

# DWS - UNEMPLOYMENT COMPENSATION FUND

SOCIAL SERVICES APPROPRIATIONS SUBCOMMITTEE  
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BUDGET BRIEF

## SUMMARY

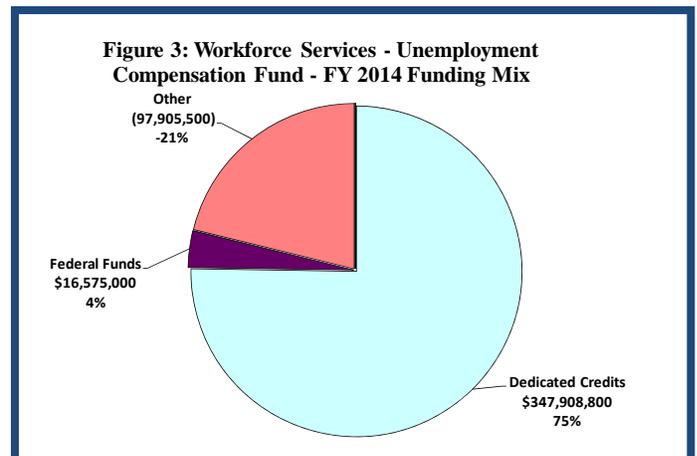
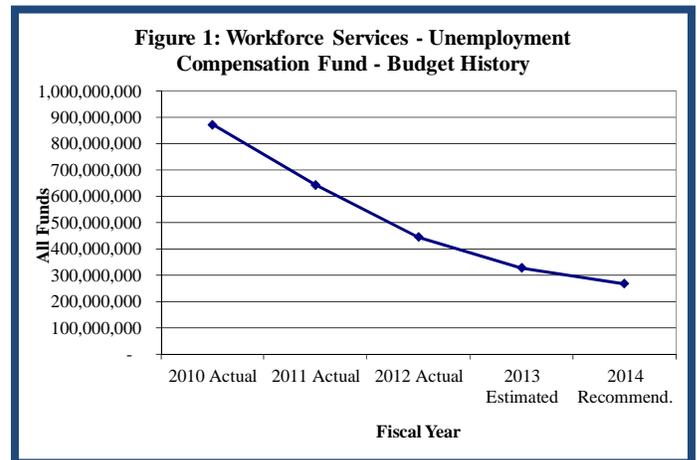
The Unemployment Compensation Fund provides cash benefits to certain unemployed individuals. Such benefits are funded almost exclusively through a dedicated tax paid by employers. Additional benefits may be paid by the federal government. The Analyst recommends moving appropriations for the Unemployment Compensation Fund into the “Business-like Activities” section of the budget and reflecting all revenue into and expenditures from the fund in appropriations acts. The Analyst also recommends appropriating \$60,000,000 in federal ARRA funds for FY 2013 to the Unemployment Compensation Fund. Finally, the Analyst recommends updating forecasts for the “UI Trust Fund” portion of Unemployment Compensation to see whether recent federal tax changes combined with a proposed freezing of the social rate might prolong the trust fund’s return to minimum adequate reserves.

## ISSUES

**Reporting Change/Base Budget:** On November 3, 2013 the Executive Appropriations Committee approved reorganization of appropriations acts so that they will more clearly identify different types of transactions. Under the reorganization, operating and capital appropriations – typically thought of as “the budget” – will be presented in separate subsections from items that approve business-like activities, review fiduciary funds, or simply move money from one account to another. The reorganization will not only more clearly communicate the legislature’s intent to state agencies and the Division of Finance, it will also allow readers to more easily compare appropriations acts to other budget documents like the Governor’s recommendations and Comprehensive Annual Financial Report.

The reorganization also allows legislative staff to present more and better information about certain types of financial activity. Because transactions are now presented and summarized by type, all activity in self-spending “restricted special revenue” funds and enterprise funds can be shown without risk of double-counting. This year, staff is expanding and improving reporting on funds and accounts previously included in appropriations acts, and will over time add other funds not previously shown.

The Unemployment Compensation Fund is an example of one such fund. It was previously shown as part of the Operating and Capital Budget. That had the effect of masking overall trends. The Fund’s outlays tend to go up when the economy – and therefore tax revenues – go down, and vice versa. Those outlays are of sufficient size in bad times (nearly one-half billion dollars) that they can make it appear as if budgets are not declining as much during recessions or not rising



as much during expansions.

Reporting the fund in a separate category also allows the legislature to see detail on all sources of revenue coming into the fund. In the past, appropriations acts showed appropriations from the fund to itself. Under the proposed reporting criteria, appropriations acts will show revenue sources like premiums, federal funds, and interest going to the fund, changes in fund balances, and payments going out of the fund.

The Analyst recommends appropriating \$266,578,300 from various sources as shown in the funding detail table on page 4 for the Unemployment Compensation Fund FY 2014 base budget. The Analyst further recommends reporting the appropriation separately from the operating and capital budget as demonstrated in Item 30 of the Social Services Base Budget (H.B. 8, 2013 General Session). Should the Legislature request a \$4,576,000 building block from the UCF requested in DWS Operations and Policy, the analyst recommends showing in a subsequent appropriations act the impact of that building block on the fund's projected balances.

**ARRA Funds:** As noted above, the Unemployment Compensation Fund is used to account for federal support of unemployment benefits. The American Recovery and Reinvestment Act authorized federal funds for unemployment, and Utah's unemployment system continues to receive such funds. Since passage of ARRA, the Utah Legislature has treated those funds separately from other federal funds so as not to create an ongoing obligation. The Department of Workforce Services has requested, and the Analyst recommends, an additional \$60 million in ARRA authorization for FY 2013. The analyst is not recommending stock ARRA intent language for this item of appropriation as it receives no General Fund.

**Impact of Federal Tax Changes on Employment Estimates:** The statutory formula that determines unemployment tax rates considers an employer's unemployment benefits payment history, the health of the Unemployment Insurance Trust Fund, and the default rate of other employers along with other socialized costs. The rate is calculated as follows:

$$(\text{employer benefit cost} / \text{taxable wages} * \text{reserve factor}) + \text{social rate}$$

The reserve factor is a multiplier that is adjusted up or down depending upon the health of the Unemployment Insurance Trust Fund. In bad economic times, the fund declines and the reserve factor goes up. In a good economy, the fund may thrive, in which case the reserve goes down. When the UI Trust Fund has a balance that is sufficient to pay between 18 and 24 months of benefits, the reserve factor is 1.

The social cost factor is added to all participants rates as a means to cover costs that cannot be charged to any one employer. An example of such as cost is benefits paid to former employees or a business that has closed. This factor is determined using the experienced social cost for the past four years.

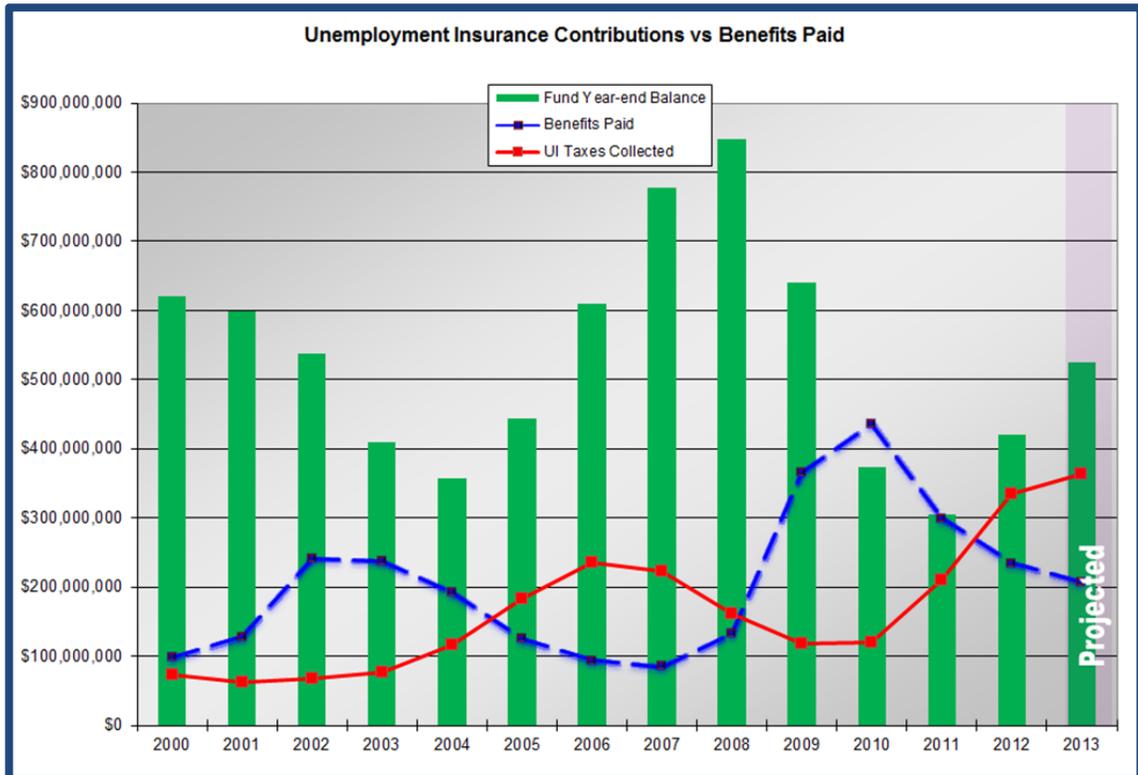
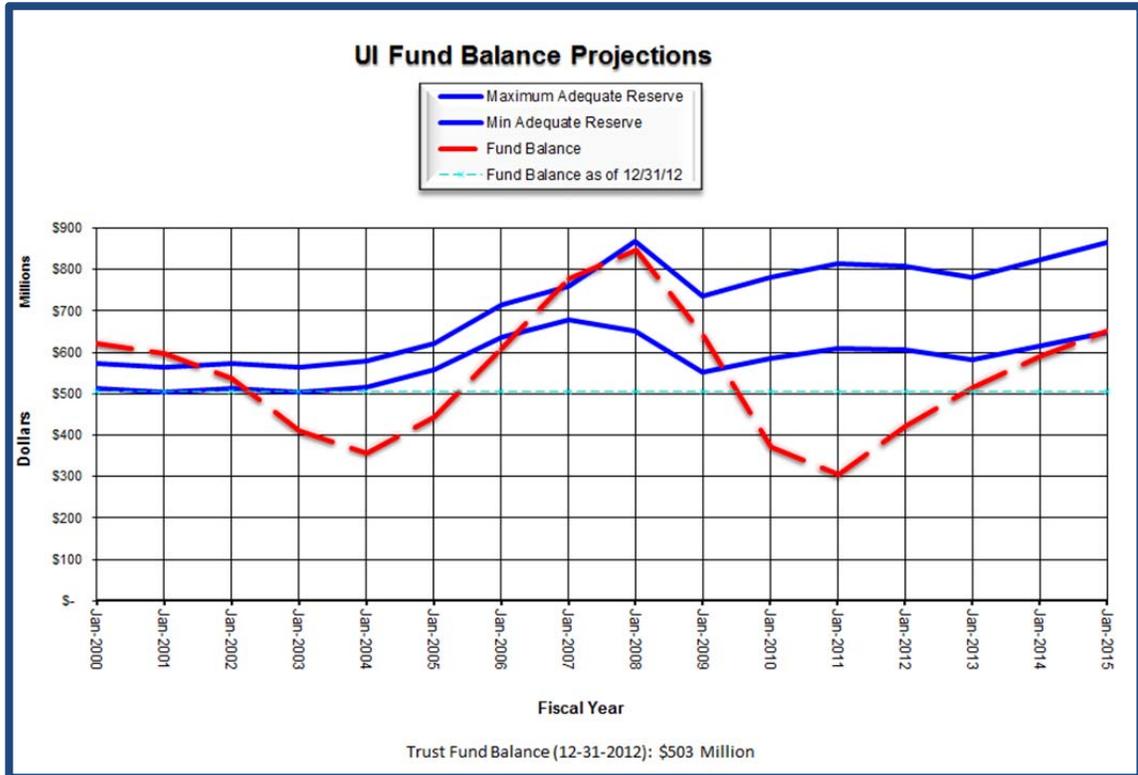
The Department of Workforce Services currently projects that the UI Trust Fund will return to minimum adequate reserve by January of 2015. In fact, it is proposing a bill (S.B. 106, 2013 General Session) that would freeze the social rate at 0.4% for calendar year 13, though that rate had been slated to go up to 0.5%.

DWS' current projections of UI fund health are based on November, 2012 consensus revenue assumptions. Those assumptions were made prior to federal tax changes including discontinuation of the payroll tax holiday and increases in tax rates for families earning more than \$450,000 per year. Legislative economists are expecting that the federal tax changes will slow projected economic growth. Updated economic indicators, expected later this month, may change DWS' projections for the UI Trust Fund and may delay the fund's return to minimum adequate reserve status.

The Analyst recommends the legislature request of DWS an updated projection of UI Trust Fund health once updated indicators are available. Such information may prove useful as Legislators decide whether or not to freeze the social rate.

**PERFORMANCE MEASURES**

As discussed above, DWS monitors the “Trust Fund” portion of Unemployment Compensation as a measure of the program’s health. The agency attempts to maintain reserves sufficient to pay between 18 and 24 months’ worth of benefits. The figures below demonstrate historical benefit payments and premium collections as well as past and projected fund balances.



**FUNDING DETAIL**

**Workforce Services - Unemployment Compensation Fund**

| Sources of Finance                   | FY 2012<br>Actual    | FY 2013<br>Appropriated | Changes                | FY 2013<br>Revised   | Changes               | FY 2014*<br>Recommended |
|--------------------------------------|----------------------|-------------------------|------------------------|----------------------|-----------------------|-------------------------|
| Federal Funds                        | 87,673,800           | 0                       | 15,506,800             | 15,506,800           | 1,068,200             | 16,575,000              |
| American Recovery and Reinvestment   | 86,890,300           | 5,000,000               | 60,000,000             | 65,000,000           | (65,000,000)          | 0                       |
| Dedicated Credits Revenue            | 36,548,400           | 0                       | 0                      | 0                    | 0                     | 0                       |
| Premiums                             | 343,985,000          | 0                       | 338,369,300            | 338,369,300          | (3,905,400)           | 334,463,900             |
| Interest Income                      | 10,815,500           | 0                       | 11,043,500             | 11,043,500           | 2,401,400             | 13,444,900              |
| GFR - Special Administrative Expense | 800,000              | 0                       | 0                      | 0                    | 0                     | 0                       |
| Unemployment Compensation Fund       | 0                    | 466,635,800             | (466,635,800)          | 0                    | 0                     | 0                       |
| Lapsing Balance                      | (800,000)            | 0                       | 0                      | 0                    | 0                     | 0                       |
| Beginning Fund Balance               | 400,081,900          | 0                       | 521,243,100            | 521,243,100          | 102,323,000           | 623,566,100             |
| Ending Fund Balance                  | (521,243,100)        | 0                       | (623,566,100)          | (623,566,100)        | (97,905,500)          | (721,471,600)           |
| <b>Total</b>                         | <b>\$444,751,800</b> | <b>\$471,635,800</b>    | <b>(\$144,039,200)</b> | <b>\$327,596,600</b> | <b>(\$61,018,300)</b> | <b>\$266,578,300</b>    |
| <b>Programs</b>                      |                      |                         |                        |                      |                       |                         |
| Unemployment Compensation Fund       | 444,751,800          | 471,635,800             | (144,039,200)          | 327,596,600          | (61,018,300)          | 266,578,300             |
| <b>Total</b>                         | <b>\$444,751,800</b> | <b>\$471,635,800</b>    | <b>(\$144,039,200)</b> | <b>\$327,596,600</b> | <b>(\$61,018,300)</b> | <b>\$266,578,300</b>    |
| <b>Categories of Expenditure</b>     |                      |                         |                        |                      |                       |                         |
| Other Charges/Pass Thru              | 436,323,000          | 471,635,800             | (152,302,300)          | 319,333,500          | (53,305,200)          | 266,028,300             |
| Transfers                            | 7,871,400            | 0                       | 7,713,100              | 7,713,100            | (7,713,100)           | 0                       |
| Trust & Agency Disbursements         | 557,400              | 0                       | 550,000                | 550,000              | 0                     | 550,000                 |
| <b>Total</b>                         | <b>\$444,751,800</b> | <b>\$471,635,800</b>    | <b>(\$144,039,200)</b> | <b>\$327,596,600</b> | <b>(\$61,018,300)</b> | <b>\$266,578,300</b>    |
| <b>Other Data</b>                    |                      |                         |                        |                      |                       |                         |
| Change in Fund Balance               | 121,161,200          | 0                       | 102,323,000            | 102,323,000          | (8,993,500)           | 93,329,500              |