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 help legitimate businesses and workers in California.

The Agency oversees the state's principal workforce programs administered by the Employment Development Department's (EDD) Workforce Services Branch, the Department of Industrial Relations' (DIR) Division of Apprenticeship Standards, the Employment Training Panel, and the California Workforce Investment Board.

The Agency is in the initial phase of a process to improve coordination in policy development, reduce duplicative support and overhead costs, and maximize integrated, efficient service delivery to California's employers, workers, and targeted populations such as veterans, youth, and the long-term unemployed.

The Budget includes total funding of $14.4 billion ($267.6 million General Fund, $14.2 billion various other funds) for the Agency.

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 America's Job Centers of California and provides employment training programs through the Employment Training Panel and the Workforce Investment Act of 1998. To support the Department, the Budget includes $13.8 billion ($254 million General Fund), which reflects a net decrease of $3.2 billion all funds as compared to the 2013 Budget Act, primarily due to reductions in UI benefits as a result of the end of the federal UI extensions and a reduction in the unemployment rate. The expiration of the federal Emergency Unemployment Compensation Program on December 28, 2013, affects more than 222,000 jobless Californians who will no longer be eligible to receive benefits.

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 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.

Beginning in January 2009, the state's UI Fund was exhausted due to an 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 $10.2 billion at the end of 2012 and is projected to be $8.8 billion at the end of 2014.

While annual interest payments were waived under the American Recovery and Reinvestment Act for 2010, interest payments totaling $870.7 million were paid in 2011, 2012, and 2013. The Budget includes $231.6 million General Fund to make the 2014 interest payment. Interest will continue to accrue and be payable annually until the principal on the UI loan is repaid. The interest payment must come from state funds. As a result of the fund's insolvency, employers are negatively affected by a reduction in their Federal Unemployment Tax Act (FUTA) credit—meaning they are paying increasing levels of federal taxes each year until the fund is returned to solvency.

In February 2013, the Secretary for Labor and Workforce Development convened a series of meetings to bring together key stakeholders, including business and labor, to identify preferred alternatives to meet annual federal interest obligations, repay the federal loan, and return the state's UI Trust Fund to solvency. A solvency solution should be developed with the following goals and principles:

- Achieve a prudent reserve by 2021 substantial enough to withstand a recession.
- Repay the Disability Insurance Fund and General Fund for interest payments made by the state.
- Phase in changes to the financing structure to smooth the impact on employers to the extent possible.
- Include reforms to improve the integrity of the unemployment insurance program.

No benefit increases can be contemplated until the fund becomes solvent, has a sufficient reserve, and can support the proposed increase ongoing.

Unemployment Insurance Administration Funding Shortfall

The administration of the base UI program is intended to be fully reimbursed through the federal cost recovery model. However, the federal appropriation for UI administrative funding has been set at a level below what is needed nationwide to fully support this federal-state program. California only recovers approximately 73 percent of the funding it requires to support the current program costs. This has resulted in EDD utilizing other state funds and unspent federal carryover funds from prior years to bridge this gap. While the 2013 Budget included an additional $29.7 million from the Contingent Fund to help close the 2013-14 gap, EDD still faces a significant funding gap of $113 million for 2014-15 once other available funding sources are considered.

To address this issue, the Department of Finance, EDD, and the Labor and Workforce Development Agency undertook a zero-based analysis of UI program functions, devising process improvements, and identifying cost saving measures. Program efficiencies and cost saving measures identified through this review will result in savings of $49 million in 2014-15.

To bridge the remaining $64 million gap, the Budget proposes: (1) $38 million from the Contingent Fund, (2) an increase in withholding penalties deposited in the Contingent Fund from 10 percent to 15 percent effective July 1, 2014, resulting in increased revenue of $10 million ($25 million annually after 3 years), and (3) a one-year suspension of the transfer of personal income tax withholding penalties to the General Fund, retaining approximately $16 million for the program. These measures return service levels back to those achieved in 2012-13 and allow the department to retain staff and continue overtime to process new and continued claims.

The Department will expand this efficiency and service improvement initiative by continuing a thorough business process review of the UI program this spring. This review will identify additional business process improvements to attain further cost savings, service improvements, and efficiencies.

Significant Adjustments:

- October Revise—The Budget includes a decrease of $251.8 million in 2013-14 and a decrease of $3.2 billion in 2014-15 for UI benefit payments based on current economic conditions and the projected expiration of the federal benefits extension program. The Budget also includes a decrease of $142.6 million in 2013-14 and an increase of $177.5 million in 2014-15 for Disability Insurance benefit payments.
- Workforce Investment Act (WIA) Funding—The Budget includes an increase of $11.8 million federal funds in 2013-14 for the Governor's discretionary WIA programs and rapid response activities.

Department of Industrial Relations

DIR 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 $597.7 million from non-General Fund sources to support the Department, which reflects an increase of $14 million as compared to the 2013 Budget.

Significant Adjustments:

- Process Safety Management Unit Expansion (Refinery Inspections)—The Budget includes an increase of $2.4 million Occupational Safety and Health Fund to enforce workplace health and safety regulations in 15 refineries and over 1,600 other facilities that handle hazardous chemicals. This expands the existing program to 26 positions. These staff will significantly increase the number of refinery inspections as well as the time spent conducting each inspection. Refinery inspections will be funded from a new regulatory fee based on the amount of crude oil being processed at each refinery. This proposal is part of the Administration's ongoing efforts to improve the safety of the extraction, transportation, processing, and use of fossil fuels in California.

- Public Works/Prevailing Wage Consolidation — The Budget includes multiple adjustments to consolidate all public works and prevailing wage enforcement activities within a single unit supported by a new registration fee on contractors who choose to work on public works projects. The fee will support an $11.4 million program with 83 positions. The new fee will eliminate the program's reliance on the General Fund and bond funds tied to public works projects, which have resulted in funding challenges in the past. These funding changes, along with programmatic efficiencies realized through the consolidation, will provide the program with a stable funding source to support prevailing wage determinations, monitoring, and enforcement throughout the state. This represents an increase of more than 20 positions compared to prior enforcement levels.

This page intentionally blank to facilitate double-sided printing.