



**Written Testimony of Secretary Kathy Manderino
Department of Labor & Industry**

before the House Appropriations Committee
regarding the Department of Labor & Industry Budget Proposal for Fiscal Year 2017-18

Harrisburg, Pennsylvania
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Chairman Saylor, Chairman Markosek and members of the House Appropriations Committee, thank you for the opportunity to testify regarding the department's 2017-18 budget proposal.

Among key points in his budget address, Governor Wolf discussed progress and potential. These two areas match up especially well with the department's accomplishments in 2016-17 and with our plans moving forward.

While the department's state budget allocation is less than 1 percent of the total state budget, those dollars are critical to providing vital services, ensuring workplace safety, enforcing numerous laws that protect workers and businesses, and drawing down federal dollars to enhance and expand our reach.

L&I remains the commonwealth's fifth-largest agency with perhaps the most diverse program offerings among other agencies. The department's 30-plus bureaus and offices are a cornucopia of services, protections, innovations, efficiencies, support, progress and potential.

L&I houses boards and programs that ensure workplace disputes are fairly negotiated, our young people are getting the best and brightest jump start on their futures, and *all* workers and employers are represented, respected, and engaged with at all levels.

With the state funds the department receives, it is able to draw down significant federal funding. We estimate that from the \$47.5 million of state funds, we will draw down another \$157.4 million in federal dollars in fiscal year 2017-18, all with the ultimate goal of extending programs to more Pennsylvanians, getting them into jobs or back to work in rewarding careers in safe workplaces where employers are paying them fairly and obeying the labor laws that govern them.

With state fiscal year funding of \$79.7 million in fiscal year 2016-17, the department made significant progress. From helping more than 70,000 individuals with disabilities with services to enrich their lives, to administering more than \$2 billion in unemployment benefits to our state's unemployed, issuing more than 69,000 boiler certificates and 29,000 elevator certificates, certifying 11,000 workplace safety committees and training thousands of employers and workers at free health and safety training webinars, to hosting tens of thousands of visits to JobGateway.pa.gov and at our 61 PA CareerLink locations, to increasing our social media presence by 600 percent, to finding more than \$1.9 million dollars in savings through increased efficiencies and innovation, Labor & Industry has made significant progress.

L&I is keenly aware of and accustomed to operating under less-than-ideal budget circumstances. But, despite budget constraints, we continue to offer essential services to hundreds of thousands of workers and businesses.

As we look to 2017-18 and our plans to continue forward progress with our state and federal funds, please allow me to share some key accomplishments of the past year and our plans for continued progress.

Office of Vocational Rehabilitation: Competitive, Integrated Employment

The mission of the Office of Vocational Rehabilitation (OVR) is to assist Pennsylvanians with disabilities to secure and maintain employment and independence.

During fiscal year 2016, there were 22,159 new applicants for services, 17,261 applicants were found eligible for services, over 72,000 individuals received services, and 8,400 customers were placed into competitive integrated employment through OVR programs.

A new measure for 2016: 5,326 customers achieved Substantial Gainful Activity (SGA) as defined by the Social Security Administration, regardless of if the customer is/was a Social Security benefit recipient. This means that at the time of case closure, 63 percent of competitively-employed customers may no longer require certain public support benefits as a result of their successful employment outcome.

OVR's Vocational Rehabilitation program is a federal match program that draws 78.7 percent federal funds for every 21.3 percent in state funds. For every state dollar invested, OVR can access four dollars from the federal government.

In 2016-17, the additional \$2 million state budget allocation over the previous year allowed for a federal drawdown of \$8 million, which was used to begin the implementation of new guidelines contained in the federal Workforce Innovation and Opportunity Act mandating that 15 percent of program resources be spent on pre-employment transition services for youth.

With a total of approximately \$47 million in state budget dollars for 2017-18 invested in vocational rehabilitation OVR can access up to \$160 million in federal dollars to be used to assist residents of Pennsylvania in accessing the specialized services and training that will lead to competitive employment. The department also works to access all available federal sweep-up funds.

The department made great strides in 2016 with pre-employment transition for our youth with disabilities, hosting more than 2,000 events, and reaching more than 30,000 individuals to help prepare them for the world of work after high school. Research indicates that students who have been exposed to work before they graduate from high school have a significantly higher chance of long-term career success.

Hundreds of youth with disabilities were furthered served by attending one of four learning academies that focused on youth with autism and those who are blind or visually impaired, preparing all for education or work after high school.

In 2017, we will add a deaf and hard of hearing academy to our Blindness and Visual Services Summer Academy at Penn State University to reach even more youth with disabilities at this highly successful program that prepares students for post-high school education.

With continued state funding for OVR in 2017-18, we will be able to draw all available federal dollars to that we may help more people with disabilities achieve independence. But, even with this funding, there are still people with disabilities in need of services who we are not able to reach. Without this funding, youth, adults, and seniors with disabilities may not be able to find employment, obtain assistive devices, or receive counseling that can help them live more productive, fulfilling lives.

Safety and Labor Management Relations (SLMR): Keeping Pennsylvanians Safe

SLMR's Bureau of Labor Law Compliance (BLLC) enforces 13 labor laws with none more important than misclassification of construction workers as contractors. From 2011-2014, the department collected \$15,200 in fines from companies misclassifying workers. Since January of 2015, the department has collected over \$680,000 in fines. This has greatly leveled the playing field in the construction industry, and our stepped-up efforts continue.

BLLC also has increased collections in other important areas of enforcement: In 2016 the Bureau collected over \$2.8 million for minimum wage workers; nearly \$55,000 in penalties for violations of the Mandatory Overtime for Health Care Workers Act; and had a record-breaking year enforcing the Underground Utility Line Protection Law, collecting nearly \$97,000 in penalties.

Stakeholders of the Bureau of Occupational and Industrial Safety (BOIS) have complained of excessive wait times for issuing elevator and boiler certificates. In 2016, BOIS issued 5,000 more boiler operating certificates and over 3,000 more elevator operating certificates than in 2014, and nearly doubled the number of flammable and combustible liquid permits, and almost tripled the number of liquid propane gas annual permits issued. These efforts help keep our public building visitors and workers safe.

With 2016-17 additional funding for BOIS, we hired and trained four new elevator inspectors. All four recently passed their certification exams and in just four weeks they inspected nearly 500 elevators.

Two of our boiler inspector trainees, released into the field in June 2016, have conducted 2,010 inspections through the end of December 2016. Another two boiler inspectors who were released in the field in December 2016 have conducted 188 inspections through the end of the 2016.

With a significant reduction in state funding for BOIS the in 2017-18, the department will work with the legislature to ensure the creation of key legislation that allows the department to charge market rates for elevator inspection and other services, which will not only make up the difference in previous year's funding, but will also allow us to attract and train more inspectors and keep all service fees here in the department.

BOIS, along with the Bureau of Mediation and Bureau of Labor Law Compliance, require adequate state funding not just to operate, but to keep Pennsylvanians safe, and to protect their wages.

Collaborative, Targeted Workforce Development

In workforce development, the department is focused on training and retaining its top-notch workforce. We connect workers with employers with a key focus on employer needs and matching those needs with appropriate training.

In 2016, the department targeted \$2.2 million in grants to support Business-Education Partnerships, which connect local businesses with school districts to promote job opportunities and career pathways. These programs increase awareness of in-demand technical careers for all key audiences including students and their parents, and educators to engage more students in the technical skills employers require. The partnerships provide career-related experiences and exposure opportunities for students through soft-skills development, internships, workplace shadowing, and career mentoring.

The department recently issued a notice of grant availability for \$2 million in technology grants. These grants will fund training equipment for career and technical centers (CTCs), prioritizing manufacturing training. The goal of the grant is to strengthen the connection between post-secondary CTCs, colleges of technology, and local employers to better meet employer needs and to assist adult students in acquiring industry-recognized skills and credentials.

Since establishing the new Office of Apprenticeship Training in early 2016, we have increased the number of apprentices statewide by nearly 10 percent, for a total of 14,800 apprentices in 762 registered programs. We were awarded a \$1.5 million federal apprenticeship grant to expand our program. In the next few months, we will be issuing a notice of grant availability for apprenticeship grants for program development and training.

In a collaborative effort, the department partnered with DCED and Team PA to establish Next Generation Sector Partnerships, which involve convening a cluster of like businesses, such as manufacturing, to meet and collectively discuss needs. The state partners then work together to solve issues and reduce business fatigue from being contacted separately by each of multiple entities in state government. This is a model for efficiency and reduction of duplication of efforts.

Progress with implementing the Workforce Opportunity and Innovation Act (WIOA) continued in 2016. We are now working with PASSHE to align its state plan and the WIOA state plan. Some of the PASSHE schools are looking to “unpack” their four-year degrees to make it easier for people to get a credential/degree while already working. This also aligns with our grant project with seven community colleges, seven local workforce development boards, L&I’s Office of Vocational Rehabilitation, the PA Department of Education’s Division of Adult Education, and the PA Department of Human Services.

The seven regional partnerships are developing micro-credentials that demonstrate measurable skill gains and are part of a clearly defined career pathway for individuals with barriers to employment. The target populations for the project are out-of-school youth, adults with low basic skills, and other learners with significant barriers to education and employment.

In 2016, our Bureau of Workforce Partnerships, through the 61 PA CareerLink locations, served more than 23,000 employers, more than 600,000 job seekers, served more than 15,000 Veterans, handled nearly \$400 million in potential tax credits to employers, assisted job seekers of every gender, race, and age; and achieved a 68 percent retention rate for individuals placed in employment.

Unemployment Compensation: Progress Stifled by Funding Cuts

The status of the unemployment compensation system is frequently the topic of appropriation hearings and this year UC promises to take center stage.

Last year I was able to report that the UC Trust Fund remained on track for solvency, and that despite reduced federal funding for the administration of UC, with Service and Infrastructure Improvement Funds and other innovations and improvements we were meeting the imposed thresholds for timely payments, and for much of 2016, those accomplishments held true; now, I must tell a different story.

When the 2015-2016 legislative session ended without SIIF being reauthorized, the department had to immediately reduce its budget for calendar year 2017 by \$57 million. We did this through a combination of reduced infrastructure costs and reduced personnel.

The department is now operating a wounded unemployment system.

As of Dec. 19, 2016, we shuttered the UC service centers in Allentown, Altoona, and Lancaster, which reduced infrastructure expenses. We eliminated 521 positions and absorbed as many of those staff as possible into other open positions in the department and other commonwealth agencies.

Eleven people found positions before the layoffs took effect in December and so our final number was 499 furloughed employees, not just in the service centers, but also in our Harrisburg service center, UC tax and policy offices, UC Board of Appeals, the legal, information technology, administration services, and communications offices that support UC functions. These cuts were deep and devastating.

The drastic reduction in staff goes well beyond those individuals whose primary responsibility is answering phones in the service centers.

Callers to our service centers are experiencing millions of busy signals. Those who do get through are put into a queue and are held there for several hours waiting to speak with a service center representative, often after having tried to get through on multiple days or weeks.

Our social media is blowing up with comments, questions, and complaints.

Our Legislative Affairs staff of two has handled more than 7,000 inquiries from your offices in the past six weeks. Our receptionist and secretarial staff are fielding calls all day, every day from claimants.

The referral of claimant inquiries from social media, legislators and other areas in the department all get funneled to the same service center staff who are answering the phones, adjudicating the claims, and working to get payments to those people making those inquiries. Many of the inquiries are duplicates from the same person inquiring in multiple places.

Frustrated callers are visiting our PA CareerLink locations to use the UC phone lines in droves, creating bottlenecks for people visiting the centers for other services. CareerLink phone lines receive priority ranking within the general queue.

There has been much talk about the department needing an exit strategy from SIIF funding and what the system would look like if it existed with only federal funding. The way the system looks now – interminable wait time, delayed payments, lines at PA CareerLink locations, millions of attempted calls, busy signals, a growing backlog of claims, overpayments and appeals processing, frustration on the part of claimants and staff – this is what our system looks like operating with only federal funds.

With all hands on deck, we are serving customers to the best of our ability, benefits are being paid as quickly as possible, and there is a sliver of light at the end of the tunnel, but that is only because as the year wears on, claims do typically slow down.

We made steady improvements in the past four years, specifically 2013 through 2016, thanks to the additional funding provided by SIIF, dedicated staff, more efficient processes, and better staff training.

We made improvements in a number of technological areas and laid the ground work for a new benefit modernization effort to replace the failed IBM/UCMS attempt.

We have made significant improvement in our customer service and we have done so with far less federal funding and with significantly fewer employees even before the recent layoffs. The far more drastic loss of staff in December is jeopardizing this progress, affecting employee morale, and creating unacceptable service to those Pennsylvanians in need of benefits.

Along with the difficulties of reduced staff and frustrated callers, our biggest fear is a computer system breakdown that could literally shut down the entire unemployment system in the state, leaving tens of thousands of Pennsylvanians without benefits.

Our current 50-year-old computer system is working, but it's held together with chewing gum and duct tape. Since the system was first developed, improvements and modifications have been added on one at a time for the creation of multiple layers of code that simply don't know how to communicate with each other.

With proper funding, we can complete the benefits modernization system that will provide significant efficiencies, improvements and timeliness of service to claimants. We are in the process of selecting a vendor to completely overhaul our computer system. Our best estimate at this time for implementation of a new modernized system, based on the completion of the procurement process and the expected implementation once a vendor is chosen, is 24-36 months.

Completion of this modernization project will have significant and long-lasting positive effects on the UC system.

In addition, on January 30 we began working closely with the Auditor General on the SIIF audit. We are confident the audit results will show that the department spent tax dollars responsibly to improve the UC program. We remain committed to providing whatever information the AG requests.

We will provide that same transparency and cooperation with the General Assembly and we look forward to a cooperative approach to solving this extensive, protracted crisis.

Workers' Compensation and Workplace Safety Training and Operational Savings

The Bureau of Workers' Compensation (BWC), Workers' Compensation Office of Adjudication (WCOA), and Workers' Compensation Appeal Board (WCAB) have placed an emphasis on business process redesign and use of technology. As a result, complement was reduced by 36 (or 9%), saving \$1,784,520 annually.

An EDI Forms Solution was instituted by our administration, using data from EDI transactions that are submitted to BWC to automatically generate claims forms that are required by the Pennsylvania Workers' Compensation Act Rules and Regulations to be sent to BWC and the

injured worker. This eliminates the need for Insurer's claim administrators to send the paper forms to BWC. This automation resulted in an estimated \$533,961 annual savings for external stakeholders and annual saving of \$130,000 internally for BWC.

As of December 31, 2016, SWIF realized a \$30 million reduction in its deficit due to a reduction in its ultimate loss reserves, an annual actuarial calculation.

Workers' Compensation developed and launched automated online self-service customer service tools for outside stakeholders to query, track, and resolve issues through the Workers' Compensation Automation and Integration System (WCAIS). Each issue is trackable by external stakeholders and searchable by staff.

This feature allows external stakeholders registered with WCAIS to initiate Helpline tickets using self-service options, track their tickets, view the status, and receive resolution results using self-service options via their dashboards. While increasing customer service for all stakeholders, this initiative also reduced internal staffing levels, resulting in annual savings of approximately \$75,000.

Effective January 1, 2016, the State Workers' Insurance Fund (SWIF) began serving as the third-party administrator for the Uninsured Employer Guaranty Fund (UEGF) instead of an external contractor. This change saved UEGF over \$500,000 annually.

In addition to the TPA cost savings for UEGF, SWIF identified excess insurance policy coverage for injured workers covered under the Self-Insurance Guaranty Fund (SIGF) that resulted in recoveries in excess of \$1 million.

The Worker's Compensation Appeals Board has reduced the length of time to process appeals from two years in January 2015 to 10.5 months in January 2017. The target goal is further reduction of the time length to approximately two to three months.

The BWC's Pennsylvania Training and Health and Safety (PATHS) division introduced enhanced drug and alcohol in the workplace webinars that focus on opioids and medical marijuana. PATHS partnered with DrugFree Workplace PA on these trainings related to substance abuse. More than 1,200 employers participated in initial webinar screenings with more sessions on these important, timely topics scheduled throughout 2017.

PATHS continues to use social media and Constant Contact to communicate and engage with its employer audience.

State of the State

This past year, I was privileged to continue the "Jobs that Pay Tour" across Pennsylvania, meeting with business owners and workers across Pennsylvania and representing both my department and Gov. Wolf.

I also met with business leaders, unions, career and technical schools, apprentices, post-secondary students, organizations that help people with disabilities, and countless other stakeholders who told me what they need from state government.

This past year, this important and enlightening tour provided more opportunities to make connections between businesses, educators, and organizations that created new collaborations that will benefit both state government and the private sector far into the future.

From visits to Bradford's Zippo factory, committed to its storied history and manufacturing in Pennsylvania, to a tour of Work Hard Pittsburgh, bringing together young professionals engaged in a "gig economy" that matches employer tech needs with no-cost training, to a host of business roundtables that allowed me to listen and to bring back to my department the wishes and needs of our myriad stakeholders, I have seen first-hand how our state's diverse and engaging economy is hard at work, making progress filled with much potential.

Conclusion: Savings To-Date

The department's continuing Go-TIME initiatives and other cost-saving measures are saving significant dollars for the department while creating new "normals" for how we operate and innovate.

In total, 2016 initiatives saved the department \$1.9 million and these efforts continue today and every day as we engage and involve our staff, talking to managers, and our unions. This type of commitment and all-in-it-together mentality and collaboration has led to a wide array of savings and to many of our accomplishments.

As we continue to work to save state dollars and improve services to our customers, I ask you to acknowledge our progress and realize our potential and to pass a budget that includes the funding allocations Labor & Industry requires to continue to provide and improve services to Pennsylvanians.

Thank you for the opportunity to discuss the department's budget proposal. I would be happy to answer questions at this time.