

MEMO

To: Division of Financial Management
Stimulus Executive Committee

Cc: Wayne Hammon
Administrator
Division of Financial Management

From: Roger B. Madsen
Director
Idaho Department of Labor

Date: Feb. 27, 2009

Re: Stimulus Provisions Affecting Idaho's Employers and Workers

EXECUTIVE SUMMARY

The federal stimulus package includes about \$12.5 million for the Department of Labor's unemployment insurance and employment services operations and a one-time \$33 million Reed Act distribution for Unemployment Insurance Modernization.

This funding has three primary goals:

- To address the needs of the record number of unemployed and underemployed in Idaho.
- To encourage businesses to hire workers.
- To replenish the Unemployment Insurance Trust Fund.

The following describes the activities and estimates the financial impact for each. Items A to F represent additional money into the unemployment insurance and employment services programs that are perpetually appropriated. These provisions are cost-neutral to the state. In the case of extended or increased benefits, the infusion of that additional money into the economy will save hundreds of jobs and generate sales and income tax revenue. Final allocations and direction on the use of this money are expected from the U.S. Department of Labor by March 19.

Items G to I describe benefits or relief to the Unemployment Insurance Trust Fund including the income tax exemption on benefits and interest-free loans.

Item J describes the Unemployment Insurance Modernization proposal that would result in lower employer taxes over the next 10 years. An external committee could be convened to study this issue as was done during development of the other two Idaho unemployment insurance modernization proposals in the past decade. This committee could help the governor and the Legislature decide whether to accept these proposals. The two prior external committees reached consensus, and their proposals passed the Legislature unanimously.

COST-NEUTRAL PROVISIONS TO EXISTING FEDERAL GRANTS

A. Additional \$25 a Week in Unemployment Benefit Checks

The federal government is providing an additional \$25 a week in every unemployment benefit check to all workers who successfully establish a benefit claim by Dec. 26, 2009. This supplement, which Governor Otter authorized on Feb. 19, will provide about \$1.2 million a week to about 49,000 Idahoans when they receive their first augmented check during the week of March 1. The benefit is temporary and will expire when workers qualifying for unemployment benefits by Dec. 26 exhaust those benefits. Through July 3, 2010, when the last supplements will be paid, the program will provide between \$35 million and \$40 million in additional benefits to workers throughout the state. The additional money put into Idaho's economy is estimated to save 900 existing jobs. This money is being paid through the current unemployment insurance program, which is perpetually appropriated. This provision is essentially cost-neutral to the state.

B. Continue the Extended Unemployment Insurance Benefit Compensation Program

This provides additional federal extended benefits to claimants exhausting their state benefits between March 29 and Dec. 26. Tens of thousands of additional Idaho workers will qualify for these extra benefit checks. The value would average about \$1.2 million a week through May 2010, when the last of the extended benefit eligible claimants will exhaust their benefits – a total of as much as \$75 million in additional money funneled into the Idaho economy. The additional money put into the economy is estimated to save 1,700 jobs. These funds are provided as needed through the current unemployment insurance program, which is perpetually appropriated. The provision is cost-neutral to the state.

C. State Unemployment Insurance Operations Assistance

A \$2.236 million one-time unemployment insurance grant is being provided to the state to offset the administrative expense of handling the dramatic increase in demand for unemployment insurance benefits and to improve the operating and administrative systems providing those benefits. There are no strings attached to this money other than it must be used for administration. It essentially helps offset the reductions in federal operating grants the state has suffered since 1980. By the time this money has been spent – by mid-2011 or before – the Idaho economy should be on the mend, the unemployment rate declining and our need for additional personnel reduced. Implementing this provision is cost-neutral to the state and very helpful to our agency. This money is provided through the current unemployment insurance program, which is perpetually appropriated.

D. Putting the Unemployed Back to Work – Employment Services Assistance

A \$3.6 million allocation for employment services is a one-time grant to deal with the record number of unemployed and underemployed in Idaho. Two-thirds of this money would be targeted at employment services for those who are unemployed – services like résumé writing, job interviewing skills, counseling on education or training opportunities and direct job search. The other third would be targeted for all other job seekers, whose number has also increased as the number of underemployed – those with jobs below their skill levels – remains significant as the recession deepens. The Department of Labor's programs are countercyclical, requiring more staff as the economy struggles and less staff as the economy strengthens. That would be the result with this program as well. The current operating grant for employment services has not increased in over a decade. Implementing this

provision is cost-neutral to the state and very helpful to our agency. We have reduced our staff by about 100 positions in the last four years but have recently needed to increase staff because of workload demands. This money would be administered under the current employment services program, whose grants are perpetually appropriated.

E. Using Workforce Investment Act Funds to Prepare Idahoans for Economic Recovery

An infusion of about \$7 million into Workforce Investment Act programs will be used for training and educational assistance for low-income adults and youth and dislocated workers. The department provided training for over 2,000 adults and youth under this program in 2008. Assuming the existing Workforce Investment Act annual grant level will remain about the same as this year's \$6.4 million, the stimulus money would augment training capability over the next 12 to 24 months. With an administrative system for these programs already in place, most of the stimulus grant would go directly to services at a time when thousands of unskilled or low-skilled people have been thrown out of low-paying jobs and have nowhere else to turn. Some additional staff would be needed soon to provide these services. As for adjusting to the one-time nature of this grant, the Department of Labor has been dealing with that issue for nearly 30 years. In 2002, for instance, the department received \$15.2 million for Workforce Investment Act programs. This year the amount is \$6.4 million. While internal and administrative adjustments have been made to make this declining resource go as far as possible, the major adjustment is that fewer people are trained, which is what has been happening since 2002 without this one-time grant. Implementing this provision is cost-neutral to the state and very helpful for thousands of Idahoans, who need additional training. This money would be administered under the current Workforce Investment Act structure, whose grants are perpetually appropriated.

F. Helping Idahoans Who Lose Their Jobs to Off-Shoring

There is a provision for additional financial resources through the Trade Adjustment Assistance program, but it is unclear how much, if any, would be provided to the Department of Labor without a special application. There are a number of Idaho businesses whose payrolls have been affected by foreign competition, and their former employees are benefiting from the Trade Adjustment Assistance program. The stimulus package does expand coverage of Trade Adjustment Assistance to service and government jobs lost because of foreign competition. In the past when Idaho has been awarded funds to assist employees of specific businesses and the money runs out, a request is made for additional money under the Trade Act or an application is made for a National Emergency Grant. These funds are used in a similar fashion to provide the same kinds of services – training, support during training, job search and additional unemployment compensation after other benefits have expired. For example, the department currently has provided training support for over 700 ex-Micron workers, and more workers are expected to be served. Because of the recent Micron announcement, we will request another National Emergency Grant. Implementing this provision is cost-neutral to the state. Any grants received under this provision would be administered through the existing system, which is perpetually appropriated.

UNEMPLOYMENT INSURANCE TRUST FUND BENEFITS

G. Federal Assumption of State Share of Federal-State Extended Benefits

Federal assumption of the state's 50 percent liability for federal-state extended benefits through 2009 will reduce the draw on the state's Unemployment Insurance Trust Fund by about \$1.5 million this year, slightly easing the impact on employers' future tax rates as the fund is depleted. These funds are provided as needed through the current unemployment insurance program, which is perpetually appropriated. Implementing this provision is cost-neutral to the state.

H. Partial Federal Income Tax Exemption on Benefits

The first \$2,400 in benefits paid in 2009 will be exempt from federal income taxes. That is a little over half the average total regular state benefit being paid now. If the state conforms with changes in the federal Internal Revenue Code, as it has traditionally, the exemption would become part of Idaho's tax laws for the 2009 tax year. This would affect an estimated 60,000 benefit claimants in Idaho. Senate Tax Committee Chairman Brent Hill has estimated the lost income tax revenue at \$4.7 million.

I. Interest-Free Loans

The ability to borrow money interest free once Idaho's Unemployment Insurance Trust Fund is depleted will save the state about \$47,000 a year for every \$10 million it borrows to continue paying benefits. Under current conditions, Idaho's fund is expected to go broke late this year, possibly in November. A bridge loan would be obtained from the federal government at that point to finance unemployment benefits until the next major tax payment by employers in April 2010. The amount of the loan is not certain at this time and will depend on the impact on the trust fund by future developments like the just-announced Micron layoffs. Any loan is expected to be repaid by the end of 2010 when the interest waiver expires. This loan is provided through the current unemployment insurance program, which is perpetually appropriated. Taking advantage of this provision imposes no additional cost to the state.

UNEMPLOYMENT INSURANCE MODERNIZATION

J. This provision gives the state the opportunity to receive a one-time Reed Act distribution of about \$33 million under certain conditions. These adjustments would have to be made by Feb. 17, 2010, for the state to be eligible for a distribution.

- About \$11 million will be distributed if the state adopts an alternative base period for determining benefit eligibility for unemployed workers who would not qualify for benefits under the traditional formula. This would affect less than 8 percent of all unemployment filers. Currently, claimant eligibility is based on earnings for the first four of the previous five completed quarters. The alternative base period will use the most recent completed quarter in cases where claimants fail to qualify under the traditional formula. To determine wage amounts for the most recent quarter and handle anticipated increases in overpayments, the cost would be about \$65,000 one time for computer modifications and an estimated \$275,000 a year for staff time required in local offices, the Compliance Bureau and the Accounting Bureau. The proposal would increase benefits by about \$1 million. The infusion of the \$11 million into the trust fund would be immediate and would dampen increases over the next two to three years

in employer tax rates. The depletion of the \$11 million to cover this expanded benefit would take about 10 years.

- If the alternative base period is adopted, then the state would be eligible for about \$22 million more in Reed Act money if it adopts two of four expanded benefit proposals. Since these four provisions were first suggested in 2007, the Department of Labor has conducted an extensive cost analysis of the four provisions and determined items 1 and 2 are cost prohibitive and will not result in any cost-savings to the state or businesses. The infusion of the \$22 million into the trust fund would be immediate and would dampen increases over the next two to three years in employer tax rates. The depletion of the \$22 million to cover the costs of the least expensive of these options would take about 10 years. While the stimulus legislation precludes sunset clauses on these provisions, there is nothing to suggest that a Legislature in 10 years could not rationally decide that these provisions were ill advised and repeal them. If any of the provisions were retained beyond the period financed by the new Reed Act distribution, there would be a long-term increase in employer tax rates to continue covering the expanded benefits. The options are:

1. **Providing a dependant benefit of at least \$15 a week for no more than four dependants.** Half the claimants would qualify for this additional benefit at an estimated cost of about \$13 million a year.
2. **Granting benefit eligibility to people who voluntarily quit their jobs for compelling family reasons.** About 4,000 claimants would qualify for benefits under this provision, receiving compensation for an average of 14 weeks each at an estimated cost of about \$15 million or more a year.
3. **Providing additional benefits to workers in approved training who have exhausted all other benefit programs.** This would affect less than 1 percent of all claimants and cost \$1.5 million in additional payouts each year. There would be minimal administrative costs. Field staff will have to verify eligibility and make appropriate system entries.
4. **Providing benefits to qualified claimants who only want to seek part-time work.** This would have an impact of \$500,000 a year on payouts but administrative costs would be minimal. Currently, jobless workers must be seeking full-time employment to remain eligible for benefits. This would open unemployment coverage to populations that traditional rely on part-time work such as seniors and family care-givers.

Were these benefit expansions adopted immediately and Idaho received its \$33 million Reed Act distribution by March 19, the significant unemployment insurance tax increases forecast for Idaho's 50,000 employers in 2010 would be reduced by 10 percent to 15 percent. At the same time, the stimulus package allows the implementation date for these benefit expansions to be delayed up to Feb. 16, 2010, meaning the state could benefit immediately from the Reed Act infusion while delaying for a year the cost of the expanded benefits. This approach would reduce the amount of money the state will have to borrow either late this year or early in 2010 when the Unemployment Insurance Trust Fund is expected to be depleted, and it could possibly preclude the need to borrow at all. Still, the Reed Act distribution will eventually be depleted, and employer taxes would have to rise to continue covering the expanded benefits. The Reed

Act distribution is provided through the current unemployment insurance program, which is perpetually appropriated. If, however, the department wanted to use any of this money for a purpose other than paying benefits, legislative approval would be required.