

## House Finance January 29, 2018 Hearing

### Department of Labor and Workforce Development Overview Notes

#### Cover Slide

Good Afternoon Chair Seaton and members of the committee, for the record my name is Greg Cashen, Acting Commissioner for the Department of Labor and Workforce Development. With me today is Administrative Services Director Paloma Harbour.

Thank you for inviting me here to provide you with an overview of the department's FY2019 budget.

#### Slide 2

The department's mission is to provide safe and legal working conditions and advance opportunities for employment. The department accomplishes this mission by:

- Protecting Alaska's workers through statutory and regulatory consultation and enforcement;
- Developing an Alaskan workforce for Alaska's jobs; and
- Income replacement for injured, unemployed, or disabled Alaskan workers.

As requested, on this slide we have provided links to:

- Our mission and key performance indicators
- Our FY19 budget details, and
- Performance measures for all of our divisions

#### Slide 3

Good Afternoon, for the record I am Paloma Harbour the Administrative Services Director for the department and I am going to walk you through the following 10-year lookback slides provided by the Legislative Finance Division.

This chart shows changes in the department's General Fund budget since FY2009.

It is important to know that in this context, General Funds means both Unrestricted General Funds and Designated General Funds.

As this slide shows, there have been significant cuts to the department's state funded programs since FY2015, and the department's UGF has been cut 38% over that timeframe. In fact, we are \$7.3 million below where we were in FY2009.

#### **Slide 4**

This chart shows changes in the department's budget since FY2009 by expenditure category.

The department's personal services budget is almost at the same level that it was in FY2009 and yet we have 224 fewer budgeted positions. This is because positions cost so much more due to wage and benefit adjustments, including increased health care costs.

Also worth noting is the significant reduction to grants and benefits of \$22.3 million; this is partly due to the significant state funding reductions I mentioned previously and partly due to federal funding declines as well.

#### **Slide 5**

This chart shows the department's general funds by division.

Again, General Funds means Unrestricted and Designated General Funds.

This slide can be a little confusing, because in FY2017 the department consolidated two of its divisions, Business Partnerships and Employment Security, into the Employment and Training Services division.

Worth highlighting, is the fact that the Commissioner's Office and Administrative Services budget in FY19 is almost \$1.9 million less than it was in FY2009. This is because we have focused our cuts on reducing administrative and overhead expenses. We analyze every position that becomes vacant and every lease that comes up for renewal. We have cut UGF spending on leases by \$1.2 million since FY15.

#### **Slide 6**

This chart shows a similar picture to the previous slide but it includes all funds.

Again the division consolidation in FY2017 that I mentioned in the previous slide makes this chart a little hard to follow.

As Legislative finance has noted on the chart, the department's budget since FY2009 has decreased by 15 percent, or \$26.4m. As I stated earlier this is partly state funding reductions and also federal and other funding reductions.

#### **Slide 7**

As requested, the next several slides reflect the department's budget by division broken down by component or program.

Our rating of importance to the mission was based on guidance provided by the co-chairs:

- Critical means a program that is directly meeting the department's mission

- Important means a program that provides indirect support that would need to be reassigned if the program did not exist
- Status Quo means a program that has historically been funded because of a statutory requirement, but has no real impact on the department's mission or potentially hampers the department's functioning

The department was not given specific guidance for the Rating of Effectiveness so our department used, high, moderate and low.

Using very strict criteria for determining what is constitutionally-required, OMB determined that the Commissioner's Office was the only thing in our department that is partially constitutionally required.

### **Slide 8**

This slide reflects the programs within the Workers' Compensation division.

While the department has rated the effectiveness of the Workers' Compensation program as high, we do recognize that there is still room for improvement, and that is why we worked with the Governor's office on HB 79 and HB 303.

The department has rated the importance of the Second Injury Fund as status quo and the effectiveness as moderate. This program is meant to facilitate the reemployment of injured or disabled workers and while the program works, many other states have eliminated their second injury funds because the Americans with Disabilities Act largely fulfills this purpose by prohibiting discrimination on the basis of disability. The sunset of this fund is included in HB 79.

The department has rated the importance of the Workers' Compensation Appeals Commission as status quo and the effectiveness as low. We have worked with the Governor to introduce HB 69, which would repeal this specialty Commission and return these appeals to the Courts.

### **Slide 9**

The programs within the Labor Standards and Safety division are critical to the department's mission of protecting Alaska's workers and are highly effective.

The one item rated status quo within this division is the Alaska Safety Advisory Council, which according to statute (AS 18.60.830-.840), is responsible for organizing the annual Governor's Safety Conference. Members of the council take this responsibility very seriously and do a great job with the conference each year. In fact the council brings in more sponsorships than necessary to cover the cost of the conference.

We've ranked the Council's effectiveness as moderate because we believe this group could be even more effective if it were privatized. The Council is interested in privatization, but more work needs to be done before we can move forward with the required legislation.

## **Slide 10**

The Employment and Training Services division programs are critical to the department's mission of advancing employment opportunities for Alaskans and our core service of providing income replacement for temporarily unemployed workers.

This division is relatively new and by far the largest in the department because it represents the consolidation of two divisions into one.

Through that consolidation, the department was able to:

- Eliminate 10 positions (or PCNs);
- Reduce its UGF by over \$300,000; and
- Reduce administrative costs, which put an additional funds out on the street as grants to train Alaskans.

## **Slide 11**

The Workforce Development component of the Employment and Training Services division has some ongoing annual programs that we've displayed on this slide.

These programs are highly effective and critical to achieving the department's mission.

As mentioned previously there are fewer ongoing programs than there once were, but the department has been successful in seeking one-time competitive federal grant opportunities to help try to fill the gap.

In fact, we currently have competitive federal grant awards to:

- 1) Expand apprenticeship to non-traditional industries such as health care;
- 2) Help reduce recidivism by providing employment and training services to inmates before release; and
- 3) To provide disabled youth with work experience to help them obtain and maintain employment.

We are using temporary/nonpermanent positions for the temporary grants to ensure no future state obligation once these grant funds end, but we hope to be equally as successful when future grant opportunities arise.

## **Slide 12**

The Vocational Rehabilitation division is focused on delivering services to disabled Alaskans. These federally and statutorily required programs are highly effective and critical to the department's mission of advancing employment opportunities for ALL Alaskans and our core service of providing income replacement for disabled Alaskans.

I wanted to highlight what is included in Special Projects as the name might raise some questions. The special projects component is meant for special federal grants that enhance the services we provide through our Client Services program. These include:

- Supported Employment, which is allocated to individuals with the most significant disabilities; and
- An Assistive Technology program, which helps disabled Alaskans test and identify technology that can assist them in their daily lives and in seeking employment.

### **Slide 13**

The Alaska Vocational Technical Center (AVTEC) in Seward is critical to the department's mission of advancing employment opportunities for Alaskans.

AVTEC is also highly effective with an average graduation rate of 92% over the last five years. Also over that same timeframe, an average of 90% of AVTEC's graduates were employed in their area of training within a year.

The department's budget for AVTEC includes two changes:

- First, is a change of \$250,000 from UGF to DGF. Due to AVTEC's continued efforts to raise revenue through increasing partnerships and contract training, we believe that 5% of AVTEC's UGF can be replaced with program receipts authority without negatively impacting services.
- Second, is a DGF cut of \$173,000 related to the Technical and Vocational Education Program (or TVEP). When overall employment and wages in the state decline revenue to the TVEP account also declines. TVEP funding reductions are necessary to avoid a shortfall.

### **Slide 14**

Finally, as requested by the Committee, this slide shows the department's health care costs over the last five years compared to the department's total budget during this timeframe. While total health care costs are down the percentage of the department's budget spent on health care costs is up.

It is worth noting again, that our position counts are down significantly over this time period (167 positions). If they were not, the department's health care costs would be considerably higher.

To help drive these costs down we are committed to doing more to promote Vitamin D and overall health with our employees. Just last week we hosted a wellness event in one of our conference rooms over the lunch hour. This provided a convenient opportunity for our employees to talk with a health coach about how they might improve their personal wellbeing.

### **Closing Slide**

That concludes our presentation. Thank you again for the opportunity to present to you today.