NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES

NASWA State Supplemental Funding Survey

Results from the State Supplemental Funding Survey for FY 2014

March 31, 2015

NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES

Background

Over the last 21 years, the National Association of State Workforce Agencies (NASWA) has surveyed state workforce agencies to determine the amount of state funds used to supplement federal grants for a variety of federal workforce and unemployment insurance programs. The NASWA State Supplemental Funding Survey is the Association's longest running survey, with NASWA collecting supplemental funding information from states since 1994.

The NASWA State Supplemental Funding Survey (Survey), sponsored by the NASWA Administrative and Finance Committee (A&F), helps gauge the actual expenditures for Unemployment Insurance (UI), Wagner-Peyser Employment Services (ES), Workforce Investment Act (WIA) programs, labor market information (LMI) activities, interest payments on Title XII Unemployment Trust Fund Advances, and any other activities supported by state funds that cannot be classified into one single category.

The Survey also captures how states have spent the funds allocated to them from Reed Act distributions. Reed Act distributions, authorized under Section 903 of the Social Security Act, are implemented when the three federal accounts in the Unemployment Trust Fund (UTF) exceed their statutory limits at the end of a federal fiscal year. If this occurs, excess funds may be transferred to the individual State accounts in the UTF. These transfers are called "Reed Act" distributions.

In October 2014, NASWA released the latest State Supplemental Funding Survey to state workforce agency Finance Directors requesting supplemental funding data for FY 2014 (year ending June 30, 2014[1]). All fifty states, the District of Columbia and Guam responded to the Survey, representing the second successive year that supplemental funding information has been captured for all states in a fiscal year.

Table 1	
NASWA Supplemental Funding Survey: States Reporting	
Fiscal Year	Number
2002	47
2003	44
2004	45
2005	47
2006	46
2007	46
2008	45
2009	45
2010	45
2011	44
2012	44
2013	52
2014	52

In reporting supplemental funding information for FY 2014, NASWA asked states to specify the source of state supplemental funds and the amount from each account used for the programs and operations mentioned above. The four categories of funding sources include: State Penalty and Interest, State General Fund, State Administrative Tax, and Other Funds.

For Reed Act distributions, states were asked to specify the type of distribution used to supplement UI Administration, UI Benefits and ES Administration. The three Reed Act distributions[2] collected in this Survey are from the Special Reed Act, Regular Reed Act and the $8 Billion Reed Act distributions. Last year, the A&F Committee asked the states to report on how UI Supplemental

[1] Five states' fiscal years end on September 30th and one ends on August 31st
[2] Definitions for Reed Act distributions can be found at the end of this report

Budget Requests (SBRs) were allocated between UI and ES Administration funding. The request was continued for the FY 2014 Survey.

Survey Results

Table 2 below summarizes FY 2014 supplemental funding by source and program. The data shown below are actual expenditures, not obligations. Data reported by source of funding are summed to determine total state funds. In Table 2, each cell shows how much of each funding source was used for a given program[3].

Table 2						
NASWA State Supplemental Funding Survey						
FY 2014						
Source	***UI***	***ES***	***WIA***	***LMI***	***Other Programs***	***Total***
Penalty and Interest	**$143,794,323**	**$41,430,683**	**$2,613,589**	**$1,462,427**	**$8,554,441**	**$197,855,463**
State General Fund	**(1) 20,159,332**	**4,131,289**	**26,440,582**	**(4) 1,642,405**	**29,444,459**	**81,818,067**
State Admin Tax	**77,034,536**	**93,940,199**	**(2) 36,543,779**	**$569,425**	**1,528,642**	**209,616,581**
Other Sources	**1,000,000**	**19,500,000**	**(3) 135,779,413**	**$922,764**	**$87,115**	**157,289,292**
Subtotal	***$241,988,191***	***$159,002,171***	***$201,377,363***	***$4,597,021***	***$39,614,657***	***$646,579,403***
Special Reed Act	**$4,963,789**	**$7,934,343**				
Regular Reed Act	**1,572,064**	**6,502,186**				
$8 Billion Reed Act	**11,152,601**	**7,603,523**				
UI Modernization	**77,599,425**	**18,495,610**				
Total	***$337,276,070***	***$199,537,833***	***$201,377,363***	***$4,597,021***	***$39,614,657***	***$782,402,944***
Reed Act & UI Mod	**UI Admin**	**UI Benefits**	**ES Admin**	**Total UI**	**Total ES**	**Total Reed Act & UI Mod**
Special Reed Act	**$4,963,789**	**$0**	**$7,934,343**	**$4,963,789**	**$7,934,343**	**$12,898,132**
Regular Reed Act	**1,572,064**	**0**	**6,502,186**	**1,572,064**	**6,502,186**	**8,074,250**
$8 Billion Reed Act	**11,152,601**	**0**	**7,603,523**	**11,152,601**	**7,603,523**	**18,756,124**
UI Modernization	**77,599,425**	**8,144,322**	**18,495,610**	**85,743,747**	**18,495,610**	**104,239,357**
Total	***$95,287,879***	***$8,144,322***	***$40,535,662***	***$103,432,201***	***$40,535,662***	***$143,967,863***

Each year NASWA receives requests from states to share specific information on the number of states that reported a specific expenditure. At this time, NASWA has not received authority from states who have submitted data to release State specific responses. Table 3, below provides information on the number of states that entered a response in a particular cell.

[3] In this table (1) indicates at least 90 percent of the total amount shown came from one state, (2) indicates 95 percent came one state, (3) indicates 94 percent came from one state, and (4) 95 percent came from one state.

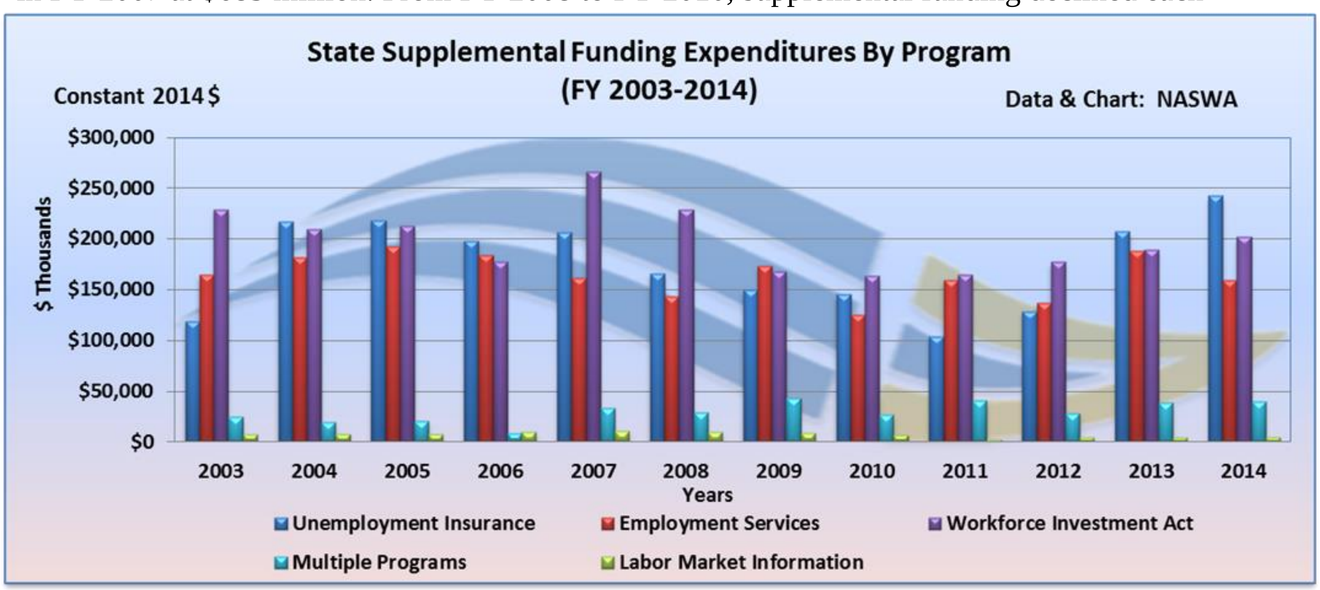
Table 3					
FY 2014 NASWA State Supplemental Funding--Number of States Reporting					
Source	***UI***	***ES***	***WIA***	***LMI***	***Other Programs***
Penalty and Interest	**35**	**18**	**3**	**5**	**5**
State General Fund	**4**	**7**	**9**	**2**	**4**
State Admin Tax	**13**	**13**	**4**	**5**	**2**
Other Sources	**10**	**2**	**8**	**4**	**1**
Special Reed Act	**5**	**2**			
Regular Reed Act	**4**	**4**			
$8 Billion Reed Act	**6**	**3**			
UI Modernization Funds	**29**	**3**			

FY 2014 State Supplementary Funding Expenditures

In FY 2014, state workforce agencies contributed slightly more than $646 million dollars of state funds to the above mentioned programs and activities, with an additional $40 million used for UI and ES from Reed Act distributions.

Approximately 93 percent of all supplemental funds provided by states went to three primary programs: UI, ES and WIA. Funding for LMI and activities across multiple programs received substantially less in comparison, reflecting the shift of data collection for labor market information from the state to the federal level.

Chart 1, below shows the trends in supplemental state funding for the five program categories that NASWA has captured in the previous eleven fiscal years adjusted for inflation in 2014 dollars[4]. As the chart illustrates, supplemental state funding over the past twelve years peaked in FY 2007 at $685 million. From FY 2008 to FY 2010, supplemental funding declined each



[4] Calculated using the Bureau of Labor Statistics Consumer Price Index.

year, as state tax revenues dropped significantly as the Great Recession and subsequent slow recovery constrained state resources. In FY 2011 and FY 2012, state supplemental funding remained essentially level, increasing by less than one percent each year respectively. Data for FY 2013 showed an increase in supplemental funding by states, with states reporting over $500 million in additional state funds, an increase of seven percent from FY 2012 to FY 2014[5]. Although the level of funding has increased in FY 2013 ($627 million) and FY 2014 ($646 million), the level reached in FY 2007 has not been surpassed.

FY 2014 State Supplementary Funding Sources

For FY 2014, states reported the primary funding sources used to supplement the above mentioned programs were Other Sources, Administrative Taxes, and Penalty and Interest fees, with the three making up about 88 percent of the total $646 million contributed by states.

The chart below illustrates that the sources of state supplemental funds have remained consistent over the ten year span, with State Administrative Taxes, Penalty and Interest Fees and Other Sources providing the majority of funds.

Funds provided from State Administrative Taxes have contributed the largest amount of funds during the eleven year period, providing almost $2.4 billion of a total of slightly over $7 billion. State agencies have been able to rely on State Administrative Taxes as the dominate account for funding in all but one of the prior eleven years.

Funding from State Penalty and Interest accounts have returned to pre-recession levels, recovering from the low contributions reported by states in FY 2011. This may be due to several factors including an increased emphasis on integrity efforts by the states and the continuing reduction in UI workloads from the highs of the Great Recession. As a result, state workforce agency staff have been able to focus more on integrity efforts by diverting resources from the processing of UI claims to meet the recession driven high demand.

Contributions from State General Funds have yet to approach the peak of $153 million reported by states in FY 2007 for State Operations. Since FY 2009, funding from State General Funds for workforce and UI programs has averaged approximately $60 million. From FY 2009 to FY 2013, contributions from State General Funds for the five programs declined likely as a result of reduced state tax revenue available during and after the Great Recession. The amount reported year to year for FY 2014 over FY 2013 shows a 45 percent increase. Although much of this increase is the result of one state receiving a significant state contribution to cover a UI Administrative shortfall. **Note:** as will be highlighted later on in this report, the states have used the source of funds as the primary source for funds to pay interest on Title XII Advances from the federal government.

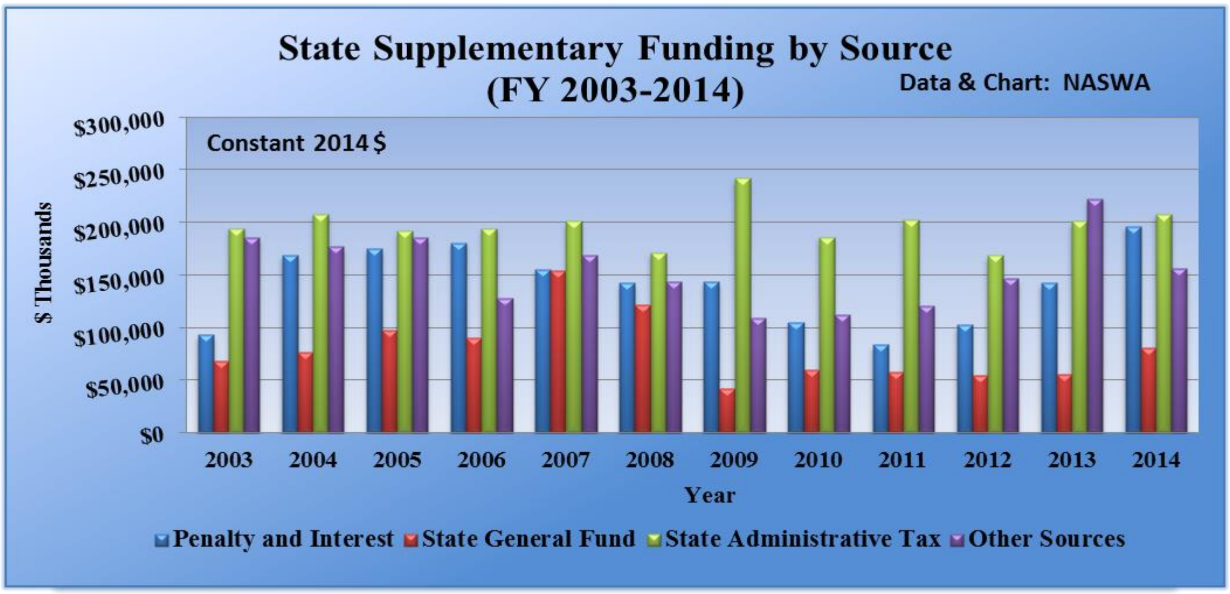
Missing state bias: Historical data is adjusted for changes in year-to-year inflation levels. However, the comparison of data over time is still impacted by which states reported each year. The number of states reporting has been relatively high (over 90 percent), implying the Survey

[5] States who did not respond to the FY 2011 and FY 2012 survey were removed from the percentage comparison. Eight additional states reported for FY 2013, adding an additional $119 million in supplemental funds.

does capture a relatively complete picture of state spending. The absence of states with significant spending will understate the funding levels shown. Whereas, the absence of states that spend very little would have a small impact. Since the yearly spending of missing states is not known, the best that can be said is that the numbers displayed are a minimum base. For example, spending is likely higher than the amount shown.

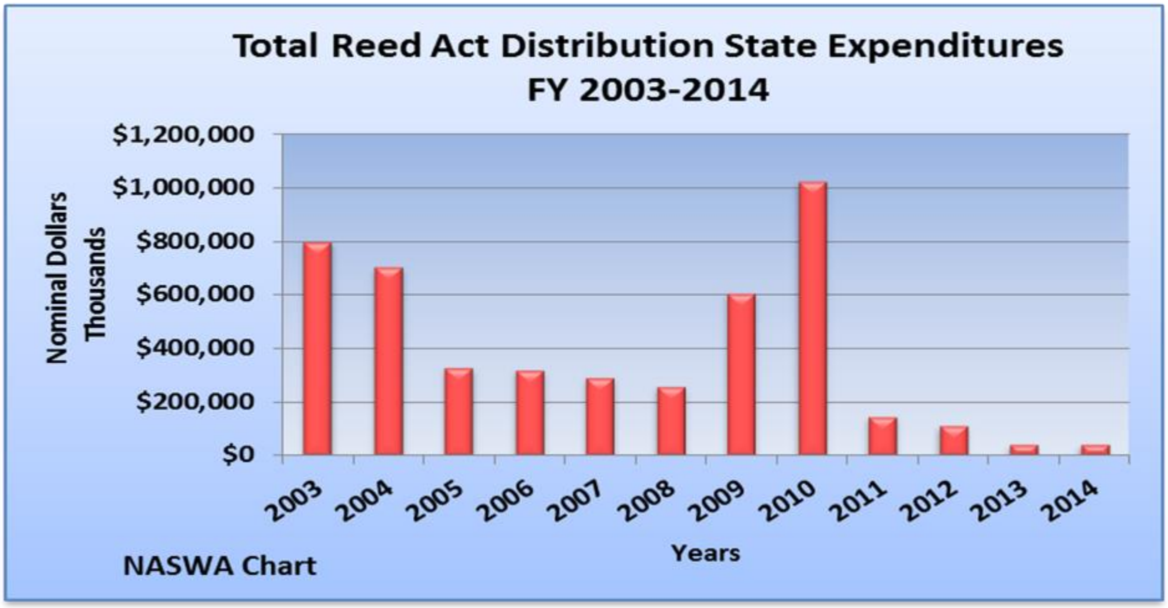
It is not known what the non-response bias is for data prior to FY 2013 as the variability of the data for states that did not report can be significant. Since all states reported in FY 2013 and FY 2014, the year to year comparison does not contain a non-response bias.

A comparative number for FY 2013 was computed based on the additional states that reported in that year versus the two prior years. The increase in the FY 2013 number, caused by the addition of eight states, was to increase the FY 2013 total by about $119 million or 17 percent of the final amount. If this applied to earlier years, and it may not, it would imply a non-response understatement bias of 15-20 percent for the prior years.



Reed Act Funds

In FY 2014, states reported approximately $40 million in Reed Act funds used to supplement UI and ES operations. While the total is virtually the same as in FY 2013, the mix within the three Reed Act funds is quite different for each year. The $8 billion Reed Act distribution that occurred in March 2002 provided slightly more than $36 million (approximately 90 percent) in FY 2013 but only $18 billion (less than 50 percent) in FY 2014 of the total Reed Act funds used. As the chart below shows, state use of Reed Act funds declined from FY 2003 to FY 2008 and then increased significantly in FY 2009 and FY 2010, as a result of the $8 billion allocation. After FY 2010, Reed Act expenditures dropped substantially, with the lowest amount expended in FY 2013 and FY 2014.



Payment of Interest on Title XII Advances for FY 2013 and FY 2014

At the direction of the NASWA A&F Committee, an additional category was added to the Survey in FY 2013 to capture the amount and source of state funds used to pay the interest on Title XII Advances from the Unemployment Trust Fund. In Table 4, the data for FY 2014 shows a significant drop, reflecting the reduction in Title XII advance from $20.74 billion at the end of FY 2013 to $13.59 billion at the end of FY 2014.

States receive Title XII Advances when their state unemployment trust funds do not have sufficient funds to pay benefits. With the large increase in individuals receiving unemployment benefits during and after the Great Recession, many states had to borrow from the Federal Unemployment Trust Fund to pay benefits. For FY 2014, states reported payment of approximately $461 million dollars in interest for Title XII advances, with 60 percent coming from State General Funds. States also used funds from Other Sources and State Administrative Taxes to provide the majority of remaining funding.

Table 4			
Payment of Interest on Title XII Advances			
Source	**FY 2013 Interest on Loans**	**FY 2014 Interest on Loans**	**Number of States**
Penalty and Interest	**$5,121,657**	**$0**	**0**
State General Fund	**377,878,066**	**276,174,435**	**3**
State Admin Tax	**138,675,596**	**130,266,886**	**3**
Other Sources	**233,835,782**	**54,944,472**	**5**
Total	***$755,511,101***	***$461,385,793***	

Federal Funding

Federal funding for the programs included in the Survey have remained relatively constant or have declined over the past few years as shown in Table 5, below. Funding levels for UI State Operations are largely driven by the economic assumptions that underlie the federal appropriation process and therefore shows a reduction as the economy continues to recover from the Great Recession. While the bulk of the funding for the programs covered in the Survey comes from federal funds, the contribution of state funds remains a critical component of the total funds available.

Table 5				
Federal Appropriations				
Training & Employment Services				
Program	FY 2012	FY 2013	FY 2014	FY 2015
WIA Adult Employ & Training	$770,810	$730,624	$766,080	$776,736
WIA Youth Activities	824,353	781,375	820,430	831,842
Dislocated Workers Employ & Training	1,006,498	958,652	1,001,598	1,015,530
Total	2,600,316	2,470,651	2,588,108	2,624,108
SUIESO				
UI State Operations	$3,165,161	$3,184,531	2,949,685	2,757,793
ES State Administration	700,842	664,184	664,184	664,184
Employment Service				
One-Stop /LMI	$64,473	$36,188	$60,153	$60,153

Conclusion

The results from the FY 2014 NASWA State Supplemental Funding Survey show state supplemental funding appears to continue to increase from the low period during the Great recession and play a relatively significant role in funding programs. Not all states utilize state funds to cover program operations and this could be due to a variety of reason including: need, availability of funds, and the ability to access them. State that do utilize the funds generally talk about the critical role they play in the operations of state programs and in some cases demonstrate the shortfall of federal funding.

In FY 2014, federal funding levels are higher than FY 2013 for many programs but not return to the FY 2012 level as shown in Table 5. State workforce agencies will likely have to rely more on state funding for these programs, as the outlook for increased federal funding is very remote. In addition, there will be a continued reduction in the amount of UI Administrative funds available to states as long as the economy continues to improve due to lower workloads. There will be an additional impact on some states where the availability of UI benefits has been reduced.

Survey Definitions

Penalty and Interest Funds

In every state, an employer is subject to certain interest or penalty payments for delay or default in payment of contributions, and usually incurs penalties for failure or delinquency in filing required reports. All states except Minnesota have set up special administrative funds, made up of such interest and penalties, to meet special needs. The most usual statement of purpose includes one or more of these three items:

- To cover expenditures for which Federal funds have been requested but not yet received, subject to repayment to the fund;
- To pay costs of administration found not to be properly chargeable against funds obtained from Federal sources; or
- To replace funds lost or improperly expended for purposes other than, or in amounts in excess of, those found necessary for proper administration.

A few of these states provide for the use of such funds for the purchase of land and erection of buildings for agency use or for the payment of interest on Federal advances. In some states, the fund is capped; when it exceeds a specified sum, the excess is transferred to the unemployment fund or, in one state, to the general fund.

State General Fund

In government accounting, this is a fund used to account for all assets and liabilities of a nonprofit entity except those particularly assigned for other purposes in another more specialized fund. It is the primary operating fund of a governmental unit. Much of the usual activities of a municipality are supported by the general fund. Examples are the purchase of supplies and meeting operating expenditures. An example of a specialized fund, on the other hand, is the capital projects fund that accounts for financial resources used for the acquisition or construction of major capital facilities.

State Administrative Tax

Taxes for UI Administration or Non-UI Purposes —States also collect a wide array of taxes which are established for administrative purposes. These purposes may be UI administration, job training, employment service administration, or special improvements in technology. These taxes are not deposited in the state’s unemployment fund, but in another fund designated by state law. Since Federal grants for the administration of the UI program may not be used to collect non-UI taxes, almost all legislation establishing non-UI taxes provide that a portion of the revenues generated will be used for payments of costs of collecting the tax. Expired taxes are not listed.

UI Supplemental Budget Requests

Unemployment Insurance Supplemental Budget Requests (SBRs) are additional funding the U.S. Department of Labor has made available to state workforce agencies to modernize and improve their UI businesses processes and information technology systems. Please report your state's expenditures of SBRs for FY 2014 based upon whether they were spent on UI Administration, UI Benefits, or ES Administration.

Reed Act

Reed Act Distributions are authorized under Section 903, of the Social Security Act, which provides that when, among other things, three accounts in the Unemployment Trust Fund (UTF) reach their statutory limits at the end of a Federal fiscal year, and any excess funds will be transferred to the individual State accounts in the UTF. These transfers are called "Reed Act" distributions.

Under the SSA, the primary purpose of Reed Act funds is the payment of "cash benefits to individuals with respect to their unemployment, exclusive of expenses of administration" (Section 903(c)(1), SSA). However, subject to conditions specified in Section 903(c) (2), SSA, a State is permitted, at its discretion, to use Reed Act funds for "the administration of its unemployment compensation law and public employment offices."

There are three groups of Read Act Distributions. Funds should be reported based on the particular group by which the state received the funds. The three groups are:

Regular Reed Act: Distributions which occurred:

July 1, 1956	**$33.4 million**
July 1, 1957	**$71.0 million**
July 1, 1958	**$33.5 million**
Oct. 1, 1998	**$15.9 million**

Special Reed Act: Distributions which occurred:

October 1, 1999	**$100.0 million**
October 1, 2000	**$100.0 million**
October 1, 2001	**$100.0 million**

$8 Billion Reed Act: Distribution which occurred:

March 13, 2002	**$8,000 million**