Reflections on a changing agency

Washington State
Employment Security Department

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Introduction

The Employment Security Department (ESD) is the state agency charged with providing unemployment benefits to workers who become unemployed through no fault of their own, taxing employers to pay for those benefits, helping workers find jobs, and providing people with a wide variety of information about the labor market. Our dedicated staff serve in 49 offices throughout the state in tax offices, telephone claims centers, the administrative offices in the Olympia area and WorkSource centers, plus a number of affiliated (reduced-service) WorkSource sites.

The Governor appointed Karen Lee as commissioner in early 2005, and Karen appointed Paul Trause as her deputy. The two served together until Karen left in 2010, after which Paul was appointed to be the commissioner.

How this document is organized

This document reflects changes initiated throughout the Gregoire administration. We begin with a short introduction to the department then identify lessons learned. These are not new lessons, but they are much more obvious in hindsight than while we were living through them. By identifying these lessons our intent is to provide a reflection about how we managed, mistakes we made, lessons learned, what we worked to accomplish – whether achieved or not – and why these decisions were made to lead this organization through the worst recession of our lifetime. We believe that the agency was largely successful in meeting many of these tests and is better positioned for the challenges to funding and service delivery it will face in the coming years.

Understanding who we are:
The Employment Security Department

The Employment Security Department currently (fall of 2012) employs nearly 2,200 FTEs in 49 offices throughout the state. This figure fluctuates dramatically as economic conditions change. In 2007, just prior to the start of the recession in Washington, we employed 1,850 FTEs. This rose to 2,630 FTEs at the height of the recession, due in part to increased federal funding for the unemployment insurance program. It is expected that the agency will be required to reduce staff further by approximately 250 to 320 positions (in addition to the layoffs completed in 2012) to address shortfall in Reed funding and potential impacts of sequestration.

As demand for unemployment benefits and other services grows, our funding grows – but, unfortunately, never as fast as demand. During this administration, the department also received approximately $70 million in American Recovery & Re-investment Act (ARRA) funding. Our FTEs are expected to continue to fall as Congress grapples with budget deficits and sequestration (required under the Deficit Reduction Act of 2011) – even while workload remains high.

During the Great Recession, we focused on responding to record-level demands for service and improving people's ability to compete in the workforce in order to achieve a higher level of economic success. As a result of the recession, our workload dramatically increased, and customers' and stakeholders' expectations were at an all-time high. At the federal level, Congress fundamentally changed the unemployment-insurance program by adding eight new programs that extended unemployment benefits a total of ten times and delivered $6.6 billion to the Washington state economy. The most recent extension passed in February 2012. Each of these changes created a large, new demand on our staff and computer systems to make the benefits available.

The state legislature also made many changes to the unemployment-insurance system to respond to the recession. They reduced employer taxes by $400 million through passage of three different bills. On the benefit side, they mandated temporary benefits increases in 2009 by $45 per week and in 2011 by $25 per week. These changes provided an additional $715 million to eligible claimants. Changes also were made so that more people could participate in the Training Benefits Program, which extends unemployment benefits to eligible workers who need training to obtain a new job. The law changes made more categories of people eligible, such as low-income and veterans; it also removed application deadlines for dislocated workers, but not for other categories of workers.

The state law also was changed to allow the state to qualify for $98 million in unemployment-insurance modernization money. About $60 million has been used so far to pay for the benefit increases. These funds, like all those collected from employers through the state unemployment tax, flow into the Unemployment-Insurance Trust Fund and may be used only for paying unemployment benefits. During the recent recession, 36 states' trust funds went bankrupt and were forced to borrow from the federal government to pay benefits. With the cooperation of the Governor's Office, state legislature, and business and labor stakeholders, Washington has maintained the healthiest unemployment trust fund in the nation, despite record benefit payouts and three separate reductions in employer taxes in the last eight years.

ESD is also an active partner in the WorkSource system. In partnership with other service providers, our WorkSource staff offer a wide range of job-related services for job seekers. WorkSource services are available both online and at many local offices across the state. In 2011, the WorkSource system helped more than 14,000 employers with their hiring and training needs. WorkSource also helped nearly 320,000 residents look for work. Businesses and job seekers also visited the department's Go2WorkSource.com employment website millions of times, on which there are typically around 20,000 jobs posted at any one time. Go2WorkSource.com and agency staff played a role in placing one out of every ten Washingtonians who found a job in 2011.

In addition to being a service provider, ESD also has an oversight role in the workforce system. This role includes working with the state's 12 workforce development councils to achieve measureable results for employers and job seekers; and administering $55 million in grant funds from the federal government to pay for operations and training costs for clients. All these law changes, both federal and state, required our staff to add to their current duties to implement the new or amended programs. Despite the increase in demand for services, we continue to see significant cuts in federal funding for our programs. However, we are very proud of the level of customer service our staff were able to provide in these very trying times.

The Employment Security Department has two-year operating appropriation authority of over $705 million, and is primarily federally-funded. Eighty-seven percent or $616 million is provided by nearly 30 separate federal grants. Of this $616 million, about $136 million is passed through directly to the state's 12 workforce development councils to provide services to employers and job seekers. Each of these funding sources has specific required uses and limitations.

The major challenge we face with these funds is balancing the ongoing shortfall between reduced revenue and the cost of providing mandatory services to more customers. The shortfall existed before the recession started, but federal carry-forward funds were used to fill the gap. During the recession, we received large increases of federal funds, but they continued to fall short of what was needed to address the increased workload.

With the loss of the recessionary fund increases, the shortfall has become serious again. To meet customer demand, we've had to supplement programs with secondary funding sources, which are rapidly being depleted. Those sources have been federal Reed Act, one-time federal distributions, and very limited state flexible funds The Reed Act provides a return of federal unemployment tax to states' unemployment trust funds when the balance of federal accounts for administration, extended benefits and state loans have reached their statutory limits. We have received these additional funds very infrequently – a total of seven times since the 1950s. We currently use approximately $20 million each biennium of our Reed Act balance to maintain day-to-day operations and to support our aging computer systems. These funds are expected to be depleted in the 2013-2015 biennium.

Major accomplishments

Major accomplishments during the Gregoire administration include:

1. **The economy was strengthened through a series of changes to assist both businesses and workers with the most robust unemployment insurance system in the nation.**

a. Employer tax rates have been reduced five times since 2005. Employers with no layoffs are now paying 70 percent lower tax rates – on average – than they would have paid without these reductions.

b. Unemployment benefits for workers were enhanced five times since 2005. From January 2005 through October 2012, a total of nearly $16.8 billion was injected into the economy through the timely payment of benefits to eligible workers.

c. Throughout the period, Washington was one of a handful of states whose trust fund remained solvent. Solvency allows employers to have predictable tax rates and workers to have confidence that they would receive the levels of benefits for which they are eligible. During the recession, as many as 36 states borrowed about $50 billion from the federal treasury to cover their UI obligations. As of November 2012, 20 states still owe about $26 billion. In order to pay those loans back, many states are raising tax rates; however, in Washington, we reduced taxes in 2011 and 2012.

2. **Job seekers were enabled to gain essential new skills and secure employment.**

a. Nearly 80,000 jobseekers were provided financial support to attend training so that they could gain the skills employers need to grow their businesses. Targeted industries include health care, aerospace, financial services and information technology.

b. Over 1.4 million people secured jobs after receiving employment services. According to a first-in-the-nation study, unemployment insurance claimants who use Washington WorkSource employment services are getting back to work faster, thereby earning more money than those who do not.

Lessons learned

When we arrived in 2005, it was evident we were inheriting an organization that needed change. To make this happen, we needed to improve the organization's basic culture. We wanted to focus on positive outcomes for our customers in terms of stable, good-paying jobs for workers and the fair and efficient administration of the unemployment-insurance program.

To accomplish this we knew we needed to:

- Change our approach to our customers;
- Change leadership;
- Instill a performance-driven culture based on data; and
- Address serious issues with our automated systems.

We quickly realized that changes needed to be made to the management team, organizational structure, technology infrastructure and agency culture so that customer service could improve. We had about three years to put these changes in place when the recession hit our state. Once that happened, we added to our management challenges an environment of rapidly changing laws and programs, an exceptionally high reliance on unemployment benefits by jobseekers, and sensitivity to tax bills from employers.

Below are six key lessons learned through this experience. We believe the best way to tell our story is to organize around these key lessons, to provide the reader with insight into the challenges we faced and the reasons we made the decisions we made. This list is idiosyncratic and by no means complete. We took many missteps and certainly made our share of mistakes along the way. We hope by capturing these, others may learn from our experience.

- Lesson #1: People are key;
- Lesson #2: Credibility is essential;
- Lesson #3: Everyone is accountable;
- Lesson #4: It's hard to get it right, and sometimes we didn't;
- Lesson #5: Strategic investments in technology served our customers well through the Great Recession; and
- Lesson #6: Managing a declining budget is a different art.

Each of these six lessons are described in more detail below.

Lesson #1: People are key.

First and foremost is the importance of good staff. Good people succeed, regardless of organizational structure or even program design, while poor performers cannot be made successful, regardless of the structure around them. Despite the obstacles posed by the state's personnel system, we made substantial change by careful use of exempt positions, creative reorganization, clear expectation setting and perseverance.

When we arrived in 2005, each division operated independently, viewing issues in terms of the mission of their grant funding rather than the overall mission of the agency or the effect on customers. We changed the organizational structure to better align with our vision for serving customers. Many senior level employees were reassigned and others left the agency. This change in structure flattened the organization, highlighted the importance of direct service and better aligned the talents of the remaining senior leaders with their responsibilities.

Over time, many of the remaining senior leaders left in ways that were viewed by the majority of staff as appropriate. These changes – both in service delivery and internal management - enabled us to send a clear message to our staff that our vision for the organization was very different from that of our predecessor.

Since the start of this administration, we have replaced the entire senior leadership team with a new team recruited largely from outside the agency. Nine of our ten current senior leadership were hired from outside the agency. Recruitment efforts have been focused on hiring highly competent, experienced and well-known leaders. Once in place, responsibilities have been organized around their strengths and those of their direct reports. Rather than simply "filling a box" on an organizational chart, individuals' strengths are the determining factor for their role. Once hired, those leaders were encouraged to recruit and hire talented staff. Of the top 55 managers in the agency, more than two-thirds are new to the agency since we arrived.

In addition to the changes we made in the senior leadership team, we recognized that in order to focus staff on the customer rather than just their program, we also had to change the organizational structure. Our goal was to clarify roles and return budget and policy decision-making to the Commissioner's Office. The conclusion was reinforced by our early experience. When we started with the department in 2005, we were immediately faced with layoffs because the Legislature had just cut our WorkFirst funding by nearly one-third. In order to make educated decisions, we asked for basic information about the budget: What was the overall funding and where were the dollars? Unfortunately, there was no centralized budget that could provide this information.

This experience led us to question how our administrative functions were organized and where decision-making information and responsibility actually resided in the department. We quickly discovered that critical financial and human resources information was produced and kept at the division level. The Commissioner had been effectively removed from basic decisions about the agency's direction and strategy. We recognized that we had to restore the Commissioner's ability to make decisions about priorities and people.

This restoration required changing the basic administrative structure of the agency and the process by which budget decisions were made. We removed the personnel responsibility from the division that was responsible for budget, personnel and administrative services, and we created a new assistant commissioner for human resources. We did this to send a message to the organization about the importance of the personnel function and to ensure we had a person in that position who shared our belief that the division's function was to *serve* managers, not to police them.

We also combined the budget and policy functions, including the unit responsible for producing labor market information and data analysis, and we recruited a new leader for this division. These functions posed a more complicated challenge because much of the analytical strength related to the budget rested with staff in the divisions who had strong loyalties to their division and its leadership. Therefore, we were forced to take a more incremental approach in this area.

We left the budget leads in their divisions but established a more explicit tie to the central budget shop. Then we provided for increased information-sharing across divisions and established a new budget process that was transparent and tied to our strategic plan. Over time, we were able to merge the divisional budget staff into the central budget office completely, consolidating this function.

This approach was successful for several reasons: it gave us immediate information about the agency's fiscal situation; it established a clear link between the agency's resources and our strategic direction; it also allowed us to set priorities across the department, rather than by the 30 separate fund sources we receive; it allowed us to integrate services that had been managed through different budget silos; and it allowed us to control financial decision-making centrally and remove that authority from the individual divisions.

By putting responsibility for the strategic plan, budget and performance measurement into one division, we could use the strategic plan to make decisions about where to put funding and use the performance measurement system to ensure our goals were being accomplished with the funds that were allocated. The weekly GMAP (Government Management Accountability & Performance) sessions provided a forum for these performance discussions and regular oversight of key functions in the agency.

Prior to 2005, information technology responsibilities also were decentralized and scattered across the divisions. There were no agency standards for desktop computers and software, no replacement strategies, and no long-term vision for dealing with the aging tax and benefits mainframe systems. Too often, systems had been developed based on a divisional, not organizational, perspective and had reflected a desire to buy something shiny, not something that would help customers. Also, the agency had put staff above investments in technology. With the large variance in funding for the agency, staff levels fluctuate dramatically. During reductions, scarce dollars had been used to preserve staff, rather than maintaining or enhancing the technology infrastructure. As a result, we moved to consolidate the information technology responsibilities so that decisions would be made from an agency perspective and reflect our views about the importance of investing in technology.

Lesson #2: Credibility is essential.

When we arrived, the Governor charged us with ensuring that legislators, business and labor stakeholders, and her staff could trust the information and data we provided. We discovered the current problem was two-fold. First, we did not have a systematic and rigorous structure to ensure information was accurate, appropriately analyzed and consistent with information previously provided to external requestors. There also was not enough effort to understand the intent of legislators' or stakeholders' questions and ensure they were answered in a clear and understandable way.

As a result, much of what the department had previously produced was seen as conflicting, constantly changing and inaccurate. While it may have been technically accurate, it was not easily understood or useable by policy-makers.

To respond, we moved quickly on several fronts. First, using our own past experience, we were able to attract new people with analytical capacity and to develop and promote some people inside the organization. Second, we instituted new management-review processes that enabled us to ensure that the information we produced was analytically sound, consistent and timely. Third, the people we placed in charge of leading our efforts were both technically skilled and politically savvy. They were able to understand what was actually being requested, how to present the information in a way that made sense to the requestor and to anticipate and explain any apparent inconsistencies.

We then began to offer technical assistance to legislators and stakeholders in shaping their proposals. It quickly became apparent to them that the information they were getting was very different from what they had received previously. It was well researched and presented, but more importantly, it responded to what they actually asked, and was presented in a context that helped them evaluate not only their position, but also other arguments. It also was not slanted to reflect a policy position.

Finally, we invested considerable time and effort to meet with members of the Legislature, business and labor stakeholders, Governor's staff and others to build solid working relationships. By making the effort to meet with them in district and "on their turf," we demonstrated our commitment to understanding their interests and contributing to mutual resolution of issues.

Through their interactions with us, policy-makers began to develop confidence not only in the information, but in our ability to act as an "honest broker." As a result, we were invited back to the table as policy was being shaped and played an instrumental role in passing tax-reduction and benefits-enhancement legislation. It also gave us the ability to help develop and shape legislation in ways that made it possible for us to implement. For example, we were able to restrict changes to new claims and establish effective dates that allowed us to implement these changes successfully. This success then increased our credibility.

Lesson #3: Everyone is accountable.

As we learned more about the confusion our data was causing for stakeholders, it also became apparent that we had issues with how data were being used to drive internal management. The department's definition of success was not well aligned with the outcomes we were seeking. We could see this in the performance measures, which were largely based on federal standards. They were not useful to manage day-to-day activities and outcomes because of the significant time lag between a management action and the eventual outcome. Moreover, these measures and the data that were being produced to support them were not actually understood or used by line managers. The data were inconsistently collected and defined, and what data did exist were not being analyzed or used to evaluate operational changes.

Leadership was not doing enough to use performance information to hold themselves accountable as a model for staff. Success was too often defined by the quality of one's interactions and impressions of performance, rather than by data. This lack of accountability was reflected throughout the organization
We recognized that Governor Gregoire's Government Management Accountability & Performance (GMAP) Program gave us the ideal tool for addressing this issue. We fully embraced the GMAP concepts and attempted to integrate them into a comprehensive performance measurement system. Almost immediately upon being appointed, we implemented weekly GMAP meetings, where operating divisions were required to report on their performance, progress on major initiatives and key issues.

We moved to define and adopt a set of performance measures for the agency and for each operating unit. We also created a public performance agreement between agency leadership and Governor Gregoire and performance agreements at each succeeding level of management that reflected that agreement. Instituting these changes was very difficult. We were seeking to change the culture from one in which you went along to get along, to one in which performance was recognized, risk-taking was rewarded and dissent encouraged.

Our success has been mixed. Many middle managers had difficulty adapting to these changes. They saw these sessions as a threat rather than an opportunity for an honest, two-way dialogue about challenges and ways to improve. They saw the measures as arbitrary and feared that a poor performance at a GMAP session could result in their being removed from their positions, or even fired. As a result, many of them endeavored simply to meet a measure rather than to understand what was going on in their organization and make operational changes to benefit customers.

This fear was difficult to combat. We did use GMAP to evaluate performance and our managers. We did use this information to differentiate among managers, reward some and sanction others. Therefore, we decided to be transparent about what we were doing and rely on the personnel changes we were making to change managers' approach to GMAP over time. We sought to use GMAP as a forum to have a conversation about performance. We also were careful to communicate that recognizing issues, exposing them and moving to address them would result in recognition, not retribution, while the failure to recognize an issue or confront it aggressively would result in performance action.

As GMAP has matured, it has evolved to being a very successful tool for communicating performance information and addressing issues. Because of the changes in management, we are able now to focus on issues and not on people. It continues to evolve, but is a place where we discuss what it is we do, whether that is the right focus for our efforts, what difference it makes, and how to improve.

It also has played an important role in spurring program design changes. When we arrived, a primary measurement for the success of our tax audit program was that we audited two percent of the employers in the state each year. There was little focus on the purpose of the audit program. To meet the two percent requirement, a decision had been made to select most employers for audits randomly to ensure "equity" among employers and what was believed to be required by the federal government.

Through GMAP, we discovered that the federal measure was driving our program design and that our audit recoveries were below what we would expect from a well-designed audit program. Over initial concerns from staff, we moved to an approach where most firms selected for audits were based on criteria available to us suggesting they were good audit targets. Since 2006, this approach increased the amount of unreported taxes found by 418 percent and the number of unreported workers identified by 162 percent. Further, the tracking of these results through GMAP helped us overcome staff resistance to the change.

However, we have not been able to develop and institutionalize a successful approach to managers' performance appraisals. We were successful in aligning our strategic plan, GMAP measures and performance agreements with senior managers. We were not successful in using these performance agreements to rate managerial performance or to tie it to compensation.

Lesson #4: It's hard to get it right and sometimes we didn't.

We also learned how hard it is to get it right. We made mistakes and, in the process, learned we had to change our approach to delivering services to unemployed workers and to working with partners because our ideas were not producing the results we wanted and the environment in which we were working was changing. We experienced real difficulty in communicating our vision to staff and in preparing them for these changes. While we tried to institute a formal performance appraisal system that encouraged employee growth and change, we never succeeded fully. Despite the many changes we made, we also recognize that in many ways our agency continues to be a work in progress.

As we began changing the culture in ESD to focus on the customer, we were forced to confront some unpleasant truths. First, the way in which customers flowed through our offices was not overly effective. Rather than focusing on providing them with services that would help them get stable, decent-paying jobs that offered future advancement, we were focused on increasing the number of job referrals we made. The premium placed on referrals generated referrals of questionable quality, causing dissatisfaction from employers who had unprepared or unqualified jobseekers referred to them.

Second, Employment Security did not have sole control over how local offices served customers or how local staff would prioritize their time, whether in resource rooms, teaching workshops or in one-on-one counseling. Rather, we are part of a diverse local and state partnership (WorkSource) that was intended to be a "one-stop" shop for all workforce job services and training access. Partners included local service providers, community and technical colleges, state agencies and others. Although we contributed the vast majority of staff working in the local employment centers, our ability to influence the partnership was limited by our inadequate credibility at both the state and local levels.

But we *could* influence our own staff. We immediately began an effort to redefine the work they did. Our goal was to move from a model focused on the single job referral that *might* lead to employment – but was a measurable activity - to a process that would help a job seeker understand the labor market and be able to market himself or herself to employers offering good jobs. Late in 2008, we further defined our work in local offices with a new approach: our "customer flow" model.

Customer flow describes the sequence and manner through which customers receive services at each center. It includes a number of separate services, from orientation to career planning and ongoing interactions with customers, even after they find work. Not all customers will require all services, and some may require additional services. To work effectively, this sequenced customer interaction is based on customer need, not individual program requirements.

Although we have made significant progress toward implementing this new approach, it was extraordinarily difficult to get there. Because of the need to act quickly, we tried to impose our approach on staff with a level of detail that left very little to their discretion. This failed because we did not have the intricate knowledge required of how local offices functioned. Another contributing factor was that staff who were not invested in the change implemented what they heard us tell them to do rather than focus on the objective we were trying to achieve. Unfortunately, they did not exercise their own judgment, even when they believed the new approach wouldn't work.

We were not successful until we stepped back and enlisted the support of staff to change our work with customers; the status quo wasn't good enough anymore. Once our staff could see that change was necessary, we then defined the new vision and engaged them to propose a method to achieve that vision. We learned we had to let them try and fail before we could move to a more effective way to serve customers through the customer flow model. This effort also taught us that we had to focus on the quality of local management staff. Today, only two of the 12 area directors remain from when we first established the positions in 2005.

Once our staff began moving toward our vision, we also had to learn to work with our WorkSource partners. We proposed both structural changes in the system's governance and increased regulatory and monitoring authority for ESD. What we saw as an effort to improve service to customers by adopting "our way" was framed as a struggle over turf by our partners. We misjudged the situation, which caused us to fail in our efforts and cost us political capital.

Because of this failure, we changed our approach. Rather than allow the conversation to focus on who is in charge, we worked to recognize our shared interests in serving customers and to create an environment where all parties could win. This approach worked well, for example, in addressing the issues for people who have been unemployed long-term.

At the height of the Great Recession, we recognized a critical gap in service: helping people who had been unemployed for a long period. As the recession wore on, Congress continued to extend unemployment benefits. Eligible claimants could receive up to 99 weeks – nearly two years – of benefits. But jobseekers who had stayed out of the labor market for that length of time faced additional challenges because they could not maintain their skills. This includes both those skills that are job-specific and the "soft skills" of being timely to the job, having positive working relationships, and the like. Once their benefits ran out, their prospects for returning to work were further reduced.

We began collecting information about these long-term unemployed people. We focused on "exhaustees," or those who had exhausted all unemployment benefits entitlement. As of November 24, 2012, more than 120,000 people had exhausted all entitlement to benefits. The most recent wage data indicate only about 30 percent have returned to work. For those who have gone back to work, after a year on the job, they are making only 60 percent of their previous wages. How could we begin to address this huge unmet need?

At this same time, the state's Workforce Training and Education Coordinating Board (WTECB) began an initiative designed to identify opportunities and ideas that could be implemented quickly to draw from the ranks of the unemployed, particularly long-term unemployed, when filling job openings. The WTECB took a leadership role to rally the partners in the system to serve this shared customer in need. Together, we raised the awareness in local communities of this population in need and engaged local boards. Using labor-market information from ESD tailored to local areas, local workforce board staff began developing innovating ways to meet the needs in their areas. At the local level, they engaged our staff to assist in their efforts in WorkSource offices.

The focus on the customer, rather than who was directing the effort, has been successful to maximize services to customers as a system. By establishing a common goal, all partners could fully participate and succeed. This approach enabled us to focus outreach, social services and educational resources to serve people who have been unemployed for a long period. The result is effective and localized services to a population in need. Pooling available resources, whether at the state or local levels, also collectively increased the services that we were able to provide. One example is the Department of Social and Health Services Basic Food Program that deploys mobile community service offices to help people apply for and, if eligible, grant an electronic food benefits card that can be used immediately. We have shared contact information with DSHS to target key locations to coordinate services in areas with significant numbers of long-term unemployed people and exhaustees.

Lesson #5: Strategic investments in technology served our customers well through the Great Recession.

When we first arrived at ESD, we made strategic investments in our information technology (IT) systems, which prevented us from adding staff, and sometimes forced staff cuts. These decisions were controversial, unpopular and required extensive internal communication to gain staff acceptance. However, the upgrades were crucial during the recession. Those investments allowed us to continue to serve the public through the Great Recession, when substantial and frequent changes were made in our programs. Like other states, we struggled to serve record levels of customers; but unlike many other states, we were able to continue meeting customer demand. If we hadn't made the initial investments in our IT infrastructure, we would have felt the consequences throughout the remainder of the administration.

The agency depends heavily on technology to administer unemployment claims and to provide reemployment services. Nearly all claims are filed over the telephone and the Internet. Despite this dependence, we had historically not focused on our technological infrastructure, instead using our available resources to maintain staffing levels, even when funding and workload dropped. As a result, our technology infrastructure was old and unreliable. Basic systems were down for extended periods, and customers were denied service. Shortly after our arrival in early 2005, we lost critical information because there was inadequate back-up procedures (key systems were not appropriately backed up).

Finally, the IT investments made in the previous administration did not appear to be based on a rigorous definition of the business requirements. Therefore, they were not consistent with our business needs.

It was a departure from past practice when we decided to invest in our information technology systems, even if it meant losing staff. Those investments allowed us to continue to serve unemployment-insurance claimants during the Great Recession at a time when claims loads were at historic levels and multiple changes in federal and state laws required drastic changes to existing programs that relied on our IT systems. If we hadn't made the initial investments in IT, we would have suffered the consequences during the recession and throughout the remainder of the administration. IT investments were critical to achieving our vision, particularly for the unemployment insurance system.

Our first decision was to take resources previously used for staffing so we could modernize the basic equipment we used in our day-to-day business. This decision substantially reduced our outages and allowed us to provide reliable services to our customers. For example, we replaced all of our servers so we would not be at risk of losing critical data again.

Second, we invested in system enhancements that improved our customers' experience. For example, we implemented "Virtual Hold" as an enhancement to our telephone claims-center system. It allowed claims agents to call customers back at a specified time, rather than having them wait on hold or redial repeatedly. This enhancement was particularly important to our customers, because many rely on cell phones with limited minutes. We also launched an enhanced website for employers, jobseekers and researchers – Workforce Explorer. After considerable user-testing, the website made more information about the labor market available, and made it much easier to find and interpret.

Third, we changed the way we approached and set investment priorities, designed enhancements and developed systems. We clarified the IT division's responsibility for overseeing the priority-setting process so that decisions were made from a customer and agency-wide perspective, not a divisional one. We also made it clear that, while the program was responsible for describing the operational problem and requirements, the IT division was responsible for developing the solution. This approach allowed us to avoid chasing after the well-known, "bright new toy" - whether it met our business needs or not - and to focus on using available funds to improve customer service and outcomes.

In some ways, we got lucky, as these changes proved to be far more important than we could have anticipated. We made them because we knew they would improve our services. We did not foresee the recession and, without them, we would not have survived. During this time, unemployment-insurance claims more than tripled, and customer calls routed to claims center staff increased by almost 225 percent. We ended up using a 30-year-old computer system to accommodate eight new benefits programs. Without the investments we made early in the administration, we would not have been able to meet demand – and our computer systems, like those in many other states, would have failed.

Lesson #6: Managing a declining budget is a different art.

Our budget fluctuates more dramatically and differently than most other cabinet agencies. When others are laying off because of reduced revenue, we often find ourselves hiring because of the increased workload driven by high unemployment. Similarly, as the economy improves and other agencies begin to hire, we usually face large layoffs. This constant ebb and flow of funds makes managing declines a regular part of the work we do. We found unique challenges managing during declines that we didn't see in times of growth. In times of growth, we were able to mask mistakes, and the reliance on weaker players was less critical. Decline magnified our missteps and changed the climate in our organization. In this time of decline, we learned that communicating a clear vision to staff, repeating that message and "walking the walk" became even more important to steer the ship.

At the beginning of this administration, our resources declined and we were forced to reduce staff to accommodate these reductions. Deeper staff reductions were required because of our decision to invest in IT. This changed shortly after the recession began, when the agency received substantial additional funds from the federal government due to workload increases and stimulus grants. However, this increase was short-lived, and our funding is again being reduced dramatically. As a result, we reduced our staffing by 16 percent in 2012 and are facing similar reductions in 2013. The next round of reductions will be deeper because we made an intentional decision to spend money to serve customers affected by the recession. In previously years, these funds had been carried into the next biennium to cushion potential revenue decreases.

The department historically has had large carry-in balances. As described earlier, under prior administrations, the decentralized budget and personnel structure meant decisions were generally made by assistant commissioners who managed specific programs. This decentralized structure hampered strategic budget and hiring decisions because systems to prioritize where staff were needed, to define roles and to make hiring decisions were inconsistent and, in some areas, non-existent.

In addition, these separate decision-makers were managing 30 different fund sources. In an effort to live within their means, they usually under spent in each of their separate silos. Large carry-forward balances were the result. The fluctuation in funding levels, combined with the culture that valued staff relationships over customer service, meant they had the resources to retain staff using carry-forward rather than laying them off when the workload dropped. By centralizing budget and personnel, we regained control over these functions which allowed us to make strategic decisions to invest carry-in funds to serve customers.

As we downsize, we also are responsible for making cuts. Like the Governor, we rejected an across-the-board approach. We recognized that, in order to accommodate these large reductions and maintain our focus on the customer, we had to make basic changes in our service model. When we arrived, there was no regular or rigorous budget development process. During the first years of our tenure, we created a process similar to the previous administration's Priorities of Government model, in which each division in the agency submitted bids to enhance existing services. If funds were available, these bids were funded in a prioritized sequence. Now, we also use this model for cuts: protecting services that are most critical and focusing cuts elsewhere as funds decline.

To gather support for the changes we knew were coming, we began an extensive effort to have the commissioner visit each of our service locations and explain directly to staff the situation we faced – often during brown-bag lunch meetings to help promote a relaxed atmosphere. Additionally, we provided staff with frequent updates using email and newsletter articles about our budget situation. Since 2011, the commissioner has visited almost every one of our 49 offices – often, several times - and nearly every affiliate site, as well, to share budget-related information and to hear from staff.

In addition to the normal reduction package process, we also commissioned teams that cut across organizational boundaries to suggest different ways of doing business that would allow us to minimize the effect of the budget reductions on customers. Much of this work was accomplished using LEAN principles. The teams made it possible to implement a number of process changes that resulted in savings but did not affect customers. Examples of include:

- Improving the quality of decisions written by unemployment-insurance claims adjudicators by eliminating unnecessary steps.
- Reducing the amount of time WorkSource employees spend scheduling, printing and mailing letters to customers, and redirecting their time to customer service. Also, redesigning and simplifying the letters and reducing printing costs.
- Refining the employment process designed to help motivated job seekers at WorkSource Spokane return to work faster in their desired fields.
- Implementing processes that resulted in reducing needed warehouse space and expense.

These teams also developed three ideas that are driving basic changes in our business model. The first is reviewing our services within the WorkSource employment centers. The team is working to establish a consistent set of group services to help customers better understand how their skills compare to labor market demand, find potential job openings and market themselves to employers. By standardizing these offerings and serving groups rather than individuals, we would be able to provide high- quality service to as many people as possible.

The second team is considering how technology can be used to deliver services to customers outside of the physical employment centers; and also is considering how to reengineer our resource-intensive system for reviewing claimants' job-search logs for compliance.

The third is deliberating over the best way for us to use field staff to audit employers and collect taxes that are due. It is endeavoring to move away from the current structure that relies on fixed geographic offices and layers of management to a flattened management structure, with a centralized collections operation and auditors dispersed more broadly across the state. Many will work from home.

We have learned from our early efforts to change client flow from the top down. Each of these efforts is headed by a guidance team composed of managers and line staff, and is staffed from volunteers who want to work on the effort. To date, we have engaged nearly 600 volunteers and are gathering widespread support for this effort. It is working because the organization understands the need for change, is supportive of a new vision necessitated by reduced resources, and is tasked with telling us how to implement that vision. Although these teams are still a work in progress, they offer considerable promise.

Conclusion

ESD is a far different agency than it was at the start of the Gregoire Administration. We have altered our management approach and are dedicated to putting the needs of our customers above those of the organization. We have increased our credibility with key stakeholders and are an integral part of shaping the policies that affect our operations.

Since the start of the Great Recession, we have helped nearly 877,000 individuals support themselves and their families with unemployment-insurance benefits (July 2008 through October 2012). In addition, we provided employment and training services to more than 1.1 million people and made countless referrals to other social services (July 2008 through November 2012).

Despite many reforms in how the agency operates, we continue to face difficult challenges. The funding available to us is decreasing, and the way we serve our customers will be forced to change as a result. Highly experienced and talented staff who were recruited during the Great Recession are now being lost because they have little seniority and fear being the next to be laid off.

The next leaders will be challenged to gain staff understanding for deep budget cuts at a time when the customer workload remains high *and* as the agency must continue to invest large sums of money in technology in order to avoid catastrophic systems crashes down the road. It will be increasingly difficult for the agency to satisfactorily meet its mission of "helping Washington's workers and employers succeed in the global economy by delivering superior employment assistance, timely benefits, and a fair and stable unemployment-insurance system."