Labor and Workforce Development

The Labor and Workforce Development Agency addresses issues relating to California workers and their employers. The Agency is responsible for labor law enforcement, workforce development, and benefit payment and adjudication. The Agency works to combat the underground economy and to help legitimate businesses and workers in California.

The Budget includes total funding of $17.5 billion ($329 million General Fund and $17.2 billion various other funds) for the Agency.

Employment Development Department

The Employment Development Department (EDD) administers the Unemployment Insurance (UI), Disability Insurance (DI), and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax. EDD connects job seekers with employers through job services programs and one-stop service centers and provides employment training programs through the Employment Training Panel and the Workforce Investment Act of 1998. To support the Department, the Budget includes $16.9 billion ($313.3 million General Fund), which reflects a net decrease of $1.5 billion as compared to the 2012 Budget Act. This change is due primarily to a $1.6 billion reduction in UI benefits as a result of the end of the federal UI extensions in December 2013 and a reduction in the unemployment rate, as well as $42.4 million in other adjustments, including an increase in Disability Insurance benefit payments.

Unemployment Insurance Program

The UI program is a federal-state program that provides weekly payments to eligible workers who lose their jobs through no fault of their own. Benefits range from $40 to $450 per week for up to 26 weeks depending on earnings during a 12-month base period. To be eligible, an applicant must have received enough wages during the base period to establish a claim, be totally or partially unemployed, be unemployed through no fault of his or her own, be physically able to work, be seeking work, be immediately available to accept work, and meet eligibility requirements for each week of benefits claimed.

As a result of the recession, the federal government authorized the Emergency Unemployment Compensation Program, which provided payments to unemployed individuals who had exhausted their regular unemployment benefits. When the first tier of federally funded extension benefits became available in California in July 2008, a person could qualify for up 99 weeks of benefits when combining the federal extensions with the state's regular 26 weeks of benefits. As of November 2012, more than 900,000 unemployed workers in the state had already exhausted their available unemployment benefits. The U.S. Congress and the President have agreed to extend the Emergency Unemployment Compensation Program through 2013, benefiting approximately 400,000 jobless Californians.

The UI program's financing structure was designed to build sufficient reserves during times of economic expansion so that the fund balance could be drawn against during periods of economic contraction. However, as benefit levels were increased starting in the early 2000s with no changes to the underlying revenue structure, the financing structure has not been robust enough to build sufficient reserves. As of January 2009, the state's UI Fund was exhausted due to this imbalance between benefit payments and annual employer contributions. To continue to make UI benefit payments without interruption, EDD began borrowing funds from the Federal Unemployment Account. The UI Fund deficit was $9.9 billion at the end of 2011 and is projected to be $10.2 billion at the end of 2013.

While annual interest payments were waived under the American Recovery and Reinvestment Act for 2010, interest payments of $303.5 million and $308.2 million were paid in 2011 and 2012, respectively. The interest payment must come from state funds. Given the General Fund condition in those years, loans were authorized from the Unemployment Compensation Disability Fund to the General Fund to pay for the UI expense. The interest payment for September 2013 is estimated to be $291.2 million.

Interest will continue to accrue and be payable annually until the principal on the UI loan is repaid.

The UI program's financing structure has not been modified since 1984. Since then, the state's taxable wage ceiling has remained at the federal minimum of $7,000 while the average weekly wage and minimum wage have more than doubled. At $7,000, California is among the lowest in the nation, well below the median taxable wage ceiling of $12,000. When the state's maximum tax rate of 6.2 percent is applied to its taxable wage ceiling of $7,000, its maximum tax liability per employee of $434 is the second lowest in the nation. The state's maximum weekly benefit was increased from $230 to its current level of $450 in 2005, and is in the top one-third of the nation. California's average weekly benefit amount of $294 remains at the national median. With the high rate of employment, more unemployed workers are getting higher benefits while employer contributions have remained static, creating the UI Fund imbalance.

Pursuant to federal law, a reduction in the employer tax credit was triggered in 2012 as a mechanism to begin repaying the federal loan. The federal employer tax credit was reduced from 5.4 percent to 5.1 percent because of the UI Fund deficit and will continue to decrease by 0.3 percent each year that the state maintains an outstanding federal loan balance. To address this deficit, the Secretary for Labor and Workforce Development will begin a series of meetings to bring together key stakeholders, including business and labor by February 1, 2013. This effort will identify preferred alternatives to meet annual federal interest obligations, repay the federal loan, and return the state's UI Fund to solvency.

Significant Adjustments:

- Revised UI Benefit Payments—Total benefit payments will be $12.9 billion in 2012-13 and $9.5 billion in 2013-14, which reflect the recent extension of federal benefits through December 2013 and a reduction in the unemployment rate.
- Revised DI Benefit Payments—The Budget includes an increase of $66.7 million in 2012-13 and $225.9 million in 2013-14 for DI benefit payments.
- Enhanced Data Sharing—As part of a review of revenue collection functions of the Franchise Tax Board and EDD, additional data-sharing opportunities have been identified in the near term that will increase revenues. The Budget includes an increase totaling $2 million in various payroll taxes, including increased penalty assessments and interest of $649,000 as a result of these data sharing efforts.

Department of Industrial Relations

The Department works to improve working conditions, enforces laws relating to wages, hours, conditions of employment, and workers' compensation, and adjudicates workers' compensation claims. The Budget includes $586.1 million ($2.5 million General Fund) to support the Department, which reflects an increase of $153.6 million compared to the 2012 Budget, primarily attributed to workers' compensation reform efforts, including a $120 million increase for permanent disability payments as part of the return-to-work program.

Significant Adjustments:

- Workers' Compensation Reform Implementation—An increase of $152.9 million in the Workers' Compensation Administration Revolving Fund and 82 positions to implement the reforms prescribed in Chapter 363, Statutes of 2012 (SB 863). This includes a $120 million increase for permanent disability payments as part of the Special Earnings Loss Supplement program, also known as the return-to-work program. These resources will support the reforms to medical provider networks, workers' compensation liens, fee schedules, medical care administrative procedures, permanent disability benefits, the Special Earnings Loss Supplement program, and independent medical and bill review processes.
- Workers' Safety and Labor Standards Enforcement—The Budget proposes the elimination of the July 1, 2013 sunset date for the employer surcharge for the Occupational Safety and Health Fund and the Labor Enforcement and Compliance Fund to permanently fund these programs. These programs, which include investigations, inspections, and audits, protect lawful employers from unfair competition while ensuring employees are not required or permitted to work under unlawful conditions.
- Elimination of the Targeted High Hazard Assessment—This proposal replaces the $9.1 million in revenues from this assessment with a $9.1 million increase in the Occupational Safety and Health Fund assessment. This will result in all safety, workplace injury prevention, and enforcement efforts being funded through this single assessment.
- Compliance Monitoring Unit—The unit was created in 2009 to ensure prevailing wages are paid by contractors on public works projects. The monitoring costs were to be paid from specified bond funds that support projects. These revenues have not been sufficient to meet program requirements. The Budget includes various

strategies to stabilize the unit, including (1) a redirection of $2.5 million General Fund to the unit from worker's safety and labor standards enforcement activities, with a corresponding backfill to those programs from the employer surcharge, (2) a $5 million loan from the Targeted Inspection and Consultation Fund, and (3) cost recovery from other sources that support these public works projects.

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