

2/28/95

AFI Comments from States Letters

State Support for AFI

- 1) The agency is in favor of a revised method of allocating administrative grants. Generally, AFI appears to be a reasonable response to the Congressional mandate.
- 2) We support the goals of the AFI but feel that the following issues need to be resolved prior to implementation of the new funding formula:
 - Establish a hold harmless provision to ensure that a State's funding level will not be lower than 90% of the previous year's base allocation.
 - Establish a limit on gains in States' base funding to 110% of previous year's base allocation.
 - Establish an Adjustment and Service Improvement Grants Fund that would be used exclusively for Service Improvement Grants to improve efficiency in States' operations and Adjustment Grants to deal with special situations associated with sudden changes in funding levels as a result of AFI.
- 3) I am writing to express my support for the current proposal of the Administrative Finance Initiative. Perhaps further development of the hold harmless provision of the initiative along with increased emphasis on the efficiency incentive" would broaden the discussion base and get more States to express their informed opinions on this very important proposal.

I also hope that you continue to support and include in the announcement that States will be able to retain any unused UI administrative funds at the end of the fiscal year to be used for future automation or efficiency efforts or to be used to strengthen their State's UI trust fund. I believe this is a critical incentive to the program.
- 4) AFI does provide a more equitable distribution of funding for the majority of the jurisdictions than did Cost Model, and there are some very positive factors that are incorporated in the logic of the proposed formula.
- 5) We do support the AFI concept and believe it will be more equitable in funding Unemployment Insurance (UI) on a national scale. We agree that the current UI allocation process is outdated and needs to be simplified and updated. We are aware that the current Cost Model does not represent an accurate measure of various administrative processes and activities within the UI Program at the State level.
- 6) We would like to add our endorsement for the Administrative Finance Initiative. This funding method is much more accurate and complete than the cost model system that was in operation until 1985. Overall, the initiative attempt to address legitimate cost differences in the State's workload mix, the extra costs involved in being a sparsely populated State, the cost of salaries, and operating expenses in specific States.
- 7) I am writing in support of AFI proposal. It is the only reasonable alternative to the current system. While it does not accomplish everything that is needed to fully fund the UI system, it should provide

long-term administrative savings and manageable funding for the State".

Base

- 1) The methodology does not take current economic forecasts into consideration, resulting in a base funding level that is not appropriately related to need. (Comment by 3 States.)
 - 2) There are problems with using only one year for base rather than an average of the 10 year period. (Comment by 5 States.)
 - 3) We favor the development of a consistent formula to determine base funding and favor the early notice to States of budgeted dollars.
 - 4) The current proposal for Base Funding of either 70% of a ten year average or the 3rd lowest Average Weekly Insured Unemployed (AWIU) which ever is higher appears to be adequate only if the total above base contingency is reimbursed without the declining schedule. Based on the current proposal to fund above base contingency on a four-step declining schedule, we suggest that Base Funding be based on either 80% of a ten year average or the 3rd lowest AWIU which ever is higher in order to have a more adequate and stable base staff to process normal workloads and to handle any unanticipated increases in workload while additional part-time contingency staff are being trained.
 - 5) We suggest the idea of a base of 80% of last ten-year average. This is less volatile as the current method and the exact percent can be set to yield the same level.
 - 6) The main problem of the AFI is that base funding levels are too low when based on the year with the third lowest average weeks claimed. Our analyses indicates that even if 100% of the AWIU for the 10 year period were used, the base funding would be too low. It is, therefore, recommended that further analysis of the AFI be conducted to determine the minimum base allocations for small States.
- 1) The computation of a single weighted weeks claimed workload count to represent all benefits workload activity does not accurately account for the variation" in workload mix in each State. (Comment by 3 States.)
 - 2) We recommend that the AFI methodology for determining the BAF and TAP use more current information than 1989. This could be accomplished on a yearly basis. Another suggestion would be to eliminate the narrow-band categories and use only the broad-band categories in the calculation process. If the broad-band categories are used, then the BAF and TAF could be determined for each State instead of using national workload per staff year.
 - 3) Use of national workload per staff year does not take into account State variations. (Comment by 3 States.)
 - 4) DOL should develop a national WL/SY for funding UI activities that would incorporate quality with observations in high cost vs low cost States, high MPU vs low MPU, high workload vs low workload, rural vs urban States.

NUC

- 1) The assumed relationship between cost and efficiency is unproven and no consideration of varying levels of program or service quality is included in the proposal.
- 2) The NUC concept will systematically decrease total program funding over time and as a consequence will promote mediocrity and force program quality and levels of service downward.
- 3) A Study has not been done to determine true costs. (Comment by 2 States.)
- 4) A NUC based on what you spent is faulty. You spent only what you were given. (Comment by 3 States.)
- 5) Rather than attempt to allocate funding on a unit cost basis and make complex unit pricing adjustments as workloads change, the funding methodology should attempt to separate out fixed costs up front and only account for variable costs on a unit pricing basis. (Comment by 2 States.)
- 6) We should have a unit cost for initial claims (IC), weeks claimed (WC), nonmonetary determinations, and appeals rather than one unit cost for benefits.
- 7) It is our position that adequate distribution of UI funds must begin with an adequate appropriation. The current cost model system, if fully funded, would increase funding to the States. However, if appropriations are insufficient to provide the necessary funding levels, the States will continue to be under-funded. Not only is the current method of distribution of funds based on cost model inadequate, but the potential that the National Unit Cost will also be inadequate if the level of appropriation set by Congress is insufficient to fund the administration of the UI Program.
- 8) National Unit Cost should be developed by examining the current costs of administration as derived from a sample of States which are acknowledged to be representative of a group of States which are meeting the Desired Level of Achievement. (DLAs) rather than from an average of administrative costs. (Comment by 3 States.) .
- 9) We believe that the use of the NUC will have the inevitable effect of reducing overall system costn in real terms. This can be used as a selling point to the Office of management and Budget and Congress. In return, the States should expect some safeguards against debilitating cuts and real incentives to improve efficiency and service to customers. Plans and methods for reinvesting some of the savings in quality and customer service are needed.
- 10) We propose that an adjustment factor be provided to those States who historically experience substantially higher average non-personal costs than the national average. This could be accomplished by using a factor similar to the small State index factor component.

Tax

- 1) This loss in funding for our tax operations raises some serious operational and fundamental concerns.
- 2) With the proposed tax grant formula, we anticipate we will need to subsidize the tax functions with benefit earnings. As we continue to experience steady declines in claims workload, we are concerned that both operations of the UI program will suffer and efficiencies through automation may not be realized.
- 3) Computation of workload is flawed as it does not consider such factors as employer delinquency rate, bankruptcy rate, and sales businesses.

COL Adjustment

- 1) The proposed "indexing" of State salary rates based on a survey fails to provide for States' actual salary and benefit needs. (Comments by 2 States.)
- 2) We support the proposal that ,The cost of Living Adjustment Factor be annually updated in order to adequately fund salary and benefits since the National Unit Cost Factor will be revised every three years.
- 3) We propose the inclusion of non-personal services as a part of the State index factor. Using salaries/benefits is not representative of the non-personal service costs for individual States.
- 4) Our employees have greater leave time than the majority of other States which translates to our having one of the lowest salary rates in the nation. Leave time should be factored into the funding formula.

Small State Adjustment

- 1) The definition of "small States" should be based on the workload components of formula and not civilian labor force.

Inflation

- 1) A national inflationary factor, based on GDP, will not properly bring the prior year's national unit cost up to present day cost needs. (Comment by 2 States.)
- 2) DOL should reinstate the practice of funding States based upon actual average salaries and fringe benefits. (Comment by 2 States.)
- 3) We support the proposal that The Inflation Adjustment Factor be annually updated since the National Unit Cost Factor will only be revised every three years. This factor applied to the Nonpersonal Services allocation should assist in maintaining operational efficiency and prevent the use of staff dollars for NPS expenditures.

NPS or Capital Purchases or Automation.

- 1) The proposal does not address automation and capital equipment needs.
- 2) The proposed methodology fails to account for the true nonpersonal service costs to States. (Comment by 4 States.)
- 3) The NUC concept inappropriately rolls NPS, AS&T and support costs in as unit costs even though these costs do not increase/decrease proportionately to workload.
- 4) A methodology must be developed to provide funds for capital equipment purchases and real property improvements. (Comments by 2 States.)
- 5) The proposal does not recognize the critical and on-going need for funding to develop, maintain, and update program technology, by dedicating funding in base (NPS) each year for automation.
- 6) As the AFI is currently configured, it leaves little room for productivity improvements or investment in automation.
- 7) We favor increased availability for automation grants in the AFI proposal.

Contingency

- 1) The accuracy of factoring down contingency funding as workload increases is not supported statistically or historically.
- 2) The step-down schedule provides less funding once the workload exceeds between 20 and 25% of base.
- 3) The declining schedule for funding above base contingency workload as set forth in AFI is probably the most realistic method for this additional funding.
- 4) We propose that the four-step declining schedule be adjusted to account for those States which experience heavy workload on a consistent basis. For example, the sliding scale could be: 1st 20% of contingency workload be funded at 90% of cost factors, 2nd 20% funded at 80%, 3rd 20% funded at 70%, and over 60% funded at 60%.

Phase-In

- 1) Large decreases in States will cause a major disruption in service. (Comments by 2 States.)
- 2) We are apprehensive about implementing a system that would have such a significant impact on funding in such a short time.
- 3) Establish a hold harmless to ensure that a State's funding level will not be less than 90% of the previous year's base allocation. Conversely, limit the gains to 110%.

- 4) A phased implementation will be needed for States facing large reductions. We have some concerns about how the phase-in will be funded. The proposed competitive grants could be tied up for many years with none of the funding going for real innovation. Funding the phase-in by reducing redistribution to more efficient States would be counter to the spirit of the reform. Separate, up front funding for the phase-in should be justified by the expected long-term savings.

Technical Assistance and Innovative Grants

- 1) Some method should be set into place for a State to attempt to justify the funding of a higher priced activity if the results of the process can be shown to significantly improve the quality of the State's UI operations.
- 2) A phased implementation will be needed for States facing large reductions. We have some concerns about how the phase-in will be funded. The proposed competitive grants could be tied up for many years with none of the funding going for real innovation. Funding the phase-in by reducing redistribution to more efficient States would be counter to the spirit of the reform. Separate, up front funding for the phase-in should be justified by the expected long-term savings.

Total Formula

- 1) The AFI proposal does not address the true needs of the system, rather it redistributes an insufficient pool of funds. (Comment by 2 States.)
- 2) The data used throughout the proposal as the basis for establishing current grant levels is incomplete, inaccurate, outdated, and thus not indicative of current cost.
- 3) Any benefits the proposal's efforts to "simplify" the system are more than outweighed by the reduced degree of accuracy in determining States' funding needs.
- 4) The AFI proposal fails to meet the goal of simplification. The proposed methodology is extremely complicated. The funding formula is so clouded by national averages, adjustment factors, and regression analyses that the final funding computations have no relationship to the State's true workload or cost needs.
- 5) Account accurately for differences among States in their UI activities. (Comment by 2 States.)

Winners & Losers

- 1) There is lack of documentation provided for the reason" and/or need for the drastic redistribution of funds that will result from the proposal's implementation nor appropriate consideration given to the devastating impact this will have on the system as a whole.
- 2) No clear rationale is given as to the need to substantially increase funding for some States.
- 3) There are too many big winners and big losers.

Incentives

- 1) States should be able to retain any unused UI administrative funds at the end of the fiscal year to be used for future automation, efficiency effort, or strengthen their State's UI trust fund. (Comment by 4 States.)

Misc

- 1) Fault with proposed system is that it assumes no legislative changes. Particularly as it relates to exempting UI from the Unified Budget. (Comment by 3 States.)

Current Formula

- 1) DOL should focus its efforts on improving the funding methodologies that have been utilized for many years.
- 2) Complete a comprehensive national study which would establish new MPU's for each State for all MPU-based workload items.
- 3) Current formula more accurate - update it.
- 4) The cost model system failed to take into account the fact that when automation is used to reduce staff, non-personal service costs will invariably increase. This provided a definite disincentive for efficient operations through the use of automation since the minutes per unit (MPU) of a function would go down and with non-personal services tied to a salary rate any decrease in staffing automatically resulted in a decrease in non-personal service funding. The cost model system was easily manipulated and served only to reward inefficient operations.