



NASWA State Supplemental Funding Survey

Results from the State Supplemental Funding Survey for FY 2015

March 31, 2016

Background

Over the last 22 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 (Survey) is the Association's longest running survey, with NASWA collecting supplemental funding information from states since 1994.

The NASWA 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 2015, NASWA released the latest State Supplemental Funding Survey to state workforce agency Administrators and Finance Directors requesting supplemental funding data for FY 2015 (year ending June 30, 2015¹). Forty Nine states plus the District of Columbia and Guam responded to the Survey, the only state not to respond was very small and had relatively small expenditures in past surveys. With this one exception, the Survey has had three successive years where the data presents a "complete" pictures of state spending to support the workforce system.

In reporting supplemental funding information for FY 2015, 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 distributions² collected in this Survey are from the Special Reed Act, Regular Reed Act and the

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
2015	51

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

\$8 Billion Reed Act distributions. The A&F Committee asked the states to report on how UI Supplemental Budget Requests (SBRs) were allocated between UI and ES Administration funding. The request was continued for the FY 2015 Survey.

Survey Results

Table 2 below summarizes FY 2015 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.

Table 2							
NASWA State Supplemental Funding							
FY 2015 Preliminary							
	UNEMPLOYMENT INSURANCE	EMPLOYMENT SERVICES	WIA	LMI	Multiple Programs	GRAND TOTAL	Interest on Title XII Advances
Source	UI	ES	WIA	LMI	Other Programs	Total	Interest on Loans
Penalty and Interest	\$188,667,485	\$35,882,773	\$6,921,932	\$1,862,157	\$16,159,379	\$249,493,726	\$2,060,320
State General Fund	35,517,837	5,811,975	20,221,713	1,496,588	29,089,108	92,137,221	254,548,515
State Admin Tax	55,671,517	107,166,827	30,552,822	175,743	1,377	193,568,286	90,241,985
Other Sources	82,436,887	1,487,237	141,635,199	1,159,357	683,460	227,402,140	30,981,601
Subtotal	\$362,293,726	\$150,348,812	\$199,331,666	\$4,693,845	\$45,933,324	\$762,601,373	\$377,832,421
Special Reed Act	\$27,397,308	\$7,668,359					
Regular Reed Act	6,410,389	10,502,818					
\$8 Billion Reed Act	28,116,320	5,312,746					
UI Modernization Funds	62,543,679	23,486,675					
Total	\$486,761,422	\$197,319,410	\$199,331,666	\$4,693,845	\$45,933,324	\$934,039,667	\$377,832,421
Reed Act & UI Modernization Funds Breakout	UI Administration	UI Benefits	ES Administration	Total UI	Total ES	Total Reed Act & Modernization Funds	
Special Reed Act	\$27,397,308	\$0	\$7,668,359	\$27,397,308	\$7,668,359	\$35,065,667	
Regular Reed Act	6,410,201	188	10,502,818	6,410,389	10,502,818	16,913,207	
\$8 Billion Reed Act	28,116,320	0	5,312,746	28,116,320	5,312,746	33,429,066	
UI Modernization Funds	62,009,592	534,087	23,486,675	62,543,679	23,486,675	86,030,354	
Total	\$123,933,421	\$534,275	\$46,970,598	\$124,467,696	\$46,970,598	\$171,438,294	

In Table 2, several cells deserve special mention, including:

- ✓ **UI-Penalty & Interest:** Forty one percent of the amount shown is from one state;
- ✓ **UI-State General Fund:** Seventy three percent of the amount shown is from one state;
- ✓ **WIA-State Admin Tax:** Seventy five percent of the amount shown is from one state;
- ✓ **WIA-Other Sources:** Ninety four percent of the amount shown is from one state;
- ✓ **LMI-State General Fund:** Ninety three percent of the amount shown is from one state;
- ✓ **UI-Special Reed Act:** Eighty six percent of the amount shown is from one state;
- ✓ **ES-Special Reed Act:** All of this amount is from one state; and
- ✓ **UI Benefits-UI Modernization Funds:** All of this amount is from one state.

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.

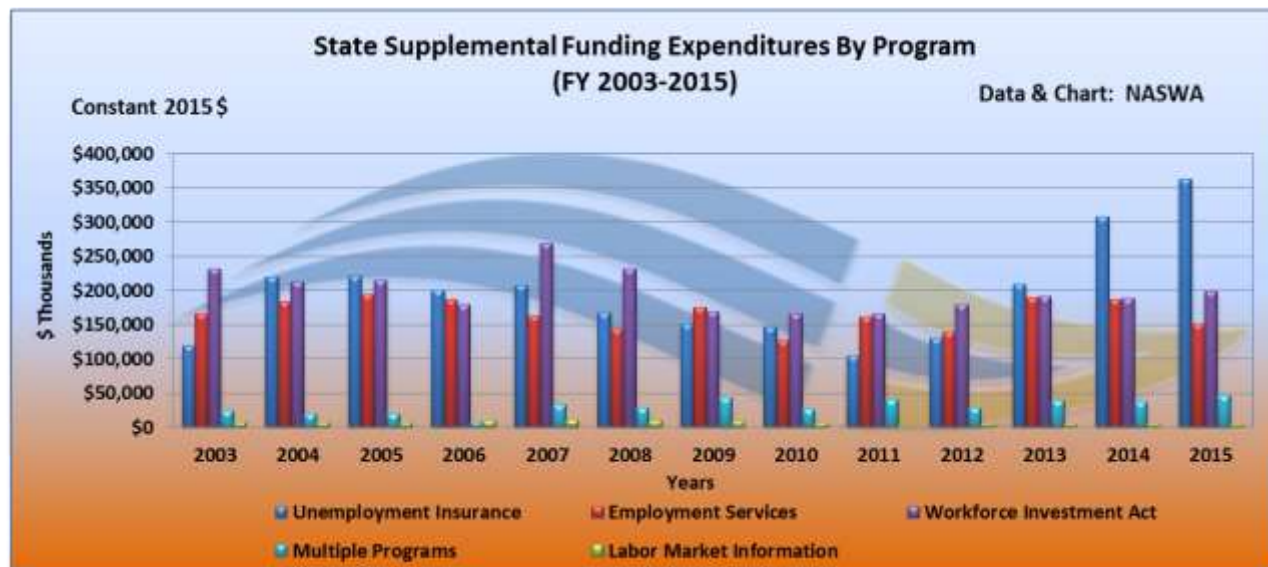
Table 3					
FY 2015 NASWA State Supplemental Funding--Number of States Reporting					
Source	UI	ES	WIA	LMI	Multiple Programs
Penalty and Interest	41	15	5	10	7
State General Fund	10	8	8	3	5
State Admin Tax	15	13	4	3	1
Other Sources	11	4	6	3	2
Special Reed Act	5	1			
Regular Reed Act	4	2			
\$8 Billion Reed Act	7	4			
UI Modernization Funds	27	4			
Reed Act & UI Modernization Funds	UI Administration	UI Benefits	ES Administration		
Special Reed Act	5	0	1		
Regular Reed Act	3	1	2		
\$8 Billion Reed Act	7	0	4		
UI Modernization Funds	26	1	4		

FY 2015 State Supplementary Program Funding Expenditures

In FY 2015, state workforce agencies contributed \$763 million dollars of state funds to the above mentioned programs and activities, with an additional \$85 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, along with the accompanying Table 4, shows the trends in expenditures for each of the five programs. Funding for UI program declined from the level in FY 2007, and remained at lower levels until FY 2013, largely reflecting the increase in Penalty and Interest funds available. Funding for WIA remained relatively constant over the period, but very few states supported the program.



**Table 4
State Supplementary Program Expenditures FY 2007-2015 (\$ 2015)**

Year	Unemployment Insurance	Employment Services	Labor Market Information	WIA	Multiple Programs	Grant Total
2007	\$207,866,163	\$163,039,811	\$10,690,414	\$268,274,449	\$33,552,062	\$683,422,899
2008	\$167,316,240	\$144,124,981	\$10,014,728	\$231,286,084	28,984,158	581,726,191
2009	\$150,500,257	\$174,703,342	\$9,053,617	\$169,468,077	43,509,290	547,234,583
2010	\$146,637,564	\$126,360,685	\$6,796,185	\$165,375,436	26,561,682	471,731,551
2011	\$104,940,527	\$161,148,781	\$2,443,376	\$165,987,271	40,478,741	474,998,696
2012	\$129,830,068	\$138,252,651	\$4,239,483	\$178,863,426	28,452,314	479,637,942
2013	\$208,916,007	\$189,961,324	\$4,267,280	\$191,418,132	38,751,607	633,314,350
2014	\$307,617,076	\$140,094,531	\$4,602,478	\$201,616,393	39,614,657	693,545,135
2015	\$362,293,726	\$150,348,812	4,693,845	\$199,331,666	45,933,324	762,601,373
Total	\$1,785,917,628	\$1,388,034,918	\$56,801,406	\$1,771,620,933	\$325,837,835	\$5,328,212,721

FY 2015 State Supplementary Funding Sources

For FY 2015, states reported the primary funding sources used to supplement the above indicated programs were Other Sources, Administrative Taxes, and Penalty and Interest fees, with the three making up about 88 percent of the total \$763 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.

The chart and Table 5 show the trends in supplemental state funding for the four primary sources that NASWA has captured in the previous twelve fiscal years adjusted for inflation in 2015 dollars. As the chart and table illustrate, supplemental state funding over the past twelve years reached a level in FY 2007 at \$692 million a level not reached again until FY 2014. From FY 2008 to FY 2010, supplemental funding declined each year, as state tax revenues dropped significantly as the Great Recession and subsequent slow recovery constrained state resources.

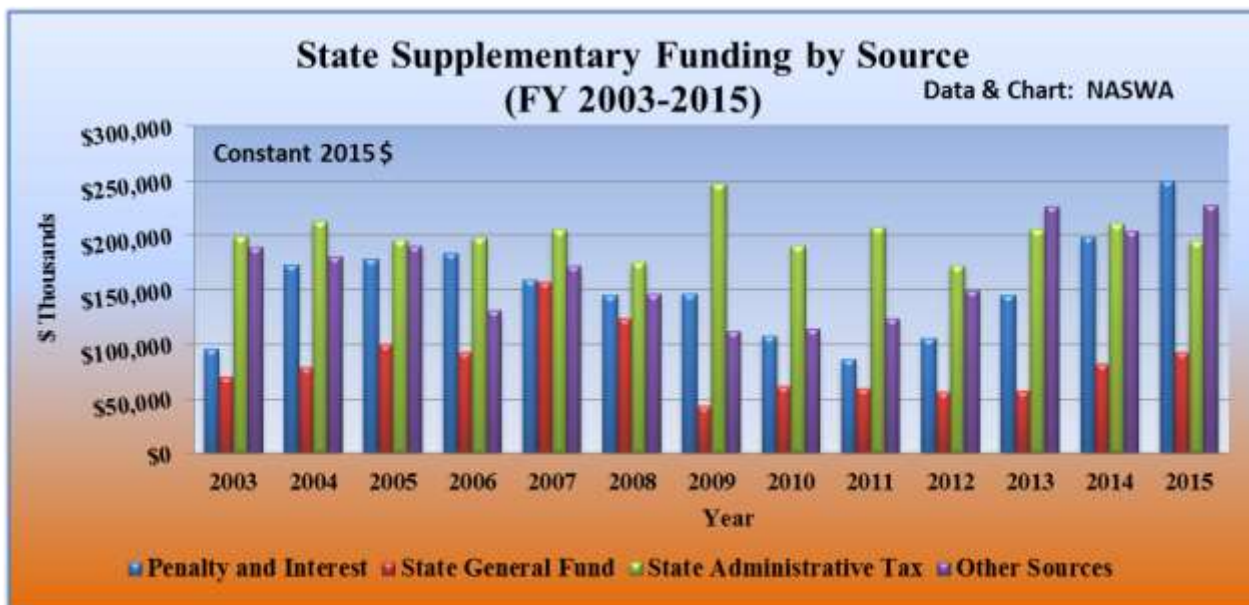
From FY 2010 to FY 2012, state supplemental funding remained essentially level, increasing by about one percent each year, respectively. Data for FY 2013 showed an over 30 percent increase in supplemental funding, with states reporting over \$150 million in additional state funds, an increase of forty percent from FY 2012 to FY 2014. (Note the relative changes for years before FY2013 are likely impacted to some degree by states that did not responded to early surveys— see section on missing state bias later in this paper. Changes for FYs 13, 14, and 15 are not subject to this bias). Although the level of funding has increased in FY 2013 (\$627 million), FY 2014 (\$646 million), and FY 2015 (\$763 million) the level reached in FY 2007 was not surprised until FY 2014.

There has been a relatively large increase in the amount shown for UI from Penalty & Interest, and while the increase has been across many states, one state accounted for a significant portion of the increase shown from FY 2013 to FY 2014 (\$20m) and FY 2014 to FY 2015 (\$30m).

Significant changes have also occurred in the same period for State Administrative funding and or Other Sources. Funds provided from State Administrative Taxes have contributed the largest amount of funds during the thirteen year period only surprised as the primary source of funds by penalty and interest in FY 2015.

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 \$157 million reported by states in FY 2007 for State Operations. From FY 2009 to FY 2013, contributions from State General Funds for the five programs declined but have increased in FY 2014 and FY 2015 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 with an additional 14 percent from FY 2014 to FY 2015.



Constant 2015 \$	2007	2008	2009	2010	2011	2012	2013	2014	2015
Penalty and Interest	\$158,637,196	\$145,356,185	\$145,976,270	\$107,517,478	\$85,526,408	\$104,838,231	\$144,912,681	\$198,090,313	\$249,493,726
State General Fund	156,646,011	123,801,044	43,206,565	60,875,118	59,436,505	55,448,161	56,762,619	81,915,183	92,137,221
State Admin Tax	204,915,234	174,634,496	246,327,344	189,289,652	206,562,989	171,774,486	204,898,080	209,865,391	193,568,286
Other Sources	171,898,497	146,287,775	111,724,404	114,049,303	123,491,110	149,257,732	226,740,970	203,721,270	227,402,140
Total	\$692,096,938	\$590,079,501	\$547,234,583	\$471,731,551	\$475,017,013	\$481,318,610	\$633,314,350	\$693,592,156	\$762,603,388

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 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.

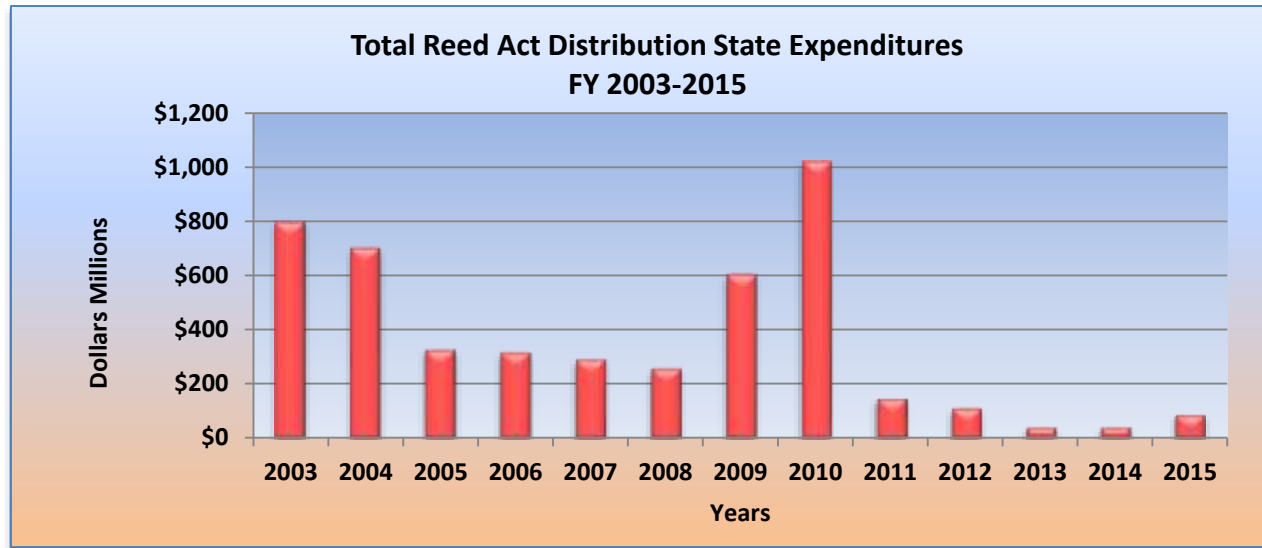
It is not known what the non-response bias is for data prior to FY 2013 as the variability of the data for states that did not report can be significant. Since all states reported in FY 2013 and FY 2014, the year to year comparison does not contain a non-response bias.

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 2015, states reported approximately \$85 million in Reed Act funds used to supplement UI and ES operations. This represents an amount double the funds used in FY 2013 and FY 2014 with the increase primarily in funds used to support UI Administration. Two states accounted for almost all of the amount using Special Reed act funds. One state accounted for all of the Special Reed Act funds used for ES Administration.

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 and about 40 percent in FY 2015 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 and a relatively large increase from FY 2014 to FY 2015 but still less than FY 2010.



Payment of Interest on Title XII Advances for FY 2014 and FY 2015

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 6, the data for FY 2015 shows a slight drop, reflecting the reduction in Title XII advances from to \$13.59 billion at the end of FY 2014 to \$7.355 billion at the end of FY 2015.

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 2015, states reported payment of approximately \$378 million dollars in interest for Title XII advances, with 67 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 6				
Payment of Interest on Title XII Advances				
Source	FY 2014 Interest on Loans	FY 2015 Interest on Loans	FY 2014 Number of States Reporting	FY 2015 Number of States Reporting
Penalty and Interest	\$0	\$2,060,320	0	1
State General Fund	276,174,435	\$254,548,515	3	2
State Admin Tax	130,266,886	\$90,241,985	3	4
Other Sources	54,944,472	30,981,601	5	7
Total	\$461,385,793	\$361,936,887		

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 7, 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 7					
Federal Appropriations					
Training & Employment Services					
Program	FY 2012	FY 2013	FY 2014	FY 2015	FY2016
WIA Adult Employ & Training	\$770,810	\$730,624	\$766,080	\$776,736	\$815,556
WIA Youth Activities	824,353	781,375	820,430	831,842	873,416
Dislocated Workers Employ & Training	1,006,498	958,652	1,001,598	1,015,530	1,020,860
Total	\$2,600,316	\$2,470,651	\$2,588,108	\$2,624,108	\$2,709,832
SUIESO					
UI State Operations	\$3,165,161	\$3,184,531	\$2,949,685	\$2,757,793	\$2,635,547
ES State Administration	700,842	664,184	664,184	664,184	680,000
Employment Service					
One-Stop /LMI	\$64,473	\$63,861	\$60,153	\$60,153	\$67,653

Conclusion

The results from the FY 2015 NASWA State Supplemental Funding Survey show state supplemental funding appears to continue to increase from the low period during the Great recession and plays 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. States 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 2015, federal funding levels are higher than FY 2014 for many programs, but not UI Administrative Funds which continue their steady decline from recession highs. 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 Reed 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
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