



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jennifer Schembri  
Jim Shannon

**SUBJECT:** SEE BELOW

**DATE:** August 11, 2020

Approved

Date

8/12/2020

**SUBJECT: APPROVAL OF UNEMPLOYMENT INSURANCE APPROPRIATION  
ORDINANCE ADJUSTMENTS TO INCREASE PAYMENT OF CLAIMS  
AND ACCESS RESERVES**

## **RECOMMENDATION**

Adopt the following Appropriation Ordinance Amendments in the Unemployment Insurance Fund:

- (1) Increase the Payment of Claims appropriation by \$500,000; and,
- (2) Decrease the Unemployment Insurance Claims Reserve by \$500,000.

## **OUTCOME**

Approval of the recommended actions will enable the City to pay the unemployment claims invoice in the amount of \$1,067,342 from the Employment Development Department (EDD) for the period of April – June 2020 before the due date of September 4, 2020 and avoid the assessment of penalties and interest.

## **BACKGROUND**

The City self-funds for unemployment insurance obligations (reimbursable employer) through rate-based contributions per active employee from the respective City departments and funds, equal to annual projected obligations within the City's Unemployment Insurance Fund. These funds reimburse the State's Unemployment Insurance Fund on a dollar-for-dollar basis for benefits paid to eligible former employees and charged to the City's account.

Claims in recent years have declined from historical levels during recessionary periods, not requiring the administrative collection of employer contributions from the City's various departments and funds. Instead, the City relied upon accumulated reserves and fund balance to support actual claims costs until 2019-2020, when contributions were effectively reinstated to

reach target fund balance. Additionally, in anticipation of higher claims activity due to the early impacts of the COVID-19 pandemic, the 2020-2021 Adopted budget doubled City contribution levels (from \$200,000 to \$400,000) and increased funding for anticipated claims payments (from \$500,000 to \$650,000). However, the full implications of the COVID-19 pandemic, including policy changes, remained unclear.

Shelter-in-place and closure requirements instituted in March 2020 to mitigate the spread of COVID-19, which were subsequently continued in varying degrees, disrupted normal business operations and necessitated remote work, where possible. Since early March, employees who were unable to work, either remotely or due to other conditions, received some administrative pay. Administrative pay for unassigned part-time unbenefited employees was discontinued as of May 4<sup>th</sup> and over 1,100 employees were furloughed or experienced reductions to work hours, many of whom filed unemployment claims.

## **ANALYSIS**

Actual unemployment claims during the period of April through June 2020 greatly exceeded anticipated levels, due in large part to the evolving impacts and response to COVID-19, and compounded by the difficulty to predict the timing and the cost of claims activity. As a result, budgeted levels for 2020-2021 are insufficient to pay the \$1,067,342 invoice to the EDD for claims activity between April and June 2020, and for the remainder of the fiscal year. Accordingly, recommended budget actions are required to appropriate funds from the reserve to complete payment by September 4, 2020, thereby avoiding penalties and interest (10%) charged on outstanding claims after 30 days from the mailing date of the bill.

Further impacts are also anticipated in 2020-2021. The Administration will continue to work with the City's third-party administrator (TPA) to forecast the impacts for 2020-2021 and bring forward necessary budget adjustments as part of a future budget process. In order to fund the estimated impacts, City contributions from various funds will need to be increased to fully fund the liability.

## **CONCLUSION**

Given the evolving response to the impacts of the COVID-19 pandemic and limited data available during budget development due to the timing of reporting from the TPA, unemployment claims have exceeded and are anticipated to continue to exceed current budgeted levels for 2020-2021. The actions recommended in this memorandum are necessary interim measures to fulfill the City's obligation for unemployment claims from April to June 2020, and to avoid potential penalties. The Administration is collaborating with its TPA to forecast claims through 2020-2021 and it is currently anticipated that further budgetary actions as part of the 2019-2020 Annual Report process in October will be necessary to ensure all payment of claims are made as appropriate.

### **EVALUATION AND FOLLOW-UP**

The Human Resources Department and the City Manager's Budget Office will continue to monitor the Unemployment Insurance Fund and forecast future anticipated claims activity. Additional budget adjustments to increase the City's contributions from various funds and corresponding increases to the Payment of Claims appropriation is anticipated to be brought forward as part of the 2019-2020 Annual Report to fully fund the forecasted impacts for 2020-2021.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office.

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

### **COST SUMMARY/IMPLICATIONS**

The recommended actions liquidate the Unemployment Insurance Claims Reserve to fulfill the City's obligation of \$1,067,342 to the State by September 4, 2020 for April – June 2020 claims. This payment exhausts available funding in 2020-2021. Further obligations for 2020-2021 are presently unclear, but the Administration is continuing to work with the City's TPA to forecast the obligations for 2020-2021.

As information becomes available, necessary recommendations to adjust the budget will be brought forward as part of the 2019-2020 Annual Report for City Council consideration to adequately self-fund the City's unemployment insurance liability. In order to fully fund the City's obligations for 2020-2021, an increase in the City's contribution rate from various funds will need to be increased. It is anticipated that this increase in the employer contribution rate will increase the costs to the General Fund, Special Funds, and Capital Funds.

**BUDGET REFERENCE**

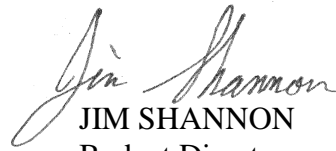
The table below identifies the budgetary adjustments required to support the unemployment claims payment described in this memorandum.

Fund #	Appn #	Appn. Name	Total Appn	Recommended Budget Action	2020-2021 Proposed Operating Budget Page	Last Budget Action
157	3222	Payment of Claims	\$650,000	\$500,000	IX-11	6/23/20, Ord. No. 30437
157	8934	Unemployment Insurance Claims Reserve	\$500,000	(\$500,000)	IX-11	6/23/20, Ord. No. 30437

**CEQA**

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/  
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Director of Human Resources and  
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JIM SHANNON  
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For questions, please contact Emily Hendon, Human Resources Benefits Division Manager, at (408) 975-1448.