

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 10/20)

<b>Fiscal Year</b> 2021-2022	<b>Business Unit</b> 7100	<b>Department</b> Employment Development Department	<b>Priority No.</b>
<b>Budget Request Name</b> 7100-038-BCP-2022-GB		<b>Program</b> 5920	<b>Subprogram</b>

**Budget Request Description**  
 AB 397 - Unemployment Insurance: Benefits: Disqualification: Notice

**Budget Request Summary**

The Employment Development Department (EDD) requests \$241,000 EDD Contingent Fund and 1 position in 2022-23. These resources will be used to administer provisions of Assembly Bill (AB) 397 (Chapter 516, Statutes of 2021) that was recently chaptered.

<b>Requires Legislation</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<b>Code Section(s) to be Added/Amended/Repealed</b> Click or tap here to enter text.	
<b>Does this BCP contain information technology (IT) components?</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	<b>Department CIO</b> Rita Gass	<b>Date</b> 10/13/2021

**For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.**

**Project No.** \_\_\_\_\_ **Project Approval Document:** \_\_\_\_\_  
**Approval Date:** \_\_\_\_\_

**If proposal affects another department, does other department concur with proposal?**  Yes  No  
*Attach comments of affected department, signed and dated by the department director or designee.*

<b>Prepared By</b> Jeff Loverde	<b>Date</b> 10/11/2021	<b>Reviewed By</b> Andy Bassi	<b>Date</b> 10/11/2021
<b>Department Director</b> Rita Saenz	<b>Date</b> 10/21/2021	<b>Agency Secretary</b> Natalie Palugyai	<b>Date</b> 10/21/2021

**Department of Finance Use Only**

**Additional Review:**  Capital Outlay  ITCU  FSCU  OSAE  Dept. of Technology

<b>PPBA</b> Danielle Brandon	<b>Date submitted to the Legislature</b> 1/10/2022
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## **A. Budget Request Summary**

The Employment Development Department (EDD) requests \$241,000 in EDD Contingent Fund and 1 position in 2022-23. These resources will be used to administer provisions of Assembly Bill (AB) 397 (Chapter 516, Statutes of 2021) that was recently chaptered.

## **B. Background/History**

The Governor signed AB 397 into law on October 5, 2021. AB 397 is regarding the disqualification notice for unemployment insurance (UI) benefits. An individual may be disqualified from receiving UI benefits if they are found to have knowingly provided false information or withheld information in the pursuit of those benefits. Prior to disqualifying an individual from receiving benefits due to a false statement, AB 397 requires the EDD to provide notice and allow a claimant to dispute the potential disqualification. The claimant has 3 to 10 days to respond, as applicable. AB 397 requires EDD to make the necessary changes to its forms and information technology systems by September 1, 2022.

The EDD administers the UI program, which provides benefits to workers who lose their job due to no fault of their own. The UI program is administered through a combination of federal and state laws and regulations. When completing an initial application, claimants provide basic information regarding their employment history, including the reason they separated from their most recent employer. The EDD uses this information to determine if the claimant lost their job due to no fault of their own and meets other eligibility criteria. Concurrently, the EDD also contacts the claimant's employer to verify the information provided on the application. The UI program is funded by employers, and employers are therefore incentivized to dispute illegitimate claims made by former employees or individuals claiming to be former employees.

The most commonly identified false statement occurs when a claimant fails to report or underreports wages they earned during the duration of the claim. As a result, the claimant receives benefits to which they are not entitled. The EDD identifies these potential false statements through multiple processes, including claim processing, anonymous tips, and most commonly, Benefit Audit Cross-matches. The cross-match process uses wages and new hire information reported by employers quarterly to identify claimants who may have received wages, but did not report them while collecting UI benefits. In the event the EDD identifies a claimant meeting this criteria, the Department may contact the appropriate employer to gather additional information regarding the wages paid to the claimant. If, after reviewing the information provided by the employer, it is found the claimant may have been overpaid, the EDD will issue the claimant a Notice of Potential Overpayment.

## **C. State Level Consideration**

All states leverage employer reporting to identify potential overpayments to UI claimants due to unreported wages. States are required to provide notice to claimants about identified eligibility issues and provide an opportunity to respond and appeal any disqualifications. Among other minor provisions, this bill would amend Section 1260 of the CUIA and provide claimants another opportunity to dispute a potential disqualification related to false statements, withheld information, or claim mistakes.

## **D. Justification**

The EDD understands claimants may make mistakes while completing claim forms and this legislation would supplement the existing opportunities to clarify the claim record. Currently, claimants can contact the EDD by phone to clarify an issue on their claim forms, and EDD's online benefit portal also includes a dedicated option to notify the EDD of potential mistakes. If an issue is not corrected before EDD identifies an eligibility issue, claimants can also respond to the Notice

## Analysis of Problem

of Potential Overpayment or provide information as part of the eligibility determination interview process, as appropriate. These opportunities are available prior to a formal eligibility determination and disqualification. In addition to those avenues, the EDD can reverse a decision as part of the pre-appeal review process if the claimant provides contrary evidence of the unknown facts.

By requiring a more explicit notice for any applicable potential disqualification, and identifying a specific response timeframe, this legislation will result in a more robust eligibility determination process. An explicit notice would raise further awareness of the potential eligibility issue identified and encourage claimants to respond with information that could clarify the claim record. If the information provided resolves the eligibility issue, the EDD may be empowered to cancel any related determination interview, creating efficiencies in claim processing and faster benefit payments for claimants. Claimants may also provide information which verifies the disqualification, reducing the likelihood a decision could be overturned on appeal.

Section 1257 of the California Unemployment Insurance Code (CUIC) provides the EDD with the authority to disqualify a claimant if it is found they have knowingly provided false information or withheld information to obtain UI benefits. The Section reads:

1257. An individual is also disqualified for unemployment compensation benefits if:

- (a) He or she willfully, for the purpose of obtaining unemployment compensation benefits, either made a false statement or representation, including, but not limited to, using a false name, false social security number, or other false identification, with actual knowledge of the falsity thereof, or withheld a material fact in order to obtain any unemployment compensation benefits under this division.
- (b) He or she, without good cause, refused to accept suitable employment when offered to him or her, or failed to apply for suitable employment when notified by a public employment office.

To implement AB 397, the EDD would revise its notices to provide more information related to the false statement or misrepresentation, and provide claimants with an opportunity to respond. The Department would develop business requirements, complete development, conduct testing, comply with California Department of Technology Project Approval Lifecycle requirements and deploy new programming to its legacy information technology systems to accept, store, and utilize information provided by claimants. The EDD estimates requiring approximately \$1,029,000 to implement AB 397. The Department will use existing funds for implementation activities that occur in 2021-22. AB 397 provides EDD until September 1, 2022 to make these revisions. In addition to these one-time costs, the Department would also incur ongoing costs to mail forms and process claimant responses as appropriate, which would depend on the associated workload volumes.

### **E. Outcomes and Accountability**

The main outcome of this proposal will be compliance with the legislatively mandated requirement of AB 397.

### **F. Recommendation**

The EDD recommends approval of this proposal to provide the necessary funding to implement the provisions of AB 397.

**BCP Fiscal Detail Sheet**

BCP Title: AB 397 - Unemployment insurance: benefits: disqualification: notice

BR Name: 7100-038-BCP-2022-GB

Budget Request Summary

**Personal Services**

Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Positions - Temporary	0.0	1.0	0.0	0.0	0.0	0.0
<b>Total Positions</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Salaries and Wages	0	90	0	0	0	0
Earnings - Temporary Help						
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$90</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Total Staff Benefits	0	56	0	0	0	0
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$146</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Operating Expenses and Equipment**

Operating Expenses and Equipment	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5301 - General Expense	0	2	0	0	0	0
5304 - Communications	0	1	0	0	0	0
5324 - Facilities Operation	0	6	0	0	0	0
5340 - Consulting and Professional Services - External	0	62	0	0	0	0
5340 - Consulting and Professional Services - Interdepartmental	0	6	0	0	0	0
5344 - Consolidated Data Centers	0	2	0	0	0	0
5346 - Information Technology	0	1	0	0	0	0
539X - Other	0	15	0	0	0	0
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$95</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Total Budget Request**

Total Budget Request	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$241</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## Analysis of Problem

### Fund Summary

#### Fund Source

Fund Source	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
State Operations - 0185 - Employment Development Department Contingent Fund	0	241	0	0	0	0
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$241</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$241</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### Program Summary

#### Program Funding

Program Funding	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5920 - Unemployment Insurance Program	0	241	0	0	0	0
<b>Total All Programs</b>	<b>\$0</b>	<b>\$241</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## Analysis of Problem

### Personal Services Details

#### Positions

Positions	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
TH00 - Temporary Help	0.0	1.0	0.0	0.0	0.0	0.0
<b>Total Positions</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

#### Salaries and Wages

Salaries and Wages	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
TH00 - Temporary Help	0	90	0	0	0	0
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$90</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

#### Staff Benefits

Staff Benefits	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5150150 - Dental Insurance	0	1	0	0	0	0
5150350 - Health Insurance	0	17	0	0	0	0
5150500 - OASDI	0	5	0	0	0	0
5150600 - Retirement - General	0	29	0	0	0	0
5150800 - Workers' Compensation	0	3	0	0	0	0
5150900 - Staff Benefits - Other	0	1	0	0	0	0
<b>Total Staff Benefits</b>	<b>\$0</b>	<b>\$56</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

#### Total Personal Services

Total Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$146</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>