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Memorandum

September 8, 2020

TO: Joint Technology Committee

FROM: Andrea Denka, Research Analyst, 303-866-4781

SUBJECT: Colorado Unemployment Insurance System

Summary

This memorandum provides an overview of the Colorado Department of Labor and Employment (CDLE) unemployment insurance system and the newly implemented Pandemic Unemployment Assistance (PUA) system.

Background

CDLE administers Colorado's unemployment insurance (UI) program. UI provides temporary, partial wage replacement to workers who have lost their jobs by no fault of their own. The program is funded through the Unemployment Insurance Trust Fund (UITF), which is funded through state UI premiums and surcharges paid by Colorado employers. Regular state UI benefits provide up to 60 percent wage replacement for up to 26 weeks. CDLE is appropriated funds in the Long Bill each year to administer the state UI program. CDLE is required to implement and administer a UI program that follows applicable federal and state UI laws pursuant to Section 8-70-101, *et seq.*, C.R.S. These program requirements include:

- identifying employer premiums based on an employer's industry and experience rating;
- collecting and tracking employer premium payments;
- ensuring employers comply with UI obligations through audits and enforcement activities;
- receiving employee benefit claims and confirming claim validity with employers;
- paying UI benefits;
- enforcing requirements that beneficiaries actively seek employment;
- investigating potential UI fraud; and
- assisting out-of-work individuals in obtaining employment through online tools and workforce centers located throughout the state.

More information on Colorado's UI program can be found [here](#).

UI System and Funding History

CDLE's online UI benefits and tax system was first implemented in 1985. CDLE uses two COBOL mainframe systems to administer the UI program, the Colorado Unemployment Benefits System (CUBS) and the Colorado Automated Tax System (CATS). According to the department, the UI system has experienced numerous issues since its creation, including the inability to rapidly report certain information, the difficulty to make system changes, and the required manual processes for certain procedures. CDLE has undertaken multiple efforts to update and modernize the UI system to address these ongoing issues, which are listed and described below.

The Genesis modernization. The Genesis modernization was a project undertaken by CDLE to completely redesign all aspects of the existing state UI computer systems. The project began in 1999 and was cancelled in 2005, with a total of \$27.9 million spent throughout the project. According to a 2006 audit conducted for the Legislative Audit Committee, the contract between CDLE and the vendor was mutually terminated due to numerous issues such as changes in leadership, project delays, and budget constraints.¹

The internet self-service (ISS) project. In 2009, the General Assembly appropriated \$6.5 million to CDLE to expand the online services offered to users on CUBS and CATS. Several new tools were created and implemented for claimants and for employers to use on the UI system that aimed to increase user experience. The project was considered a success and was fully completed in 2013.

The WyCAN project. The WyCAN (Wyoming, Colorado, Arizona, and North Dakota) consortium was formed to receive federal grant funding to conduct a feasibility study of an upgraded UI benefit system. WyCAN received a total \$62.2 million in federal funds. State funds were also appropriated for the WyCAN project. In FY 2013-14, \$3.8 million was appropriated from the Employment and Training Technology Fund (technology fund), of which \$2.6 million was spent on the WyCAN project. Pursuant to Section 8-77-109, C.R.S., the technology fund is funded by a percentage of state UI premiums and surcharges paid by Colorado employers and can be used by CDLE to fund program administration, IT initiatives, and to support unemployment programs.

In addition, the department received a \$2.6 million appropriation in FY 2014-15 from the technology fund. For FY 2015-16, the department received a \$9.9 million appropriation from the technology fund. A total of \$4.9 million in state funds was expended on the project before it was cancelled in March 2016. The consortium also spent \$15.4 million in federal funds and reverted the balance to the U.S. Department of Labor. After a year of vendor work on the project, all the states involved had determined that the project could not achieve its goals, and Colorado exited the consortium.

Current UI System Modernization Effort

In FY 2016-17, CDLE submitted a budget request to the Joint Technology Committee (JTC) for \$25.2 million in cash funds spending authority from the technology fund to migrate and modernize

¹Tatum LLC. Colorado Department of Labor and Employment SUPER System Project Recovery Assessment Plan. Retrieved September 1 from: https://leg.colorado.gov/sites/default/files/documents/audits/1778b_genesis_memo_tatum_contr_oct_2006.pdf

the UI system. The project, which is a cooperative effort between CDLE and the Governor's Office of Information Technology (OIT), aims to migrate both the CATS and CUBS systems from the existing COBOL mainframe system and onto a modernized JAVA technical platform. The department states that this project will result in better compliance with federal technologies, minimize benefit overpayments, improve data security, and enhance effective communication with claimants and employers. The department also says the project will provide additional functionality to the UI system by allowing it to integrate with other department and state IT systems. The project initially had an expected completion date of FY 2019-20. This budget request was recommended for funding by the JTC and approved for funding by the Joint Budget Committee (JBC).

In FY 2017-18, the department submitted the budget request for the second phase of this project to the JTC, which requested \$26.2 million in cash funds spending authority. This phase was also recommended for funding by the JTC and received funding. CDLE received a total of \$51.4 million for this project in cash funds spending authority from the JTC. This project moved from the capital budget to the operating budget in FY 2019-20.

Operating budget request. In FY 2019-20, the JBC approved an annual operating budget request to increase funding for the ongoing maintenance and costs of the modernized UI system. CDLE requested an increase of \$3.8 million in cash funds spending authority to support the production operations of the UI system. The department states that this ongoing funding is needed to:

- continue to process UI claims;
- mitigate the risk of computer system obsolescence;
- ensure ongoing maintenance and operational costs will be manageable, as the initiative avoids expected operating cost increases from older systems; and
- ensure the systems are customizable and sustainable by OIT staff.

Modernization project update. The modernization project was scheduled to go-live in spring of 2020, but due to the coronavirus (COVID-19) pandemic, the go-live date has been delayed. The department states that the project was fully developed and ready to be launched earlier this year, but that new federal and state UI requirements caused by COVID-19 will impact the development of the project in the future. The department is uncertain when the modernization project will resume.

Pandemic Unemployment Assistance

On March 27, 2020, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. In addition to other economic stimulus programs, the CARES Act provides federal funding to each state's UI program to pay for additional benefits to individuals who have become unemployed as a result of COVID-19. In response to the CARES Act, CDLE developed a second UI system to administer these payments, called the pandemic unemployment assistance (PUA) system. CDLE and OIT developed the PUA by modifying the already developed modernization project platform. CDLE requires new users to answer a series of questions to determine which system to use. Individuals cannot apply for benefits from both systems at this time. The department states that when the modernization project resumes, the PUA will be integrated into the new modernized system. More information about how to file claims on either system can be found [here](#).