



Bruce Rauner
Governor

Jeffrey D. Mays
Director

Employment Security Advisory Board Meeting
Thursday, March 17, 2016
Minutes

Attendees:

Springfield: **Tim Drea**
 Rob Karr
 Kim Maisch
 William Potts

Chicago: **Jim Argionis**
 Tony Garcia
 Sharon Thomas Parrott

Telephone: **Jim Nelson (Proxy for Greg Baise)**
 Rick Terven

Absent: **John Easton**
 Michael Simmons

With a quorum of the members present, the meeting was called to order by Chairman Jim Argionis.

Agenda:

- Minutes of the meeting held December 10, 2015, were approved.
- **Director's Comments; Jeff Mays:**
The Department will focus on five priorities for the next three years:
 - 1) **Unemployment to Employment** – The Department will ensure that all claimants who are required to register with the employment service do so before receiving unemployment benefits; reengineer the reemployment assessment process to better meet claimant needs; improve the state's labor exchange system; and enhance use of labor market information to guide job seekers.
 - 2) **GenTax** – The Department has committed \$8M over the next two years to work with the Department of Revenue to incorporate an unemployment tax component into that agency's GenTax system, to establish a fully-integrated one-stop tax filing system for employers.
 - 3) **Overpayment Auditing and Tracking System (OATS)** – Two Legacy IT systems used to track unemployment-benefit payments will be integrated into IDES's benefit payment system, with the goals of enhancing recovery of benefit overpayments and reducing IT cost. The Department is committing approximately \$9M to the effort over the next two years.
 - 4) **Enterprise Resource Planning (ERP)** – IDES has committed a lot of time and staff resources as a pilot agency in a statewide initiative that will replace a variety of the agency's legacy IT systems for back-office functions, including accounting, payroll, inventory and administration. The legacy systems date back to the 1970s. IDES is the largest of four pilot agencies.

5) Service Delivery Improvement – Generally, the service delivery process will continually be enhanced by revisiting the wording of applications and correspondence, enhancing call-center responsiveness and improving internal processes.

- **Integrity Update; Monica Carranza:**

IDES has employed a variety of measures to identify, prevent and recover improper unemployment benefit payments, including 1) cross matches against a) state driver's license records, b) Social Security records, c) a national data base of incarcerated individuals, d) national and state new hire directories, e) IDES's quarterly wage records, f) IDES's monthly wage records (scheduled for implementation in early 2017) and g) IDES's online job board (to check work search efforts); and 2) use of the Comptroller's offset at the state level and the federal Treasury Offset Program, to recover amounts due to the system. Beginning November 2011 through 3/1/2016, IDES estimates it has prevented \$572M in potential benefit overpayments, identified \$94M in overpayments and recovered just under \$154M in overpayments. On the employer side IDES conducted 3,200 employer audits in SFY15, identifying \$296M in net unreported wages and \$6.5M in unreported UI taxes; for SFY16, through February, the Department has conducted 2,200 audits, identifying \$94M in net unreported wages and \$1.8M in unreported taxes.

The project regarding the Overpayment Auditing and Tracking System (OATS) will permit IDES to handle a higher capacity and more sophisticated level of fraud cases. OATS should improve case management and add more modern fraud detection algorithms and tools (such as the ability to look at IP addresses, users with multiple bank accounts, information about individuals defrauding other states, etc.). We expect the new case management functionality to be ready beginning in January of next year.

- **Quarterly Financials Presentation; George Putnam:**

Unemployment Trust Fund Projections – Factoring in more than \$1.5B in proceeds from the 2012 issuance of unemployment insurance bonds, the state's UTF account ended calendar year 2015 with a positive balance of \$1.6B and is projected to end calendar year 2016 with a positive balance of \$1.72B. Year-end balances are projected to remain positive through 2019 – the extent of the forecast horizon – which is expected to close with a balance of just under \$1.26B.

With regard to the Department's ongoing effort to examine and improve upon the model used for account projections, we discovered the model had not been crediting the account for interest earnings; that problem has now been addressed. Also, now that interest-free federal cash-flow loans are no longer available, it is particularly important to monitor projected account balances for the first quarter of each calendar year – typically the account's annual cash-flow low point, with payments exceeding revenues by around \$500M.

Linda DeMore: Special Administrative Account – The SAA contains penalty and interest collected from delinquent employers. Money in the SAA is dedicated to the administration of the UI Act. The account's revenues and expenditures for SFY 2015 totaled \$25.2M and \$21.6M, respectively. Most of the expenditures were transfers to the Title III Social Security and Employment Fund and are being used to pay for the shortfall in federal funds and to cover the IT initiatives discussed previously, as well as Legal Services Program costs. The account ended SFY15 with a balance of \$8M.

- **Master Bond Fund Report; Linda DeMore:**

On 7/31/2012, \$1.6B in bond proceeds, net of premium and underwriters' discount, were deposited into the MBF upon closing of the Series 2012 Bonds. A little over \$1.5B was used to repay outstanding federal advances to the UTF account and establish a surplus in that account. A payment of just under \$50M is scheduled for 12/15 on the series A bonds, along with a \$15M interest payment. Total outstanding bond indebtedness will stand at \$569M as of 12/16. We are still on target to fully redeem all of our bonds by June 2017.

- **Measuring Economic Growth; Evelina Loescher:**

This presentation addressed four potential measures of economic growth, their relationship to one another, the source of the data, the advantages and disadvantages of the data and the role of the Bureau of Labor Statistics relevant to the data: the number of people employed (from a BLS survey of households); total nonfarm payrolls (from a BLS survey of establishments); total covered employment (from employer wage reports); and total establishments (from accumulated wage report data).

- **Legal Issues; Joe Mueller:**

UI Agreed Bill – IDES has been working with the business and labor communities to develop a mutually agreeable method for “scoring” the extent to which claimants have benefitted from the agreed bill’s repeal of the social security offset and the extent to which employers have benefitted from the legislation’s expansion of the definition of misconduct. Business and labor are considering the approach the agency recommended late last month: comparing misconduct determinations that deny benefits in 2016 to the average number of such determinations for 2011 – 2015 and extrapolating from data for 2011 – 2015 to estimate the amount of benefits that would have been denied in 2016 had the social security offset not been repealed.

Petrovic v. IDES – The IL Supreme Court issued its opinion in Petrovic v IDES, holding, among other things, that 1) the Department has standing to appeal adverse circuit court decisions in administrative review actions involving unemployment-benefit claims and 2) for the violation of a reasonable employer rule to constitute misconduct under the UI Act’s general definition of “misconduct,” the rule must either be expressly stated or the employee’s conduct must have been illegal or constituted a prima facie intentional tort. The Department has filed a motion for rehearing regarding various issues, including whether a reasonable rule can ever be inferred in the case of conduct that is not illegal and does not constitute an intentional tort. The court rarely grants those motions.

- **Discussion – 2016 Ethics Training; Statements of Economic Interests; Supplemental Statements of Economic Interests; Joe Mueller** – There are three things needed from each member of the Advisory Board:

- 1) Board members must complete the 2016 annual ethics training for appointees under the Office of the Governor, as administered by the Office of the Executive Inspector General, by 12/31/2016;
- 2) Board members must complete, by May 2nd, the 2016 Statement of Economic Interests/SEI as administered by the Secretary of State. The SEI must be reviewed by IDES’s Ethics Officer; and
- 3) Board members must complete, by May 2nd, the 2016 Supplemental Statement of Economic Interests/SSEI as administered by the Executive Ethics Commission.

Motion to adjourn was made and seconded. The meeting adjourned.