

NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES

NASWA State Supplemental Funding Survey

Results from the State Supplemental Funding Survey for FY 2013

February 25, 2014



Executive Summary

Over the last 20 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 to operate 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, overseen by the NASWA Administration and Finance Committee, helps gauge the actual expenditures for unemployment insurance (UI) administration, Wagner-Peyser Employment Services (ES), Workforce Investment Act (WIA) programs, labor market information (LMI) activities, interest payments on Title XII Unemployment Trust Fund balances, and any other activities which are supported with state funds, but cannot be classified into one single category. The four categories of funding sources include: State Penalty and Interest, State General Fund, State Administrative Tax, and Other Funds¹.

In addition, the Survey captures how states have spent funds allocated to them from Reed Act Distributions. Reed Act Distributions are authorized under Section 903 of the Social Security Act and can be distributed when the three federal accounts in the Unemployment Trust Fund (UTF)² 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.

The following are some highlights from the fiscal (FY) 2013 NASWA State Supplemental Funding Survey:

- State workforce agencies contributed slightly more than \$620 million dollars of state funds to the above mentioned programs and activities.
- 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 2013³.
- Approximately 93 percent of all supplemental funds provided by states went to three primary programs: UI administration, ES and WIA, with UI receiving the most.
- Ninety-one percent of funds states used came from three sources in FY 2013: Other Sources, Administrative Taxes, and Penalty and Interest fees.
- States reported approximately \$40 million in Reed Act funds used to supplement UI and ES operations. After FY 2010, Reed Act expenditures dropped substantially, with the lowest amount expended in FY 2013 over a ten year span.
- For FY 2013, states reported payment of approximately \$755 million dollars in interest for Title XII UTF balances, with 50 percent coming from state general funds.

¹ Funding sources are defined under "Survey Definitions" on page 7.

² A description of the three federal accounts in the UTF is listed under "Survey Definitions" on page 9.

³ States that 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 \$119 million in supplemental funds.

Survey Results

In October 2013, NASWA sent the latest State Supplemental Funding Survey to state workforce agency Finance Directors requesting supplemental funding data for FY 2013 (year ending June 30, 2013⁴). All fifty states, the District of Columbia and Guam responded to the NASWA Survey, representing the first time the survey has captured data for all states in a fiscal year.

In reporting supplemental funding information for FY 2013, states were asked to specify the source of state supplemental funds and also how much of those funds from each account were 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 State 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

For Reed Act distributions, states were asked to specify the type of distribution used to supplement UI and ES administration. The three Reed Act distributions collected in this survey are from the Special Reed Act, Regular Reed Act, and the special \$8 Billion Reed Act distributions⁵.

Tables 2 and 3 on the next page summarize the source of funds and the programs for which the funds were used for in FY 2013. The data shown are actual expenditures, not obligations. Data reported by source of funding are summed to determine total state and Reed Act funds. In Tables 2 and 3, each cell shows how much of each funding source was used for a given program⁶.

FY 2013 State Supplementary Funding Expenditures

In FY 2013, state workforce agencies contributed slightly more than \$620 million dollars of state funds to UI and workforce programs and activities, with an additional \$39 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.

⁴ Five states' fiscal years end on September 30th and one ends on August 31st

⁵ Dates of Reed Act distributions are provided under "Survey Definitions" on page 8.

⁶ Cells containing an asterisk next to the figure indicate at least 50 percent of the total comes from one state; however the specific state varies for each program and source.

Table 2
NASWA State Supplemental Funding Survey
FY 2013 Results

State Supplementary Funding Information

Source	UI	ES	WIA	LMI	Multiple Programs	Total
Penalty and Interest	\$96,256,845	\$29,987,978*	\$7,267,678*	\$962,852	\$7,955,036*	\$142,430,389
State General Fund	7,735,444*	12,878,322	6,616,425	1,578,343*	26,981,766*	55,790,300
State Admin Tax	48,984,205	123,323,091	26,966,018*	742,776	1,372,173*	201,388,263
Other Sources	52,360,871*	20,517,977*	147,289,100*	910,212*	1,778,834*	222,856,994
Total	\$205,337,365	\$186,707,368	\$188,139,221	\$4,194,183	\$38,087,809	\$622,465,946

*One state contributed at least 50 percent of cell total

The chart on page four shows the trends in supplemental state funding for the five program categories NASWA has captured for the previous ten fiscal years adjusted for inflation in 2013 dollars⁷. As the chart on the next page illustrates, state supplemental funding over the past ten years peaked in FY 2007, as states had built up reserves during the period of economic growth preceding the Great Recession. 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.

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 2013⁸.

Table 3

State UI & ES Reed Act Expenditures

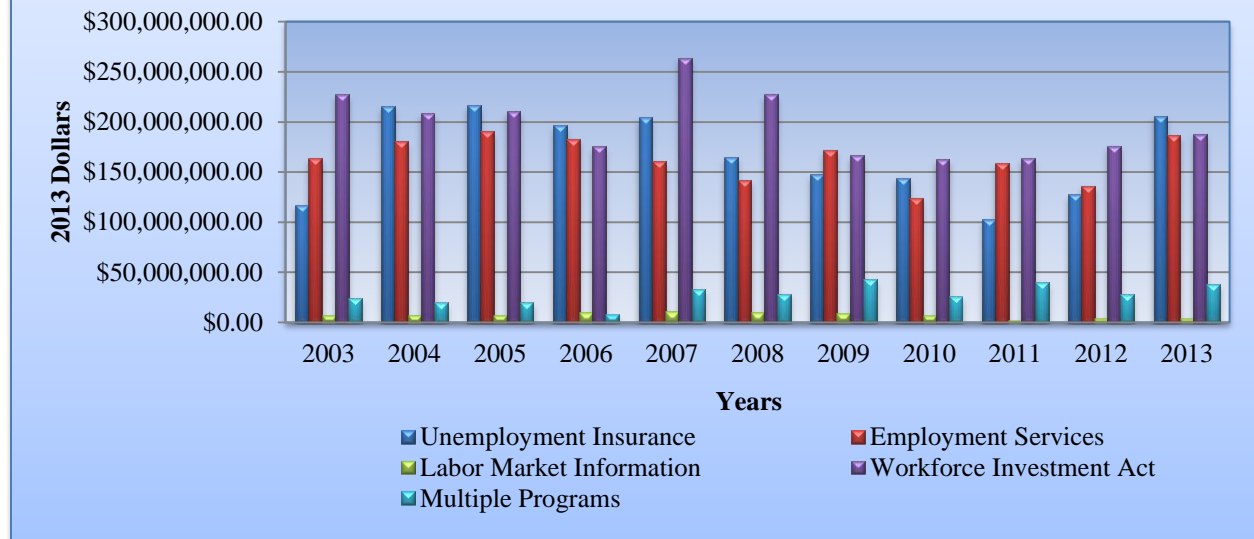
Reed Act Funds	UI Admin	ES Admin	Total Reed Act
Special Reed Act	\$444,094*	\$2,012,051*	\$2,456,145
Regular Reed Act	837,091*	238,222*	1,075,313
\$8 Billion Reed Act	15,982,558	20,408,732	36,391,290
Total	\$17,263,743	\$22,659,005	\$39,922,748

*One state contributed at least 50 percent of cell total

⁷ Calculated using the Bureau of Labor Statistics Consumer Price Index.

⁸ 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.

State Supplemental Funding Expenditures By Program (FY 2003-2013)



FY 2013 State Supplementary Funding Sources

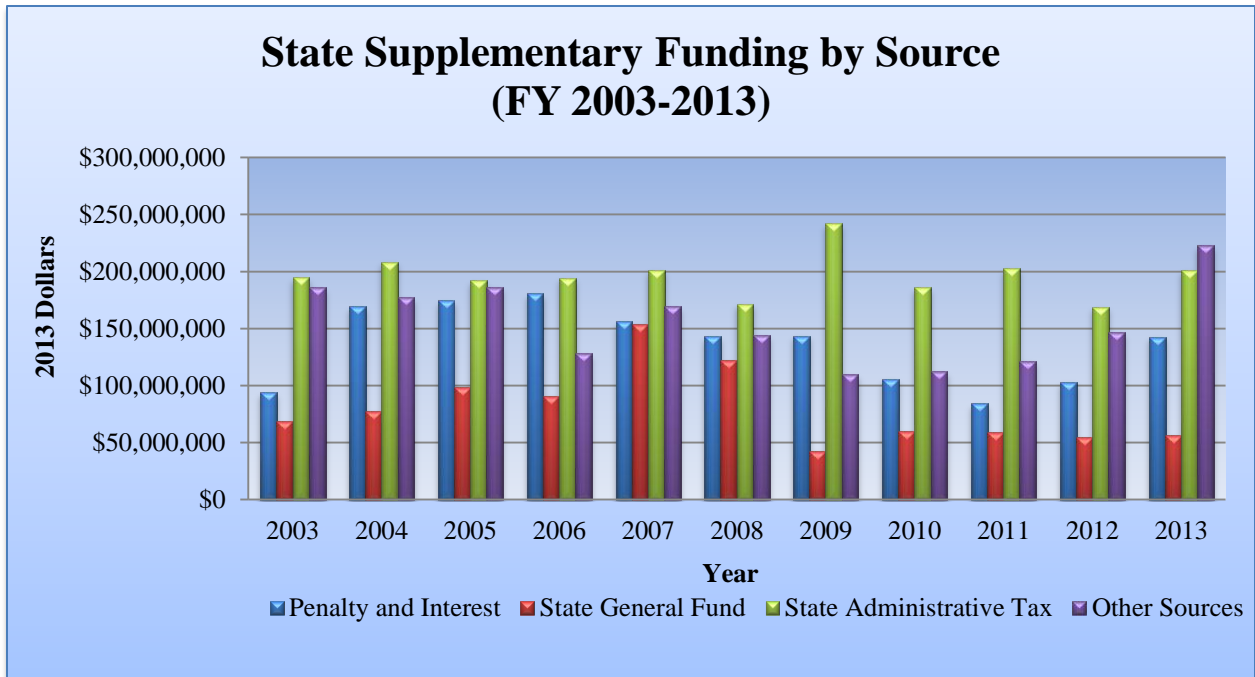
When reporting the source of funds used to supplement UI and workforce programs, states indicated funding from Other Sources, Administrative Taxes, and Penalty and Interest fees served as the primary accounts from which they drew, making up 91 percent of the total \$622 million contributed by states.

The chart on page five illustrates 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.

While only a third of states reported funding from State Administrative Taxes in FY 2013, this source of funding has contributed the largest amount of funds during the ten-year period, providing slightly more than \$2.1 billion. This source of funds has also been an account state agencies have been able to rely on, with funding from this account remaining in the range of \$150-200 million for the previous four fiscal years. Funding from State Penalty and Interest accounts have recovered from the low reported by states in FY 2011, with approximately \$142 million contributed by states in FY 2013.

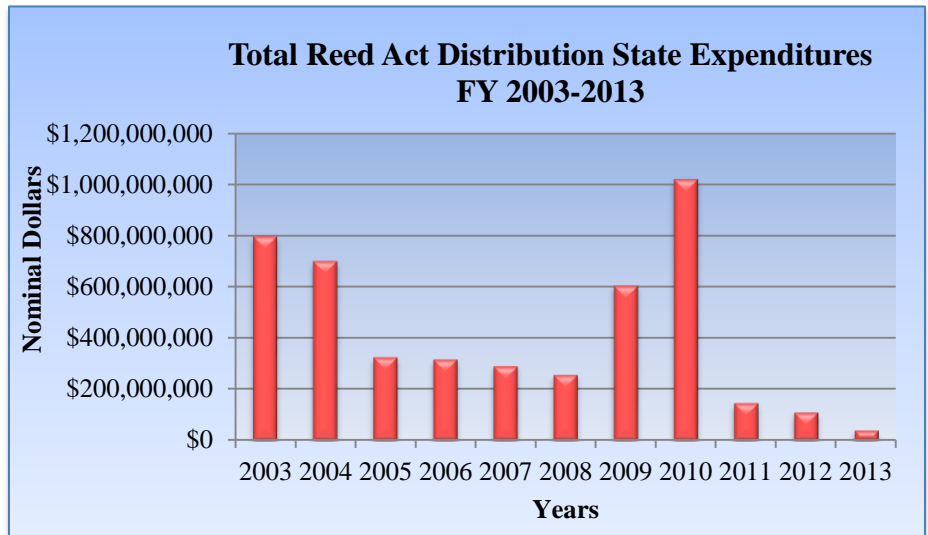
Contributions from State General Funds have yet to approach the peak of \$153 million reported by states in FY 2007. Since FY 2009, funding from State General Funds for workforce and UI programs has averaged approximately \$54 million. The decline in funding from state general funds for the five programs captured are likely the result of reduced state tax revenue available during and after the Great Recession and, as will be highlighted later in this report, the need for states to use these funds to pay interest on Title XII unemployment insurance advances from the federal government.

State Supplementary Funding by Source (FY 2003-2013)



Reed Act Funds

In FY 2013, states reported approximately \$40 million in Reed Act funds used to supplement UI and ES operations, with the \$8 billion Reed Act distribution that occurred in March 2002 providing slightly more than \$36 million of the total Reed Act funds used. The Special Reed Act and Regular Reed Act distributions account for the remaining \$3.5 million.



As the chart above shows, state use of Reed Act funds declined from FY 2003 to FY 2008 and then increased significantly in FY 2009 and FY 2010, possibly as a result of reduced state resources from the other four sources highlighted above. After FY 2010, Reed Act expenditures dropped substantially, with the lowest amount expended in FY 2013. With the significant decline in Reed Act funds expended, states workforce agencies may be close to spending all of the Reed Act distribution funds available to them.

Payment of Interest on Title XII Advances for FY 2013

At the direction of the NASWA Administration and Finance Committee, NASWA added an additional category to capture the amount and source of state funds used to pay the interest on Title XII Advances from the Unemployment Trust Fund. States can receive Title XII Advances when their state unemployment trust funds do not have sufficient funds to pay benefits.

Table 4	
Payment of Interest on Title XII Advances for FY 2013	
Source	Interest on Loans
Penalty and Interest	\$5,121,657
State General Fund	377,878,066
State Admin Tax	138,675,596
Other Sources	233,835,782
Total	\$755,511,101

With the large increase in individuals receiving unemployment benefits during the Great Recession and the subsequent economic recovery, many states had to borrow from the Federal Unemployment Trust Fund or the private sector to pay benefits. For FY 2013 states reported payment of approximately \$755 million dollars in interest for Title XII advances, with 50 percent coming from state general funds. States also used funds from Other Sources and State Administrative Taxes to provide the majority of remaining funding. The significant share of state general funds to pay the interest on Title XII advances is likely the primary reason use of state general funds for programs such as UI, ES, WIA, LMI and other program activities have not resumed their previous levels before FY 2008.

Conclusion

The results from the FY 2013 NASWA State Supplemental Funding Survey show state supplemental funding appears to have turned a corner as state budgets have moved from reductions in state spending due to a decline in economic activity during and after the Great Recession resulting in lower tax revenues, to slight increases in spending because of improved economic activity.

The improvement in state finances and subsequently state supplemental funding for UI and workforce programs is a positive sign as federal spending for these programs were reduced in FY 2013 due to sequestration. In FY 2014 federal funding levels will be higher than FY 2013 for many programs but not at the FY 2012 level. State workforce agencies will likely have to rely more on state funding for these programs, as slow economic growth maintains a certain level of stress on the workforce system than experienced during the middle of the previous decade.

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.

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. An illustration of how these distributions occur is provided on page ten of this report.

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

July 1, 1957

July 1, 1958

Oct. 1, 1998

Special Reed Act: Distributions which occurred:

October 1, 1998

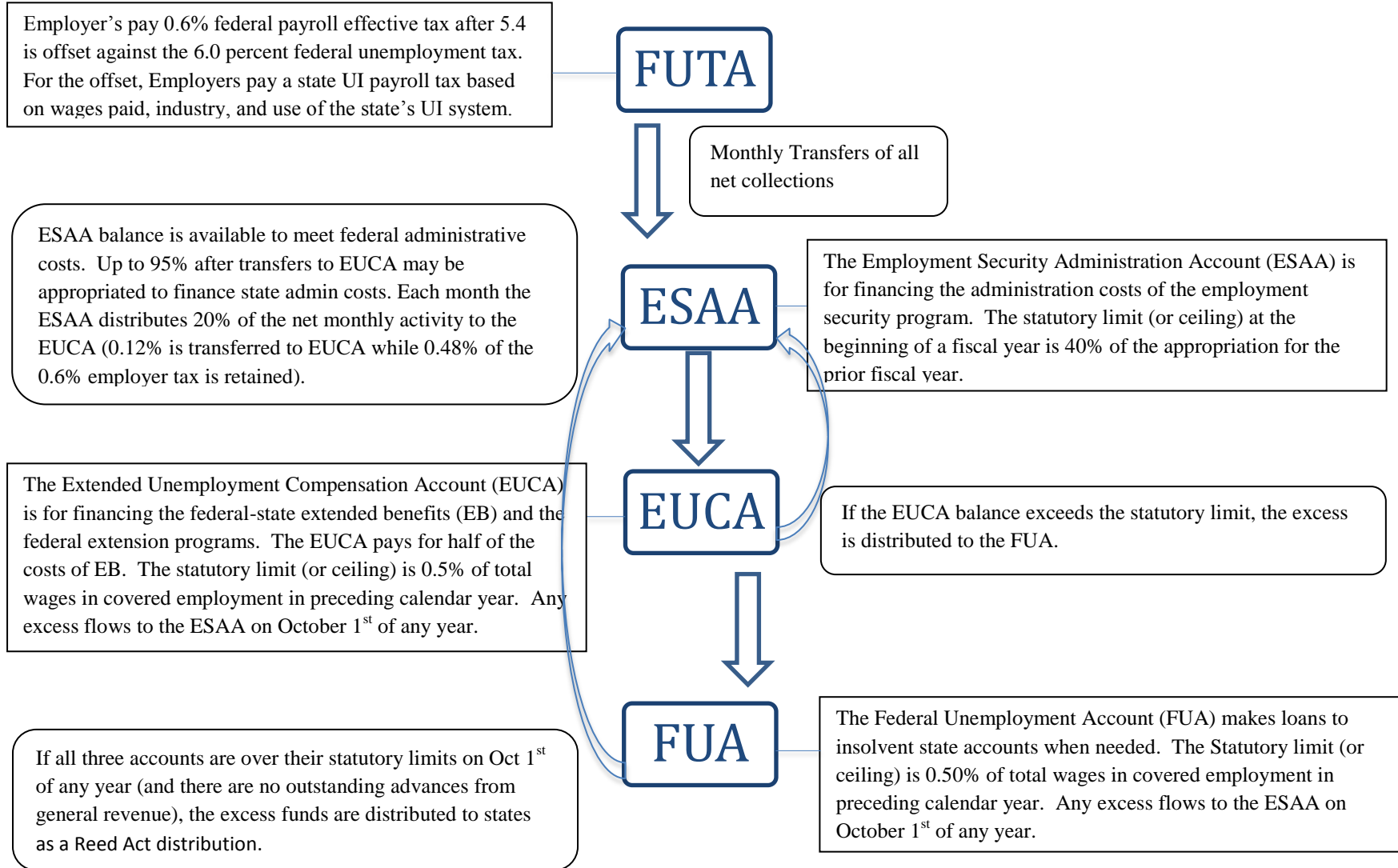
October 1, 1999

October 1, 2000

October 1, 2001

\$8 Billion Reed Act: Distribution which occurred:

March 13, 2002



Note: The Unemployment Trust Fund in the U.S. Treasury is a single trust fund with 59 accounts: the ESAA, the EUCA, the FUA, 53 state accounts, the Federal Employees Compensation Account (FECA), and two accounts connected to the Railroad Retirement Board.