

# UI Administrative Funding Review: Looking to the Future

NASWA Annual Meeting  
September 27, 2016

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# Agenda

Overview

Setting the Situation

A View from a State--RJM

Work of the A&F and UI Joint Workgroup

Discussion

# OVERVIEW Resolution 10

NASWA urges the federal government to ensure the annual AWIU trigger levels are sufficient in the current economy and to ensure sufficient funds for proper and efficient administration of state unemployment insurance programs by guaranteeing states at least 60% of FUTA revenue collected in the previous tax year for grants to states for administration. Under this approach there would be discretionary and mandatory spending.

In 2015 the Board remanded this resolution to the Unemployment Insurance Committee and the Administration and Finance Committee for review and updating.

# Charge to the Workgroup

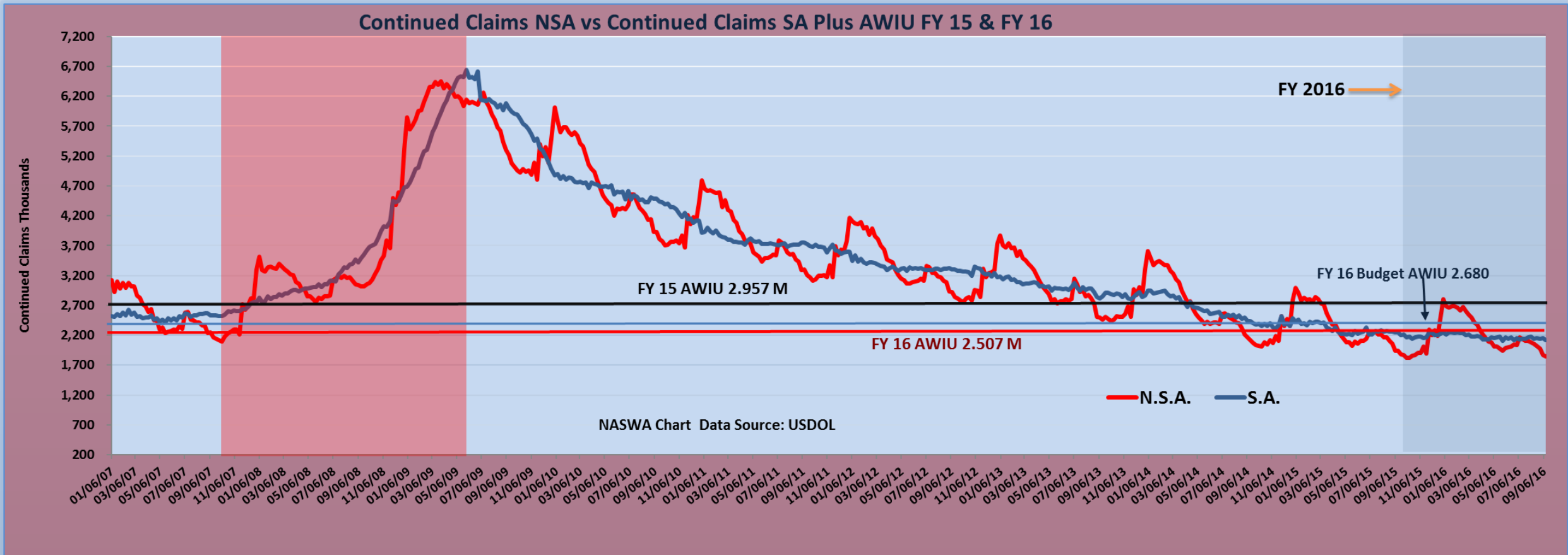
- Develop a clear “as-is” document illustrating the current system
- Develop a clear understanding of the economic and political environment
- Develop and prioritize list/options of current issues, challenges, & implications
- Recommend options for solutions within the current system and outside
- Recommend strategies for advancing the solutions
- Present to UI and A&F and ultimately the NASWA Board

# UI Admin Funding Workgroup Members

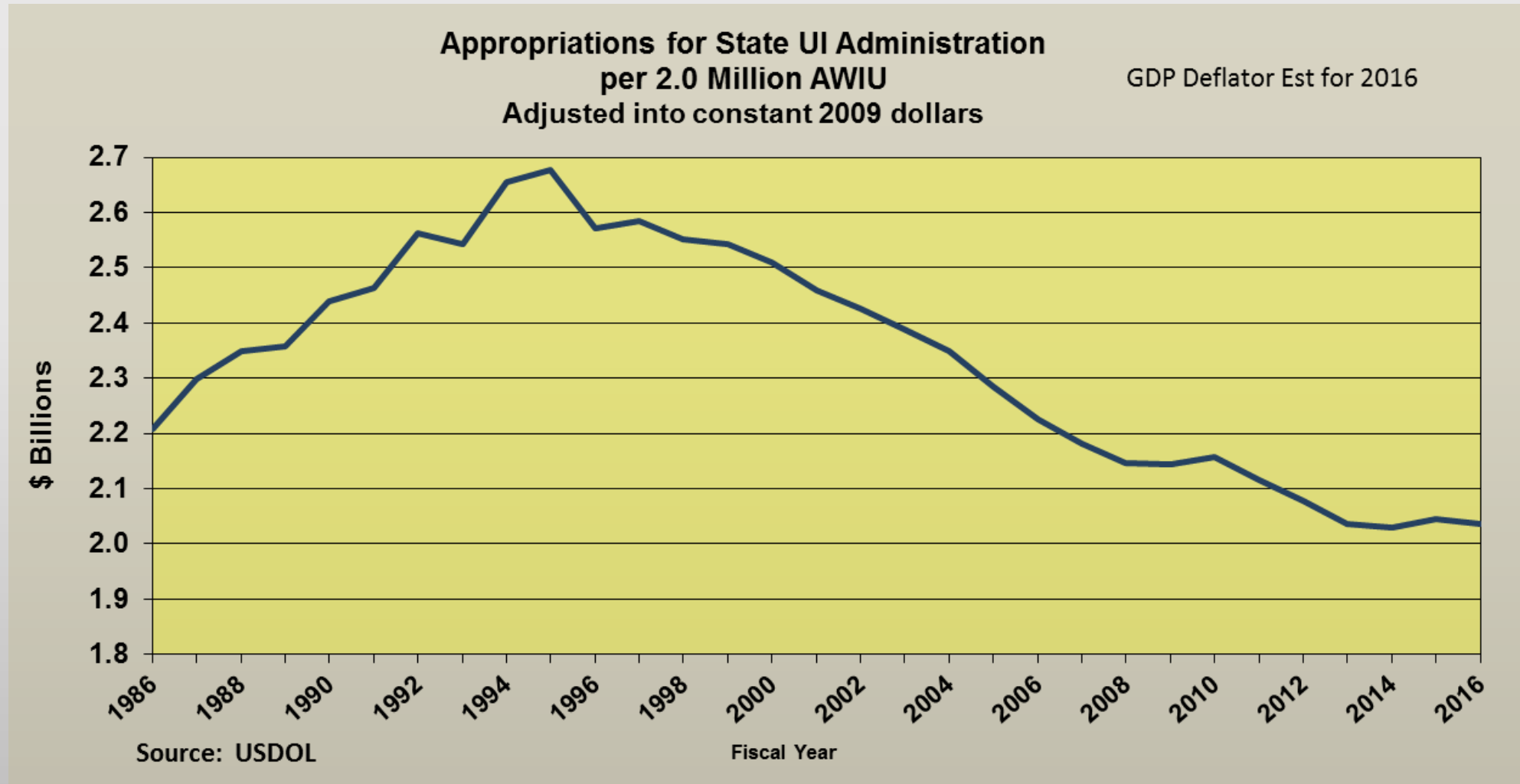


UI Administrative Funding Working Group				
Unemployment Insurance Committee	NASWA Region		Administration & Finance Committee	NASWA Region
Patrick Henning (CA)	9		Jackie Turner (MS)	4
Magnus Hines (FL)	4		Damon Steffens (FL)	4
Michele Sutton-Riggs (CA)	9		Kevin Carlson (NC)	4
Tad Allred (CA)				
Daryle Dudzinski (CT)	1		Don Grant (SC)	4
Carl D. Guzzardi (CT)				
Michael Vorgetts (RI)	1		Bruce Madson (OH)	5
Robert Cunningham (MA)	1		Randy Townsend (TX)	6
			Warren Collier (TX)	
Jay Engstrom (ID)	10		Kim Moog (MT)	8
			Bennett Soulier (LA)	6
			Christina Guzman (NV)	9
			Les Williams (IN)	5
			Bryan Hicks (AR)	6
			Linda DeMore (IL)	5

# Setting the Situation

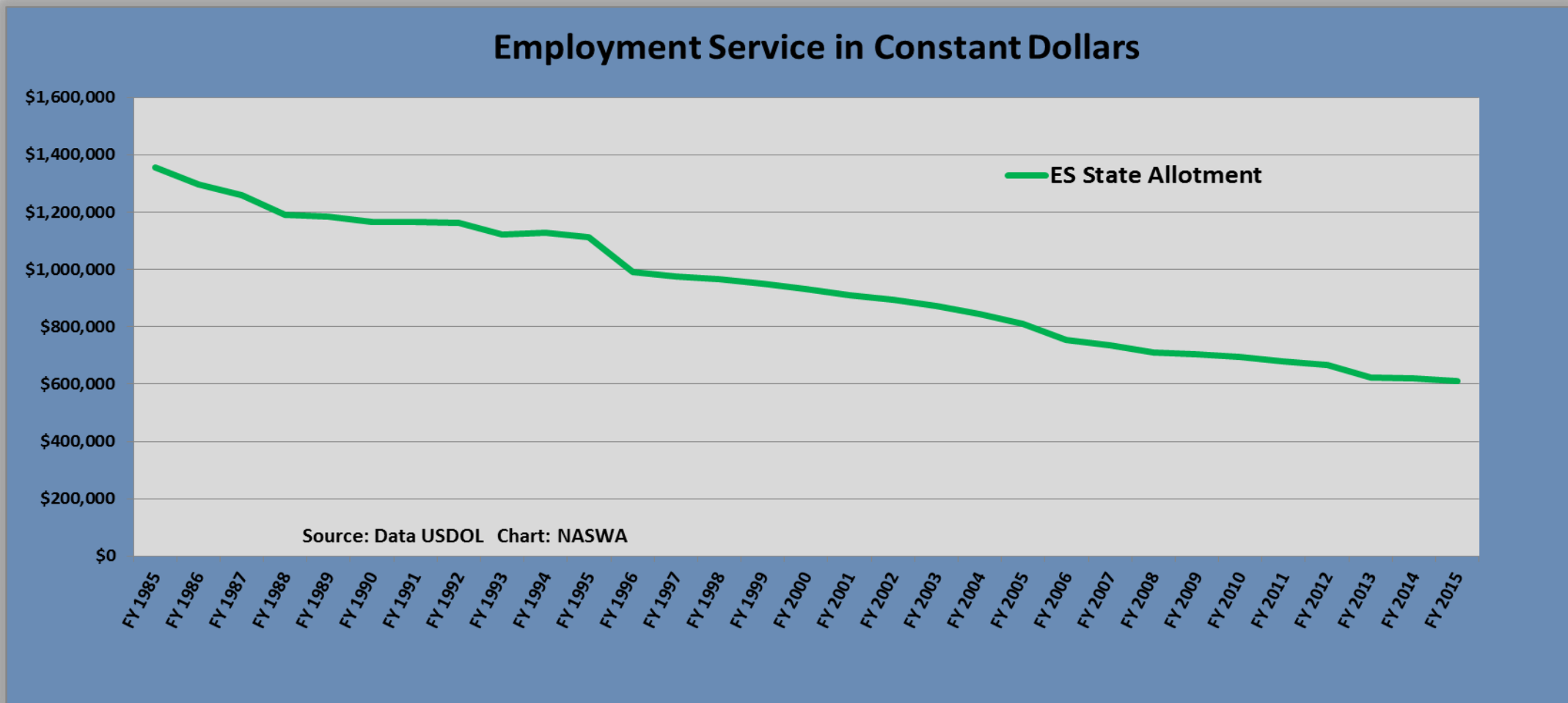


# Funding UI Base Administration





# Employment Service Funding



# Fully Funding the RJM

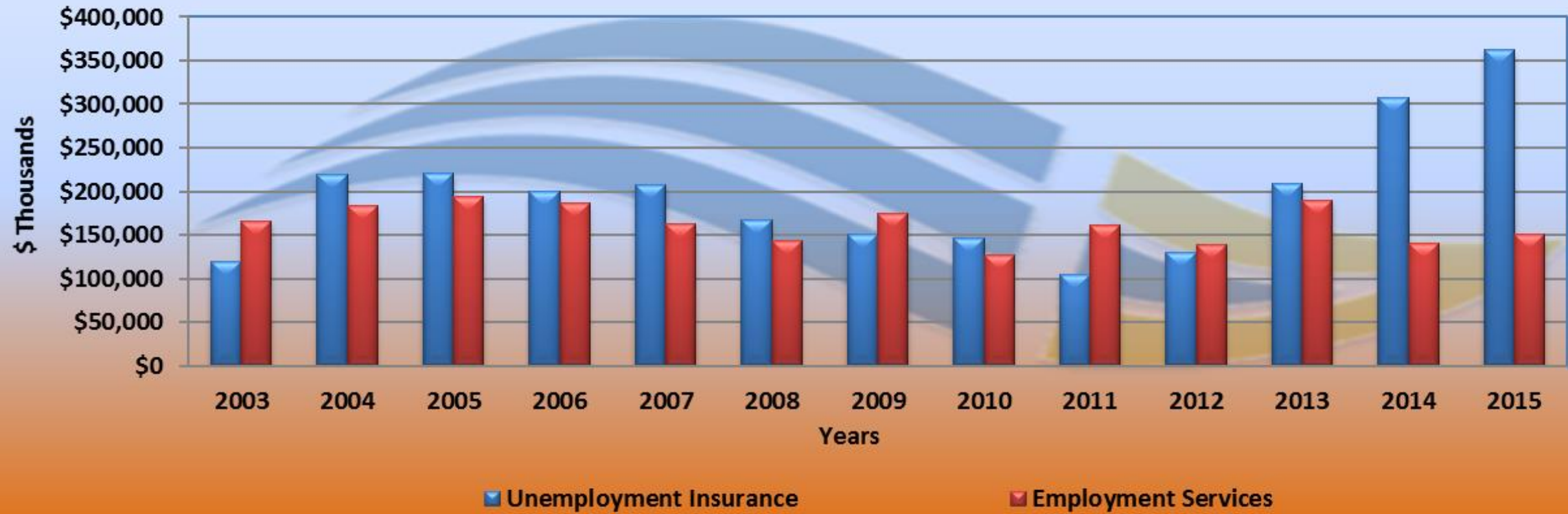
USDOL Comparison of State RJM Submissions and UI Base Admin Grants April 4, 2016			
Fiscal Year	Base Allocation (in millions) *	State RJM **	% Difference
<b>Total FY09-15</b>	<b>\$16,799.10</b>	<b>\$19,997.46</b>	<b>-16.00%</b>
FY 2015	\$2,447.02	\$2,756.92	-11.20%
FY 2014	\$2,408.87	\$2,941.61	-18.10%
FY 2013	\$2,409.60	\$2,986.20	-19.30%
FY 2012	\$2,474.84	\$2,851.56	-13.20%
FY 2011	\$2,407.47	\$2,811.47	-14.40%
FY 2010	\$2,346.20	\$2,798.20	-16.20%
FY 2009 ****	\$2,305.11	\$2,851.51	-19.20%

\* Does not include Above-Base, Travel, or SBRs. Does include Base restorations and Base postage in all years.  
 \*\* Includes state dollars.  
 \*\*\*\* Does not include ARRA funding.

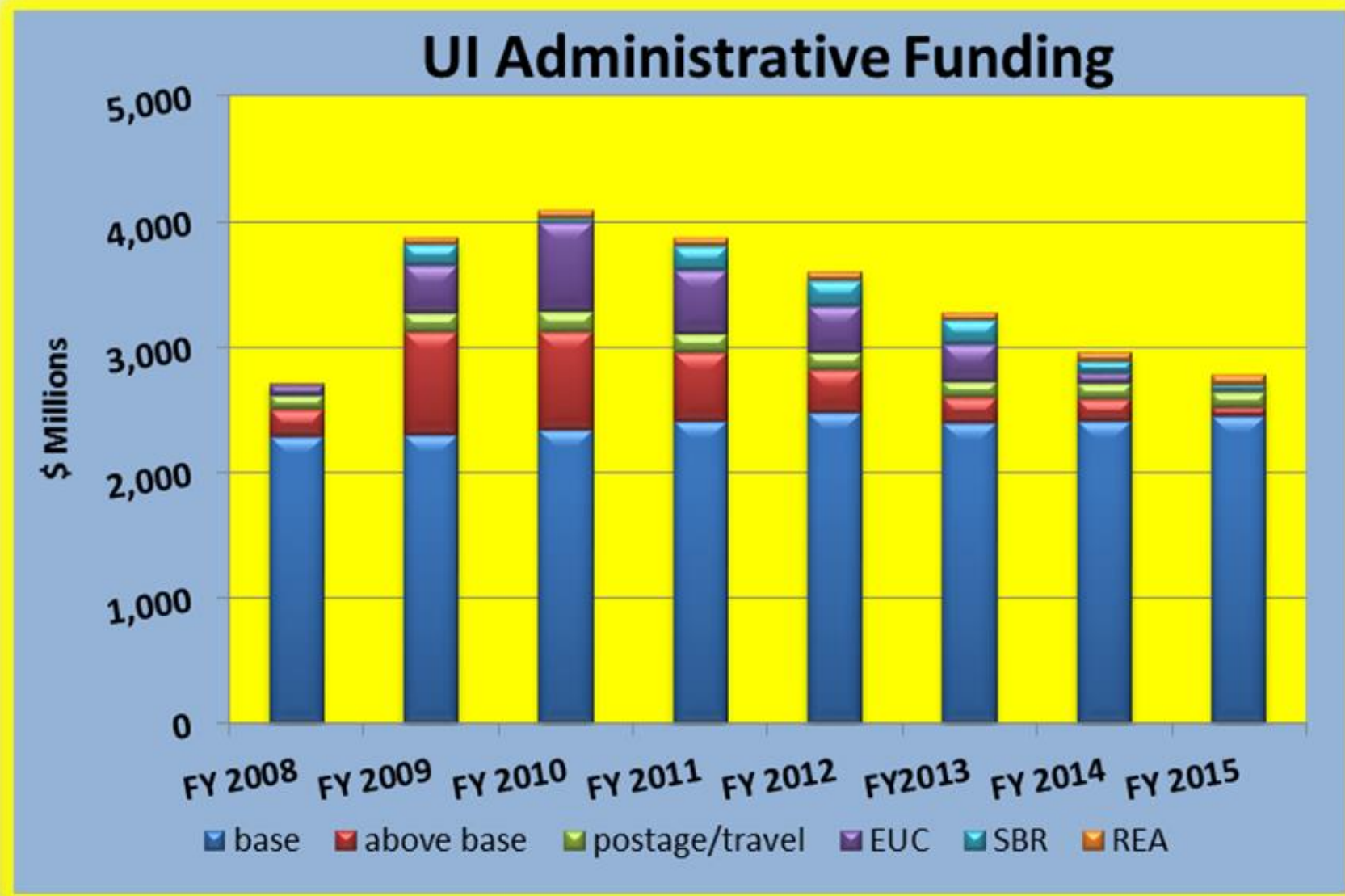
## State Supplemental Funding Expenditures By Program (FY 2003-2015)

Data & Chart: NASWA

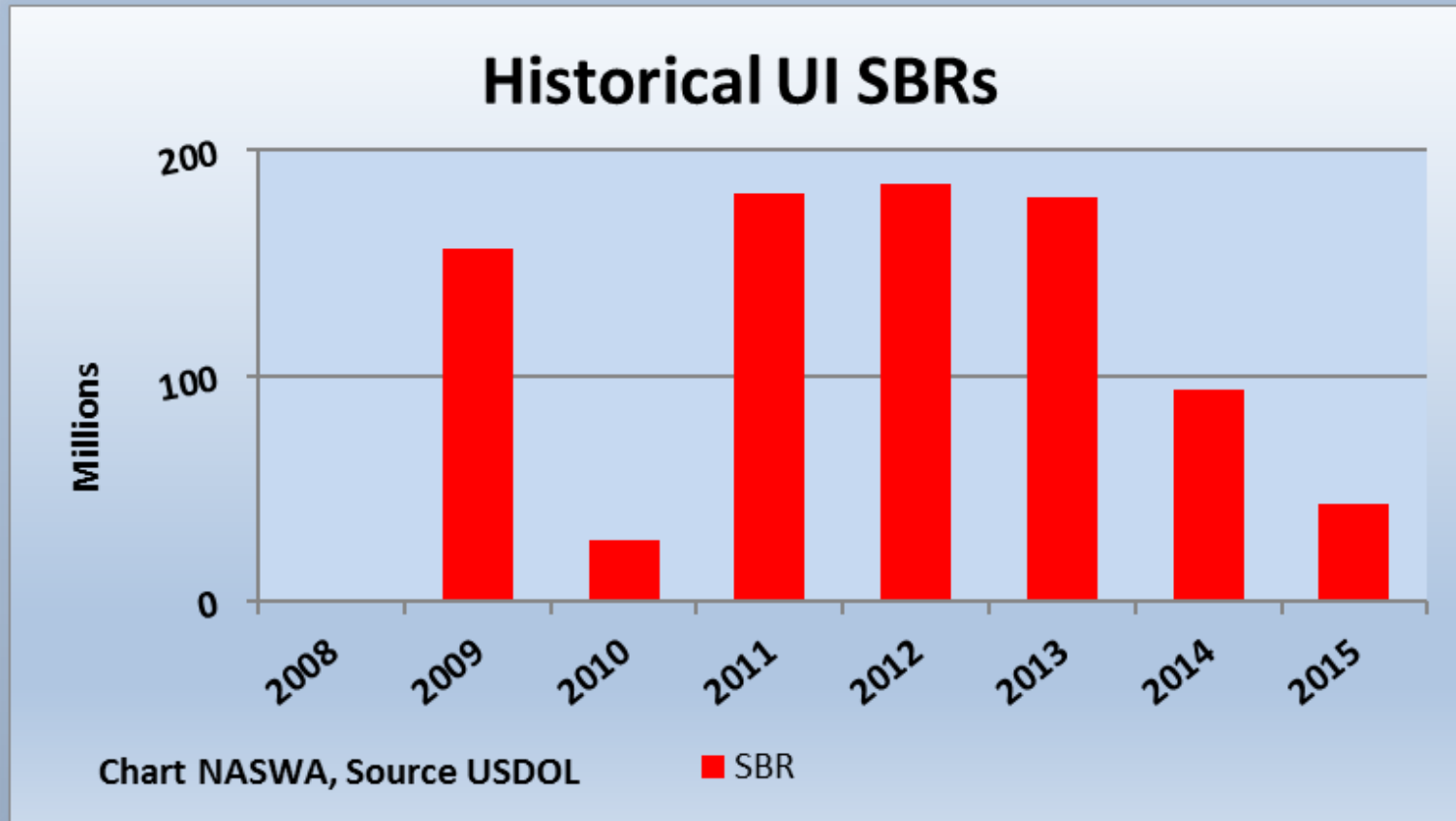
Constant 2015 \$



# UI Administrative Funding



# Utilizing SBR's



# A View From a State

# Main Issues Impacting Adequate UI Administration Funding



- UI Trust Funds are part of the Unified Budget.
- Benefits are a mandatory expenditure,
- Administrative funds are secured thru a discretionary appropriation
- UI Funds allocated to the states are separated from revenues into the UI Program.
- Unfunded mandates.

# RJM Data Source for Allocation

- Resource Justification Model (RJM)
  - ✓ RJM is a data collection instrument.
- States submit data from cost accounting records
  - ✓ Expenditures, hours by functional activity, personnel costs
- Data is subject to review & verification
- RJM is used to allocate UI Base Funding
- Base Funding Level Set in Congressional Appropriation



# RJM - Objectives

- Provide justification for funds needed and requested and develop funding estimates
- Allow for fair and equitable allocation of available funds among the states.

# RJM - Results

- It has not proven to be “J” that was previously lacking and needed, and it is its middle name.
- Less than ideal, since it is implicitly based on actual usage, as opposed to true need.
- Overall, it did not necessarily make things worse, but there is no evidence it has made things any better either.
- There is really nothing a state can do to increase their share of the UI Funding “pie,” but you can hurt yourself.

# RJM Impact to States

- Constant deliberate charging and review of expenditures to minimize the impact to the RJM.
- Examples: Whether to charge nonfederal funds with salaries, and if so in which RJM category, or to non-personnel services (NPS).
- Of course, the need to obtain nonfederal funds to support a program that is ostensibly federally funded.

# RJM Impact to States

- Extremely Complicated Process!
- Requires submission 2 Excel workbooks with a total of 45 tabs or individual worksheets.
- Regional Office prepares at least one workbook with 7 worksheets.
- National Office processes the data through a complicated logarithm.

# UI Admin Funding: Impact to Arkansas

- Forced consolidation of 5 local offices or 14%. Also reduced by half the space in the central office south campus.
- Through attrition, reduced 85 staff positions (22% cut) in both the local offices and central office.
- No funding for computer systems. Dealing with systems implemented in the 80s and 90s.
  - Slowly replacing and upgrading the Benefits and Tax systems as state funding allows. Arkansas is nearly complete with its Tax System and has started on updating its Benefits System.

# UI Admin Funding: Impact to Arkansas II

- Great Recession Impact
- Increased payments 3 to 4 fold.
- Obtained \$362M in Title XII Advances. Equates to an average year's payments.
- Repaid Advances and have a \$500M Trust Fund Balance. Equate to a .95 HCM. DOL recommends a "1" or \$525M.

# Obstacles to UI Funding

Source (unless otherwise noted): West & Hildebrand, as published in "UI in the US, Analysis of Policy Issues:, 1997

- “...the Employment Security Administration Financing Act (P.L. 83-567) of 1954... provided for earmarking federal employment taxes... In 1960, Congress required the deposit of the FUTA tax...in the Unemployment Trust Fund...ostensibly...UI appropriations would not be subject to budget balancing...”
- “...in 1969 Congress enacted the Unified Budget Act, which placed all federal trust funds within the federal budget process. UI appropriations became subject to the budget-balancing preoccupation of Congress, and state UI administrative appropriations suffered.”
- “At the time the change was made, little or no objection was raised. Trust funds were then generating surpluses which had the overall effect of offsetting some of the heavy military expenditures on the Vietnam war, and, thus, were politically welcome for that reason.”  
(Blaustein, et,al, as published in ‘UI in the US, The First Half Century’, 1993)

# Obstacles to UI Funding

(continued)

- “Even though the assets of the Unemployment Trust Fund are dedicated under federal law, these amounts are classified as “discretionary” for federal budget purposes. This means that UI grants can be used in reconciling the federal budget.”
- “Recommendation: All Unemployment Insurance trust funds should be removed from the unified federal budget.” (Advisory Council on Unemployment Compensation, 1995)



# National Commission on UC: 1980

- *State UC revenues, benefit payments, and trust fund reserves should not be used in computing Federal income or expenditures.*
  - ✓ Removal of UC accounts from the Unified Federal Budget
- Increase the FUA Taxable Wage Base: Establish wage base as a percentage of national average total wage in covered employment: 50 percent in 1983, 55 percent in 1985, 60 percent in 1987, and 65 percent in 1989. (Note: that would be about \$33,100 today).
- Reduce employer payroll taxes for past debts. (At that time for FSB(\$5.8b) and federal share of EB debts (\$3.3b) when National Trigger was on.

# UI Administrative Workgroup

- Workgroup Issues and Actions
  - ✓ Within the existing FUTA funding stream
  - ✓ Enhancing the revenue stream
  - ✓ Service Delivery

# Within the Existing FUTA Funding Stream

- Issues:
  - Appropriated amount does not meet current needs
  - Unfunded mandates
  - Obtaining and retaining skilled employees
  - Ability to fund and implement new technologies
  - Planning and implementing changes necessitated by economic downturns
  - Critical new funding requirements e.g., IT modernization, centralization of IT
- Actions:
  - ✓ Implies no increase in the short term of the FUTA rate and TAXWB
  - ✓ Possible forgiveness of EUC general revenue advances to EUCA
  - ✓ Utilization of the increased funding for UI Admin now available in ESAA
  - ✓ Combining base and above base funds into a general more flexible allocation of admin funds to states (possible elimination of SBRs)
  - ✓ Identifying uses of state supplemental funding to make up shortfall
  - ✓ Capture impact of changing IT functions in appropriation process
  - ✓ Options to recapture funding streams to supplement admin funds e.g., 5% of overpayments and tax collections,
  - ✓ Options for P&I to be effectively used thru “state choice.”

# Enhancing the Revenue Stream

- Issues

- ✓ Long-Term revenue is insufficient to fully fund UI program
- ✓ Lack of FUTA funds for special programs (UCFE, UCX, DUA)
- ✓ Lack of FUTA funds for S&L and non-profit programs
- ✓ Lack of funds for IT
- ✓ Lack of indexing to keep revenue streams consistent with inflation
- ✓ Ensure states plan for and have adequate resources for economic downturns

- Actions

- ✓ Increase and or Index FUTA TAXWB
- ✓ Change FUTA rate
- ✓ General revenue funding for admin of non-FUTA programs
- ✓ Develop a fair and equitable allocation process for current **and** additional funding
- ✓ Appropriate funding to modernize IT systems
- ✓ Appropriate funding to reduce overpayments and improve integrity
- ✓ Index (catch up and future) Contingency funds
- ✓ Increase state options and flexibility for staffing state operations

# Service Delivery

- Issue

- ✓ Adequately funding WIOA requirements for the UI Program
- ✓ Meeting UI program performance requirements
- ✓ States have sufficiently trained staff to deliver appropriate and effective services over seasonal and economic cycles

- Actions

- ✓ Identifying and providing sufficient funds to meet emerging requirements
- ✓ Ensure allocated funding is sufficient to allow states to meet program requirements
- ✓ Identify alternative to workload based allocation processes

# Within the Existing FUTA Funding Stream

Implies no increase in the short term of the FUTA rate and TAXWB

FUTA Tax History					
Year	FUTA Wage Base	FUTA Rate	FUTA Credit	Final FUTA Rate	Per Employee
1940	\$3,000	3.0%	2.7%	0.3%	\$9
1961	\$3,000	3.1%	2.7%	0.4%	\$12
1972	\$4,200	3.2%	2.7%	0.5%	\$21
1978	\$6,000	3.4%	2.7%	0.7%	\$42
1983	\$7,000	6.2%	5.4%	0.8%	\$56
2011	\$7,000	6.0%	5.4%	0.6%	\$42

\$ Billions	FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
FUTA Collections		\$7.10	\$7.29	\$7.22	\$6.66	\$6.38	\$6.56	\$5.35	\$5.47	\$5.45	\$5.77
To EUCA		1.47	1.32	1.45	1.32	1.32	1.31	1.13	1.24	1.24	1.30
To ESAA		5.63	5.96	5.76	5.34	5.06	5.26	4.21	4.24	4.21	4.47

# Within the Existing FUTA Funding Stream

Possible forgiveness of EUC general revenue advances to EUCA

Utilization of the increased funding for UI Admin now available in ESAA

The Extended Unemployment Compensation Account (EUCA) has an outstanding balance of \$16.245B, made up of:

- \$8.820B owed to the General Fund and
- \$7.425B owed to FUA.

EUCA earns about \$1.2 B/year.

\$ Billions	FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FUTA Collections		\$7.10	\$7.29	\$7.22	\$6.66	\$6.38	\$6.56	\$5.35	\$5.47	\$5.45	\$5.77	\$5.84	\$6.00	\$6.09	\$6.17	\$6.25	\$6.33
To EUCA		1.47	1.32	1.45	1.32	1.32	1.31	1.13	1.24	1.24	1.30	1.17	1.20	1.22	1.23	1.25	1.27
To ESAA		5.63	5.96	5.76	5.34	5.06	5.26	4.21	4.24	4.21	4.47	4.67	4.80	4.87	4.94	5.00	5.06
Admin Costs												4.21	4.28	4.35	4.43	4.52	4.61
UI Admin												3.04	3.08	3.13	3.19	3.25	3.31

# Within the Existing FUTA Funding Stream

Options for P&I to be effectively used thru “state choice.”

Penalty and Interest – can we touch this area?

Could we have options for using penalty and interest funds through “state choice” or would this draw attention to states already using these funds?



# Within the Existing FUTA Funding Stream

Options to recapture funding streams to supplement admin funds e.g., 5% of overpayments and tax collections,

Permit states to elect using up to 5 percent of each overpayment recovered and up to 5 percent of employer contributions (or payments in lieu of contributions) collected as a result of an investigation or routine audit by the state to augment administrative funding for a broad range of program integrity activities.

These activities include those related to deterring, detecting and recovering benefit overpayments, deterring and detecting claimant fraud, and deterring and detecting employer fraud and evasion of required employer contributions, including the misclassification of employees as independent contractors and the administration of the SUTA Dumping Prevention Act of 2004.

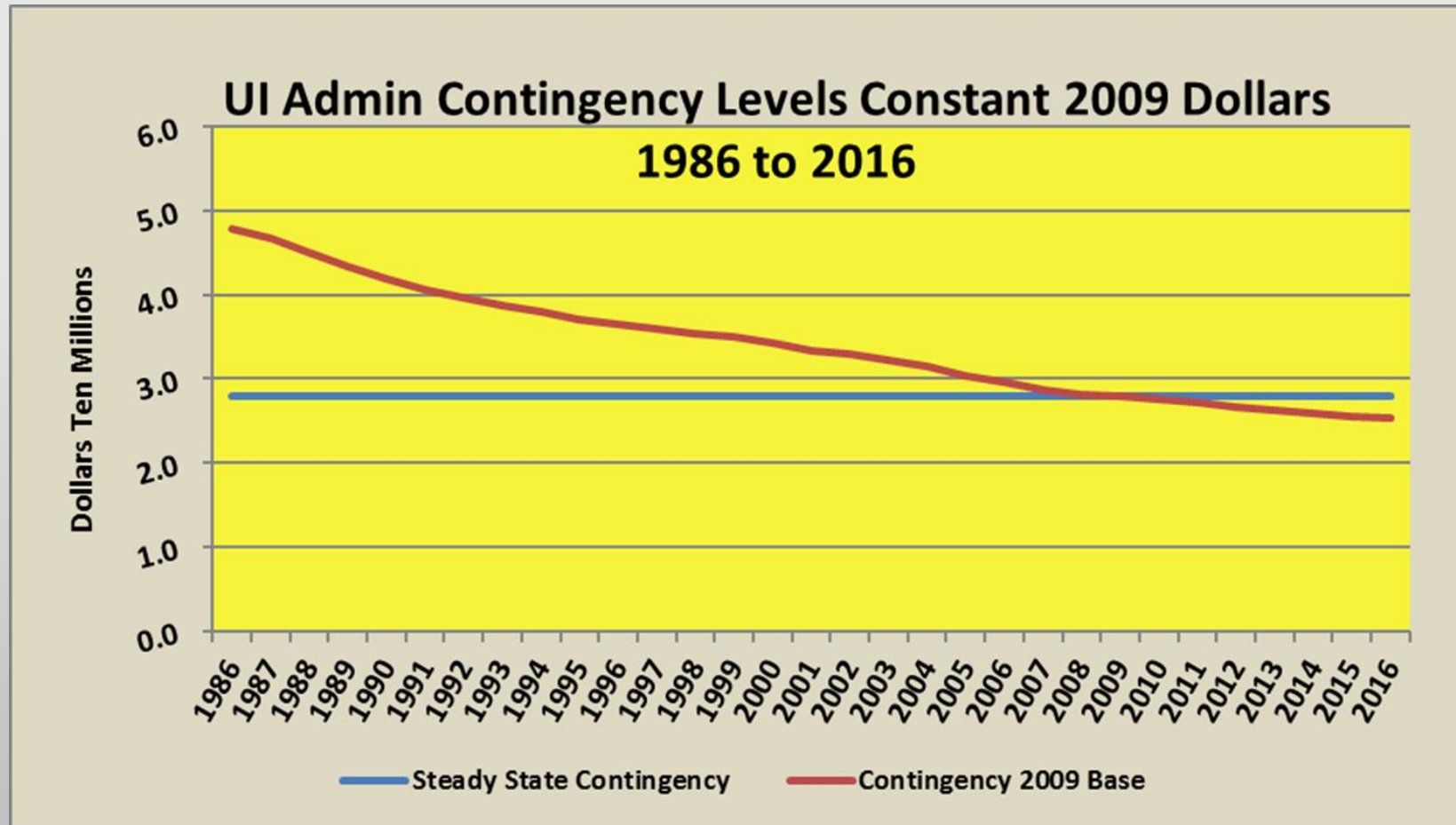
# Enhancing the Revenue Stream

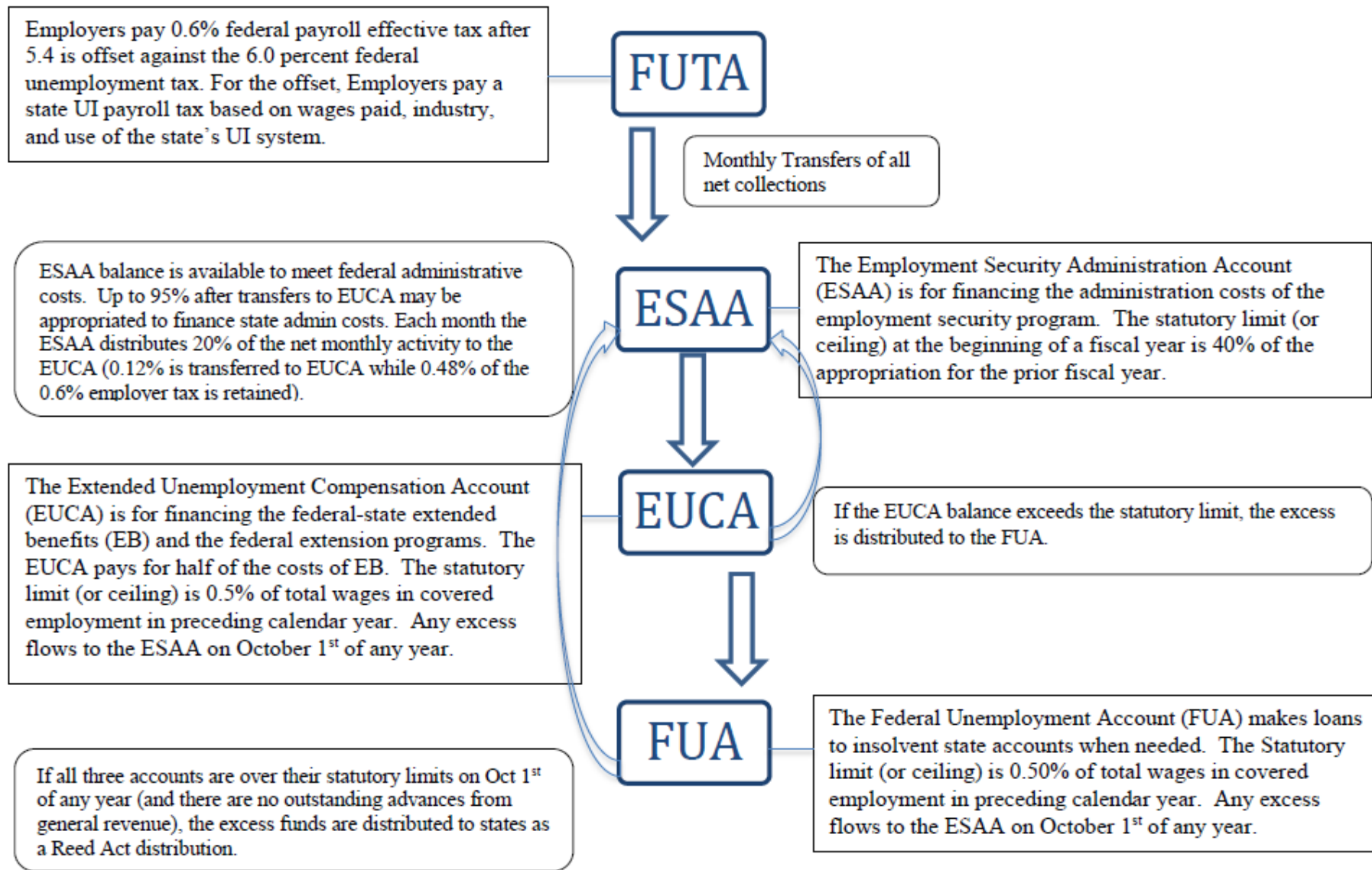
General revenue funding for admin of non-FUTA programs

<b>2014</b>	<b>Benefits</b>
<b>Reim</b>	<b>2,167,320</b>
<b>Tax</b>	<b>32,388,423</b>
<b>%</b>	<b>6.69%</b>

# Enhancing the Revenue Stream

Index (catch up and future) Contingency funds





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.

PLACE HOLDER for this type of Graph