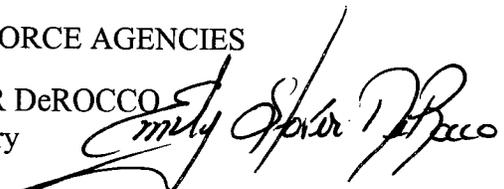


<b>EMPLOYMENT AND TRAINING ADMINISTRATION          ADVISORY SYSTEM          U. S. Department of Labor          Washington, D.C. 20210</b>	<b>CLASSIFICATION          OWS</b>
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	<b>June 27, 2006</b>

**ADVISORY:** UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 24-06

**TO:** STATE WORKFORCE AGENCIES

**FROM:** EMILY STOVER DeROCCO  
 Assistant Secretary 

**SUBJECT:** Fiscal Year (FY) 2007 State Workforce Agency Unemployment Insurance (UI) Resource Planning Targets and Guidelines

1. Purpose.
  - a. To provide preliminary FY 2007 dollar and staff year base resource planning targets for UI operations to be used in planning and developing State Quality Service Plans;
  - b. To provide general guidelines for FY 2007 resource planning; and
  - c. To explain how base resources were allocated among states.
2. References. ET Handbook No. 336, 17<sup>th</sup> Edition, State Quality Service Plans Planning and Reporting Guidelines; ET Handbook No. 410, 3<sup>rd</sup> Edition, Resource Justification Model (RJM).
3. FY 2007 Base Funding Level. The total for the FY 2007 UI planning targets is \$2,282,256,225, an increase of \$14,172,716 over the FY 2006 level due to workload growth in the number of subject employers and wage records. This amount is included in the Administration's FY 2007 appropriations request. If the final appropriation differs from the request, adjustments may be made in the allocations.
4. Data Inputs. Minutes Per Unit (MPU) values, annual hours worked, non-workload staff years, personal services/personnel benefits (PS/PB) rates and non-personal services (NPS) dollars for FY 2007 are drawn from the RJM data collection submitted in 2006. The RJM data collection methodology is explained in ET Handbook No. 410. The following table shows the changes in the data inputs for the planning targets from FY 2006 to FY 2007. These changes are described in more detail in paragraph 7.

<b>RESCISSIONS          None</b>	<b>EXPIRATION DATE          June 27, 2007</b>
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DATA INPUTS		
CATEGORY	FY 2006 Targets	FY 2007 Targets
MPU values	Average of actual for FY 2002, 2003, and 2004 (less state dollars/hours)*	Average of actual for FY 2003, 2004, and 2005 (less state dollars/hours)*
Annual hours worked	FY 2006 projected	FY 2007 projected
Non-Workload Staff Years	FY 2004 actual	FY 2005 actual
PS/PB rates	FY 2004 actual, increased annually by 3 percent*	FY 2005 actual, increased annually by 3 percent*
NPS dollars	FY 2004 actual, less state dollars and one-time costs, increased annually by 3 percent	FY 2005 actual, less state dollars and one-time costs, increased annually by 3 percent

\* Both state supplemental PS/PB dollars and the hours worked/paid associated with those dollars were excluded from state RJM inputs, effectively leaving the PS/PB rates intact but reducing the MPU values.

5. Reduction to Availability. The data inputs described above and FY 2007 base workloads produced a national total base state funding request of \$2,553,622,877. Base funds anticipated to be available for FY 2007, \$2,282,256,225, are about 11.2 percent below the state requested level. The amount of funds available for allocation in each category (e.g., workload, Support, Administrative Support and Technical (AS&T), and NPS) was determined by applying the percent each category represented of the total requested amount to the total dollars available, with two exceptions. The requested amounts for Benefit Payment Control (BPC) and UI Performs were not changed in the targets.

6. Highlights of Base Planning Targets.

a. Economic Assumptions. The FY 2007 UI planning targets reflect the economic assumptions used in the President's budget request. The key assumptions for FY 2007 affecting workloads and administrative costs are:

	<u>Percent</u>
- Average Civilian Total Unemployment Rate	5.0
- Average Insured Unemployment Rate	2.2

b. Base Workload Level. The FY 2007 national base claims-related workload was formulated at 2.3 million average weekly insured unemployment (AWIU).

c. Funding Period. States may obligate FY 2007 UI grant funds through December 31, 2007, except that states may obligate UI grant funds through September 30, 2009, if such obligations are for automation acquisitions. States have an additional 90 days after the end of the funding period to expend and liquidate obligations. Should an extension of the expenditure/liquidation period be necessary, a state must seek in writing the approval of the Grant Officer prior to the end of the funding period.

d. Postage. The FY 2007 UI targets identify a separate UI postage allocation. Attachment III shows the amount withheld for Federal payments to the U.S. Postal Service (USPS). This is for information only. The current methodology uses projected base weeks claimed and subject employer workloads which are totaled for each state; proxy base postage resources are calculated on a pro rata basis based on each state's share of the total workload.

Since state UI postage allocations are withheld and used to pay the USPS for state UI mailings, states may not benefit when costs incurred are less than the amount that would have been given them if penalty mail were discontinued. As a result, the Department will begin allocating resources for postage costs to states in FY 2008 so that they may benefit from implementation of efficiencies leading to cost savings. Further, the Department is considering allocation of postal resources to states volunteering to accept responsibility for postage costs in FY 2007. More information on this topic will be provided in a forthcoming UI Program Letter (UIPL).

States should continue to use commercial mail methods for mailings that pertain to both employment security and non-employment security business. In such instances, the Department will reimburse states via supplemental budget requests for the employment security share of the cost.

## 7. Allocation Methodologies.

### a. UI Base Staff.

(1) Workload Functions Allocation Methodology. The FY 2007 methodology seeks to achieve four objectives to the greatest extent possible: equitably allocate available resources so that the same level of service to claimants and employers is available in all states; promote administrative efficiency; enable resources to shift with workloads; and avoid abrupt shifts of resources among states from year to year.

#### (a) Data Sources.

1. Time Factors. The MPU values are an average of the data for FY 2003, FY 2004, and FY 2005. The MPUs were calculated from data submitted in the RJM data collection instrument.

2. Work Hours. The hours per staff year are from the FY 2007 data in the RJM data collection instrument.

(b) Workload Forecasts. Each state's total FY 2007 workloads for initial claims, weeks claimed, non-monetary determinations, appeals, subject employers, and wage records were forecast using statistical models developed by the Department's actuaries. Each state's total workload in each category was reduced by the percent that the estimated national total workload exceeds the national total base workload for that category, i.e., each state receives funding

for the same percent of its estimated total workload in its base budget allocation. Additional funds are available on a quarterly basis for claims-related workloads actually processed above the base level.

(c) Determination of Allowable MPU Values. For FY 2007, the calculation using states' unreduced MPU values from the RJM data collection yielded 23,291 workload staff years. To fit the targets within available funds, the allocated MPU values were developed for the six base workload activities by reducing the RJM MPU values for most states so that the number of targeted workload staff years equaled 20,614 staff years for which funds are available. MPU reductions in each of the six activities were made as follows:

1. MPUs were arrayed from the highest to the lowest MPU value.
2. The lowest ten MPU values were not reduced.
3. Within each of the six workload categories, the difference was calculated between each of the top 43 MPU values and the tenth lowest MPU. Differences were then reduced by a percent determined by available resources and the result for each state added back to the tenth lowest MPU to obtain the allocated MPU for each state. In general, the higher the MPU, the greater its reduction; however, reductions in MPUs for states with relatively smaller workloads were mitigated by up to 25 percent of what the reduction otherwise would have been. The percent of the mitigation was determined by the relationship of the state's workload to the largest workload among states being reduced.

(2) Non-Workload Staff Years Allocation Methodology. Staff years for non-workload functions are drawn from the FY 2005 data in the RJM data collection. No reduction was applied to BPC and UI Performs staff years. Support and AS&T staff years were reduced by using the MPU reduction algorithm. The algorithm used the percentages that Support and AS&T staff represented of each state's total requested staff. The ten states with the lowest percentages in each category were not reduced. In general, the higher the percentage Support and/or AS&T staff represented of the total, the larger the reduction in Support and/or AS&T staff years. In addition, no state's Support staff years were reduced below the lesser of 15 staff years or the number of actual Support staff years used in FY 2005.

- b. Personnel Compensation Costs. The FY 2007 PS/PB rates were determined by using each state's FY 2005 PS/PB rate for each functional activity and increasing the result by 3 percent annually.
- c. Non-Personal Services. The FY 2007 NPS allocation was based on the states' FY 2005 data in the RJM data collection, less any state supplemental NPS dollars and one-time

expenditures. This amount was increased by 3 percent annually and reduced across-the-board to equal the NPS funding availability of \$490,696,377.

- d. State Retirement Funds. These resources provide funding for the UI share of the annual amortization cost of the unfunded liability for state agencies with independent retirement plans. The dollar levels are based on the most recent actuarial studies from each agency involved.
- e. Hold-Harmless Provisions. There are two hold-harmless provisions for the FY 2007 planning targets.

- (1) Claims Activity Staff Years. The “stop-loss” for claims activity staff years is 15 percent. However, no states lost more than 15 percent in FY 2007, thus no “stop-loss” for claims activity staff was imposed.

- (2) Total Dollars. A “stop-loss” of 5 percent was imposed on states that would have lost more in total base dollars from FY 2006, with a resulting “stop-gain” of 7.71 percent on states that would have gained more in total base dollars. This adjustment is shown on a separate line in Attachment I.

- 8. General Guidelines for Above-Base Workload Resource Levels. The State Administration budget activity includes a reserve for above-base workloads.

The National Office will use the quarterly hours data on the UI-1 report, the allocated claims activity staff years paid, and the allocated annual MPU values in the FY 2007 above-base certification process. States should submit the UI-1 report by October 1, 2006; the annual hours on the report should agree with the FY 2007 annual work hours used for each state’s target allocation.

- a. Above-Base Overhead. The above-base overhead percentage will remain at 19 percent.
  - b. Above-Base Instructions. General instructions for completing UI-3 reports are in ET Handbook No. 336, Chapter II. Specific implementation procedures concerning the above-base certification process will be issued later this year in an UIPL promulgating the final FY 2007 UI allocations.

- 9. Standard Form (SF) 424. Instructions for completing these forms are in ET Handbook No. 336, Chapter I. The forms are available in Portable Document Format (PDF) at [www.whitehouse.gov/omb/grants/grants\\_forms.html](http://www.whitehouse.gov/omb/grants/grants_forms.html). The National and Regional Offices will review the SF 424 only to ensure that total UI dollars are the same as the allocated levels. Only states that vary the quarterly number of claims activity staff years paid should submit the SF 424A and show the quarterly distribution in item 23 (Remarks) of the form. All states should submit the SF 424B.

- 10. Bottom-Line Authority. The allocation methodology is a very detailed process that determines the funding level for each state; however, the assignment of resources by

categories resulting from the methodology is not binding on the state agencies' management. Since FY 1987, states have had full authority to shift resources among UI program categories as they deem appropriate and necessary to manage their UI programs to meet established program goals and requirements. Thus, states have the flexibility to move UI resources among UI program categories, among quarters within a fiscal year, and among specific cost categories. States are held accountable on a bottom-line basis, giving states the discretion to use UI administrative resources to meet their assessment of needs and to meet UI performance requirements. The only exception to bottom-line authority is that states may not change the staff year level in the claims activities category from the allocated staff year level for purposes of computing above base resources. This is to ensure that states do not earn more above-base resources than they would otherwise have been entitled to earn.

11. Action Required. State Administrators are asked to:
  - a. Provide to the appropriate staff the FY 2007 planning targets and above instructions as soon as possible after receiving this UIPL.
  - b. Closely review the attached tables and notify the appropriate Regional Office of any questions or concerns as soon as possible after receiving this UIPL, but no later than August 1, 2006.
  - c. Submit to the appropriate Regional Office as part of the SQSP, the FY 2007 SF 424, 424A and 424B.
  - d. Submit the FY 2007 UI-1 report via UI Required Reports system by October 1, 2006.
12. Inquiries. Questions should be directed to the appropriate Regional Office.
13. Attachments.
  - I. FY 2007 Detail State Base Staff Planning Levels
  - II. Back-up Material for Allocation of FY 2007 UI Base Staff
  - III. Proxy FY 2007 Base Postage Amounts