

LSC Redbook

Analysis of the Executive Budget Proposal

**Department of
Job and Family Services**

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Workforce Development

- Funding of \$228.1 million in FY 2012 and \$223.5 million in FY 2013
- Federal funds account for about 99% of funding
- In FY 2010, 432,120 individuals received services at local One-Stops, the highest on record

OVERVIEW

Office Overview

The Office of Workforce Development (OWD) partners with the Ohio Department of Development (ODOD), Board of Regents (BOR), the Governor's Office, U.S. Department of Labor (DOL), local workforce investment boards, and a variety of stakeholders, including business partners, to promote job creation and advance Ohio's workforce. OWD develops and administers programs and services designed to support and enhance state and local workforce development initiatives that address the needs of workers, families, and employers throughout Ohio. OWD provides services that seek to assist Ohioans in removing barriers, entering employment, maintaining employment, and gaining self-sufficiency and independence. OWD also provides programs to assist Ohio's businesses with recruitment of skilled workers, technical assistance with identification of funds, and resources for skills training for new and incumbent workers; it also provides federally and state-required training programs and other support services tailored to meet specific business needs.

OWD's main responsibility is to administer programs funded by the Workforce Investment Act of 1998 (WIA). OWD has three main goals in its implementation of WIA: (1) to create a vertically integrated workforce investment system with all elements coordinated and complementary, (2) to promote Ohio's economic competitiveness by improving employment opportunities, fostering job retention, and increasing earnings of all Ohio workers, and (3) to build a workforce development system that prompts all stakeholders to agree that "it works for me."

Appropriation Overview

For the Workforce Development category, the executive recommends \$228.1 million for FY 2012, a 2.4% increase over FY 2011 estimated expenditures and \$223.5 million for FY 2013, a 2.0% decrease from FY 2012. Table 1 below shows the Workforce Development estimated expenditures by fund group for FY 2011 and the executive budget recommendations for FY 2012 and FY 2013.

Fund Group	FY 2011* (estimated)	FY 2012 (recommended)	% Change	FY 2013 (recommended)	% Change
State Special Revenue	\$2,000,000	\$2,000,000	0.0%	\$2,000,000	0.0%
Federal Special Revenue	\$220,810,415	\$225,624,390	2.2%	\$221,008,585	-2.0%
TOTAL	\$222,810,415	\$227,624,390	2.2%	\$223,008,585	-2.0%

*FY 2011 figures represent estimated expenditures.

About 99% of the biennial budget for Workforce Development comes from the Federal Special Revenue Fund Group and about 1% comes from the State Special Revenue Fund Group. The largest appropriation for Workforce Development is in federally funded line item 600688, Workforce Investment Act, which is funded at \$176.5 million for FY 2012 and \$172.8 million for FY 2013. This single line item accounts for about 77% of the budget for Workforce Development.

Workforce Investment Act Overview

The main source of funding for Workforce Development comes from DOL pursuant to WIA. The Act repealed the Job Training Partnership Act and replaced it with a locally based employment and training service delivery system for youth, adults, and dislocated workers with an emphasis on flexibility in the use of program dollars. These three categories designate the three funding streams of WIA. Each year, Congress establishes an appropriation for Workforce Investment Act Youth, Adult, and Dislocated Worker programs. Based on the latest available data from the Census Bureau for disadvantaged youth and adults, the federal government allocates funds to each state for the program year that begins the following July 1. Upon receiving the allotment notice, states then suballocate funds to local workforce investment areas in accordance with federally prescribed allocation procedures. Local workforce investment boards have two years to expend grant funds.

States retain 15% of the total allotment of each program for statewide use. The dollars retained for statewide use are often called the Governor's discretionary funds. Funds held for statewide use must be expended within three years. States have considerable flexibility in how these dollars may be used. For the Dislocated Worker Program, an additional 25% may be retained at the state level for Rapid Response activities. Rapid Response allows ODJFS to provide assistance to local areas experiencing workforce-related events that create substantial increases in the number of unemployed individuals.

One-Stops

WIA mandates that states and localities develop One-Stop delivery systems for service integration and elimination of duplicative efforts. These systems are mandated

to serve communities by functioning as the primary public resource for job and career counseling, training, job searching, employment services, and a range of other ancillary services that include child care and transportation. One-stops can be housed in any number of facilities such as the county department of job and family services, the county workforce development agency, a community college, a community action organization, a joint vocational school, or a stand-alone One-Stop.

Each site is either a Level 2 or Level 1 site. Level 2 One-Stops are full-service, comprehensive, integrated employment and training sites required by WIA. This includes full partner participation in resources (services and staff), which includes core and intensive services and may also include training services. All Level 2 partners are required to participate in cost-sharing of operational costs. These resources and cost-sharing are captured in an area-wide memorandum of understanding (MOU) between the chief local elected officials, the workforce investment board, the One-Stop operator, and the partners. Level 2 sites in Ohio have a fully functional resource room, training rooms, computer labs, updated technology, job search/upgrade resource materials, meeting/interview rooms, and other employment-related amenities. Some Level 2 sites also include a youth resource room.

Level 1 One-Stops must be affiliated within each One-Stop system with a Level 2 site. In many One-Stop systems there are multiple Level 1 sites associated with a Level 2 site. The minimum Ohio requirement for a Level 1 site is the participation of three or more distinct partners providing, at a minimum, core services. These partners also enter into an MOU outlining resource and cost-sharing commitments. All Level 1 sites must have a fully functional resource room. Many of the Level 1 sites provide far more than the minimum services noted above. Both Level 1 and Level 2 sites must have Americans with Disabilities Act access and accessible technology.

There are currently 31 full-service Level 2 One-Stops with 59 affiliate Level 1 sites, a total of 90 sites with at least one in each county. These sites are divided into 20 workforce investment areas in the state.

In FY 2010, 79,947 individuals (youth, adults, and dislocated workers) received either core or intensive services through local One-Stops. In that year, about 432,120 individuals received self-services at local One-Stops, which is the highest on record.

Funding

For FY 2011, Ohio's regular WIA allocation is \$127.5 million. Of this amount, \$95.5 million (75%) is allocated to Ohio's 20 workforce investment areas, and the state retains about \$32.0 million (25%) for statewide activities and administration.

Table 2 below shows WIA allocations for Ohio in FY 2011 by category.

WIA Category	Total Allocation	Workforce Investment Areas	Statewide Use
Dislocated Worker*	\$51,610,221	\$30,966,133	\$20,644,088
Youth	\$39,313,893	\$33,416,809	\$5,897,084
Adult	\$36,633,264	\$31,138,275	\$5,494,989
Total	\$127,557,378	\$95,521,217	\$32,036,161

* For this category 40% of the allocation may be retained for statewide use: 15% for administration and statewide activities and 25% for Rapid Response activities.

Table 3 shows FY 2011 allocations to Ohio's workforce investment areas by category. One workforce investment area (area 7) is separated into eleven regional groups, which are shown in Table 4 on the next page. Each of these regional groups has a Level 2 One-Stop.

Area	Counties	Dislocated Worker	Youth	Adult	Total
1	Adams, Brown, Pike and Scioto*	\$572,236	\$916,621	\$ 873,274	\$2,362,131
2	Medina and Summit*	\$1,407,768	\$1,656,120	\$1,639,883	\$4,703,771
3	Cuyahoga*	\$2,892,125	\$4,185,291	\$4,102,411	\$11,179,827
4	Lorain*	\$670,386	\$880,513	\$837,351	\$2,388,250
5	Lake*	\$1,207,423	\$419,495	\$432,412	\$2,059,330
6	Stark* and Tuscarawas	\$1,525,167	\$1,261,705	\$1,214,166	\$4,001,038
7	Eleven Regional Groups (see Table 4 below)	\$9,999,078	\$9,602,073	\$8,610,573	\$28,211,724
8	Auglaize, Hardin, Mercer*, and Van Wert	\$478,850	\$427,160	\$388,998	\$1,295,008
9	Lucas*	\$1,615,479	\$1,588,280	\$1,521,661	\$4,725,420
10	Crawford and Richland*	\$718,725	\$591,842	\$612,317	\$1,922,884
11	Franklin*	\$1,928,883	\$2,872,760	\$2,424,687	\$7,226,330
12	Butler*, Clermont, and Warren	\$1,333,113	\$1,764,849	\$1,560,879	\$4,658,841
13	Hamilton*	\$1,260,194	\$2,014,581	\$1,868,046	\$5,142,821
14	Athens, Hocking*, Meigs, Perry, and Vinton	\$387,793	\$789,075	\$593,084	\$1,769,952
15	Monroe, Morgan, Noble, and Washington*	\$275,581	\$409,436	\$392,773	\$1,077,790
16	Belmont*, Carroll, Harrison, and Jefferson	\$1,151,453	\$518,147	\$567,899	\$2,237,499
17	Columbiana* and Mahoning	\$1,161,234	\$1,091,566	\$1,156,245	\$3,409,045
18	Trumbull*	\$951,317	\$713,835	\$737,699	\$2,402,851
19	Ashtabula*, Geauga, and Portage	\$829,556	\$1,077,135	\$895,055	\$2,801,746
20	Fairfield*, Pickaway, and Ross	\$599,772	\$636,325	\$708,862	\$1,944,959
	Total	\$30,966,133	\$33,416,809	\$31,138,275	\$95,521,217

* Denotes location of a Level 2 One-Stop.

Table 4. Workforce Investment Area 7 Counties by Regional Group	
Level 2	Level 1
Allen	Paulding and Putnam
Clark	Champaign, Logan, Madison, and Union
Hancock	Wood and Wyandot
Knox	Delaware, Marion, and Morrow
Lawrence	Gallia and Jackson
Licking	Coshocton, Guernsey, and Muskingum
Montgomery	Clinton, Fayette, Greene, and Highland
Sandusky	Erie, Huron, Ottawa, and Seneca
Shelby	Darke, Miami, and Preble
Wayne	Ashland and Holmes
Williams	Defiance, Fulton, and Henry

Ohio's regular WIA allocation has been declining over the past few years. Ohio received \$173.7 million in FY 2009, \$140.4 million in FY 2010 (a 19% decrease from FY 2009), and \$127.6 million in FY 2011 (a 9.1% decrease from FY 2010). The decreases are due to Ohio having relatively lower proportions of economically disadvantaged individuals compared with other states than in previous years as well as decreases in national WIA funding. The decrease in Ohio's WIA allocations over the current biennium has been somewhat mitigated by additional WIA funds received under the American Recovery and Reinvestment Act of 2009 (ARRA). Ohio received \$138.0 million in ARRA WIA funds, all of which have been expended.

Since local WIA funds may be expended over two years, and state WIA funds over three years, there are usually "carry-over" dollars each year. Over the past two years about \$66.4 million was carried over each year. ODJFS anticipates that about \$50.0 million will be carried over into FY 2012.

Of the \$32.0 million retained by ODJFS for statewide activities about \$12.9 million (40%) is used for Rapid Response activities. The remainder is used for a variety of other workforce initiatives such as the Recovery Construction Corps, Urban Youth Works, Constructing Futures, Project Hire, and Ohio Learning Accounts.

Performance Measures

States are required to track and report certain performance measures to the federal government. There are three common performance measures for each of the three WIA funding streams. For adults and dislocated workers the three measures are the percentages that entered employment and retained employment, and average earnings. For youth the three measures are the percentages placed in employment or education, attained a degree or certificate, and improved in literacy and math skills.

States negotiate goals based on these performance measures with the federal government. States can either exceed, meet, or not meet these goals. "Exceed" means having a percentage higher than the goal. "Meet" means having a percentage within 80% of the goal. "Not meet" means having a percentage lower than 80% of the goal. In FY 2010, Ohio exceeded four goals, met four goals and did not meet one goal, which was the percentage of dislocated workers that entered the workforce. Table 5, from ODJFS's annual WIA report, shows Ohio's performance in FY 2010.

Funding Stream	Performance Measure	Goal	80% of Goal	Actual Performance	Status
Adults	Entered employment	78.0%	62.4%	64.1%	Meet
	Retained employment	87.0%	69.6%	81.0%	Meet
	Average earnings	\$14,500	\$11,600	\$14,614	Exceeded
Dislocated Workers	Entered employment	87.0%	69.6%	68.0%	Not Meet
	Retained employment	92.0%	73.6%	86.0%	Meet
	Average earnings	\$17,000	\$13,600	\$17,079	Exceeded
Youth	Entered employment or education	63.0%	50.4%	53.2%	Meet
	Attained degree or certificate	42.0%	33.6%	57.2%	Exceeded
	Gained in literacy and math	37.0%	29.6%	39.1%	Exceeded

Partnerships

ODJFS partners with ODOD and BOR to better serve the workforce needs of their primary customers and maximize the benefits of their area of expertise. ODJFS's OWD administers services and training for job seekers through the One-Stops. From a portion of adult WIA funds transferred from ODJFS, ODOD administers customized training programs for employers through ODOD's Division of Workforce and Talent (in 2008, ODJFS transferred 28 employees to this division) and funds the Governor's Workforce Policy Advisory Board, which promotes cooperation and collaboration among agencies administering WIA. In FY 2010, ODOD expended \$9.9 million in WIA funds.

BOR uses a separate WIA grant to fund Adult Education and Family Literacy Act (AEFLA) programs in Ohio. Part of WIA, the AEFLA incentive grants provide federal support for adult basic and literacy education programs in Ohio. The grants support programs that increase the number of adults accessing postsecondary education and training and, with the support of the Ohio Skills Bank, ensure that the education and training adult learners receive is aligned with the needs of Ohio employers. In FY 2010, BOR expended about \$1.0 million for this program.

In addition to administering services through One-Stops, ODJFS also administers the Apprenticeship Program (in cooperation with the Ohio State Apprenticeship Council), the Migrant Seasonal Farm Worker Program, the Work Opportunity Tax Credit, and Foreign Labor Certification programs. ODJFS is responsible for maintaining the Ohio Means Jobs web site, which identifies and provides job seekers with electronic access to job opportunities from all of the major commercial job boards, specialized industries, national and Ohio Fortune 100 companies, and the state of Ohio.

FY 2010-FY 2011 Highlights

American Recovery and Reinvestment Act

ARRA contained several provisions that impact workforce development and other employment services. The Act increased funding for several labor grants, including WIA. Ohio received a total of \$138.0 million in ARRA WIA funds:

- \$47.7 million (35%) for the Youth Program;
- \$35.1 million (25%) for the Dislocated Worker Program;
- \$19.9 million (14%) for the Adult Program;
- \$20.7 million (15%) held by ODJFS for statewide use; and
- \$14.6 million (11%) for Rapid Response activities.

Funds were expended from FY 2009 through FY 2011.

In addition to WIA funding, the Act included additional National Emergency Grants (NEGs) for worker training and job placement in high growth and emerging industry sectors, with a portion reserved to prepare workers for efficiency and renewable energy careers and for preparation of workers in the health sector. Ohio received \$9.2 million in NEGs under ARRA. Of this amount, a \$5 million grant was received to provide training to about 1,400 former auto workers. States also received additional funding under the Wagner-Peyser Act for re-employment and job-matching assistance. A portion of those dollars were designated for re-employment service grants to provide customized re-employment services to unemployment insurance claimants. Ohio received \$15.0 million in federal Wagner-Peyser dollars under ARRA. The additional funds were allocated to states based on three factors: the number of individuals in the labor force, rates of unemployment, and the relative share of long-term unemployed individuals.

National Emergency Grants

Over the FY 2010-FY 2011 biennium, the state used about \$11 million in federal National Emergency Grant (NEG) funds for dislocated workers. ODJFS has mainly used these funds to provide support and services to former employees of the Wilmington AirPark. The state received two NEGs totaling \$7.3 million to provide

training and placement services to about 1,700 workers affected by the closing of the Wilmington AirPark.

Rapid Response Program Reform

Over the FY 2010-FY 2011 biennium, ODJFS continued to implement the recommendations based on a study conducted by the National Employment Law Project (NELP). NELP evaluated Ohio's Rapid Response system in August 2008, and issued a report in late September that year. ODJFS created a team, which included a representative from ODOD, to review and develop a strategy and implementation plan related to the NELP study.

Some of the recommendations related to in-house training programs and communications were implemented in FY 2009. ODJFS continued to implement recommendations in FY 2010 and FY 2011. Eligibility for Rapid Response services was expanded to all workers affected by layoffs instead of only workers whose employers are required to file a Worker Adjust Retraining Notification (WARN) with the federal government. There is now a Rapid Response team within each One-Stop system. Each team has a minimum of four members: a regional Rapid Response Coordinator, a local area Rapid Response Coordinator designated by the local area, a representative from ODOD, and a state contracted designee that assists with transition centers. Teams may have more members depending on local needs. In addition, a new web site was developed to convey information to employers and workers about Rapid Response services as well as other public assistance services.²⁰ The web site connects to the newly formed Ohio Rapid Event database, which tracks state and local Rapid Response activities based on each "dislocation event."

Incumbent Worker Training

In FY 2010, ODJFS received two waivers from DOL that allowed WIA funds to be used to provide incumbent worker training (IWT). The first waiver, which was effective until November 2009, allowed local workforce investment areas to use up to 20% of their allocations to provide IWT. From December 2009 to June 2010, the waiver was modified to allow local areas to use up to 10% of their adult allocation and 10% of their dislocated worker allocation for IWT; the waiver was renewed through June 2011. This training is provided to employed low-income adults to help them achieve certain skills in order to retain employment.

In addition, at the statewide level DOL approved a waiver that allowed the state to use 50% of Rapid Response funds for employment and training activities, including IWT, until November 2009. From December 2009 to June 2010 the waiver was modified

²⁰ www.ohioed.gov.

to reduce the percentage to 20% of Rapid Response funds to be used for IWT only to avoid layoffs; the waiver was renewed through June 2011. These funds are administered by ODOD under the Ohio Workforce Guarantee Program. In FY 2010, grants under this program totaled \$13 million, which funded training for 1,600 new hires and 8,300 incumbent workers.

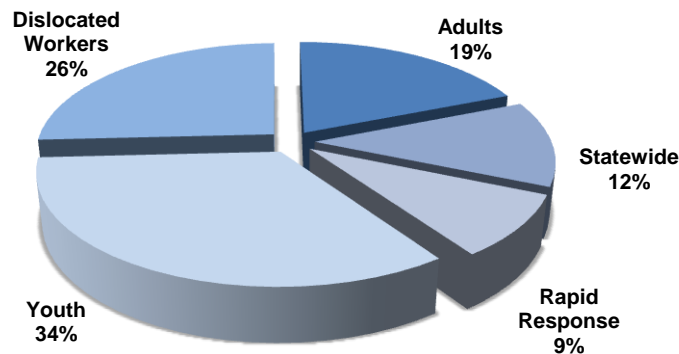
Governor's Workforce Policy Advisory Board

On September 20, 2010, the Governor signed Executive Order 2010-11S that continued the Governor's Workforce Policy Advisory Board. This board advises the Governor on issues related to the workforce development system in the state including training, education, employment, and accountability measures. The board was established by executive order on June 26, 2007.

FACTS AND FIGURES

WIA Expenditures by Program Activity

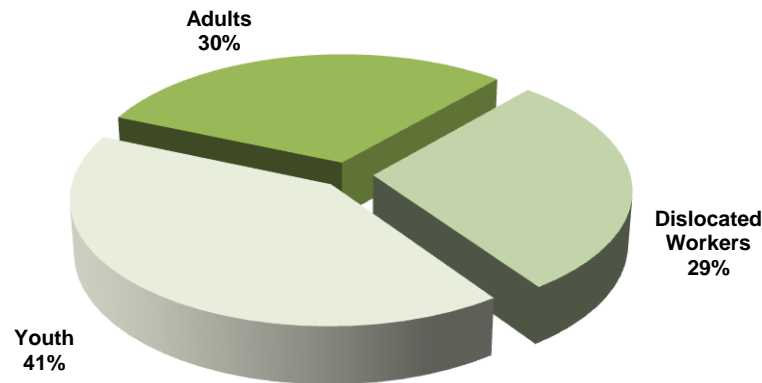
Chart 1: WIA Expenditures by Category, FY 2010



- In FY 2010, the state expended \$239.8 million in federal Workforce Investment Act (WIA) funds. The Youth Program, which serves low-income and at-risk youth, 14 to 21 years old, accounted for the largest share of expenditures at \$81.4 million (34%).
- The Dislocated Workers Program, which mainly serves those who have been laid off, accounted for the next largest share of expenditures at \$61.4 million (26%). The Adults Program, which serves job seekers aged 18 or older, accounted for \$45.9 million (19%).
- Some WIA funds are retained by ODJFS for state-wide programs. In FY 2010, \$29.7 million (12%) was used for such programs, which include Green Jobs, Urban Youth Works, and Ohio Learning Accounts.
- Rapid Response provides additional assistance to areas that experience substantial increases in the number of unemployed individuals. In FY 2010, \$21.4 million (9%) was used for Rapid Response activities.
- The federal government allocates WIA funds by the number of eligible participants in each of the three programs. ODJFS distributes the state's WIA allocation to local workforce investment boards to provide workforce development activities through local One-Stops.
- One-Stops act as the primary public resource for employment counseling, training, job searching, and other employment services. Twenty workforce investment boards administer 90 One-Stops in the state with at least one in each county.
- Of the \$239.8 million in expenditures, \$140.4 million was from the state's regular WIA allocation dollars and the remaining \$99.4 million was from additional WIA dollars received under the American Recovery and Reinvestment Act of 2009.

WIA Participation by Program Activity

Chart 2: WIA Participation by Category, FY 2010



- In FY 2010, 79,947 individuals participated in WIA services. Youth accounted for the highest amount with 32,890 (41%). Of these, 18,124 (55%) participated in summer employment programs. The average cost per youth was \$2,474.
- To receive WIA services youth must be between the ages of 14 to 21 years old and face barriers to employment. In FY 2010, 1,955 youth were placed in employment and 2,255 completed a certificate or degree program.
- Adults accounted for 24,043 (30%) of the WIA participants with an average cost per person of \$1,908. Certain core services are available to all adults (18 and over) including labor market information and job search and placement assistance. Other more intensive services, such as career counseling, individual employment plans, skills assessments, and training, are provided to lower-income and disadvantaged adults.
- Young adults, ages 18 to 21, who are out-of-school, could qualify for services under the Youth or Adults programs, depending on what services they need. Local workforce boards have discretion to determine how to categorize these individuals.
- Dislocated Workers accounted for 23,014 (29%) of the WIA participants, with an average cost per person of \$2,670. Dislocated workers become eligible for services due to having been laid off or receiving notice of an impending layoff within 180 days. They are eligible for the same services that are available to adults.
- Participants accounted for in the chart are those that received either core or intensive services. Many others participate in self-services at local One-Stops. In FY 2010, about 432,120 participated in self-services, which is the highest on record.

ANALYSIS OF EXECUTIVE PROPOSAL

Workforce Development

This category of appropriations includes the sources of funding for the Workforce Development category. Table 6 shows the line items included in this category and the recommended funding. Following the table, a narrative describes how the appropriation for each line item is used and any changes affecting the appropriation that are proposed by the Governor.

Table 6. Governor's Recommended Funding for Workforce Development				
Fund	ALI and Name		FY 2012	FY 2013
Federal Special Revenue Fund Group				
3310	600686	Federal Operating	\$49,128,140	\$48,203,023
3V00	600688	Workforce Investment Act	\$176,496,250	\$172,805,562
Federal Special Revenue Fund Group Subtotal			\$225,624,390	\$221,008,585
State Special Revenue Fund Group				
5DB0	600637	Military Injury Grants	\$2,000,000	\$2,000,000
State Special Revenue Fund Group Subtotal			\$2,000,000	\$2,000,000
Total Funding: Workforce Development			\$227,624,390	\$223,008,585

Federal Operating (600686)

This federally funded line item is used primarily to fund the operations of the Office of Workforce Development, as well as the Office of Unemployment Compensation and the Office of Local Operations. Revenue to support this line item comes from Wagner-Peyser Act allocations to states through the U.S. Department of Labor as well as various other federal grants for workforce development programs. The executive recommends \$49.1 million for FY 2012, a 13.2% decrease from FY 2011 estimated expenditures and \$48.2 million for FY 2013, a 1.9% decrease from FY 2012. This line item funds the administrative functions of the following programs.

Labor Exchange Services

As part of the One-Stop system, the Labor Exchange Services Program provides services to both job seekers and employers. The Office of Workforce Development provides policy guidance and performance management measures while the Office of Local Operations provides services statewide that include job search assistance, referral and placement assistance to job seekers, re-employment services to unemployment insurance claimants, and recruitment services to employers with employment opportunities. In federal fiscal year (FFY) 2010, more than 678,000 individuals registered with the Labor Exchange Program. More than 507,000 received staff-assisted

services, 69,800 received referrals to employment opportunities, and 6,400 obtained employment within 90 days of receiving Labor Exchange Services.

Migrant Seasonal Farm Workers Program

The Migrant Seasonal Farm Workers Program insures that workers receive appropriate information regarding employment, such as career guidance, housing, job development and referral, and training as needed. In addition, the program ensures that housing for these workers meet standards set by the Occupational Safety and Health Administration (known as OSHA), and agricultural growers receive the information and support to locate and employ the seasonal workers they need. In FY 2010, about 1,260 farm workers registered for employment, 800 received referrals to employment opportunities, and 700 were placed in employment.

Foreign Labor Certification Program

The Foreign Labor Certification Program insures that foreign workers who enter the United States on a temporary or permanent basis do not adversely affect the job opportunities, wages, and working conditions of naturalized workers. Through this program, the Office of Workforce Development oversees the processes employers utilize when seeking foreign workers on a temporary or permanent basis. Foreign Labor Certification staff work with employers to identify naturalized citizens who are qualified, willing, and able to fill job vacancies. In FY 2010, the Foreign Labor Certification unit processed 215 foreign labor certification applications and provided 2,182 prevailing wage determinations to employers.²¹

Work Opportunity Tax Credit Program

The Work Opportunity Tax Credit Program encourages employers to hire from nine target groups of disadvantaged individuals. The groups are:

- TANF recipients;
- Veterans;
- Ex-felons;
- Individuals between the ages of 18 and 40 years old who are residents of one of the federally designated Empowerment Zones, Enterprise Communities or Renewal Communities, or a Rural Renewal County;
- Vocational rehabilitation consumers;
- Summer youth employees;
- Social Security Income recipients; and

²¹ Prevailing wage determinations are the average wages paid to similarly employed workers in occupations with similar functions.

- Individuals who are a member of a family that received TANF or benefits under a successor program for at least 18 consecutive months.

Employers that hire such individuals receive federal tax credits that range from \$1,200 to \$2,400 for most groups. Employers may receive up to \$9,000 for each new, long-term family assistance recipient hired during a two-year period. Primary activities for this program involve marketing the tax credit to employers and processing certifications for the tax credit. In FY 2010, the Office of Workforce Development processed more than 142,600 applications. The certified tax credits reduced Ohio employers' federal income tax liability by more than \$54.4 million in 2009 (the latest year for which data is available), and more than 54,400 job seekers with barriers to employment received assistance in finding job opportunities.

Labor Market Information

The Labor Market Information Program collects, analyzes, publishes, and disseminates information about Ohio's industry, labor force, and economy. The program focuses on serving business initiatives and planning needs to support workforce and economic development activities and decisions. Delivery of this information is primarily via the Internet.²² Program staff also provide data support and administrative reports and assist in federal reporting activities for the Unemployment Compensation Program. The Office of Workforce Development prepares reports on employment levels, unemployment levels, wages and earnings, employment outlook by industry and occupation, and other economic and industry-specific data.

Services to Veterans

The Local Veterans Employment Representatives Program ensures veterans receive a range of workforce and employment services needed to meet their employment and training needs. Program staff do all of the following:

- Advocate on behalf of veterans for employment and training;
- Establish, maintain, and facilitate regular contact with employers to develop employment and training activities for veterans;
- Provide and facilitate employment and training services for veterans in the workforce development system;
- Assist transitioning military personnel to civilian jobs through Ohio Transitional Assistance Program workshops; and
- Report Ohio's compliance with state directives on services to veterans and progress toward meeting Ohio's performance standards on a quarterly basis.

²² <http://ohiolmi.com>.

In FFY 2010, 993 veterans received services under this program.

The Disabled Veterans Outreach Program Specialist (DVOPS) Program provides intensive services to veterans that may include job-search coaching, vocational counseling, and specialized one-on-one job development assistance to meet veterans' needs. DVOPS services target veterans who are economically or educationally disadvantaged, including homeless veterans and veterans with barriers to employment. In FFY 2010, 2,028 veterans received intensive services under the DVOPS Program.

Workforce Investment Act (600688)

This federally funded line item is used to distribute WIA dollars to local workforce investment boards to administer the Youth, Adult, and Dislocated Worker programs through local One-Stops. ODJFS retains a portion of these dollars for statewide use, Rapid Response, and administration. In FY 2010, WIA funds provided services through the One-Stop system to 24,000 adults, 23,000 dislocated workers, and 32,900 youth. In that year, about 432,120 individuals received self-services at local One-Stops, which is the highest on record.

The executive recommends \$176.5 million for FY 2012, a 7.5% increase over FY 2011 estimated expenditures, and \$172.8 million for FY 2013, a 2.1% decrease from FY 2012. The amount of WIA dollars a state receives can vary each year since allotments are based on several factors including the state's unemployment rate. As of the writing of this analysis, the amount of federal WIA dollars states may receive in the coming federal fiscal year is uncertain due to pending federal legislation.

Military Injury Grants (600637)

This line item is used to provide military injury grants. In order to be eligible, an individual must have been injured while serving on active duty during Operation Enduring Freedom (Afghanistan) or Operation Iraqi Freedom or have been diagnosed with post traumatic stress disorder after having served in those operations. The injury must have occurred while the individual was receiving pay for hazardous, combat, or hostile fire duty. Applicants are eligible for one grant per fiscal year. The grant program was created by H.B. 66 of the 126th General Assembly and is administered by the Office of Workforce Development.

The executive recommends flat funding at the FY 2011 level of \$2.0 million for FY 2012 and FY 2013. Funding for this grant program is supported by donations made through the state income tax refund contributions system. The fund received about \$607,000 in 2009 and \$489,900 in 2010. In prior years, the fund received about \$500,000 each year.

ODJFS increased the military injury relief grant amount from \$500 in FY 2008 to \$750 in FY 2009, then to \$1,000 in FY 2010, and held level in FY 2011. The table below shows the number of grants and grant amounts since FY 2008.

Table 7. Military Injury Grants			
Year	Grants Issued	Grant Amounts	Total Disbursed
FY 2008	302	\$500	\$151,000
FY 2009	643	\$750	\$482,250
FY 2010	1,450	\$1,000	\$1,450,000
FY 2011*	1,751	\$1,000	\$1,751,000

*As of March 15, 2011

Unemployment Compensation

- Ohio has borrowed \$2.45 billion from the federal government to issue unemployment benefits.
- The first interest payment on borrowings, which must be paid from state funds, is due on September 30, 2011.
- Federally funded extended benefits expire in June 2012.

OVERVIEW

Office Overview

The Office of Unemployment Compensation (OUC) administers programs and provides services related to unemployment insurance. OUC is organized into three bureaus: Tax, Benefits and Technology, and Program Services. The Tax Bureau is responsible for collecting unemployment taxes, as well as wage information from all Ohio employers on a quarterly basis. The Benefits and Technology Bureau provides oversight and support services for the claims adjudication and benefit control processes as well as technical assistance to local offices relative to policy, procedure, and state and federal law. This bureau is also responsible for the automated benefits delivery system. The Program Services Bureau is responsible for research, legislation, and policy in support of the Unemployment Compensation Advisory Council and represents the Director of Job and Family Services before the Unemployment Compensation Review Commission (UCRC). This bureau is responsible for a number of special unemployment tax and benefit determinations in cases involving employer unemployment tax appeals or benefit eligibility during labor disputes.

The Unemployment Compensation category also includes the Office of Local Operations. This office is responsible for processing unemployment claims in seven call centers and 13 processing centers throughout the state. This office also delivers Trade Adjustment Assistance services.

Appropriation Overview

Table 1 shows the Unemployment Compensation budget by fund group for FY 2011 and the executive budget recommendations for FY 2012 and FY 2013.

Fund Group	FY 2011* (estimated)	FY 2012 (recommended)	% Change	FY 2013 (recommended)	% Change
State Special Revenue	\$40,203,549	\$24,798,165	-38.3%	\$24,242,029	-2.2%
Federal Special Revenue	\$181,408,671	\$192,847,084	6.3%	\$190,792,173	-1.1%
TOTAL	\$221,612,220	\$217,645,249	-1.8%	\$215,034,202	-1.2%

*FY 2011 figures represent estimated expenditures.

The executive recommends \$217.6 million for FY 2012, a 1.8% decrease from FY 2011 estimated expenditures, and \$215.0 million in FY 2013, a 1.2% decrease from FY 2012. Appropriations for this program category are for the sole purpose of administering Unemployment Compensation; UC benefits are paid from Ohio's Unemployment Compensation Trust Fund. Federal funds account for 89% of the biennial budget for Unemployment Compensation; 11% comes from State Special Revenue funds.

Unemployment Compensation Overview

Unemployment insurance was created as a federal and state partnership for income maintenance during periods of involuntary unemployment by providing partial compensation for lost wages to eligible individuals. Benefits are paid through the Unemployment Compensation Trust Fund, a federal bank account which is funded through state insurance taxes on employers. ODJFS collects the taxes, deposits the revenue into a clearing account, and then transfers it to the state's trust fund. Funds for administration of unemployment insurance are provided by the U.S. Department of Labor (DOL) from revenues collected from employers by the Internal Revenue Service.

Employers

There are about 229,600 employers in the state that participate in the UC system. State law classifies employers into one of two categories: "contributory" and "reimbursing" employers. Most nongovernment employers are contributory employers and most public employers and nonprofits are reimbursing. There are about 224,570 (97.8%) contributory employers and 5,030 (2.2%) reimbursing employers in the state; about 3,300 (65.6%) of reimbursing employers are government entities.

Contributory employers pay unemployment insurance taxes on a quarterly basis. If a contributory employer has a layoff, payment of the unemployment compensation benefit is paid from the employer's account in the trust fund. When the system is operating normally, each employer should have sufficient funds in the employer's account to cover any charges against the employer. As the balance in an employer's account goes down, the future rate of contributions for the employer will increase to replenish those losses. Reimbursing employers are billed once a month, after the fact, for the amount of benefits paid to the employer's former employees from the trust fund.

State taxes

The state has various unemployment insurance tax rates for different employers that are applied to the first \$9,000 of each employee's taxable wage. In 2010, the average tax rate for Ohio employers was about 3.04%, which amounted to about \$274 per employee. In that year, contributions to Ohio's trust fund totaled \$1.16 billion from

about 224,570 employers. Table 2 shows the various components of the state's unemployment tax rates and corresponding amounts per employee for 2011.

Tax	Tax Rates		Tax Amounts	
	Minimum	Maximum	Minimum	Maximum
Experience Rate	0.3%	9.2%	\$27	\$828
<i>Base Rate</i>	0.1%	6.5%	\$9	\$585
<i>Minimum Safe Level Tax</i>	0.2%	2.7%	\$18	\$243
Mutualized Rate	0.4%	0.4%	\$36	\$36
Range for 2011	0.7%	9.6%	\$63	\$864

Experience Rate

The experience rate, which ranges from 0.3% to 9.2%, is different for each employer. There are two components to the experience rate: the base rate and the minimum safe level tax.

The **base rate** ranges from 0.1% to 6.5% and varies based on the employer's experience of unemployment claims paid from the employer's account. It factors employers' taxable wages, contributions paid, and benefits charged to their accounts. Generally, rates are lower for employers that have contributed over many years with few layoffs. Rates are generally higher for employers with frequent layoffs. For new employers, the rate is set at 2.7%, until the employer's account has been chargeable with benefits for four consecutive calendar quarters ending June 30; after that, the employer is eligible for a base rate based on experience. Construction industry employers pay a higher rate of 6.4%.

The **minimum safe level (MSL) tax** is charged to employers who qualify for an experience rate when the trust fund balance is 40% or less of the MSL. The MSL, as defined by state law, is \$2.75 billion for 2011, 40% of which is \$1.10 billion. This tax is currently in effect, as the trust fund has been well below this threshold (the state is currently borrowing from the federal government to issue benefits). Employers are currently paying between 0.2% and 2.7% for this tax. Half of the amount from this tax is credited to the employer's account and the other half is credited to the state's mutualized account (explained below).

Mutualized Rate

In addition to experience rates, employers are currently paying the mutualized rate. This rate is charged to restore the state's mutualized account to a positive balance. This account is separate from employer accounts in the trust fund and maintained for

the primary purpose of recovering the costs of unemployment benefits that were paid and not chargeable to individual employers for a variety of reasons. The mutualized account has had a negative balance since FY 2006. Employers are paying a flat mutualized rate of 0.4% if they qualify for an experience rate (new employers that do not qualify for an experience rate do not pay the mutualized rate).

Federal tax

The Federal Unemployment Tax Act (FUTA) rate is 6.2% on the first \$7,000 of each employee's taxable wage (\$434 per employee). However, employers in states that have an unemployment program that is approved by DOL receive a credit of 5.4 percentage points resulting in an effective tax rate of 0.8% (\$56 per employee). DOL approval requires adherence to federal requirements and regulations. Ohio is currently operating an approved program; therefore, employers pay a FUTA tax rate of 0.8%.

The FUTA tax is collected by the Internal Revenue Service and transferred to DOL. Most of the FUTA tax is disbursed to state governments to administer unemployment compensation programs. Some of the tax is used to pay for extended UC benefits and some of it is loaned by the federal government to states that do not have an adequate trust fund balance to issue benefits. In 2009, Ohio employers paid about \$252.4 million in FUTA taxes.

Eligibility

To be eligible for unemployment benefits an individual must have worked at least 20 weeks in covered employment with sufficient wages during a base period. Covered employment is time spent working for an employer that participates in the UC system. Sufficient wages amount to at least \$215 on average per week for 2011, before taxes or other deductions (this amount is updated each year). The base period is the first four of the last five completed calendar quarters before the claim was filed. An alternative base period can be applied for those who did not have sufficient wages or who did not accumulate 20 weeks of work in the normal base period. The alternative base period is the last four completed calendar quarters before the claim was filed. To receive benefits, an individual must be able and available to work and seek work for every week while receiving benefits. Individuals must also be unemployed at the time of filing an unemployment claim.

Benefits

Regular UC benefits are paid to individuals who lose employment through no fault of their own who have worked at least 20 weeks. The benefit period equals the number of weeks worked, from a minimum of 20 weeks up to 26 weeks. In 2010, the average weekly benefit was about \$297, which was received for about 20 weeks for a full benefit of \$5,940. If received for the full 26 weeks, the benefit would total about \$7,722. Benefits are paid out of the state's trust fund.

The weekly benefit amount equals half of an individual's average weekly wage with different maximums based on the number of dependents an individual claims. Table 3 shows the benefits individuals could receive by dependent class for 2011.

Dependents	Average Weekly Wage	Weekly Benefit	Average Weekly Wage	Weekly Benefit
0	≥ \$774	\$387	< \$774	
1-2	≥ \$940	\$470	< \$940	50% of average weekly wage
3 or more	≥ \$1,048	\$524	< \$1,048	

There are certain deductions that may reduce benefits, which include severance pay, vacation pay, pensions, company buy-out plans, and workers' compensation. However, Ohio law allows that 20% of such earnings can be exempt from deduction. Income that is not deducted from UC benefit payments include payments from the Social Security Administration, interest dividends, rental income, supplemental unemployment benefits, and U.S. National Guard and Armed Forces reserve pay for scheduled drills.

Federally Extended Benefits

Federal legislation provided unemployed individuals the ability to receive federally funded extended benefits over the course of 73 weeks after the initial 26 weeks of regular benefits for a total of 99 weeks. The federal Emergency Extended Unemployment Compensation (EUC) Act of 2008 allowed unemployed individuals to qualify for an additional 13 weeks of benefits after exhausting the initial 20 to 26 weeks of regular benefits. The Act was subsequently amended seven more times (by the American Recovery and Reinvestment Act of 2009 (ARRA) and other legislation) to provide up to a total of 53 weeks of additional benefits on a system of "tiers." For example, the first tier lasts 20 weeks, after which an individual may apply for the second tier of 14 weeks, and so on. After an individual expires the 26 weeks of regular unemployment benefits *and* the 53 weeks of tiered EUC benefits, an additional 20 weeks of Federal-State Extended Benefits (EB) are available. Federal-State Extended Benefits is an existing system for extending benefits in certain circumstances. Under current federal legislation, EB is fully federally funded. (In the past, these benefits were paid 50/50 from the state trust fund and federal government over a 13-week period.)

Table 4 shows the weeks of benefits individuals may receive in subsequent order.

Table 4. Regular and Extended Benefits		
Unemployment Benefits	Duration	Funding Source
Regular Unemployment Benefits	26 weeks (maximum)	State Trust Fund
Emergency Unemployment Compensation (EUC) <i>Tier 1 (20 weeks),* Tier 2 (14 weeks)</i> <i>Tier 3 (13 weeks), Tier 4 (6 weeks)</i>	53 weeks	Federal funds
Federal-State Extended Benefits (EB) <i>Phase 1 (13 weeks), Phase 2 (7 weeks)</i>	20 weeks	Federal funds (for contributory employers)

*Tier 1 benefits last 13 weeks in low unemployment states, and 20 weeks in high unemployment states. Ohio is currently a high unemployment state.

Under the most recent federal legislation (H.R. 4853), individuals may be eligible for the next tier of EUC benefits until December 31, 2011. After that date, individuals who exhaust their current EUC tier are not eligible for the next tier. The last EUC payments could be made during the first week of June 2012. For EB, the last day an individual can establish eligibility is December 10, 2011, and the last week of payment ends January 7, 2012, regardless of when eligibility was established.

For contributing employers, all extended benefits (EUC and EB) are fully federally funded. Benefits are not issued from the state's trust fund and do not affect the state's borrowing to issue regular benefits. For reimbursing employers, only EUC benefits are federally funded; EB benefits are paid by the employer. In 2010, reimbursing employers paid \$5.8 million in EB benefits to about 2,400 claimants. Local governments expended the most for these benefits: \$4.3 million (74%) to 1,920 individuals (80%). State agencies (including state hospitals and higher educational facilities) expended \$1.5 million (26%) to about 485 claimants (20%).

Trade Adjustment Assistance Programs

In addition to Unemployment Compensation, the Office of Unemployment Compensation administers Trade Adjustment Assistance (TAA) programs. These programs help workers affected by trade (increased imports from, or shifts in production to, foreign countries) to quickly return to suitable employment. Depending on their situation, workers can receive training, trade readjustment allowances, re-employment services, job search allowances, relocation allowances, a health coverage tax credit, and alternative trade adjustment assistance services. Each program has its own eligibility criteria and compensation arrangement. TAA programs are fully federally funded and do not require a state match or maintenance of effort. Ohio's federal funding for TAA programs in federal fiscal year (FFY) 2010 was \$24.8 million.

TAA programs were established in 1962. Significant expansions and revisions of the program occurred through the trade acts of 1974 and 2002, as well as ARRA in 2009. These changes made under ARRA were in effect up through February 15, 2011, after which time the program reverted back to the program in effect prior to ARRA.

ARRA temporarily expanded eligibility for TAA programs, provided more funding, extended the periods to enroll in training and to receive benefits, increased allowances for job searching and relocation, and increased assistance for health premiums. Specifically, ARRA had made the following changes to TAA programs:

- Eligibility was expanded to:
 - Workers in the services sector and public sector (from workers in the manufacturing sector only);
 - Workers affected by trade with any country (rather than a country that the U.S. had entered into a free trade agreement); and
 - Workers or suppliers in secondary companies (in addition to primary companies) that were affected by trade.
- Funding was increased from \$220 million to \$575 million per year, and the funding formula was modified to redirect funds toward high-need areas;
- The deadline to enroll in training was extended to 26 weeks after either layoff or certification by DOL from the prior period of either eight weeks after certification or 16 weeks after layoff;
- The period for receiving TAA cash assistance payments was extended from 104 weeks to 130 weeks for workers in full-time training;
- Allowances for the following were increased:
 - Job searching, from 90% of costs up to \$1,250 to 100% of costs up to \$1,500;
 - Relocation, from 90% of costs to 100% of costs up to a statutory limit with a lump sum payment of \$1,500, which was increased from \$1,250; and
- The health coverage tax credit was increased from covering 65% of qualified insurance premiums to 80%.

To obtain trade adjustment assistance, a petition must be filed with DOL. DOL then certifies eligibility. Those who may file petitions include a group of three or more workers, a union official, a company official, and state workforce agencies including One-Stops. DOL's goal is to issue an eligibility determination within 40 days.

FY 2010-FY 2011 Highlights

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) increased the amount and duration of UC benefits and provided states with additional administrative funds. These provisions included:

- A continuation and extension of EUC benefits;
- Full federal funding for Federal-State EB extended benefits;
- An income tax exemption for the first \$2,400 in unemployment benefits received in 2009;
- Full federal funding for an additional \$25/week for individuals receiving regular or extended unemployment benefits referred to as the Federal Additional Compensation (FAC) Program;
- A waiver of interest on borrowed amounts for the state's trust fund through December 31, 2010;
- Expansion of TAA programs (discussed in the previous section);
- Modernization incentive payments (discussed in the next section); and
- Additional UC administrative funds.

Retirement Policy Change

Executive Order 2009-22S (signed by the Governor October 30, 2009, and effective January 28, 2010) changed state rules regarding how retirement benefits affect unemployment benefits in order to align with a recent change in federal policy. Federal unemployment law was amended in January 2009 to prohibit deducting nontaxable retirement benefits from an individual's unemployment benefits.

Expansion of Approved Training

In FY 2010, ODJFS expanded the definition of "approved training activities" to exempt more unemployed individuals from work search requirements. Prior to the expansion, individuals receiving unemployment benefits could be exempt from the weekly work search requirement if they were enrolled in training activities through the following programs: Trade Adjustment Assistance, Rehabilitation Services Commission Vocational Rehabilitation programs, training programs funded by the Workforce Investment Act, the Ohio Building Industry Joint Apprenticeship Training Committee Program, or a program reviewed and approved by the OUC Technical Services Unit. The expansion adds to approved training: (1) apprenticeship programs registered with DOL and (2) full-time training programs in accredited institutions.

Unemployment Compensation Issues

Trust Fund Solvency

In eight of the past ten years UC benefits have exceeded revenues. During the years of shortfall, the state used the balance in Ohio's Unemployment Compensation Trust Fund to pay benefits. The trust fund was depleted in January 2009. Since then, Ohio has utilized a line of credit from the federal government to cover benefit payments. As of March 7, 2011, Ohio has borrowed about \$2.45 billion. Tables 5 and 6 show trust fund tax receipts, interest earnings, borrowed amounts, and the fund balance for the past ten calendar years.

	2001	2002	2003	2004	2005
Revenue*	\$771,041,365	\$756,765,350	\$770,220,429	\$909,692,376	\$968,887,742
Tax Receipts	\$594,095,740	\$645,196,454	\$698,271,352	\$870,624,258	\$939,640,707
Interest	\$176,945,625	\$111,568,896	\$71,949,077	\$39,068,118	\$29,247,035
Benefits	\$1,229,631,101	\$1,466,373,122	\$1,414,859,444	\$1,173,131,737	\$1,055,595,858
Revenue – Benefits	(\$458,589,736)	(\$709,607,772)	(\$644,639,015)	(\$263,439,361)	(\$86,708,116)
Trust Fund Balance**	\$1,878,705,461	\$1,506,988,987	\$847,805,598	\$627,386,595	\$504,093,818

*There was no federal borrowing or other revenue during these years like shown in the next table.

** Balance of the Trust Fund at the end of December for each year. The balance may not reflect all Trust Fund activity.

	2006	2007	2008	2009	2010
Revenue	\$1,092,724,745	\$1,074,083,475	\$1,060,338,744	\$2,746,155,983	\$1,743,266,098
Tax Receipts	\$1,067,963,064	\$1,049,665,498	\$1,044,765,445	\$1,017,947,860	\$1,157,017,098
Interest	\$24,761,681	\$24,417,977	\$15,573,299	\$270,324	\$0
Federal Borrowing	--	--	--	\$1,727,937,799	\$586,249,000
Other	--	--	--	\$49,100,000*	--
Benefits	\$1,048,971,887	\$1,104,922,493	\$1,442,494,632	\$2,853,722,786	\$1,679,580,624
Revenue – Benefits	\$43,752,858	(\$30,839,018)	(\$382,155,888)	(\$107,566,803)	\$63,685,474
Trust Fund Balance	\$499,009,015	\$449,852,474	\$64,987,454	\$35,395,466	\$104,058,576

*This \$49.1 million was deposited in Ohio's trust fund from federal UC modernization funds.

Source: ODJFS end of year UC 199 reports, <http://ohiolmi.com/uc/UCReports.htm>, and updated corrected data from ODJFS.

ODJFS estimates that contributions will continue to lag behind benefits over the next ten years. This is partly attributable to the recent economic downturn. Another factor is that UC benefits are indexed to the state's average weekly wage, and therefore

increase each year. Revenues are not indexed and fluctuate based on employers' experience rates.

Federal Borrowing

ODJFS expects to continue to borrow throughout the next biennium and in following years. ODJFS estimates federal borrowing of \$242.6 million in 2011 and \$133.2 million in 2012. ODJFS estimates the balance of federal loans will peak in 2012 at \$2.69 billion and will decline steadily and be fully repaid in 2021. However, even after the loan balance peaks in 2012, ODJFS still expects to borrow from the federal government intermittently, depending upon cash flow in the trust fund. Table 7 shows the actual loan balance at the end of 2010 and ODJFS's estimated end-of-year loan balances over the next ten years.

Year	Loan Balance	Year	Loan Balance
2010 (actual)	\$2,314,186,799	2016	\$1,980,694,375
2011	\$2,556,788,723	2017	\$1,608,601,473
2012	\$2,690,016,195	2018	\$1,159,461,450
2013	\$2,630,377,084	2019	\$633,720,455
2014	\$2,492,003,835	2020	\$31,834,807
2015	\$2,275,303,972	2021	\$0

In addition to Ohio, 30 other states are currently borrowing from the federal government to issue regular unemployment benefits, and eight of these states have borrowed over \$2 billion. The total amount borrowed across all states is \$44.14 billion. Ohio must pay back borrowed amounts from the state's trust fund, once a balance has been restored. Though benefits are estimated to outpace revenues over this time, ODJFS estimates that additional revenues from a gradual reduction in the FUTA credit (discussed in the next section) will help reduce the loan balance.

Interest

The federal government waived interest on borrowings through December 31, 2010. Without this waiver, Ohio would have accrued a total of \$139.9 million in interest; \$25.2 million in FFY 2009, \$89.5 million in FFY 2010, and \$25.2 million in the first quarter of FFY 2011. Interest started to accrue January 1, 2011, and the first interest payment will be due on September 30, 2011 (without further federal waivers of interest). Interest must be paid from state revenue sources. The current interest rate, which changes each year, is about 4.08%. The first interest payment is estimated to be \$73.1 million.

Table 8 shows the actual interest accrued and waived in FFY 2009, FFY 2010, and the first quarter of FFY 2011, as well as estimated interest payments for the next two years.

Table 8. Interest on UC Borrowing		
Accrual Period	Interest	Status
FFY 2009	\$25.2 million	Waived
FFY 2010	\$89.5 million	Waived
FFY 2011, Q1	\$25.2 million	Waived
Subtotal	\$139.9 million	Waived
FFY 2011, Q2-Q4	\$73.1 million	Due September 30, 2011
FFY 2012	\$126.4 million	Due September 30, 2012

Note: FFY 2009-FFY 2011, Q1 are actual amounts, the rest are estimates.

FUTA Credit Reduction

The federal government requires that the 5.4 percentage point FUTA tax credit be rescinded in certain situations where the state is borrowing from the federal government to pay unemployment benefits. After a state borrows for two consecutive years, the credit is reduced by a certain amount each year as long as the state has not paid back the principle amount of borrowed funds. For the first two years, the credit is reduced by 0.3 percentage point annually, effectively raising the tax from 0.8% to 1.1% in the first year and to 1.4% in the second. By the third year, the credit could be reduced again by 0.3 percentage point, or by the sum of 0.3 and an amount determined by a formula set by DOL, so the tax rate would be at least 1.7% in the third year. By the fourth year, the amount of the reduction would be the sum of 0.3 and an amount determined by the same formula. By the fifth year, the amount of the reduction would be the sum of 0.3 and an amount determined by a different formula.

If some of the amounts that Ohio has borrowed from the federal government have not been repaid by November 2011, then the FUTA tax rate would increase to 1.1% in January 2012 (from \$56 to \$77 per employee). In January 2013, the tax rate would increase to 1.4% (\$98 per employee). By 2014, the tax rate could be 1.7% (\$119 per employee) or higher, and would continue to increase in future years if the balance is not paid back, until the credit is fully rescinded and employers are paying the full 6.2% rate (\$434 per employee).

The additional funds received from the credit reduction would be applied by the federal government to Ohio's outstanding loan balance. Once the loan balance is paid in full, the revenue would be deposited into Ohio's trust fund. Table 9 below shows revenue estimates from ODJFS from the reduction in the FUTA tax credit.

Year	Revenue	Year	Revenue
2012	\$83,790,000	2017	\$549,290,000
2013	\$176,890,000	2018	\$642,390,000
2014	\$269,990,000	2019	\$735,490,000
2015	\$363,090,000	2020	\$828,590,000
2016	\$456,190,000	2021	\$921,690,000

Source: ODJFS

States may be eligible for a cap on the credit reduction if, during the 12-month period that ends September 30th of the taxable year in which the state would like the cap to apply, the state has not taken any actions that will reduce the state's unemployment tax effort or decrease the net solvency of the state's trust fund. Actions that fall under these restrictions include, but are not limited to, reducing the taxable wage base, tax rate schedules, tax rates, or taxes payable as well as increasing benefits without at least an equal increase in taxes or decreasing benefits without at least an equal decrease in taxes. If a state qualifies for a cap, the maximum tax credit reduction for the taxable year will be the greater of 0.6%, or the tax credit reduction that was in effect for the taxable year preceding the year for which the cap is requested.

Historical Perspective

Ohio last borrowed from the federal government to issue UC benefits from 1980 to 1988. To address borrowing, in July 1983, the General Assembly passed H.B. 404, which formed the Unemployment Compensation Advisory Council (UCAC) and made changes to Ohio's unemployment taxes and benefits in order to restore trust fund solvency. Table 10 lists the changes that were implemented in the bill. Due to these changes, Ohio qualified for a federal waiver for some of the interest charged on borrowings. The remaining interest was paid from the GRF.

Category	Provisions
Taxes	<ul style="list-style-type: none"> • Increased the taxable wage base from \$6,000 to \$7,000 in 1983, and to \$8,000 in 1984 • Increased the experience rate ceiling from 5.1% to 5.4% in 1985 • Added a 0.5% surcharge to the minimum safe level tax until the loan balance was repaid
Benefits	<ul style="list-style-type: none"> • Maintained the maximum benefit rates for two years (not allowing an increase) • Increased the minimal earnings required to qualify for benefits • Implemented a one-week waiting period to receive benefits • Rounded benefit amounts down to the lowest even dollar • Increased the minimal earnings required to qualify for benefits after a suspension

A few years later, in 1987, H.B. 171 of the 117th General Assembly established a new surcharge tax on employers for two years in order to pay interest charged by the federal government for borrowing for unemployment benefits. The surcharge was 0.2% in 1988 and 0.15% in 1989. In 1989, H.B. 111 of the 118th General Assembly continued the surcharge for an additional year, at 0.1% in 1990, after which it expired.

In 2006, the UCAC unanimously approved numerous changes to Ohio's unemployment compensation laws, including a plan for improving solvency in Ohio's trust fund. The plan included increasing the taxable wage base for contributory employers from \$9,000 to \$9,500 and a two-year benefit freeze. After the two-year freeze, the plan called for a five-year phase-out of benefits based on the number of dependents, which would have resulted in a single maximum weekly benefit amount regardless of the number of dependents. Other approved changes included deleting or updating outdated language and addressing administrative processes. Though approved by the UCAC, the plan was not introduced in legislation.

Unemployment Insurance Modernization

ARRA provides incentive payments to states that amend their unemployment compensation laws to provide more generous base-period calculations and adopt less restrictive grounds for disqualification based on availability of an applicants' search for work. Incentive payments are deposited directly into states' trust funds. A total of \$264.5 million is available to Ohio. One-third of the incentive payment is contingent on adopting a more generous base period. Ohio met the base period determination under current law and received \$88.1 million. Of this amount, Ohio used \$49.1 million for UC benefits in June and July 2009, \$29.0 million for system and equipment upgrades, and \$10.0 million for payroll.

To qualify for the remaining two-thirds of the distribution of \$176.3 million, Ohio must meet two of four provisions. Each provision would impact the state's trust fund. The provisions and their estimated impacts on the trust fund are listed in Table 11.

Policy Option	Estimated Annual Cost
Extend eligibility to unemployed individuals who worked part-time and allow those individuals to seek part-time employment	\$38.0 million
Increase the allowance to unemployment benefit claimants who have dependents to at least \$15 per dependent for each week of eligibility	\$35.0 million
Extend eligibility to individuals that leave work due to certain personal or family circumstances such as being a domestic violence victim, caring for a sick immediate family member, and relocating with a spouse who moved due a change in the location of their employment	\$32.8 million
Pay an additional 26 weeks of regular benefits to individuals that enroll in approved training activities	\$18.7 million

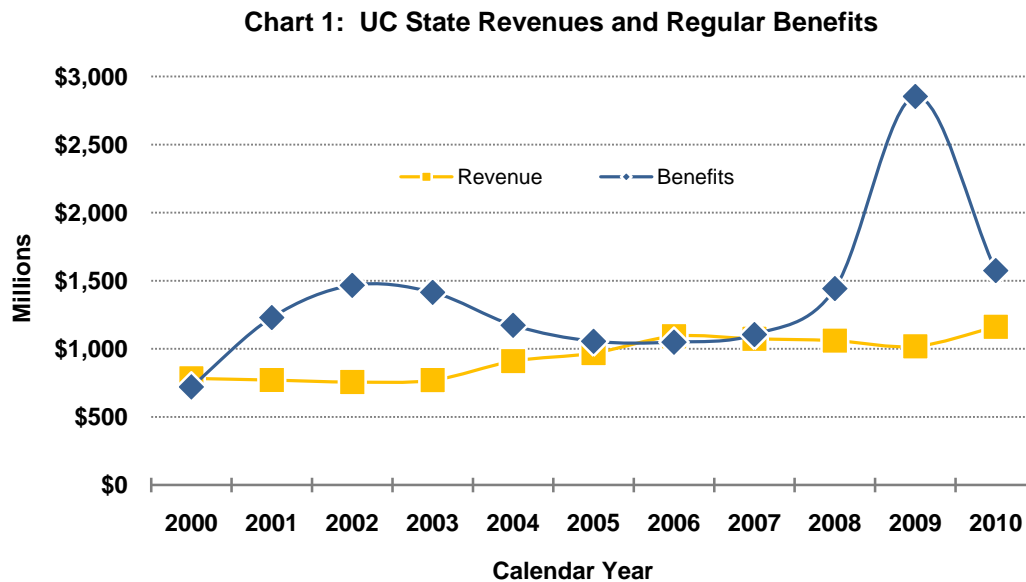
Each of these options would require changes to state law. States have until August 31, 2011 to pass legislation for these changes in order to receive the incentive payments. ARRA requires that any law changes be permanent.

The cost estimates for these options were made by Urban Institute economist Dr. Vroman in a report to the UCAC. The estimates are based on benefit levels and the number of beneficiaries in 2009. Benefit levels generally increase each year, which would put slight upward pressure on the estimates in future years. On the other hand, beneficiaries have declined to almost half of the 2009 level, which would put considerable offsetting downward pressure on the estimates. For example, Dr. Vroman assumes that part-time unemployed individuals account for a set percentage of the total unemployed (about 4%) each year; therefore, as total beneficiaries decrease, part-time beneficiaries would also decrease. In his report, Dr. Vroman states that the estimates should be regarded as "preliminary," as data from other states is limited and other factors could affect the number of claimants under each policy option. Also, ODJFS could experience increases in administrative costs to implement these programs.

Thirty states and the District of Columbia have received all the modernization funds available to them. Ohio is one of seven states that have received only the first third of modernization funds. Some states have not received any modernization funds, though funds are available for each state.

FACTS AND FIGURES

Trust Fund Revenues and Expenses

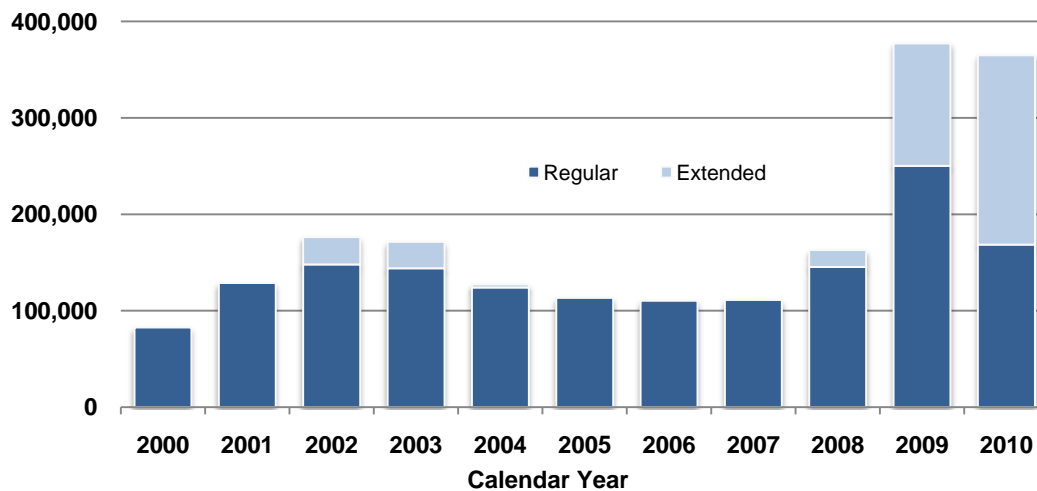


Source: ODJFS UC-199 Reports

- In 2009, regular unemployment compensation (UC) benefit payments totaled \$2.85 billion, \$1.83 billion higher than UC revenues of \$1.02 billion. Benefit payments almost doubled in 2009 from the prior-year level due largely to the recent economic downturn, which resulted in a substantial increase in unemployed Ohioans.
- In 2009, the trust fund was disbursing about \$54.9 million each week. During the previous peak in weekly claims in 2002, \$28.2 million was disbursed per week.
- UC benefits exceeded revenues in eight of the past ten years. During the years of shortfall, the state used the balance in Ohio's Unemployment Compensation Trust Fund to pay benefits. The balance of the fund peaked in August 2000, at \$2.42 billion, and steadily declined until January 2009, when the fund was depleted.
- Once the trust fund was depleted, Ohio began borrowing from the federal government to pay benefits. Ohio has borrowed \$2.45 billion as of March 7, 2011. Thirty other states have also borrowed federal dollars to pay benefits. States must pay back borrowed amounts out of their trust funds once balances have been restored.
- The federal government has waived interest on borrowings through December 31, 2010. After that, interest will begin to accrue and the first interest payment will be due on September 30, 2011. Interest must be paid from state funds.

Unemployment Claims

Chart 2: Average Weekly Claims from 2000 to 2010



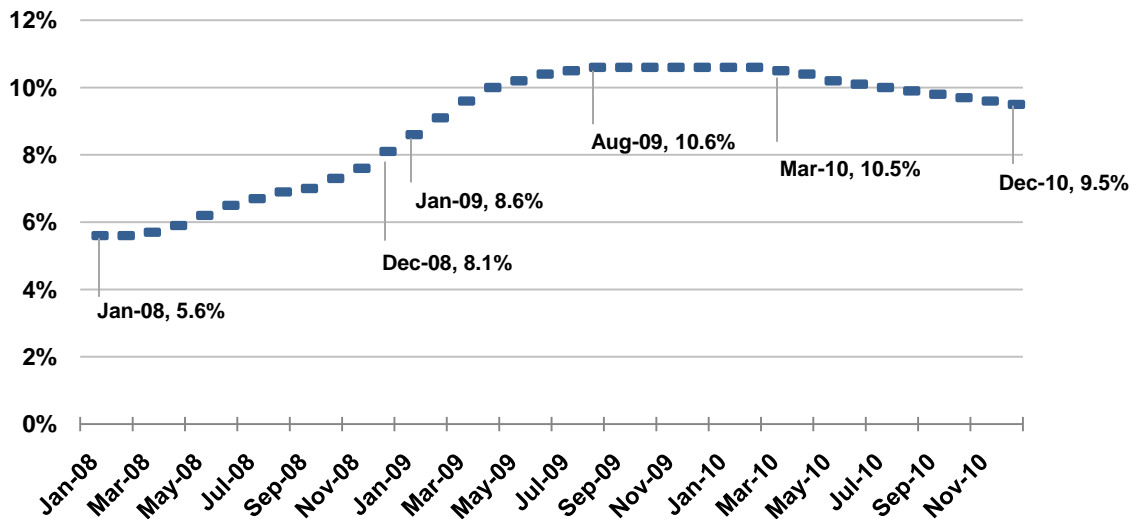
Source: ODJFS Bureau of Labor Market Information

Note: The chart shows unemployment *claims*. Generally, about 80% to 85% of claimants actually receive unemployment benefits. Claimants may not be eligible for benefits if they left employment voluntarily or if their work hours and wages did not meet the minimum threshold for eligibility.

- In 2010, average weekly unemployment claims totaled 364,780, which was a 3.3% decrease from the peak of claims in 2009 of 377,120. This was a result of a decrease in regular average weekly claims and a partially offsetting increase in federally extended claims.
- From 2009 to 2010, regular average weekly claims decreased 32.6% from 250,155 to 168,604, while federally extended claims increased 54.5% from 126,963 to 196,173.
- Regular benefits last up to 26 weeks and are funded by the Ohio's Unemployment Compensation Trust Fund. In 2010, the average weekly benefit was \$297, which was received on average for 20 weeks.
- Extended benefits may last up to 73 additional weeks. For contributory employers, all 73 weeks are federally funded. For reimbursing employers, the first 53 weeks are federally funded and the latter 20 weeks are paid out of the trust fund and reimbursed by the employer. All extended benefits are currently set to expire in 2012, regardless of when eligibility was established.
- From 2000 to 2002, average weekly claims increased by 114% from 82,590 to 176,421. Average claims then decreased 37.5% to 110,270 in 2006. As the economic downturn began in 2008, average weekly claims increased to 162,882 and then increased 132% in 2009 to 377,120. As the economy has been slowly recovering, average claims decreased to 364,780 in 2010.

Unemployment Rate

**Chart 3: Ohio's Monthly Unemployment Rate,
January 2008 to December 2010**



Source: U.S. Bureau of Labor Statistics (BLS), Revised Estimates

- From January 2008 to August 2009, Ohio's unemployment rate almost doubled from 5.6% to 10.6%, an increase of 89.3%. The chart shows Ohio's seasonally adjusted monthly unemployment rates from 2008 to 2010.
- The state's unemployment rate had been just over 5.0% for most of the last decade, but started increasing significantly in 2008 due to heavy job losses and the economic downturn. In 2008, the unemployment rate increased 44.6% from 5.6% in January to 8.1% in December.
- In the first half of 2009, the rate continued to increase steadily, growing from 8.6% in January to 10.4% in June, an average growth of 4.2% per month. However, in August 2009, the rate peaked at 10.6% and held until March 2010, when it started a slow decline to 9.5% by December 2010.
- Unemployment rates vary greatly among Ohio's counties. In 2009, 61 counties had unemployment rates that exceeded the statewide average and 27 counties had rates at or below the statewide average. The highest rate was 15.7% (Williams) and the lowest rate was 6.9% (Delaware).
- Most unemployment occurred in the manufacturing sector. In 2009, of unemployed individuals eligible for unemployment benefits, 32.2% had been employed in the manufacturing sector. This percentage was much higher than the national average of 17.8%.

Trade Adjustment Assistance

Table 12. States with Highest New TAA Training Participants, FFY 2010		
State	New Participants	Total Participants
Ohio	11,212	27,035
Michigan	10,661	33,022
North Carolina	5,661	21,088
Tennessee	5,083	11,900
Indiana	4,654	14,738
Virginia	4,057	8,704
California	3,918	5,709
Illinois	3,726	9,772
Total	48,972	131,968
National	86,032	234,854

Source: U.S. Department of Labor

- In FFY 2010, out of all states, Ohio had the highest number of new TAA training participants with 11,212 followed by Michigan with 10,661, accounting for 13.0% and 12.4%, respectively, of new participants in the country. The eight states listed in the table accounted for over half (56.9%) of all *new* TAA participants in FFY 2010.
- Ohio had the second highest number of total participants with 27,035, accounting for 11.5% of the national total, following only Michigan with 33,022 participants, which accounted for 14.1% of the national total. The eight states in the table accounted for 56.2% of *all* TAA participants.
- TAA helps workers affected by trade (increased imports from, or shifts in production to, foreign countries) to quickly return to suitable employment.
- To be eligible for services, groups of workers or public workforce agencies must send petitions to DOL which certifies groups to receive services. In FFY 2010, DOL received 198 petitions and issued 222 certifications for Ohio (some of the certifications may have been from petitions issued in FFY 2009).
- Certain TAA performance measures are tracked by the federal government. For FFY 2010, 55.8% of Ohioans in TAA programs were employed within the first quarter of exiting TAA. Of these who were employed, 76.0% remained employed in the second and third quarter after exiting. On average, these individuals made \$13,250 during the six months of the second and third quarters of employment.
- Ohio's funding allocation for TAA programs for FFY 2010 was \$24.8 million, the fifth highest in the nation. TAA programs are fully federally funded.

ANALYSIS OF EXECUTIVE PROPOSAL

Unemployment Compensation

This category of appropriations includes the major sources of funding for the Unemployment Compensation category. Table 13 shows the line items included in this category and the recommended funding. Following the table, a narrative describes how the appropriation for each line item is used and any changes affecting the appropriation that are proposed by the Governor.

Table 13. Governor's Recommended Funding for Unemployment Compensation				
Fund	ALI and Name		FY 2012	FY 2013
Federal Special Revenue Fund Group				
3V40	600678	Federal Unemployment Programs	\$188,680,096	\$186,723,415
3V40	600679	Unemployment Compensation Review Commission – Federal	\$4,166,988	\$4,068,758
Federal Special Revenue Fund Group Subtotal			\$192,847,084	\$190,792,173
State Special Revenue Fund Group				
4A90	600607	Unemployment Compensation Administration Fund	\$21,924,998	\$21,424,998
4A90	600694	Unemployment Compensation Review Commission	\$2,873,167	\$2,817,031
State Special Revenue Fund Group Subtotal			\$24,798,165	\$24,242,029
Total Funding: Unemployment Compensation			\$217,645,249	\$215,034,202

Under current federal law, Ohio must pay the federal government interest on the funds that were borrowed to pay unemployment benefits. The first payment is due September 20, 2011, and is estimated at \$73.1 million. The second payment, one year later, is estimated at \$126.4 million. Appropriations to make these interest payments are not included in the executive recommendations. Pending federal legislation would waive interest payments for an additional two years. As of the writing of this analysis, it is uncertain if Ohio will be required to make interest payments to the federal government during the next biennium.

Federal Unemployment Programs (600678)

This federally funded line item is used to support the functions of the OUC, Office of Workforce Development, and the Office of Local Operations to administer federal unemployment programs. Funding for this line item is provided by the federal government in the form of grants for administration of unemployment services, including federal unemployment taxes paid by employers to the Internal Revenue Service pursuant to FUTA, as well as a Trade Adjustment Assistance (TAA) grant. The executive recommends \$188.7 million for FY 2012, a 6.1% increase over FY 2011 estimated expenditures, and \$186.7 million for FY 2013, a 1.0% decrease from FY 2012.

OUC administers the Unemployment Compensation Program, which includes collecting the state unemployment tax, processing claims for unemployment benefits, and conducting audits of employers. In 2010, OUC did all of the following:

- Collected about \$1.16 billion in tax contributions from about 224,570 employers;
- Processed about 22.5 million wage records;
- Conducted 3,141 employer audits;
- Assessed \$5.9 million in underreported employer tax contributions; and
- Assisted with the collection of \$15.0 million benefit overpayments made to claimants.

Ohio was recognized by the DOL as the top performer among large states for implementing safeguards to reduce improper payments.

The Office of Local Operations handles calls from unemployment claimants and processes unemployment claims. Staff are located in seven call centers and 13 processing centers throughout the state. In 2010, the office processed about 364,780 claims per week. This is slightly less than peak workload in 2009, when it processed about 377,100 unemployment claims per week. Staff handled about 1.9 million calls in each of those years. In 2009, the office opened a temporary call center in Columbus, staffed with intermittent employees, to handle the influx of calls due to the economic downturn. As call volumes have remained high, ODJFS transitioned these employees to permanent positions at the Columbus call center.

Both OUC and the Office of Local Operations administer TAA programs. OUC administers the programs and works with DOL; the Office of Local Operations is mainly responsible for delivering services, particularly participant case management. TAA programs provide benefit payments and services to individuals who have been dislocated due to the relocation of their employer or laid off due to foreign competition. Depending on their situation, workers may receive trade readjustment allowances, training, re-employment services, job search allowances, relocation allowances, a health care coverage tax credit, and alternative trade adjustment assistance services. Each program has its own eligibility criteria and compensation arrangement.

Temporary Law Provision

The budget proposal includes a provision that allows any unspent funds in this line item from FY 2011 to be reappropriated in FY 2012 and any unspent funds in FY 2012 may be reappropriated in FY 2013. The funds must be used for administrative activities for the Unemployment Compensation Program, employment services, or any other allowable expenditure under section 903(d) of the Social Security Act. The provision limits the reappropriation to the balance of federal funds remaining after benefits are paid and obligated administrative expenditures are deducted.

Unemployment Compensation Review Commission (600679 and 600694)

These line items fund the payroll costs for the Unemployment Compensation Review Commission (UCRC). The Commission conducts reviews for applicants who wish to appeal a benefit determination. In FY 2010, UCRC received 40,888 appeals. Of that number, UCRC issued 39,688 dispositions.

For federally funded line item 600679, Unemployment Compensation Review Commission – Federal, the executive recommends \$4.2 million for FY 2012, a 19.5% increase over FY 2011 estimated expenditures and \$4.1 million for FY 2013, a 2.4% decrease from FY 2012. Funding for this line item is from DOL from FUTA revenues collected from employers by the IRS.

For line item 600694, Unemployment Compensation Review Commission, the executive recommends \$2.9 million for FY 2012, an 18.2% increase over FY 2011 estimated expenditures and \$2.8 million for FY 2013, a 2.0% decrease from FY 2012. The increase in appropriations is to fund additional staff to manage the UC appeals. Funding for this line item comes from the interest collected on delinquent employer contributions to the Unemployment Compensation Trust Fund plus all fines and forfeitures assessed on employers.

Unemployment Compensation Administration Fund (600607)

This line item is used to fund operations related to unemployment services for which federal funds are not available. The executive recommends \$21.9 million for FY 2012, a 42.0% decrease from FY 2011 estimated expenditures and \$21.4 million for FY 2013, a 2.3% decrease from FY 2012. Funding for this line item comes from the interest collected on delinquent employer contributions to the Unemployment Compensation Trust Fund plus all fines and forfeitures assessed on employers.