

NASWA State Supplemental Funding Survey

**Results from the
State Supplemental Funding Survey**

FY 2016 | March 31, 2017

Background

Over the last 23 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 Innovation and Opportunity Act (WIOA) 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 2016, NASWA released the latest State Supplemental Funding Survey to state workforce agency Administrators and Finance Directors requesting supplemental funding data for FY 2016 (year ending June 30, 2016¹). Fifty states plus the District of Columbia and Guam responded to the Survey. This makes three of the last four years where all states have responded to the survey. The states not responding in 2015 had relatively small expenditures in past surveys.

In reporting supplemental funding information for FY 2016, 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.

Table 1	
NASWA Supplemental Funding Survey	
Year	States Reporting
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	48
2016	52

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

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 2016 Survey.

Survey Results

Table 2 below summarizes FY 2016 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 2016 Preliminary							
NASWA State Supplemental Funding	UNEMPLOYMENT INSURANCE	EMPLOYMENT SERVICES	WIOA	LMI	MULTIPLE SOURCES	GRAND TOTAL	Interest on Title XII Advances
Source	UI	ES	WIOA	LMI	Other Programs	Total	Interest on Loans
Penalty and Interest	\$264,795,112	\$31,194,870	\$15,419,967	\$2,024,990	\$12,723,163	\$326,158,102	\$0
State General Fund	31,764,060	9,953,367	31,307,226	1,440,400	30,128,793	104,593,846	171,051,109
State Admin Tax	58,677,263	90,472,738	35,795,936	3,379,301	1,892,640	190,217,878	38,007,960
Other Sources	97,538,726	9,326,706	100,777,711	392,347	424,450	208,459,940	108,317
Subtotal	\$452,775,161	\$140,947,681	\$183,300,840	\$7,237,038	\$45,169,046	\$829,429,766	\$209,167,386
Special Reed Act	\$5,587,792	\$228,934					
Regular Reed Act	7,193,153	13,621,114					
\$8 Billion Reed Act	10,300,227	0					
UI Modernization Funds	94,507,644	23,768,281					
Total	\$570,363,977	\$178,566,010	\$183,300,840	\$7,237,038	\$45,169,046	\$984,636,911	\$209,167,386
Reed Act & UI Modernization Funds Breakout	UI Administration	UI Benefits	ES Administration	Total UI	Total ES	Total Reed Act & Modernization Funds	
Special Reed Act	\$5,587,792	\$39,592	\$228,934	\$5,627,384	\$228,934	\$5,856,318	
Regular Reed Act	7,193,153	0	13,621,114	7,193,153	13,621,114	20,814,267	
\$8 Billion Reed Act	10,300,227	0	0	10,300,227	0	10,300,227	
UI Modernization Funds	3,197,450	1,544,775	23,768,281	4,742,225	23,768,281	28,510,506	
Total	\$26,278,622	\$1,584,367	\$37,618,329	\$27,862,989	\$37,618,329	\$65,481,318	

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

- ✓ **UI-Penalty & Interest:** Forty-seven percent of the amount shown is from one state;
- ✓ **UI-State General Fund:** Sixty percent of the amount shown is from one state;
- ✓ **UI-State General Fund:** Ninety-one percent is from three states;
- ✓ **UI Other Sources:** Fifty-three percent is from one state;
- ✓ **WIOA-State Admin Tax:** Ninety percent of the amount shown is from one state;
- ✓ **WIOA-Other Sources:** Ninety-two percent of the amount shown is from one state;
- ✓ **LMI-State General Fund:** Ninety-four percent of the amount shown is from one state;
- ✓ **ES-Special Reed Act:** All of this amount is from three states; and
- ✓ **UI Benefits-UI Modernization Funds:** All of this amount is from one state.

Additional detail for UI funding is shown in Table 3, below.

Table 3					
UI Funding Breakout 2016					
	# States	Min	Max	Median	Average
Penalty and Interest	42	\$25,656	\$124,414,000	\$1,753,414	\$6,304,645
State General Fund	9	14,626	19,313,486	717,534	3,529,340
State Admin Tax	17	264,026	14,201,666	1,991,015	3,451,604
Other Sources	12	214,737	51,837,902	2,909,324	8,128,227

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 4, below provides information on the number of states that entered a response in a particular cell.

Table 4					
FY 2016 NASWA State Supplemental Funding--Number of States Reporting					
Source	UI	ES	WIA	LMI	Multiple Programs
Penalty and Interest	42	14	6	9	7
State General Fund	9	11	9	3	3
State Admin Tax	17	11	6	5	2
Other Sources	12	5	5	2	1
Special Reed Act	8	2			
Regular Reed Act	4	3			
\$8 Billion Reed Act	5	0			
UI Modernization Funds	28	4			
Reed Act & UI Modernization Funds	UI Administration	UI Benefits	ES Administration		
Special Reed Act	8	1	2		
Regular Reed Act	4	0	3		
\$8 Billion Reed Act	5	0	0		
UI Modernization Funds	28	1	4		

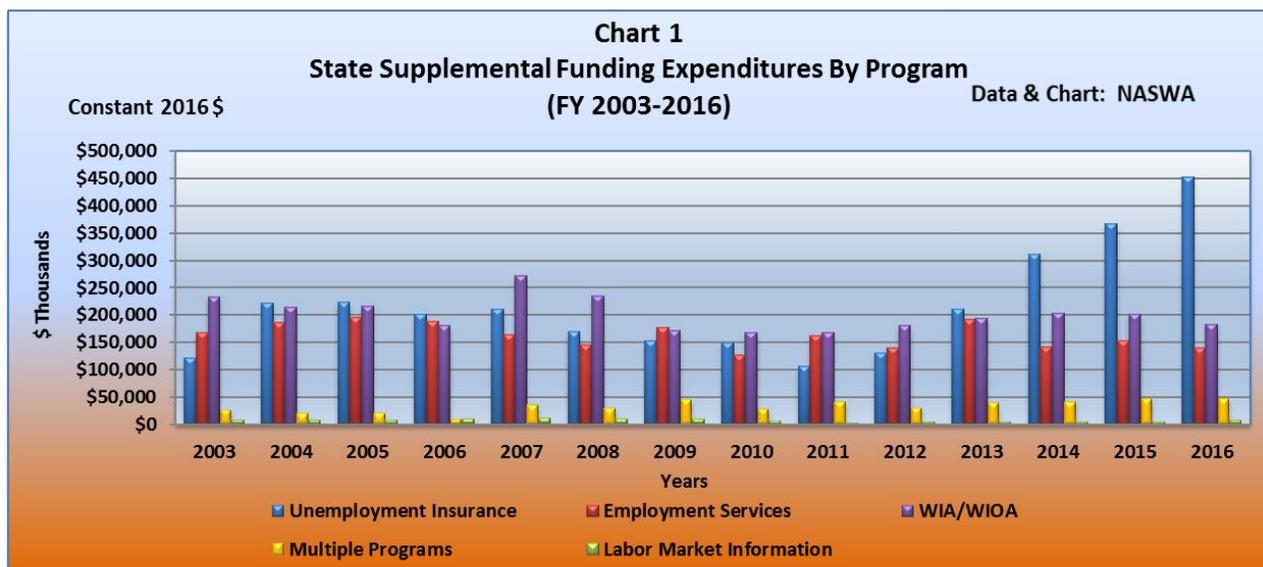
FY 2016 State Supplementary Program Funding Expenditures

In FY 2016, state workforce agencies contributed \$829 million dollars of state funds to the above mentioned programs and activities, with an additional \$37 million used for UI and ES from Reed Act distributions.

Approximately 94 percent of all supplemental funds provided by states went to three primary programs: UI, ES and WIOA. 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 5, 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. P&I funding shows a relatively significant increase from FY 2013 to FY 2016 and while the figures reported by states show some year to year variability, the increase is largely due to significant increase in a small number (less than 5) of states. Funding for WIA remained relatively constant over the period, but very few states supported the program. In order to allow year to year comparisons, all funding level have been adjusted to FY 2016 dollars.



Year	Unemployment Insurance	Employment Services	Labor Market Information	WIA/WIOA	Multiple Programs	Grant Total
2007	\$210,488,422	\$165,096,579	\$10,825,275	\$271,658,766	\$33,975,325	\$692,044,367
2008	169,426,956	145,943,136	10,141,065	234,203,787	28,984,158	588,699,103
2009	152,398,837	176,907,248	9,167,830	171,605,938	43,509,290	553,589,143
2010	148,487,416	127,954,741	6,881,920	167,461,668	26,561,682	477,347,427
2011	106,264,365	163,181,694	2,474,200	168,081,222	40,478,741	480,480,222
2012	131,467,891	139,996,726	4,292,965	181,119,812	28,452,314	485,329,706
2013	211,551,509	192,357,711	4,321,112	193,832,896	38,751,607	640,814,836
2014	311,497,705	141,861,841	4,660,538	204,159,810	39,614,657	701,794,552
2015	366,864,108	152,245,482	4,693,845	201,846,261	45,933,324	771,583,019
2016	452,775,147	140,947,681	7,237,038	183,300,840	45,169,046	829,429,752
Total	\$2,261,222,356	\$1,546,492,839	\$57,458,750	\$1,977,271,000	\$326,261,098	\$5,391,682,375

FY 2016 State Supplementary Funding Sources

For FY 2016, states reported the primary funding sources used to supplement the programs discussed above. The four sources included: Penalty and Interest, State General Revenue Funds,

State Administrative Taxes, and Other Sources. For a description of the source funding see the Survey Definitions at the end of this report.

Chart 2 and Table 6 below, show the trends in supplemental state funding for the four primary sources that NASWA has captured in the previous thirteen fiscal years adjusted for inflation in FY 2016 dollars. As shown in Chart 2:

- State Administrative Taxes with the exception of FY 2009, have remained relatively constant,
- State General Funds increased during the Great Recession, declined significantly from FY 2009 to FY 2013 and have grown slightly since then,
- Penalty and Interest dropped from FY 2010 to FY 2013 but have increased since then (see earlier comment on this increase), and
- Other Sources have grown slightly over the period displayed but have generally remained relatively constant.

The total funding for each year in Table 6 shows that supplemental state funding over the past thirteen years reached a level in FY 2007 at \$701 million a level not reached again until FY 2014. From FY 2008 to FY 2012, 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 32 percent increase in supplemental funding, with states reporting over \$155 million in additional state funds, an increase of over 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 respond to early surveys—see section on missing state bias later in this paper. Changes for FYs 13, 14, 15, and 16 are not subject to this bias). Although the level of funding has increased since FY 2013 the level reached in FY 2007 was not surpassed 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 from FY 2013 to FY 2016.

State Administrative Tax and Other Sources funding as varied some from year to year but the levels in FY 2016 are not very different from the levels shown for FY 2007. Funds provided from State Administrative Taxes have contributed the largest amount of funds during the fourteen-year period, followed by Other Sources with Penalty and Interest only slightly less.

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, FY 2015, and FY 2016, likely as a result of reduced state tax revenue available during, and after, the Great Recession.

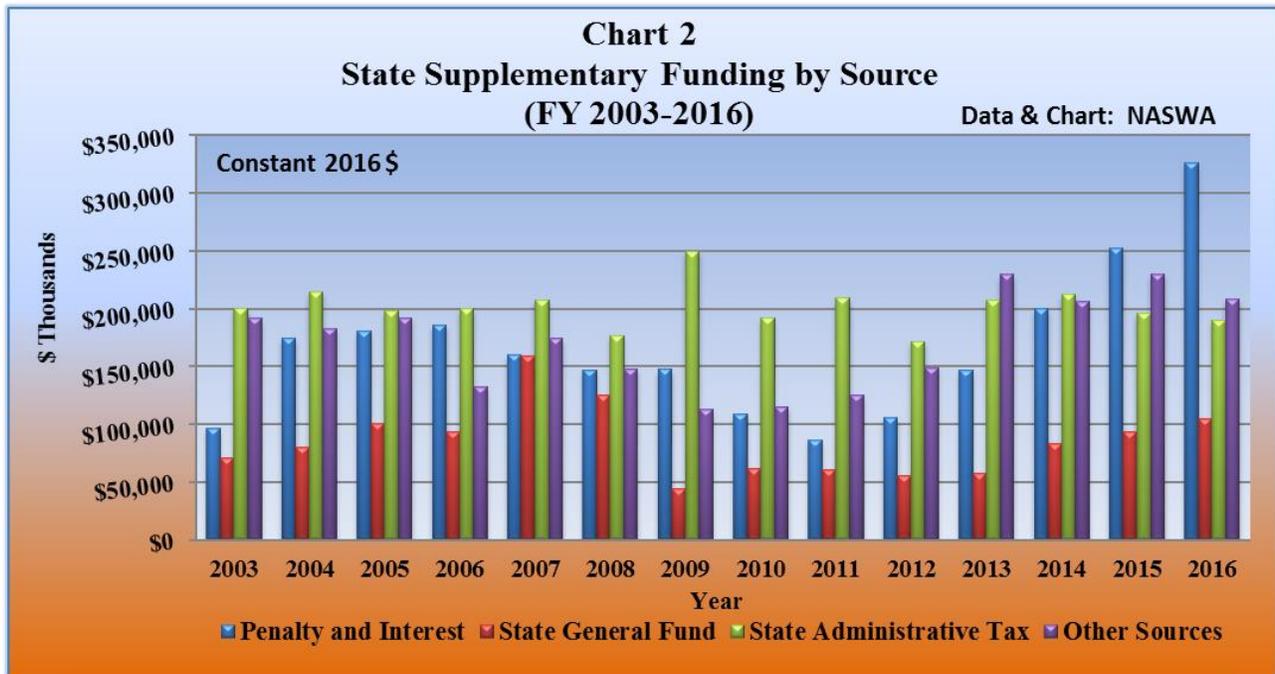


Table 6
State Supplementary Funding by Source

Constant 2016 \$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Penalty and Interest	\$160,638,424	\$147,189,872	\$147,817,780	\$108,873,825	\$86,605,335	\$106,160,778	\$146,740,774	\$200,589,248	\$252,641,122	\$326,158,088
State General Fund	158,622,121	125,362,811	43,751,621	61,643,066	60,186,305	56,147,647	57,478,687	82,948,554	93,299,544	104,593,846
State Admin Tax	207,500,266	176,837,533	249,434,795	191,677,565	209,168,808	173,941,443	207,482,895	212,512,870	196,010,175	190,217,878
Other Sources	174,067,019	148,133,214	113,133,821	115,488,050	125,048,966	151,140,637	229,601,337	206,291,240	230,270,847	208,459,940
Total	\$700,827,830	\$597,523,429	\$554,138,018	\$477,682,506	\$481,009,414	\$487,390,506	\$641,303,693	\$702,341,911	\$772,223,728	\$829,429,752

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.

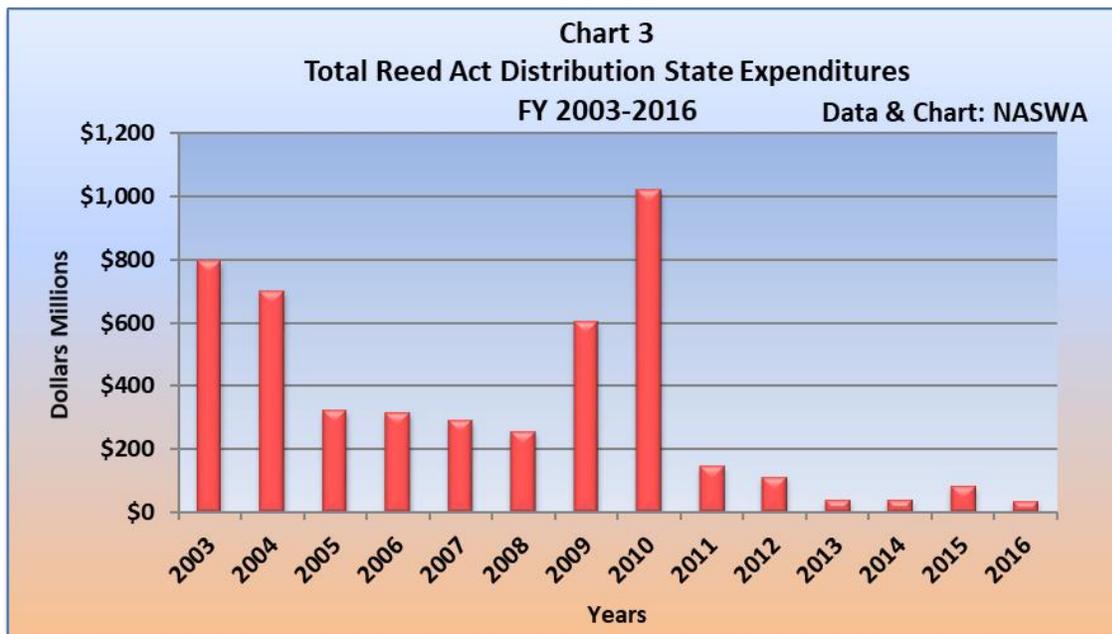
Reed Act Funds

In FY 2016, states reported approximately \$37 million, in Reed Act funds used to supplement UI and ES operations. This represents a decrease from \$85 million in FY 2015. Ten states used Reed Act fund for UI administration, three for UI Benefits and three for ES Administration.

The changes in the source of Reed Act funding between FY 2015 and FY 2016 are shown in Table 7.

Table 7			
Comparative Reed Act Expenditures			
	FY 2015	FY 2016	Diff 16 vs 15
Special Reed Act	\$35,065,667	\$5,856,318	-\$29,209,349
Regular Reed Act	16,913,207	20,814,267	3,901,060
\$8 Billion Reed Act	33,429,066	10,300,227	-23,128,839

As shown in Chart 3, 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 lower amounts expended in FY 2013 and FY 2014, an increase from FY 2014 to FY 2015 and a further drop in FY 2016.



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 8, the data for FY 2016 shows a large drop from both FY 2014 and FY 2015 reflecting the reduction in Title XII advances from to \$13.59 billion, FY 2014 to \$7.355 billion, FY 2015 to 3.7 billion at the end of FY 2016.

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 2016, states reported payment of approximately \$209 million dollars in interest for Title XII advances, with 82 percent coming from State General Funds an increase from 67 percent in the prior year. States also used funds from Other Sources and State Administrative Taxes to provide the majority of remaining funding.

Table 8						
Payment of Interest on Title XII Advances						
Source	FY 2014	FY 2014	FY 2015	FY 2015	FY 2016	FY 2016
	Interest on Loans	# States	Interest on Loans	# States	Interest on Loans	# States
Penalty and Interest	\$0	0	\$2,060,320	1	\$0	0
State General Fund	276,174,435	3	254,548,515	2	\$171,051,109	1
State Admin Tax	130,266,886	3	90,241,985	4	\$38,007,960	4
Other Sources	54,944,472	5	30,981,601	7	\$108,317	1
Total	\$461,385,793		\$361,936,887		\$209,167,386	

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 9, 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

Table 9						
Federal Appropriations						
Training & Employment Services (\$000s)						
Program	FY 2012	FY 2013	FY 2014	FY 2015	FY2016	FY 2017
WIA/WIOA Adult Employ & Training	\$770,810	\$730,624	\$766,080	\$776,736	\$815,556	\$815,556
WIA/WIOA Youth Activities	824,353	781,375	820,430	831,842	873,416	873,416
Dislocated Workers Employ & Training	1,006,498	958,652	1,001,598	1,015,530	1,020,860	1,020,860
Total	\$2,600,316	\$2,470,651	\$2,588,108	\$2,624,108	\$2,709,832	2,709,832
SUIESO						
UI State Operations	\$3,165,161	\$3,184,531	\$2,949,685	\$2,757,793	\$2,635,547	\$2,687,600
ES State Administration	700,842	664,184	664,184	664,184	680,000	671,413
Employment Service						
One-Stop /LMI	\$64,473	\$63,861	\$60,153	\$60,153	\$67,653	\$67,653

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

Conclusion

The results from the FY 2016 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 the 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 2016, federal funding levels are higher than FY 2015 for many programs, but not for 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 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
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