

LEGISLATIVE REPORT

Federal Funding Shortfall

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Executive Summary

The state's 2025-27 Enacted Operating Budget¹ provided the Employment Security Department (Employment Security) with funds to temporarily backfill the agency's shortfall in federal funding for unemployment insurance (UI) and workforce services.

This is the third report² to detail the use of agency state funds and provide recommendations for long-term solutions to address the impact of federal funding reductions on the administration of the unemployment insurance (UI) program.

Highlights include:

- Federal funding never fully supports Washington's UI program, even as costs continue to increase.
- Federal Fiscal Year 2026 UI Administrative funding was reduced by 5.8% from the 2025 grant level, increasing the gap between federal funding and total operating costs.
- The 2025 supplemental budget removed previously appropriated General Fund-State funding for the shortfall and replaced it with state accounts. The 2025 supplemental budget also swapped General Fund-State and Workforce Education Investment Act (WEIA) funding previously approved for other Employment Security programs.
- Employment Security proposes a request for one time Reed Act funding to maintain UI program operations and meet customer demand.

Background

Budget proviso

The 2023 -2025 Enacted Operating Budget provided \$10 million of the General Fund-State (GF-S) appropriation for fiscal year (FY) 2024 and \$11,227,000 of the GF-S appropriation for FY 2025 solely to address a projected shortfall of federal revenue that supports the administration of the unemployment insurance (UI) program.

¹ [5167-S.SL.pdf](#)

² [2024 Federal Shortfall Report](#)

The FY 2023-25³ Enacted Supplemental Operating Budget provided additional funding for FY 2025 to continue addressing the federal revenue shortfall (\$9,963,000 of the Administrative Contingency Account-State appropriation and \$4,271,000 of the Employment Service Administrative Account-State appropriation).

The FY 2025-27 Enacted Operating Budget⁴ utilized Administrative Contingency Account funds (P&I) and Employment Services Administrative Account funds (CPP) to offset the UI Admin funding shortfall.

The proviso directs Employment Security to submit two reports to the governor and appropriate committees of the Legislature in November 2025 and November 2026 outlining how this funding was utilized and recommendations for long-term solutions to address future decreases in federal funding.

Federal funding history

Washington's UI program is primarily funded by a U.S. Department of Labor (USDOL) UI Administration grant. Federal funding is two-pronged:

1. Base funding that is awarded to states and distributed at the beginning of each federal fiscal year (FFY), and
2. Above-base funding awarded on a quarterly basis for caseloads above the base level.

Current federal funding is inadequate to support increased costs of UI operations. Additionally, the base UI Administrative grant will decrease from expected revenue levels by \$4 million for state fiscal year (SFY) 2026. Employment Security projects this reduction will carry forward into SFY2027.

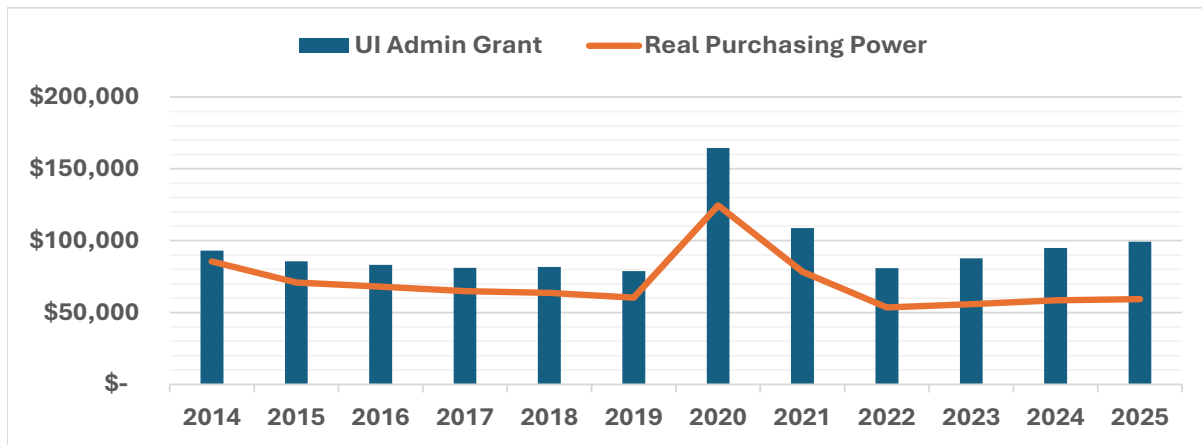
The federal funding model further fails to address states' needs to modernize technology systems and manage an increasingly complex post-pandemic fraud landscape.

USDOL administrative grant funding from 2010 to 2025 appears flat, as shown in Figure 1. When the funds received over the same period are adjusted by the annual consumer price index (CPI) for each year, the funding level is losing ground, by about 20 percent.

³ Engrossed Senate Substitute Bill [5950](#) (2024)

⁴ Engrossed Senate Substitute Bill [5167](#) (2025)

FIGURE 1. USDOL Federal Funding FFY 2010-2025, compared to purchasing power, rounded to thousands



Source: Agency Financial Reporting System (AFRS)

USDOL’s Resource Justification Model (RJM) is a data collection system used by state agencies to collect UI administrative expenditures from the most recently completed federal fiscal year to operate their UI programs. RJM data is integrated in the calculations of the amount of federal funds allocated to each state. This complex formula, owned and managed by USDOL, solely determines the UI base administrative funding allocated to the states.

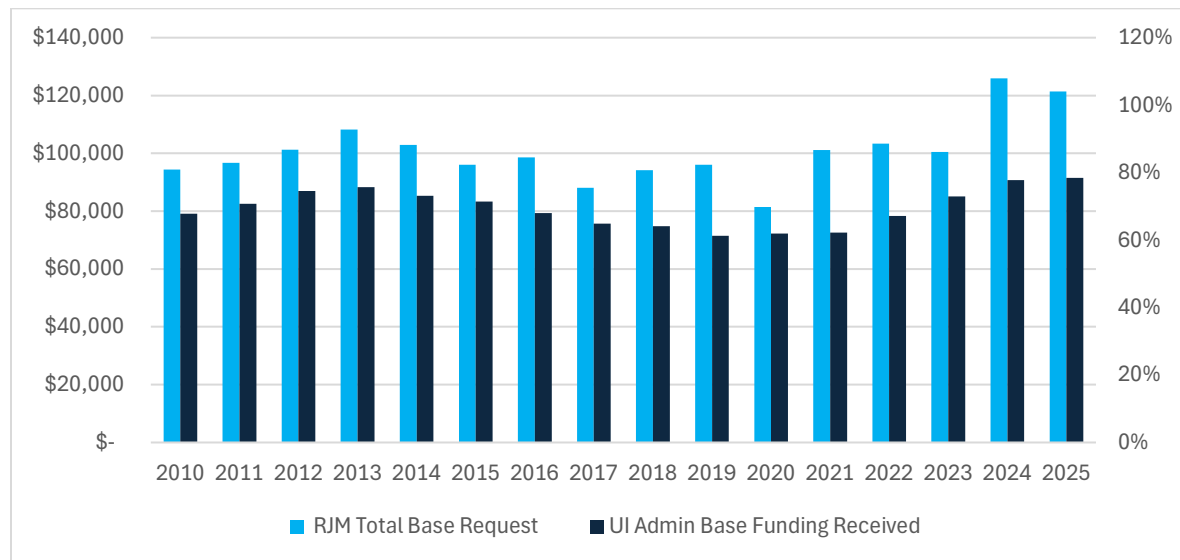
The model does not adequately account for the actual costs to maintain a UI program that meets adequate levels of performance or modern norms of customer service. The factors that determine the total expected cost for UI administration, such as salaries and productivity measures, have not been updated since the 1990s.

Inadequate federal funding makes it more challenging to maintain USDOL standards and customer expectations. In fact, federal base funding has not significantly increased since 2009. Nationally, the USDOL allocation for all state agencies was \$2.3B in FFY2010. In FFY2025, the total award is \$2.6B.

Figure 2 provides a 15-year historical look at Employment Security’s RJM requests, and the amount of base funding received. Federal funds awarded to Employment Security have not covered the total expenditures incurred to operate the UI program. That gap has been growing over the years as depicted below. The RJM base request is based on the expenditures from two years prior. The federal fiscal years 2024 and 2025 requests are based on expenditures from 2022 and 2023, respectively, which are during the Covid era. This increase is primarily

driven by additional staff, increase in appeals, and IT costs to meet the demands of Covid-related claims.

FIGURE 2. Federal grant v. request/need, non-adjusted for CPI, rounded to the thousands



Source: Agency Financial Reporting System (AFRS)

State accounts

Employment Security has never been fully funded by the federal UI Administration grant. Prior to the pandemic, federal funding met 83% of the costs to manage the UI program. Post-pandemic, federal funding is meeting on average only 76% of costs. To address the remaining costs of administering the UI program (along with other agency programs that do not receive sufficient federal funding), Employment Security has historically relied on two state resources:

- The Administrative Contingency Account (Fund 120, also known as Penalties and Interest, or P&I).
- The Employment Services Administrative Account (Fund 134, also known as the Claimant Placement Program, or CPP).

P&I receives revenues from penalties and interest from employers that file late or incorrect unemployment taxes and interest from UI recipients who must repay benefits to which they were not entitled.

CPP was established in 1985 and receives its revenues from an employer tax of 0.03% of taxable wages (for most classes of employers). This funding source was established to augment federal funds to support employment programs.

These accounts provide funding to support ongoing reemployment efforts, maintain systems and technology that support the UI and employment programs, compliance activities, labor market information reporting and analysis, data collection and analysis, and other mandatory programming.

Summary of funding

State fund projections

The following projection for the state funding sources, P&I and CPP, will continue to support the federal funding gap to deliver services.

In June 2024, Employment Security's Office of Actuarial Services projected an increase in revenue for SFY2026 and SFY2027 based on expected growth in employer taxable wages. Projected expenditures include a 3% annual increase due to inflation.

FIGURE 3: CPP- Fund 134 Projections, rounded to thousands*

	2025	2026	2027	2028	2029
Beginning balance	\$57,101	\$51,526	\$33,887	\$26,915	\$27,442
Revenue + Projections	\$48,163	\$49,969	\$51,768	\$53,632	\$55,563
Expenditure + Projections	\$53,738	\$67,608	\$58,740	\$53,105	\$52,730
Ending balance	\$51,526	\$33,887	\$26,915	\$27,442	\$30,275

Source: Agency Financial Reporting System (AFRS)

FIGURE 4: P&I- Fund 120 Projections, rounded to thousands*

	2025	2026	2027	2028	2029
Beginning balance	\$38,855	\$29,205	\$24,490	\$23,524	\$27,747
Revenue + Projections	\$26,573	\$20,856	\$21,694	\$22,567	\$23,474
Expenditure + Projections	\$36,224	\$25,570	\$22,660	\$18,344	\$18,140
Ending Balance	\$29,205	\$24,490	\$23,524	\$27,747	\$33,081

Source: Agency Financial Reporting System (AFRS)

Expenditure projections assume base funding only, at current levels. FY26 policy and maintenance level decision package requests are excluded. These requests would cover compensation, central services and technology implementation costs for which federal funding cannot absorb over the next four years. As an illustration of these projected costs, Employment Security anticipates an additional \$30.8 million in expenditures between FY26 and

FY29 to be covered by P&I and CPP leaving roughly \$7.4 million across the two accounts in FY29.

Unemployment Insurance trends

Washington's UI system is experiencing a year-over-year increase in claims—8% in new claims and 20% in continuing claims. Seasonal claim activity began earlier in the year compared to previous years, and an influx of layoffs across industries is adding sustained pressure on the system. Together these forces mean claimants are staying on UI longer and the program is managing higher volumes and greater complexity than in recent years. At the same time, post-pandemic fraud protections and identity crossmatch work continue to complicate and lengthen certain adjudication paths.

Operational response and progress

Agency operations have focused on preserving service delivery with the resources available: targeted temporary hiring, process automation for bulk work, cross-agency identity resolution, and focused customer-support initiatives. Those efforts have produced measurable operational improvements in phone handling, adjudication processing, and several fraud-prevention efficiencies, meaning staff are resolving more work per day even as volumes rise. Funding constraints, however, limit the program's ability to either scale overtime during peak season (October-March) or to expand permanent staffing.

Risks and outlook

Continuing claims are likely to exceed prior annual levels and service pressures will intensify if Washington's labor market distress persists. The biggest immediate risks are insufficient funding for peak-season overtime, the trade-off between rigorous fraud controls and timely payments, and the potential for call- and adjudication-backlogs to widen if volumes spike further. Employment Security is prioritizing efforts to sustain automation gains, preserve critical staffing flexibility, and refine identity- and fraud-logic so legitimate claimants are not delayed while protecting program integrity.

Implementation of the GF-S investment

The General Fund-State investment was used to maintain personnel and contract costs for the technology systems that support the UI program. Personnel costs make up 89% of monthly UI

expenses. Remaining funds were used to maintain contract requirements with UI technology vendors – specifically, UTAB and NGTS.

Long-term sustainability plan

To ensure funding for customer facing positions is sustainable, Employment Security enacted an agency-initiated freeze in spending in June 2025, prior to the state mandated spending freeze. The agency also reduced administrative and management positions. Both the freeze and reductions enabled the agency to maximize state funding and prioritize customer service delivery. Employment Security is continuing its hiring freeze with limited exceptions for critical work, while using state funds to supplement the shortfall in federal funds across a number of UI functions.

Employment Security was directed to include in this series of reports strategies to address future decreases in federal funding. In the immediate term. The agency has sought to address the shortfall through program efficiencies, where possible. For the long term, Employment Security is proposing additional state funding authority and access to limited federal “Reed Act” funding to maintain administrative funding for the UI program. Given these measures, reducing CPP and P&I spending or increasing revenue would need to be considered as components of a long-term sustainability plan for not only unemployment, but other Employment Security programs that are primarily federally funded.

Program efficiencies

Employment Security has implemented or is undertaking the following program efficiency measures:

- Initiated a regulatory review effort as part of the agency’s strategic plan; this work will help identify where regulatory changes could improve customer experience and service delivery.
- Implemented new phone-queue management, agent training, specialized teams, and data-driven performance support, delivering on average:
 - More than 50% decrease in call wait times;
 - Nearly 30% reduction in High Call Volume messages;
 - Increases in calls resolved per staff;
 - A decrease in more than 30% in calls per customer;

- Roughly a quarter fewer web notices; and
 - An increase of nearly 50% to daily write-rate per adjudication staff.
- Initiated a pilot to reduce call center hours two days a week to provide staff additional time to process work and thereby get claimants paid more quickly.
- Enhanced partnerships with WorkSource offices to include training for all UI ambassadors (job center staff) to assist claimants and complete ID verification on site (part of Employment Security's 2025 customer experience decision package).
- Made numerous system updates to improve the customer and staff experience by addressing customer and staff pain points. This in turn has reduced the number of issues delaying customers from receiving benefits, while also reducing staff workload.
- Enhanced claimant support through multilingual resources and instructional media:
 - Updated the Unemployed Worker Handbook to improve clarity and accessibility, now available in 10 languages.
 - Produced eight concise instructional videos addressing complex or frequently asked topics including filing for benefits and weekly claims and understanding the adjudication process.
- Extended one-year contracts with nine community-based organizations to conduct outreach, education and support services to their community members (Employment Security 2025 decision package).
- Completed website modernization effort for easier navigation and comprehension.
- Deployed a monthly employer newsletter to educate employers about Employment Security topics and processes.
- Implemented measures to reduce the percentage of ultimately eligible individuals flagged for fraud by 20% over the last two years, resulting in more timely benefit payments and reduced workload for staff.