine desired business services available through WorkSource.

## **Performance Measures**

- Number of job openings filled.

## **Goal 4: Attain financial sustainability for the WorkSource system.**

WorkSource is facing an ongoing decline in federal funding that is expected to continue. It also faces a range of situations that could result in more severe declines. WorkSource needs to secure funding to pay for facilities, technology and employees into the future. The strategy for fiscal sustainability includes efficiencies, more cost-sharing, and seeking additional funding. This will include eliminating duplicative functions in automated systems and employer/job seeker services and potentially closing offices in areas where services can be otherwise obtained. Ideas for additional funding include fee-for-service for some activities.

### ***OBJECTIVE 1: Eliminate duplicative functions, increase operating efficiencies, reduce facility costs.***

#### ***Strategies***

- Evaluate staff functions in the WorkSource central office to determine what efficiencies can be realized from reducing or redeploying staff positions.
- Develop a single management system by operating SKIES and CATS (WorkFirst case management system) using the same platform and technology and develop SKIES as the single data collection and reporting system generating data on job seekers who most need WorkSource assistance.
- Increase productivity and efficiency in "time used" measure by implementing a single data reporting tool with the WorkSource Management Information System (WSMIS)/Discoverer.
- Explore local opportunities within each workforce development area for reducing operational costs and for obtaining additional funding.
- Develop a strategic facility plan in accordance with Department guidelines.
- Develop recommendations for cost savings including curtailing services in locations, merging locations or out-stationing employees in existing public facilities.

### ***OBJECTIVE 3: Implement cost-sharing with local WorkSource partners.***

#### ***Strategies***

- Evaluate and modify Resource Sharing Agreements to move toward equitable cost sharing.
- Activate timely contracts to better control cost-sharing.

### ***OBJECTIVE 4: Identify new funding sources to support WorkSource.***

**Strategies**

- Identify additional sources of revenue through grants, fee-for-service activities and General Fund allocations.
- Create a policy and implementation plan to charge regional industries for intensive WorkSource services.
- Explore local opportunities within each workforce development area for obtaining additional funding sources through grants, partnerships and pooled resources.

**Performance Measure**

- Annual revenues equal to or exceeding expenses while maintaining quality performance outcomes for job-seekers and employers

## **Labor Market and Economic Analysis**

The department's Labor Market and Economic Analysis (LMEA) branch carries out the responsibility assigned under RCW 50.38.050 to produce official labor-market information for the state. Its core mission is to collect, analyze, and disseminate labor-market information required by citizens, policy-makers and job-seekers to make informed decisions. It uses federal contract grants from the Department of Labor's Bureau of Labor Statistics and Employment & Training Administration, as well as state funding.

LMEA analyzes economic and labor-market data for a wide range of users, including the state's Economic and Revenue Forecast Council, Office of Financial Management, the Legislature, local workforce development councils, educators, researchers and others. It also makes information available to a wide variety of users on-line ([www.workforceexplorer.com](http://www.workforceexplorer.com)). The Web site includes a wide array of workforce, economic and labor-market data and analysis.

The branch also produces analysis and reporting for the operational divisions of the department. It provides support for internal and Governor's GMAP measures, and support for program evaluation needs.

LMEA is facing increasing fiscal stress. This results both from federal budget cuts to its contracts with the federal Department of Labor and from reductions in contracts with internal Employment Security Department users, reflecting their own federal budget cuts.

LMEA is refocusing its work to reflect budget restrictions and to better integrate with the department's efforts to assist individuals to find appropriate work quickly.

### **Goal 1: Integrate labor market information and Labor Market and Economic Analysis branch services thoroughly into the workforce system.**

During the plan period, the department plans to integrate Labor Market and Economic Analysis services, including labor market information, into the daily activities of WorkSource staff and partners to ensure that they all have the labor market information required to fulfill their objectives. This will require that WorkSource staff be aware of LMEA products and services and the capacity to use them in making informed decisions. It also means that the LMEA branch must become more knowledgeable about WorkSource business needs and develop more targeted solutions and information to help meet them.

***OBJECTIVE : Integration Workforce Explorer with the WorkSource System.***

### ***Strategies***

- Complete a series of annual workshops with major WorkSource labor-market information customers. Assess their business needs, discuss how they use labor market information and how LMEA can work with them to better meet their needs.
- Develop products, processes, and tools based on the feedback from the workshops. Assess the efficacy of newly developed products and modify them or develop new products as required for department WorkSource staff and the 12 workforce development councils.
- Update WorkSource policies and procedures for department staff to include the use of labor market information and the Workforce Explorer Web site with every client.

### ***Performance Measure***

- Number of staff in the WorkSource system using labor market information to assist employers and job seekers.

## **Goal 2: Financial sustainability for Labor Market Information and Economic Analysis.**

The department faces the challenge of reduced funding and changing demands for labor market information services in the future. Funding from the U.S. Department of Labor is declining, and agency funding for labor market information from many sources also facing decreased federal funding and increased demands. The department will work to identify new sources of funding for LMEA and make decisions about both undertaking new lines of business and abandoning unfunded lines of business.

### ***OBJECTIVE 1: Identify potential new information products and new lines of business.***

#### ***Strategies***

- Develop and maintain an inventory of LMEA data, information and analytical assets, including staff skills, available to potential funding sources.
- Assess data and analytical assets that are available to develop new information products or business lines.
- Seek feedback from leadership and customer groups about the value of current and possible new lines of business for LMEA.

### ***OBJECTIVE 2: Secure new sources of funding for economic and labor market information and analysis.***

- Identify, develop and submit new grant and funding proposals as they are identified that are consistent with LMEA's mission, the Commissioner's vision, branch expertise and available data.
- Develop fee-for-service markets for information products in which LMEA adds value beyond access to data via electronic tools.

### ***Performance Measures***

- Annual revenues equal to or exceeding expenses while maintaining quality performance outcomes for job-seekers and employers.

### **Goal 3: Assist job seekers, employers, and policy-makers make informed decisions through reliable, timely and useful workforce and economic information.**

The core mission of the Labor Market and Economic Analysis (LMEA) branch is to produce, analyze and disseminate labor market information required by job-seekers, employers, policy-makers and other customers. The branch is the employment statistics provider for Washington and has a commitment and a responsibility to produce accurate, timely and useful information. The value of LMEA's work is built on this high quality data and on its reputation for useful and thoughtful analysis.

***OBJECTIVE 1: Produce and analyze high-quality workforce and economic data and make it widely available to key users, such as legislative and administration policy-makers, job-seekers and employers.***

### ***Strategies***

- Produce the data series needed to understand, analyze and describe Washington's labor market.
- Perform the statistical analyses required to explain, interpret and present the data on Washington's labor market.
- Publish and disseminate the data and analytical reports to key users, directly and on the Internet.
- Continuously monitor the data for relevance, accuracy and timeliness.
- Consistent with customer needs, develop new sources of labor market data, modify existing data series, or drop data series that no longer meet customer needs.

### ***Performance Measures***

- Meeting and being above the national average for federal benchmarks.
- Percent of information requests responded to within two hours.
- Percent of deliverables completed on time with specified quality.

## Washington Service Corps

The Washington Service Corps builds and expands a statewide ethic of service by creating community-service opportunities for citizens of all ages and backgrounds to improve communities across Washington. The Service Corps engages approximately 750 AmeriCorps participants annually in service opportunities in its base program and in Reading Corps activities. Service opportunities provided by the Service Corps incorporate occupational, work maturity and pre-employment skills training, civic engagement and career-development skills. In exchange for 10½ months of full-time service, members receive a living allowance of \$850 per month and an educational scholarship of \$4,725.

Service Corps members are placed with local government entities, community-based organizations and non-profit agencies working in one of five issue areas: education, environment, human services, public safety and homeland security. Most Service Corps are placed in 26 large, team-based projects of 10 to 50 members each. The remaining 150 members are in smaller community projects with one to four participants. Much of the Service Corps members' work involves recruiting and overseeing volunteers for local community service efforts. The Service Corps has the capacity to increase numbers of volunteers and volunteer hours to amplify the effect of its work. A major element of the work involves tutoring students. More than 11,500 students were tutored last year due to Service Corps efforts.

Unlike most agency programs, the Service Corps is not facing immediate federal budget pressure. This results from a combination of federal support for AmeriCorps and from the very high performance levels of the Washington program relative to other states. However, during the plan period, budget reductions are likely as a result of fiscal pressures on the federal budget. The Service Corps receives an allocation of Department funds from the Administrative Contingency Fund that serve as matching funds that are required to receive federal funds through the Corporation for National and Community Service (AmeriCorps). AmeriCorps requires a minimum 15 percent non-federal cash match to receive funding. Funding from AmeriCorps is a competitive process and the match requirement is considered when awarding funding.

### **Goal 1: Provide service and employability and other growth opportunities for Washington Service Corps members through for community service, job-related training and work experience.**

***OBJECTIVE 1: Provide service opportunities to more than 700 Service Corps/AmeriCorps members a year.***

#### ***Strategies***

- Increase community service opportunities by developing new partnerships throughout the state.

***OBJECTIVE 2: Provide on-site, job-specific training to program participants through meaningful community-based service projects.***

***Strategies***

- Ensure that local project sites provide project-specific training for service activity requirements.
- Provide technical assistance to project sites for specific competencies; monitor progress throughout the project term.
- Deliver two three-day statewide training institutes, incorporating high quality job, work-maturity, pre-employment, civic engagement and career development skills to all AmeriCorps members. Includes high-quality training in volunteer recruitment and management.
- Participate in a rigorous 18-month long national research study to determine the effect of national service on the lives and career choices of program participants.
- Ensure AmeriCorps member experience meaningful service opportunities to increase a lifelong work and service ethic.
- Ensure that local project sites provide specific training for service activity requirements.

***Performance Measure***

- Service Corps report meaningful and successful service opportunities and increased employability skills as measured by survey.

**Goal 2: Improve local communities by meeting locally-identified community needs.**

***OBJECTIVE 1: Implement new local community service projects and provide innovative means for communities to meet their needs through the use of Service Corps members and volunteers.***

***Strategies***

- Place Service Corps members with community groups, schools, non-profits and local governments and education agencies to recruit and manage volunteers in projects addressing educational, environmental, human services (including home-building), public safety and homeland security needs.

Service Corps member will assist communities by meeting the following identified needs:

- Teach students and adults how to read and recruit and manage volunteers providing similar services.
- Recruit and manage volunteers to provide time and effort to support community projects involving Service Corps members.
- Provide civic-engagement curriculum to middle-school students.
- Provide disaster-response training in local communities and schools. Respond to major disasters, such as Hurricane Katrina.

- Serve in WorkSource centers to provide job readiness and career development orientation to high schoolers and other youths entering WorkSource centers.
- Provide readiness-to-read services to projects that assist children from early childhood to kindergarten.

### ***Performance Measures***

- The number of volunteers recruited and managed by Service Corps members.
- The number of service hours of volunteers recruited and managed by Service Corp members.

## **Operational Support** **(Administrative Overhead)**

**Budget and Performance Management.** The department is moving to ensure that its strategic plan guides budget decision-making, performance expectations, and performance reporting in our internal GMAP process. Success will require retooling of budget accountability and reporting capacity and expanding the availability of management information at the desktop level. The department is moving to establish these systems. Initially, much of the effort will be organizational; as funding permits, it will involve integrating key agency databases to provide reporting and analytical tools to managers. The goal is to provide tools to answer crucial managerial questions about program performance, program participants and how agency resources are deployed to meet management and program requirements.

**Facilities.** The department is facing federal funding reductions in a wide range of agency funding sources. Reducing overhead and non-personnel costs will save money that can be redirected to maintain or enhance services. This requires greater centralization of decision-making and a greater understanding throughout the department of the overhead costs associated with operating decisions. A key focus is reducing facilities costs and reducing the overall number of agency facilities.

**Communications.** The department already uses the Internet to provide a wide range of services, such as applying for unemployment insurance benefits, paying unemployment insurance taxes, posting job vacancies, and providing labor market information. As the department faces fiscal pressures, it is increasingly turning to the Internet as a cost-effective vehicle for providing information and services. The Department will work to develop a vision and plan for implementing additional services and providing additional information via the Internet.

**Information Technology.** The department has deferred a wide range of information technologies due to funding shortfalls over a number of years. As a result, there is a crucial need to upgrade key systems that underlay and support business applications, telecommunications and network services. The department runs the danger of component and system failure if significant investments are not undertaken in a timely way.

The department is adopting an enterprise-wide approach and one that will reduce support costs and create a more robust set of systems while leveraging the most useful elements of existing systems.

The department also will work to automate a range of business functions to increase operating efficiency and quality. These changes will save funding over time, but will be challenging in the near term because of declining federal funding. As a result, the plan will be implemented incrementally. The department also will also implement new savings strategies to push down the cost of information technology.

**Human Resources** Three major elements form the context for human resource activities within the department. First is the department's intention to become a high-performance organization, which includes recognizing and rewarding higher-quality performance, a greater focus on effective evaluation, more skill development, and moving toward increased linkage between performance and pay. The second is the shifts in state human resources policies that will also have major effects on the department's human-resources efforts.

A third element is the need to transfer key skills given the department's aging work force. Fully 10 percent of the department's employees are currently eligible for full retirement; that number will rise to 15 percent by 2007. More than half of the Department's permanent staff are over age 50, and more than 80 percent over age 40. All of these changes are taking place against the backdrop of significant declines in the federal funds that support most department functions.

The department is working to significantly increase efficiency agency-wide while reducing expenditures on agency overhead over the plan period. Human resource efforts will be changing to respond to this context. The department is moving to automate a range of routine functions, develop the skills of human resources staff, and play an active consulting role for the department's operating divisions.

## **Goal 1: Improve management and infrastructure systems**

***OBJECTIVE 1: Improve management decisions through the use of timely data and by linking the strategic plan, budget decisions and performance management systems.***

### ***Strategies***

- Implement and refine a strategic planning process that integrates the agency operations with results.
- Assess goal achievement and GMAP effectiveness and refine as necessary.
- Assess effectiveness of the linkage between performance expectation in manager agreements and their linkage to the strategic plan using the Performance Development Plan (PDP).
- Implement automated systems and dashboard technology; use in GMAP presentations.

***OBJECTIVE 2: Develop a long-term vision and prioritized work plan for using the Internet to deliver agency services and key information.***

### ***Strategies***

- Determine which information and applications are most important to target users. Identify gaps, barriers or confusion that hampers users.
- Develop and implement the plan for additional Internet delivery of services and information.

***OBJECTIVE 3: Improve information technology infrastructure including computing platforms and technology services and security to support department business functions***

***Strategies***

- Develop a five-year plan for information technology applications. The plan will include a strategic information technology infrastructure architecture plan and a procurement plan aligned with that plan.
- Develop, enhance and implement information technology-related initiatives and projects as required to fulfill the strategic goals and objectives of the department and its major business lines.
- Improve the availability of network computing platforms and other components. This includes improving stability to reduce the possibility of hardware and software failures that affect crucial network functions, data and applications.
- Improve information technology services, such as the department's data warehouse, business applications and Microsoft Exchange.
- Attain compliance with state and national security standards.
- Mitigate security risks to the network, systems, applications and data.

***OBJECTIVE 4: Work with department business lines to meet their information technology-related requirements.***

***Strategies***

- Better serve internal and external customers through closer coordination. Use new governance systems to tighten coordination of information technology decision-making and operations.
- Align information technology services to business requirements by using service-level agreements and assessing customer satisfaction through regular surveys.

***OBJECTIVE 5: Initiate Enterprise Architecture in the Department to meet information technology and business needs.***

***Strategies***

- Continue participation in the state's current Service-Oriented Architecture-based Unemployment Insurance Tax Online Registration project.
- Take advantage of the state's Financial and Human Resources roadmaps to leverage opportunities.
- Apply enterprise-architecture principles to the implementation of the strategic information technology applications plan which will include the enhancing and replacing aging systems.

***OBJECTIVE 6: Provide department managers and staff with new human resources tools to improve agency performance and help managers to manage the agency's workforce.***

### ***Strategies***

- Reengineer the agency's appraisal system to result in clearer and more direct employee assessments that includes development objectives and career planning.
- Increase manager capacity to effectively resolve complex employment issues.
- Establish methods for succession planning.
- Reengineer and implement the agency's training, management and leadership development approach.
- Provide data to managers about trends in appointments, promotions, separations and retirements.
- Implement the new Human Resources Management System payroll system and adopt targets for performance improvements.
- Ensure safety practices are in place throughout the agency and provide feedback to managers on a regular basis.
- Establish methods for succession planning.
- Decrease the amount of time it takes to recruit and hire new employees.
- Create a comprehensive staff-recognition system for the agency.
- Decrease the amount of time it takes to implement a layoff.
- Decrease the amount of time and resources it takes to complete required training.
- Automate human resource data, including crosswalk of positions, competencies and seniority dates, and increase direct access to it for all managers using on-line applications, automated reports and an enhanced Human Resources website.
- Expand tracking of employee training, employee evaluations, grievances, disciplinary actions, hiring and other human-relations transactions.
- Automate the reduction-in-force process.

### ***Performance Measures***

- Continuing improvement on internal and external reviews of agency performance, such as audits, self-assessments and performance assessments.

## **Goal 2: Reduce infrastructure costs**

### ***OBJECTIVE 1: Reduce non-payroll expenses***

#### ***Strategies***

- Adopt standards to reduce facility costs for remodels, new locations and space reconfigurations. These will include guidelines for lease terms, square footage, degree of decentralized decision-making and the process for exceptions.
- Implement a long-term strategy for timely facility-location decisions when leases are renewed, with decision criteria for maintaining, closing or consolidating facilities, and for changing partnership arrangements.
- Analyze, recommend and implement non-payroll cost savings(e.g., copy-machines, surplus process, utilities, travel).

***OBJECTIVE 2: Maximize the value of information technology-related dollars expended***

***Strategies***

- Drive down the total cost of ownership for information technology applications and infrastructure.
- Make information technology infrastructure purchases in accordance with the information technology strategic infrastructure procurement plan and the technology applications plan.

***Performance Measures***

- Agency overhead costs relative to operations costs.

## Appraisal of External Environment

The department is facing a period of reduced federal funding that affects all of its major activities. The state economy is healthy and continuing to improve, though some risks remain from rising energy costs and the possibility of housing market deflation. The state population is continuing to grow, especially in existing population centers and in-migration (both from the rest of the country and from other countries) is growing.

### Budgetary Context

#### **Declines in Federal Financing**

Most of the funding for the department's major activities comes from the federal government. Federal funding is declining, and the department faces likely reductions throughout the plan period and for some time to come.

These reductions result from a combination of federal tax cuts, increased spending on homeland security and national defense, increased health care costs and the initial effects of federal Social Security and Medicare retirement-related costs for baby boomers and caps on federal discretionary spending that result from these and other factors.

**Growing federal budget deficits.** The federal fiscal year (FFY) 2006 federal government deficit is estimated to be \$373 billion, according to the Congressional Budget Office (CBO). The CBO projects that the deficit will decline gradually to a small surplus of \$38 billion from 2007 through 2012. This forecast assumes that many tax cuts enacted in 2001 will not be reenacted. The Washington Economic and Revenue Forecast Council forecasts of the federal budget deficit are somewhat more pessimistic than those of the Congressional Budget Office. The Forecast Council forecast of the 2009 deficit is \$297 billion, compared to a projected deficit at \$241 for the same year by the Congressional Budget Office. These forecast budget deficits would significantly increase if recent tax cuts are made permanent or spending on defense and homeland security increase beyond expected levels.

If these trends continue to hold, the major options for federal fiscal policy during the plan period include continued large-scale deficits, major restructuring of entitlements, or reductions in federal discretionary spending or some combination of the above..

**Reductions in federal discretionary spending.** In the current federal budget, all program budgets were reduced except national defense, homeland security, Social Security, and Medicare. When all appropriations bills passed the entire Congress, expenditure cuts of over \$40 billion were included.

These reductions in spending have been accompanied by continuing efforts by Congress and the administration to further reduce federal taxes. In the current Congress, tax cuts exceeded

expenditure cuts by a very large margin. Even in a budget year with significant political pressure to reduce deficits, the Congress is expected to end up increasing the deficit, because tax cuts will exceed expenditure reductions.

These factors will put extreme pressure on all domestic discretionary non-defense spending. In 2006, the U.S. government projected to spend 16 percent more than it receives in revenue. By 2009, without major budgetary shifts, it will be spending 9 percent more than it receives in revenues. (Congressional Budget Office Outlook)

The nation is likely to face constraints on domestic spending for years to come. Many of these factors are likely to continue regardless of partisan control of Congress or the presidency.

## **Current Status of Department Federal Funding Sources**

Many of the department's federal financing sources were declining prior to this year's anticipated reductions. This year, pressure on our federal funding sources has increased.

- **Wagner-Peyser** funds the state Employment Service, which provides job-matching in local WorkSource centers and on the Internet. This funding has not increased since 1981, and has lost buying power every year since then. In addition to the loss of buying power, in the coming federal fiscal year, the total Wagner-Peyser budget nationally will decline by another 3.1 percent.
- **Unemployment Insurance (UI) administrative funding.** Funding levels for UI administrative costs, inadequate in the 1990's, have not been increased. The major administrative funding change was the adoption of the Resource Justification Model (RJM) for allocating administrative funding in 2002. This model, intended to justify additional funding, was applied to redistribute existing funding. The largest single distribution of Reed Act funding took place in 2002. Funds continue to collect in the federal Reed Act account.
- **Workforce Investment Act (WIA) funds** support local WorkSource activities around the state. The federal budget for the coming year includes cuts for major WIA accounts. Last year Congress approved a spending bill that cut workforce system spending by 7 percent. The Administration's Fiscal Year 2007 budget proposes a further reduction to workforce system spending of 21 percent. In addition to these cuts, Washington's good economic condition relative to other states is leading to very significant additional reductions in WIA funding for the state, beyond the congressional cuts, affecting funding for local Workforce Development Councils.
- **Workforce Investment Act reauthorization.** The act was slated for reauthorization in 2003 but has been deadlocked due to differences between the House and Senate. The most important issue for the department with the proposed reauthorization is the possible block-granting of Wagner-Peyser funding (found in the House reauthorization bill) which would reduce the authority of state agencies over these funds.

- **Temporary Assistance for Needy Families (TANF) reauthorization** has been temporarily extended by Congress, but it has not been reauthorized for the third year running. This also reflects disagreements between the House and Senate on a range of issues, including child care funding (given proposed higher work participation rates). This year, as it did last year, the temporary congressional TANF extension included more elements of the House reauthorization bill. The effects of reauthorization, whenever it takes place, on state programs will be significant and will result in less operating flexibility for states. There has been no change in funding levels for TANF since the inception of the program in 1996. A key change this year in the budget is that the caseload reduction credit is now tied to reductions since 2005, rather than 1996.
- **The only department funding sources that are not declining are state sources** which include the Claimant Placement Program (CPP) and the Administrative Contingency Account, which gets its revenues from penalties levied on businesses and claimants for violating unemployment insurance requirements. These sources are not directly affected by federal budget pressures.

## **Economic Context**

### **Current Economic Conditions**

In 2005, Washington's economy built on the momentum established the previous year, and job growth accelerated. Economic strength was evident across industry segments and geographic breakouts. Four points stand out:

- **Household spending, especially residential investment, contributed a great deal to overall economic activity and job creation.** Low mortgage interest rates helped boost home sales and, along with substantial home price appreciation, enabled households to extract equity from their homes to purchase other goods. This household spending was no doubt responsible for much of the state's employment gains during the period. At times, construction alone accounted for nearly 20 percent of Washington's year-over-year job gains while representing just 6 percent of total employment.
- **The manufacturing jobs recession has ended.** After shedding more than 100,000 workers from 1998 and 2004, Washington's factories added jobs over the last year and a half. Manufacturing employment is still well below the 1998 level, but it was rising in the state even as factories nationwide continued to downsize. Much of the rebound in manufacturing employment in Washington can be attributed to capital spending, particularly for aerospace equipment. Boeing, Washington's largest producer of capital goods, has publicly announced increased orders for 2005, 2006 and beyond. Subsequently, the firm and its suppliers in the state have added thousands of new workers to their payrolls. While the bulk of new factory hiring was done by aerospace firms, more modest job gains were seen in several other durable goods industries. Nondurable employment declined.

- **The cost of housing in Puget Sound and the Portland metropolitan areas has risen to levels that make it difficult for first-time buyers to get into the housing market.** This has driven buyers to locate farther away from employment centers, driving longer commute times. It also has led some buyers into taking on high levels of debt just to get into the market. Sudden deflation in the state housing market is a continued downside risk, with attendant effects on the state economy.
- **The Seattle-Bellevue-Everett area is back,** at least part of the way. After a long and painful recession, the area is now leading the state in job growth rather than lagging it. Seattle is the primary beneficiary of the mini-boom in manufacturing hiring and is getting at least as much boost from household spending as the rest of the state. Moreover, business to business spending is more prevalent in the Seattle area's more diverse economy, leading to outsized employment contributions from professional and business services firms.

**Job growth in the state has been outpacing the rest of the nation** since the job recovery began in earnest in early 2003, and the gap between the two has been wide. In early 2005, total non-farm payroll employment in Washington finally surpassed its previous peak established in late 2000, toward the end of the record economic expansion of the 1990s. The state unemployment rate, usually a percentage point above the national average, was lower than the national rate twice in 2006. The state unemployment rate was 4.6 percent in March 2006, the lowest rate since November 1999.

**Washington's economy appears well positioned for near term growth** (1 to 2 years out), though there are challenges ahead. Strong job growth and subsequent increases in personal income are likely to continue boosting household spending. Businesses remain confident and appear willing to spend more, whether it is for new hires, business services or capital equipment. The Seattle-area economy has yet to recover all of the jobs lost during the recession, suggesting that it still has a lot of room to grow. A continued robust expansion in the Seattle area will boost activity in other parts of the state as well.

**Washington's economy is deriving strength from a robust U.S. economic expansion.** Productivity gains remain strong and continue to underpin economic growth. Moreover, long-term interest rates are still low by historic standards and have risen only gradually, even as the Fed continued to push on the short end of the spectrum. Rebuilding efforts resulting from 2005's devastating hurricanes will likely boost fiscal stimulus in the first and second quarters of 2006 at least. The global economy also is expected to expand at a near-trend rate over the next couple of years.

## **Economic Outlook**

**Economic growth is expected for the near-term.** Despite the challenges, the U.S. economy is forecast by most economists to continue expanding over the next two years. Global Insight is forecasting real GDP growth of 3.5 percent and 2.9 percent in 2006 and 2007, respectively. It is unlikely that the housing market will crash in the next two years, causing a sharp drop in consumer spending. Indeed, housing activity will continue to receive support from employment and income gains, low interest rates and a lack of better-performing investment alternatives.

That said, it is likely that housing activity and home-price appreciation will soften modestly, with a subsequent slowing in the rate of household spending growth. Fiscal and monetary policy will continue to stimulate economic activity in the first half of 2006, but its effects will wane in the second and will become neutral by 2007. The Fed will see that core price pressures will remain subdued. Job growth will likely continue near long-term trends and unemployment will trend down. Thus the probability of a near-term recession is fairly low.

**The economic forecast shows a relatively strong economic outlook for the state.** The Economic and Revenue Forecast Council predicts national unemployment rates slowly rising to 5 percent in 2008 and then falling to 4.9 percent in 2009. In Washington, the Council forecasts unemployment rates rising to around 6 percent by 2009 and for growth to slowly diminish through 2009, from a predicted 2.2 percent in 2006 to 1.5 percent growth in 2009. No recession or substantial slowdown is forecast by the end of the decade. The national economic forecast shows steady real GDP growth at just over 3 percent through 2016 (Congressional Budget Office Forecast).

**An economic slowdown remains likely at some time during the plan period.** The current national economic expansion has gone on for more than four years (though the initial years did not produce much employment growth). The average length of an expansion in the post-World War II economy is just 59 months, and the record economic expansion of the 1990s lasted 120 months. Some significant imbalances, such as the trade imbalance and the budget deficit, are already evident in the economic expansion. As a result, it is reasonable to expect an economic downturn during the plan period.

**It is notoriously difficult to predict when a recession will hit and what its catalyst will be.** One thing is clear; the last two national recessions were much less severe than prior downturns, yet their effects varied widely by region. During the mild downturn of the early 1990s, Washington saw very limited damage and total payroll employment actually continued to rise at a fairly healthy pace. This was not the case during the most recent recession. Due to the state's exposure to the bursting of the dot.com bubble and the fallout from the events of September 11, 2001, Washington's recession appeared a little more sudden and severe than in the rest of the nation. Payroll employment declined by more than 100,000; jobs that were not fully recovered (at least numerically) until early 2005.

**Effects of a national downturn on Washington are difficult to predict.** It is equally difficult to predict what effects a national downturn would have on Washington's economy in the future. So much depends on which industries will be affected and to what extent. It is unlikely that the state would escape the downturn nearly unscathed (as was the case in the early 1990s), nor is it likely that the catalysts of 2001 will be repeated. But the state should be prepared to experience a significant slowdown in payroll employment growth, if not a modest decline, and an accompanying increase in unemployment.

## **Risks for the Washington Economy**

There are two major risks facing the economy in the near term: energy prices and the housing market.

**High energy prices** are among the risks to the U.S. (and Washington) economies. Energy prices increased from already high levels in 2005, which poses at least two challenges:

- Energy prices have the potential to take a bite out of consumer and business spending, particularly if a harsh winter were to occur. The Energy Information Administration estimates that home heating bills (natural gas) for the 2005/2006 winter will run more than 40 percent higher than a year earlier, assuming an average winter. The extra money spent on energy will take away from other consumption.
- Persistently high energy prices may finally begin to bleed through to core consumer prices. The headline measures of consumer and producer prices (CPI and PPI, respectively), have risen materially this year. However, the core measures (which exclude volatile energy and food components) were remarkably well behaved. With far less slack in the economy (higher use of available productive capacity and lower unemployment rates) than last year, persistently high energy costs are of greater concern. This may force the Fed to move more aggressively to maintain price stability.

**Housing market.** The housing market is the major economic uncertainty. Home sales and appreciation have been extraordinary for a few years. Consumers have extracted much of the equity they have built in their homes and used it to purchase other goods and services. A recent study by the Federal Reserve Board estimated that the dollar value of equity extraction amounted to nearly \$600 billion in 2004. In addition, as a percentage of total disposable income in the U.S. economy, home-equity extraction rose from less than 1 percent in 1993 to 7 percent in 2004. With mortgage interest rates headed up, some economists worry that the housing boom is near its end. If it is, consumer spending may slow accordingly. As noted above, construction alone accounted for nearly 20 percent of Washington's job gains while representing just 6 percent of total employment. A major downturn in the housing market would have a major effect on the economy.

## **Budgetary Context and Economic Context Effects on Department Programs**

### **Unemployment Insurance (Tax and Benefits)**

The Unemployment Insurance program faces significant fiscal risk over the strategic plan period caused by the adoption of the Department of Labor Resource Justification Model (RJM) for allocating administrative funding to states. While some adjustment of the federal administrative funding model was expected, the model adopted had been created in the 1990s to justify higher overall federal administrative funding and was not created as an administrative funding model. It was adapted to that purpose under the current federal administration in 2002.

The federal adoption of the RJM has resulted in a structural deficit for Washington's program. The administrative formula provides funding based on "minutes per unit" (MPU) costs to provide service in major cost categories. States with higher MPU costs relative to other states receive less than the actual cost to provide service. Only the 10 lowest states in each category receive full funding. Washington is a higher cost state largely because enhancements to the state program have been enacted by the Legislature. Under this model, one-time legislatively-authorized funding, from whatever source, is treated as recurring dependable state funding, and has the effect of lowering federal funding. The lowest-cost states have tended to be southern states with relatively simple, low-benefit programs. Efforts to modify the new federal formula have been unsuccessful.

The Legislature responded to this problem in 2005 by allocating federal Reed Act funding to give the program time to gradually downsize and become more efficient.

Unemployment insurance is a counter-cyclical program. When the state economy is in recession, the program provides more unemployment benefits, there are more claimants and program administrative funding is at its highest levels. On the other hand, when the economy is doing well, the program provides fewer unemployment benefits, there are fewer claimants and program administrative funding is at its lowest levels. At the same time, when the economy is in recession, workload pressure increases sharply; when the economy is at its best, there is far less workload pressure.

Agency funding is affected by this counter-cyclical character. Under the federal administrative funding formula, states receive base funding each fiscal year, based on an estimate by the federal government of the minimum amount each state's administration will cost. Later in the year, states receive above-base funding based on actual workload.

In bad economic times, most claims are routine and low-cost, based on employers reducing their employment because of the downturn in the economic cycle. When extended benefits are in effect (as they were in 2002-04), these automated low-cost claims are reimbursed by the Department of Labor at the same level as a more difficult claim. In good economic times, a greater proportion of the claims are not routine, often involving disputes between claimant and employer over the claim. The result is higher average costs per claim, and many of these costs are not reimbursed by the federal government.

## **WorkSource**

WorkSource is primarily federally funded. Its major funding source is the Workforce Investment Act (WIA) which provides pass-through funding to local workforce development councils (WDCs) to pay for local workforce development services. Funding also is provided for efforts to respond rapidly to large-scale layoffs, for job-matching and other employment services (by department staff) and for administrative costs. Statewide leadership is provided by the Workforce Training and Education Coordinating Board (WTECB or Workforce Board), a nine-member board composed of business, labor and state workforce development entities. The

department is responsible for statewide administration and providing a range over support services.

The partnership is facing major funding problems and potential organizational issues over the plan period. These include problems resulting from long-term funding declines as well as the effects of WIA funding formulas that reduce funding to areas with healthier economies.

Congress has reduced overall funding for WIA programs by 7 percent nationally in the current budget and pressure on domestic discretionary spending is expected to continue for some time and to reduce this funding significantly over the plan period.

WorkSource also is facing significant funding reductions resulting from the federal funding formulas for WIA programs. Those formulas provide funding depending on economic distress—how well a state’s economy is performing relative to other states. Washington’s current economic upswing is leading to very large reductions in WIA funding for the state, most of which is passed through to local workforce development councils (WDCs) for WorkSource centers and other local activities. The reductions to WDCs also reduce funding that WDCs use to contract for services, including contracts with Employment Security.

The Wagner-Peyser Act, legislation dating from the 1930s that has been incorporated into WIA, funds job-referral services provided by Employment Security. Funds have been flat for more than a quarter of a century, with buying power reduced each year. The program has seen absolute reductions in the last year, as part of cuts to the domestic discretionary budget.

The partnership is facing a period of significant uncertainty at the federal and state level. There are a series of other potential changes resulting from the reauthorization of Workforce Investment Act (WIA) and Temporary Assistance for Needy Families (TANF) legislation, both of which have been held up as a result of differences between the two houses of Congress.

At the federal level, efforts to reauthorize the Workforce Investment Act (WIA) have failed for three years as a result of differences between the House and Senate. A key issue in that legislation is a provision in the House bill that would block-grant funds now provided in silos (with spending limited to specific populations and services), including funds now provided to the department for job-matching activities under the Wagner-Peyser program. Under current law, staff performing these functions must be merit system employees (e.g., state employees).

Similarly, efforts to reauthorize the Temporary Assistance for Needy Families (TANF) program that funds WorkFirst have been deadlocked for three years as a result of differences between both houses of Congress. This legislation could significantly alter the WorkFirst program. In the last year, some of the provisions of the more stringent House legislation, such as providing for dramatic increases in work requirements without attendant child care funding, are being enacted in the short-term program extensions and budget provisions passed by Congress. One key issue is the nature and character of the credit the states receive either for employing TANF participants (Senate) or for reduction in TANF welfare rolls (House). The adoption of provisions in the

House of Representatives version of the bill would have the effect of restricting state flexibility under TANF and reducing room for state employment-related efforts.

The administration is signaling an uncertain commitment to the current one-stop service delivery system. The current budget proposal would dedicate much of current WIA funding to small development accounts; eligible individuals would use the account balances to purchase job placement or training services. As budgeted, these provisions would not result in adequate funding for the infrastructure of the WorkSource system, while the amounts for individual accounts are relatively small relative to the costs to purchase currently provided services. It is not clear at this point whether Congress will adopt the proposal.

At the state level, the Workforce Training and Education Coordinating Board is reviewing the state's workforce development system, and alternatives being used in other states. This is in response to a request from Governor Gregoire and a legislative budget proviso. The Workforce Board will make recommendations to Governor Gregoire and to the Legislature before the end of the year. The Governor's implementation of TANF reauthorization could also alter the roles of agencies delivering services to TANF participants. The department currently provides workforce placement services to TANF participants through WorkSource.

Washington's workforce development system in the state has also seen the most significant shift in leadership in many years, with new leaders at the State Board for Community and Technical Colleges, Workforce Board and here at the Employment Security Department.

## **Labor Market and Economic Analysis**

The Labor Market and Economic Analysis branch of the department is facing fiscal stress from two major sources. Much of its funding comes from the Department of Labor's Bureau of Labor Statistics to collect labor market information at the state level that is aggregated into national labor market statistics. This funding is declining as a result of congressional budget cuts at the national level. The branch also receives funding from other components of Employment Security, each of which is experiencing federal funding cuts. These reductions show up in the internal bid process the Department is using as part of its budget process.

## **Washington Service Corps**

The Service Corps is not facing immediate federal budget pressure at this time. This results from a combination of federal support for AmeriCorps and from the very high performance levels of the Washington program relative to other states. However, during the plan period, budget reductions are likely as a result of the federal budget situation and reduced spending on domestic programs. The Service Corps receives an allocation of Department funds from the Administrative Contingency Fund that serve as matching funds that are required to receive federal funds through the Corporation for National and Community Service (AmeriCorps). AmeriCorps requires a minimum 15 percent non-federal cash match to receive funding. Funding from AmeriCorps is a competitive process and the match requirement is considered when awarding funding.

## **Other Large Funding Sources**

Two department funding sources are not shrinking. One is the Claimant Placement Program that funds reemployment efforts for unemployment insurance claimants. This program is growing slowly because it is funded by a tax that is set at a very small percentage of the tax collected to fund unemployment insurance benefits in the state. As the state economy grows, this fund source modestly increases. The current projections for the state economy would result in modest growth in this funding source.

The other source is the Administrative Contingency Fund. This account includes the penalties imposed on claimants and employers for violating unemployment insurance requirements. The department has engaged in an aggressive effort to identify fraud and to recover both fraudulent payments and other overpayments. This effort has increased the amount of funds going into the Administrative Contingency Fund.

## **Demographic Context**

In 2005, Washington's population increased by 1.4 percent, or 88,600, reaching 6.26 million. The Office of Financial Management forecasts the state population to grow by 1.8 percent in 2006 and continue growing an average of 1.6 percent per year through 2012. The state population forecast predicts "Major growth, in terms of numbers, if not rates, will be through accretion of existing population centers. Rates of growth will be smaller (or potentially negative) at the centers and high on the periphery." (OFM County, p. 11)

Baby boomers are beginning to face retirement, with the early wave of this cohort reaching 65 during the next five years. The OFM population forecast shows the percentage of the population aged 65 or greater rising from 11.9 percent in 2006 to 12.6 percent in 2012. (OFM Forecast)

Labor supply in the state also has been supplemented through in-migration, both of people moving from other parts of the United States and from overseas. In-migration and out-migration patterns reflect the strengths and weaknesses of the state economy relative to the economies of other states and areas. The state economy is expected to remain strong relative to those of other states through 2012 and beyond. (OFM Forecast)

The major effects of these demographic changes on the department include the need to ensure that services are useful for somewhat older workers, given the slow increase in average age, and to in-migrants, including workers from other countries with possible needs for services in languages other than English. The projected location of growth suggests little change in office location, though WorkSource facility locations may be reduced due to fiscal pressures. These population shifts reinforce the value of providing service options over the Internet.

## **Potential Wild Cards**

### **Trade Deficit**

The United States has run a deficit in its trade with the rest of the world in recent years. It is currently more than 6 percent of gross domestic product, the highest trade deficit level in American history. In 2005, the United States imported nearly \$800 billion more in goods and services than it exported. This takes place in the context of a national economy with a gross domestic product (GDP) of more than \$12.5 trillion.

There is a risk that at some point, foreign investors will find dollar-denominated assets to be less desirable which could result in a sharp downturn in the value of the dollar. A sudden devaluation could lead to real economic pain domestically and possibly set off a major global recession, in part because of the role of the dollar as the world's major reserve currency.

### **Energy**

The state has faced a series of sharp energy shifts over the last five years, including the California electrical energy crisis, increased dependence on natural gas, and significant price spikes for both gasoline and natural gas. The state is likely to see continued pressure to diversify regional energy sources, including an increased push for renewable sources such as wind and solar power, biofuel production and use, as well as conservation. At the same time, these same energy pressures are leading to a major push to construct many new coal-fueled power plants in the region, with effects on air quality and increased carbon dioxide emissions linked to climate change. There is market pressure (and a push from the Administration) for greater energy production (such as natural gas) in the region and for large facilities to import liquefied natural gas (LNG) and to import and refine more gasoline in the region.

### **Climate Change Effects**

As global climate continues to change, state climate will be affected. Some of these effects may be felt within the plan period. While the effects on local regions are difficult to predict given the current state of modeling technology, the Climate Impact Group, part of the University of Washington's Joint Institute for the Study of Atmosphere and Ocean conducts one of the nation's most ambitious efforts to assess the consequences of climate change at the regional level.

As climate shifts, precipitation is more likely to fall in the Northwest as rain than snow, and at different times of the year and in different amounts than common in the past. This is likely to increasingly disrupt the role of the Cascades snowpack in irrigation, power production, fisheries and drinking water. Effects may be felt in water-dependent industries, including agriculture, fishing and tourism, but also in industries requiring significant water for industrial processes. Additional employment may result from constructing new water storage projects for agriculture and drinking water.

### **Possible Disasters**

The natural disasters of the last year, from the Indian Ocean tsunami, to Hurricane Katrina to the Pakistani earthquake, make clear that disaster is a possibility to be considered, as does the

experience of terrorism on 9/11 and since. The state is vulnerable to a very wide range of possible disasters, any or none of which could take place within the plan period. They all could cause significant increases in unemployment in the state.

Potential disasters that could affect the state during the strategic plan period include: a pandemic flu outbreak; large-scale earthquakes; a tsunami hitting the Pacific coast; lahars (large-scale mudflows), which periodically flow off of Mt. Rainier and other regional volcanic peaks; and volcanic eruptions. Effects of a somewhat smaller-scale include large-scale wildfires, Puget Sound oil spills, radioactive incidents at Hanford and terrorist attacks. The state is likely to face a West Nile virus outbreak during the plan period.

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## **Assessment of Internal Capacity and Financial Health**

The department has worked to upgrade its performance assessment and performance management efforts and will increase these efforts. The department is developing a new budget process based on the Governor's Priorities of Government process. The process is designed to be transparent, to prioritize limited funds and to allow the department to make strategic decisions about use of scarce resources. The department will implement its strategic plan by linking it to performance expectations, the budget and performance management.

The department has many leased facilities, primarily to house WorkSource services. The department will work with WorkSource partners to reduce facility costs and possibly the number of facilities which will involve adoption of department-wide guidelines and more centralized efforts to control facility costs. The department will adopt similar approaches to reduce other non-personnel services costs. Most routine human resources functions are performed manually while the need for services by managers is significantly increasing as the department works to become a high performance organization. The department will invest in automating these routine functions while upgrading staff skills to meet manager needs human resources consulting services.

The department has under-invested in the underpinnings of its information technology portfolio. Despite significant investment in automation, many key components are aging, and will require investment during the plan period. The department's information technology systems were developed over many years and are disparate, imposing higher costs for maintenance and operations. The department will increase investment in technology infrastructure, and will adopt an enterprise-wide approach to systems while continuing to enhance its business systems.

The department is facing a significant reduction in federal funding over the plan period. The department is primarily federally-funded. The main cause for these reductions is the federal budget situation, one that is leading to significant pressures on domestic discretionary expenditures in the budget.

To respond to coming reductions, the department will focus on becoming more efficient by reducing facility and other non-personal services costs and overhead costs in order to focus resources on direct services. The department will work to fund the information technology infrastructure necessary for business services, much of which has been underfunded. It also will work to automate a range of business functions to allow the department to maintain services while revenues decline. The department's aging workforce and its move to increase efficiency and performance also will require a major focus on human resource systems.

## **Performance Management**

### **Internal GMAP**

The department has sharply revised its performance management process over the past year. The GMAP process has been used to identify issues, to drive change and to teach agency managers how to manage with data. The department's internal GMAP sessions take place weekly, with the commissioner, deputy commissioner and assistant commissioners serving as active reviewers. Major business areas are reviewed once a month. Assistant Commissioners and appropriate managers present dashboard results, dig into major subject areas, and respond to issues identified in prior sessions. Agency leaders ask questions, identify issues for further review, and use the session as a teaching tool for managers. This process has been copied at the division level.

Over the plan period, as budgets allow, the department intends to move performance and budget information down to the desktop level, providing managers with extensive information on performance, access to a range of data and to relevant budget information.

### **Budget**

The department's budget system has changed over the past two years. Shadow systems used to allocate federal grants have been eliminated and all budget and accounting staff use the State Accounting System (AFRS). Formerly, much of the department's budget operations were conducted on the FARS shadow system, used to manage the federal grants that form the bulk of the agency budget.

This year, the department has begun a major effort to create a new budget-development process. Because federal funding levels are declining, department leaders are determined to focus available resources on highest-priority areas and to increase operational efficiency. Many federal programs the department receives operate on three-year cycles. In the past, the department would be able to budget those funds over the full period, using excess carry-over funding to cushion downturns. With the prospect of ongoing reductions, the department has decided to use this surplus funding to help move the department toward a more sustainable structure.

It is doing this by having programs and divisions prepare bids for their activities, on the model of the Governor's Priorities of Government process. Each fund's budget will be prepared as bids developed in detail and in three different ways. The detail will provide a transparent view of the activities purchased from each fund. Each bid also includes an associated performance measure or measures. The three ways of viewing the bids respond to various levels of funding:

- ***Current level***--This is the total cost to fund the current fiscal year's programs, policies and activities at next fiscal year's prices. These bids describe what is currently being performed today and provide a justification for continuation.

- **Reduction level**--This shows changes that would occur if total spending were reduced to match FY07 revenue only, with no use of carry-over funds. These describe the incremental decrease from current level, including the effect on program outcomes. They could eventually be used in the enhancement level version of the budget to lower spending and free up capacity for new investments.
- **Enhancement level**--This version restores a designated amount of funding for buying back cuts or making other strategic investments. These bids will have to justify why they are more important than currently-funded activities and must have clear linkages to the strategic plan.

This extensive budget process is intended to allow the department to shift limited flexible resources to areas most needed to move forward to a sustainable budget level. It also is intended to provide some resources for the automation and transformation needed to become sustainable.

The bids developed in the process will provide the building blocks for budget decisions focused on priorities. They also will bring additional transparency to the department by more fully displaying program activities and their costs in a way everyone can understand. They also will provide a central register of performance outcomes associated with each activity. All of these elements will help the Department to move toward a more performance-based culture.

### **Strategic Plan Linkages**

The strategic plan will serve as a map for prioritizing department purchases, and performance measures will serve as the tools for determining effectiveness. The department will link the strategic plan to other major performance and budget processes to ensure that plans central to the agency's future actually take place.

Performance agreements for the coming year with every WMS and exempt manager will reflect the strategic plan goals, objectives and strategies. The bid-based budget process the department is engaged in will not fund enhancements that are not identified in the strategic plan. In addition, GMAP measures will focus on implementing the strategic plan. The department also will develop a detailed operations plan to implement the strategic plan. The plan will include operational measures and targets and a range of actions needed to make the plans real.

### **Capital Facilities**

While the department currently operates a wide range of capital facilities, the only buildings it owns are the headquarters building at 212 Maple Park on the capitol campus in Olympia and the WorkSource center facility in Walla Walla. The Maple Park headquarters building is now 40 years old, although upgrades have occurred over the years, the building will need a costly refurbishing sometime in the future. The Walla Walla facility is 25 years old and while necessary ongoing maintenance has been performed over the years, it also will require costly refurbishing in the future. A planned expansion to this building is occurring in 2006.

The department leases a wide range of facilities statewide. Facilities are leased throughout the state housing WorkSource one-stop centers where department staff are co-located with staff from other WorkSource partners. There are currently a total of 46 facilities around the state. The department operates 10 sites housing district tax offices around the state. The department also operates two telephone call centers (telecenters), one in King County and the other in Spokane, providing unemployment insurance services. In total, the department has 80 leases, subleases and rental agreements.

The federal budget cuts will require the department to reduce its facilities costs and possibly the number of facilities it leases. As late as the late-1990's, Unemployment Insurance benefits were arranged through local job service centers, co-located with job placement activities. By 2000, these services moved to three telephone call centers. The decline in federal resources led to closing one of these telecenters in 2005. An increasing share of initial and continuing Unemployment Insurance claims now take place on-line.

The department is now examining the WorkSource system for cost savings. This will involve collaborating with our WorkSource partners. When WorkSource was first established, the department supported a significant share of partnership facilities as part of its efforts to promote the development of a statewide one-stop network. As resources decline, this role is more difficult for the department to play, but the department's WorkSource partners are facing the same fiscal pressures as the agency is, complicating efforts at cost-sharing. The department will closely scrutinize these leases as they expire to explore cost savings through consolidation, downsizing and co-location with partners or other agencies while meeting our business requirements and the needs of all WorkSource partners and all system users.

To support the decisions on leases, the department will develop agency-wide guidelines on facilities as well as more-centralized efforts to control facility costs. Guidelines would cover lease-terms, square-footage standards and the evaluation of energy considerations, among other items. They would be applied upon lease renewals and would potentially cover facility remodels, new locations and reconfigurations. Guidelines would likely include decision factors for maintaining, closing or consolidating facilities, and for changing partnership arrangements,

The department will apply similar approaches to reducing a wide range of non-personal services costs, looking for the greatest potential for savings, examining the components and drivers of those expenses to find savings and recommending appropriate action. The department would also share successful cost savings strategies with partners and would reevaluate costs at regular intervals.

## **Information Technology**

The department operates a wide range of computer applications and has automated a number of its major functions. Businesses can register and pay UI taxes on the Internet and unemployed individuals can make initial and continuing UI claims over the Internet. They also can make claims over the telephone, where staff use sophisticated computer tools to work more efficiently and effectively. UI benefits and taxes are calculated and tracked by mainframe computer

systems. The department provides labor-market information over the Internet. WorkSource partners share information about individuals they are assisting over a shared computer system.

But the department's underlying computer systems face major problems. The department has deferred a wide range of information technology system investments over a number of years as a result of funding shortfalls. Many of the department's computer infrastructure systems that support business applications, telecommunications and network services are aging and inconsistent and expensive to operate and maintain. The hardware and software for some key business applications are themselves aging. These problems impose relatively high operating and maintenance costs on the department.

The result has been an increasing inventory of aging and obsolete equipment, including phone systems and email servers, coupled with a lack of adequate enterprise-level software to manage our increasingly complex network. Even the current level of stability will be difficult to maintain without additional investment in infrastructure systems.

Here are a few examples:

- Both TAXIS (UI tax system) and GUIDE (UI benefits system) operate on software written in COBOL, an old software language that is difficult to maintain.
- Our network is today constructed on switching equipment that is no longer vendor-supported. Finding critical network component replacement parts has become extremely difficult, with the department already having borrowing parts from a vendor to temporarily fix equipment that longer supported.
- With a recognized life cycle of three to five years for server equipment, fully 40 percent of out computing capacity must be replaced every biennium just to maintain a stable and supportable operating environment. Server replacements have historically been deferred because of chronic funding shortages.
- Our ability to manage a diverse network and computing infrastructure containing thousands of components with fewer people requires additional automation and monitoring technologies that we are prohibited from funding due to constrained funding.

The department has decided to recommend investments in these infrastructure systems as funding becomes available, in part through the bid-based budget process. This will be a multi-year effort to upgrade these systems. The goals of this effort are to maintain the ability to support department business applications, to reduce the costs of operation and maintenance, and to provide the capacity for additional automation as the department faces the prospect of reduced funding over the long term.

The department has historically addressed business needs for computer applications on a division-by-division basis. The result is a complex portfolio of dissimilar, independent, and often redundant systems that are cumbersome and expensive to operate and maintain. In response, the department is adopting an "enterprise architecture" approach and will work to implement it over the plan period. The intent is to reduce support costs and create a more robust set of systems while leveraging the most useful elements of existing systems.

The department will also be incorporating a “service-oriented-architecture” approach. A significant advantage of this approach for the department is that it is an enterprise architecture approach that does not require wholesale replacement of existing computing platforms, computer applications or equipment. The basic idea behind service-oriented architecture is to share services among various disparate systems. This approach leverages existing investments in stable, mature systems by allowing different lines of business to share services and infrastructure components without making major and prohibitively expensive changes. The department’s new AutoCoder application from the Department of Labor is an example of this approach. The application provides automated occupational coding for a range of systems including UI benefits (GUIDE), WorkSource case management (SKIES), on-line job matching (Go2WorkSource.com), and labor market information (Workforce Explorer.com). When AutoCoder needs maintenance, only AutoCoder itself will be impacted.

The department also will work to automate a range of business functions to increase operating efficiency and quality. The specific systems and changes are described in the Goals and Objectives section of the plan by activity. The most significant technology challenge in our business functions is the TAXIS unemployment insurance tax computer system. That system is more than 20 years old and no longer supports department business needs. Because of its age, its original design and numerous changes made to it over the years, it is risky to modify.

In recent years, when substantial changes have been made to respond to changes in tax law, the system generated errors. Last year, the department had to adjust and calculate nearly 3,000 employer accounts manually because they were too complicated to be done in TAXIS. Most TAXIS screens do not have appropriate edits on the data that is entered which can result in bad data. Therefore, the department relies on external applications to include the necessary edits and additional time is spent cleaning up the data and has develop many manual work-arounds that have been developed because of TAXIS shortcomings. The department will move to assess options for substantially modify or replace the TAXIS system during the plan period.

These changes will save funding over time, but will be challenging in the near term because of declining federal funding. As a result, the plan will be implemented incrementally. The department also will implement new savings strategies to push down the cost of information technology.

Examples include the new graphical user interface (GUI) and imaging projects which use technology to make processing of unemployment insurance claims more efficient and effective. In addition, as funds become available, the department will work to automate access for managers to performance and budget information, to make it available at the desktop level.

## **Human Resources**

The department has one of the oldest workforces in state government. Fully 10 percent of the department’s employees are currently eligible for full retirement and that number will rise to 15 percent by 2007. More than half of the department’s permanent staff are over 50 and over 80 percent are over 40. The department is exploring ways to provide incentives for retirements in

order to retain younger staff. At the same time, the department is working to involve longer-term staff in transferring knowledge so that key knowledge and capacities are not lost as they retire.

Most human resources functions in the department are currently managed manually. These include grievance tracking, evaluation tracking and many more key functions. Meanwhile, the department's human resources staff has faced significant down-sizing over the last year as a result of agency-wide reductions-in-force. This leaves a relatively small staff to meet the challenges of the plan period.

A key response is to substantially automate human-resources functions and information over the plan period. This process is beginning with implementing the Human Resources Management System. The department also plans to automate functions such as lay-offs, tracking evaluations (on-time rates and completion rates), doing and maintaining pay histories, and tracking grievances, among other things.

The department also is working to become a high-performance organization, which includes recognizing and rewarding higher-quality performance, effective evaluation, more skill development, and increasing the linkage between performance and pay. This commitment will require a significant human resource development focus. The shifts in state human resources policies also will have major effects on the department's human resources efforts.

The department is working to upgrade the ability of human resources staff to provide consultation and other support for managers as the department shifts to become a high-performance organization.

## **Revenue Trends**

The federal context for the department's fiscal situation and effects on the department were discussed at length in the in the Appraisal of External Environment section of this plan on pages 39-41 and 44-48. Please refer to these sections for a full discussion of these issues.

## Performance Assessment

### ***What have we done?***

The Employment Security Department launched its internal Government Management, Accountability and Performance (GMAP) program in June 2005. The three primary goals of the internal process were to:

- establish accountability;
- raise policy issues; and
- educate.

**Establishing accountability** means using measures to show what we do, setting targets to show success, implementing action plans to improve, and following up by asking whether we did what we said.

**Raising policy issues** means asking how we are doing, how we do business, whether we're doing the right thing, what we need to change, and learning how to surface problems without fear.

**Education** means helping agency staff understand how programs operate, helping leadership understand how they can help, and generating great stories for executive use in other forums.

The performance contracts between the Commissioner and her Assistant Commissioners are the foundation for the weekly GMAP meetings.

The sessions are conducted each Tuesday morning for two hours and are attended by the Commissioner, Assistant Commissioner, and the Senior Leadership Team (SLT). The sessions are open to all staff and attendance is generally about 30 to 60 people. Managers from multiple levels make presentations and staff in the audience are sometimes called on to answer detailed questions. The Commissioner engages in dialogue with all attendees. A typical agenda includes follow-up assignments, performance measures, budget and key initiatives.

### ***What have we learned?***

We learned early on that it was necessary to jump-start the GMAP process in order to actively engage managers and staff. The development stages were resource-intensive and required a cultural change for the entire agency.

We developed consistency over time, both in department-wide reviews and division preparation sessions, sharing best practices and using logic models to provide tools for analysis. Successful reviews built on each other, increasing the capacity of managers to use data to understand problems and look for solutions. Divisions with more history of managing by numbers used the focused process to bring up formerly difficult topics with an eye toward change. Reviews that led to real change at the program level helped managers see that the approach had value. The growing confidence of managers in using data tools and the successes helped to mitigate management and staff frustration at what they saw as sometimes disruptive additional duties.

We encountered some key early challenges which we've spent time addressing to be successful:

- Access to data was not consistent and often not user friendly;
- Data integrity was lacking due to myriad operational definitions, imprecise tracking and multiple feeder sources;
- Meaningful measures were elusive and the focus on federal measures did not bridge the gap and satisfy the need for measures that showed what we do to serve the citizens of Washington;
- A significant learning curve existed when performance required us to communicate with data, diagnose problems and to design and monitor improvements.
- The importance of data systems that capture relevant and accurate data is critical to the success of GMAP.

Preparation for GMAP sessions within the divisions on particular subjects provides an opportunity to sit down together to study and analyze data and to make better decisions about action plans. The effectiveness of the department-wide reviews and discussions are a consequence of the effectiveness (or lack of effectiveness) of these division sessions. When division sessions are rushed or take place at the last minute, agency reviews are more challenging. When division reviews are timely and focused, agency discussion is more focused, wide-ranging and useful.

Focus on a specific topic almost always leads to improvement. In part, this reflects the fact that the topic may not have been examined carefully with useful data for some time. In part, it reflects the pressure of talking about the topic in front of agency leadership, with a premium on performance data, conclusions backed by numbers, action plans and clear accountability. The result is that the agency focus on the topic area is sustained and intensive. There are few topics that do not reward this sustained focus. This also provides the opportunity for the department to direct the resources necessary to accomplish its goals.

## **Some Examples**

Here are some detailed examples of topics which we focused on in GMAP and that received increased emphasis and resources:

**Improving job placements in Pierce County.** In GMAP review early in 2006, we discovered that during the period from July 2005 through January 2006, job placement was consistently low. The result of GMAP review was an intensified focus given to improving the placement rate. The local area created a logic model to understand how placement flowed. They determined that the key to success was an increase the initial number of job-seeker assessments and a tight focus on job referral quality to create better job matches. Intense local management emphasis on these factors resulted in a significant increase in quality job referrals. The outcome of higher quality referrals was large increases in placement of job seekers.

Job placement initiatives were implemented in February 2006, with an immediate increase to 33.4 percent. Placements have continued to climb, with the most recent indicator of success showing 48.2 percent in April, 2006. Pierce County now leads the state with highest number of

initial assessments and has the greatest productivity increase in total service delivery. They exceed their year-to-date job-openings-filled target by 11 percent. GMAP focused department management attention on local efforts to rethink the job matching process. Continued reviews made clear how important the issue was to senior management and gave a forum for local reporting. GMAP allows these successes to be shared with other local areas, who are in attendance monthly and to be replicated by other local areas.

**Increasing performance appraisal timeliness.** As GMAP reviews began during the period of July to September 2005, it was clear that completion of timely and accurate agency performance evaluations was not a clear expectation--only 79% were completed and submitted within 60 days. This issue was addressed repeatedly GMAP reviews by the commissioner. Senior leaders committed to correcting this and a new standard was adopted that evaluations would be completed within 30 days of an individual's anniversary date. A target of 90% completion by December 2005 and 92% by June 2006 was set and senior leaders committed to achieving the targets. In the May 2006 GMAP review, data indicated that we have achieved 98%. The department subsequently moved to conduct all performance reviews for WMS and exempt staff annually June, to line up with strategic plan implementation. The importance of timely reviews is important because the performance review will be the mechanism by which we measure progress toward the strategic plan.

**Reduced Telecenter customer call-wait time.** The Unemployment Insurance Program routinely experienced winter workload increases, which increased the time that people trying to apply for unemployment insurance or continuing claims would have to wait on the phone for service. In early 2005, the workload eligible for federal funding declined more suddenly and sharply than expected and this led to increases in call wait time to an average of 13 minutes per call.

In early UI GMAP sessions, this problem was reviewed and the severity of wait time identified for department senior leadership. In subsequent GMAP reviews, telecenter staff highlighted the call-wait-time status and presented an action plan. The value of GMAP to this process was the ability to identify options for solutions, because all key department leaders were in the room together which simplified the decision-making process. Prior to GMAP, these problems would have been solved but would have taken longer because key decision-makers would not all be in the room at the same time with the authority to take quick action.

In GMAP review at the onset of the regular winter workload peak, call wait times started to increase in one telecenter. The program reported call wait time status during the next four months along with the problems they experienced. The 2005 average call wait time was 13 minutes per call and the a target of 9 minutes per call was set. In April 2006 the call wait time was reduced to 10 minutes and we anticipate further reduction.

**Making overhead/infrastructure cost reductions.** Anticipating diminishing resources, the agency actively engaged in agency overhead initiatives. As the department began to review overhead costs in GMAP sessions, these issues were brought into GMAP and given strong leadership support by the commissioner. Results of these efforts to date include: lease costs down 1.2 million, purchasing card savings of over \$100,000, and we learned that it is less

expensive to retain management of our own vehicle fleet. These savings are helping us stay within budget in light of falling federal funds.

- **Agency leasing.** The GMAP process gave leadership the opportunity to authorize facilities staff to take a stronger role in controlling facilities costs. The department moved toward centralized authority to identify early opportunities and actions necessary to close and consolidate facilities. Space standards (based on the type of business) were developed, and facilities staff conducted a full fiscal and business case analysis of all leasing options. The comprehensive space review results (current and projected) resulted in a cumulative lease cost reduction of \$1.2 million during Program Year 2006. Further comparable reductions appear likely in the future.
- **Field orders vs. purchase cards.** Facilities staff compared the cost of a field order to the cost of using a purchase card to buy goods and services. The initiative was brought to a GMAP review in March 2006 after the results of a 3-month pilot project. Senior leaders saw the data and the opportunity to improve fiscal management practices. Efforts include examination of the experience of other state agencies. They found that agencies earned a 1 percent rebate for all purchase card charges and that the 2005 total state rebate from this approach was \$878,000. They found that the cost to process an Employment Security field order was \$97 in 2005. When staff looked at the state purchase-to-payment measure, evaluating the cost incurred to make purchases, the range state-wide was \$19 to \$97. In GMAP, senior leadership acknowledged the value of this approach. Phased implementation of purchase cards for department purchasing has proceeded for 2 quarters thus far. The purchase-to-payment cost is down to \$52 and dropping. There have been position savings and the use of purchase cards is rapidly replacing field orders. The department expects to exceed the savings target and see a \$106,000 savings by December 2006. GMAP was useful for raising staff efforts at efficiency to agency-wide discussion, and as forum for rapid decision-making affecting more than one division.
- **Vehicle fleet management.** Office services staff conducted a 2-year historical review and cost-benefit analysis of retaining vehicle fleet management in the department or reverting to a vehicle fleet owned and managed by the Department of General Administration. This initiative was reviewed in GMAP review in March 2006. The review highlighted the cost factors considered: fuel, fleet management, overhead and administrative, services & minor repairs and vehicle replacement. The comparative data indicated that the department avoids an additional cost of \$34,000 a year by retaining vehicle fleet management. The GMAP process helped speed up decision-making to save administrative costs.

**Developing LMEA performance outcome measures.** Prior to GMAP reviews, LMEA was moving toward outcome measures, but LMEA began with no quantifiable performance measures that could be used as indicators of success. The GMAP process put pressure on staff to develop useful measures of performance for department reviews. Since July 2005, LMEA has established customer-focused performance measures to improve the way they manage business. Four new measures were developed and, subject to validation, will be used for the foreseeable future. They include: percent of customer inquiries responded to within two hours (90% target); percent of

scheduled reports published on time (based on prescribed deliverables, 90% target); percent of data deliveries (for both Bureau of Labor Statistics (BLS) and non-BLS programs) met on time each year (90% target); percent of completed employee evaluations completed on time (target 100% within 30 days).

**Performance measures for Offender Services work with Department of Corrections.** We are creating a series of meaningful performance measures for our work with the Department of Corrections. As a result of GMAP review, it became clear that measurement focused on training class attendance, rather than a meaningful measure of successful job placement. The 2 departments are working together to create a series of meaningful performance measures and we are now creating a system that looks at whether we help people find work.

**Keeping information technology projects on-time and on-budget.** We use GMAP to ensure that information technology projects are staying on-time and on-budget. This process allowed department leadership to intervene and get to the bottom of a series of problems with the new computer system being used our field audit program.

**Reshaping UI tax audit policy.** In GMAP review, senior leadership strongly supported moving toward a more focused audit effort, a direction that was in development by UI staff. Tax audit measures were previously focused on the number of audits we were doing and not at all on the impact, with most audits were selected randomly. GMAP review pushed us to focus on whether we were auditing the right people and on the low returns for audit efforts. Employment Security revamping the audit program to primarily focus on individuals and industries with the highest probability of non-compliance. The goal is to ensure that employers pay their fair share by bringing them into compliance and collecting taxes due. The program also shifted to a focus on quality audits, as well as numbers and dollars. The intent is to encourage voluntary compliance by maintaining an audit presence and to educate employers regarding proper reporting. The expected outcomes from this effort include increased audit recover and unreported employees discovered, timely completion and submission of audits, more employers in compliance and more consistent and complete audits.

**Developing WorkSource performance measures.** We discovered in a WorkSource GMAP review that the federal measures that the program collects were of little use in managing the program, in part because of an extensive time-lag of over six months before they were available. As a result, we developed six major measures that allow us to assess and manage what we do today, and not wait for long-delayed federal data. We are now drilling down and exploring tracking the key services we provide. The program is piloting feeder measures. These include: search for applicant, initial assessment and job referrals, staff-assisted job match and vocational/employment guidance services. These are potential services that make the difference and help people get jobs. Results of both the pilot feeder measures and the new measures for WorkSource are reviewed monthly at GMAP sessions.

**Developing budget process.** The entire department budget was reviewed in February in a GMAP session, rather than looking at individual fund sources. The result was a clear recognition by senior leaders of the severity of the financial problems the department faces. The result was

an agreement to prepare a “bare bones” budget, that only would allow us to use current revenues, rather than masking our financial problems by using past savings, which had been common practice in the past. The bid-based budget process based on a Priorities of Government process that we are currently engaged in developed from this commitment.

### ***What will we do next?***

In the next year, the department will focus on two goals: alignment and skills development.

**Alignment:** The department is undertaking an ambitious process for Fiscal Year 2007 and beyond to:

- create a clear strategic plan based on the mission and vision of the agency;
- use a new priorities-based budget process to decide what purchases will be most likely to bring the strategic plan to life;
- monitor our progress toward achieving the strategic plan through GMAP and other performance-measure tracking.

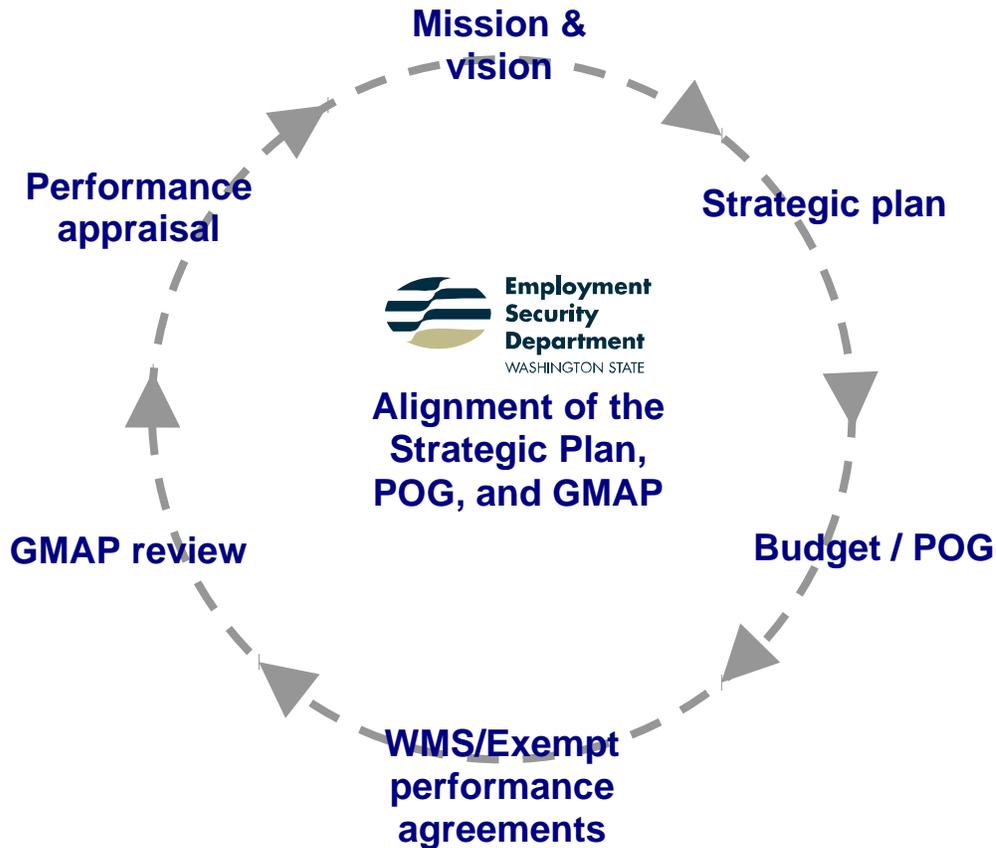
The mission and purpose of Employment Security is to maintain the economic stability of the state by providing unemployment benefits to those temporarily unemployed through no fault of their own, to help people find jobs, to help employers find workers, and to provide the labor market information needed for making informed decisions. The strategic plan, outlining the way in which the department envisions achieving that mission, will be broken down into a detailed implementation plan by linking to budget information gathered through a Priorities of Government (POG)-like process.

The new budget process is designed to be transparent, responsible, results-based, and strategic. It is designed to align our expenditures closely to our strategic plan and to give policy makers information about expected outcomes. The budget process includes:

- making a complete inventory of what we do, down to the functional level – making the current budget transparent;
- at each functional level, including descriptions, cost in dollars and FTEs, expected outcomes, and the link to strategic plan;
- at each functional level, including any necessary targeted reduction, any proposed enhancements – including expected outcomes and link to strategic plan;
- using these resulting “bids” as building blocks for senior leadership to prioritize;
- Senior leadership selecting from the bids to purchase the current functions, cuts, and enhancements they believe will get results and achieve the strategic plan.

Since each bid includes an expected outcome, the Senior Leadership Team will have a program-by-program inventory of performance measures once they select the bids for purchase that link most closely to the strategic plan. These expected outcomes will be written into the responsible managers’ performance agreements with his or her supervisors. They then become the basis for the next year’s GMAP sessions – allowing the agency to track its progress toward the strategic plan, and establishing clear lines of accountability for successes and misses.

The following graphic illustrates the agency's plan for improved alignment.



**Skills Development:** Although the department has made great strides in its first year of GMAP, there is a great deal of work left to do. Managers are becoming more comfortable using data to present information and to monitor whether goals are met. Many are less comfortable using data for deep analysis, diagnoses of problems, designing potential solutions, and for day-to-day management of staff.

The plan for the coming year is to foster opportunities to learn from each other. Some managers throughout the agency are applying GMAP and performance management very competently and can provide guidance and role-modeling for others. Staff in the Budget and Performance unit will also take an active role coaching and mentoring and disseminating skills.