



State funding sources

November 2008
Doc. #08-026-A

Employment Security mostly federally funded; has access to three state accounts

Employment Services Administrative Account pays for programs to put unemployed back to work

The Employment Security Department is largely supported by federal funds. However, federal funding is not available for some of the specialized job-placement programs offered in Washington, and the rate of federal support for basic services has been rapidly declining. The department has access to three state funding sources to mitigate the federal gap. Below is an outline of each of these sources.

Employment Services Administrative Account: Claimant Placement Program (Fund 134)

In 1985, the Employment Services Administrative Account (ESAA) was established in state law (RCW 50.24.014), to be administered by the Employment Security Commissioner. The account consists of moneys collected from employers to help re-employ unemployment-insurance claimants.

Revenue for this account comes from two sources:

1. A tax of 0.02 percent of taxable wages. The intent of this tax is to provide unemployment claimants with services they need to return to work as quickly as possible, which allows the employer to save on taxes.
2. A fee of 0.01 percent of taxable wages is collected for administering a program to help dislocated workers train for different employment. Previously, the amount collected for this program was split: 0.004 percent was used for administrative costs, and the remaining 0.006 percent was returned unused to the federal unemployment-insurance trust fund. With the passage of Substitute House Bill 1407, which took effect in July 2007, the remaining 0.006 percent of unspent funds is retained to maintain agency services.

Allowable expenditures for the ESAA are.

- Supplement basic employment services with special job-search and claimant-placement assistance designed to help unemployment-insurance claimants return to work.
- Provide services to unemployment-insurance recipients, with preferences to older unemployed workers and the long-term unemployed.
- Recruit, screen and refer qualified workers in agricultural areas.
- Provide information and analysis to the state legislature and agency managers about issues related to employment and unemployment.
- Provide personalized reemployment services for employers and unemployment claimants, such as labor-market information, job matching and referrals to other services.
- Support the Continuous Wage-and-Benefit History program. This program maintains longitudinal data on unemployment-insurance claimants and is used by the Claimant Placement Program to identify and target services.

Subject to availability of funds, training benefits are available for an individual who is eligible for or has exhausted entitlement to unemployment compensation and meets specific criteria outlined in state law (RCW 50.22.150).

The 2007-09 biennial appropriation from this account is \$33.8 million. The department's request for the 2009-11 biennium is \$40.6 million.

The authorizing laws for the ESAA are RCWs 50.22, 50.24 and 50.62.

Reed Act Funding (Fund 119)

The Reed Act is a portion of the federal Employment Security Financing Act of 1954 that amended the Social Security Act to provide a mechanism for returning excess federal unemployment taxes to the state employment security agencies. The Federal Unemployment Tax Act (FUTA) is a tax on employers that finances the administrative costs of the unemployment insurance and employment service programs, provides benefit reserve funds for possible extended-benefit programs, and provides a loan fund for states that deplete their benefit accounts. When the national accounts for administration, extended benefits and state loans reach their statutory caps, the excess is distributed to the states: a Reed Act distribution.

The states have some latitude in using a Reed Act distribution, with limited federal oversight. The main control over the use of the funds rests with the state, with certain requirements needing to be met. The funds can be used to pay unemployment benefits, to cover unemployment-insurance or employment-service administrative costs, and in some circumstances can be used as a revolving fund for major infrastructure investments, such as data-processing installations.

Reed Act expenditures for qualifying infrastructure investments can be amortized through federal grants, without interest. These amortization payments are re-deposited into the state's Reed Act account and restore a balance that can then be used again, as the Reed Act funds have no time limitation. Restoring the Reed Act account with these payments can have a positive effect on employers' unemployment taxes, as various needs that could require increased taxes can be funded through the Reed Act funds and, thus, necessary tax increases can be avoided.

Reed Act distributions: ~ Historically, when the statutory caps on the Federal Unemployment Account were close to being reached, the caps were simply increased by Congress to keep the funds in the federal accounts, making the federal deficit appear to be smaller. In 1997, Congress doubled the cap of the Federal Unemployment Account and prevented a \$4 billion Reed Act distribution to the states, but did authorize three years of \$100 million distributions (Balanced Budget Act of 1997). The three \$100 million distributions were restricted in their use to unemployment-insurance administration.

On March 9, 2002, President Bush signed HR 3090, the Temporary Extended Unemployment Compensation Act (TEUCA) of 2002. Section 209 of this legislation

authorized an \$8 billion Reed Act distribution to the states (double what would have been warranted under normal circumstances). Washington state's allocation was \$167 million and was transferred to the state's Unemployment Insurance Trust Fund that same month; \$130 million remained at the end of June 2008. The state legislature must appropriate these funds in order for them to be used to run the employment-service and unemployment-insurance programs. Reed Act funds cannot be used for training (for example, worker re-training costs).

Interest earnings from Reed Act distributions accrue to the state's Unemployment Insurance Trust Fund, but only the principal balance (\$167 million) can be appropriated. Every appropriation of funds for administrative purposes reduces the amount of the principal balance, but the interest remains in the account and can be used only for paying unemployment benefits. The principal can be restored only through the amortization of qualifying major infrastructure investments with federal funds, as explained above.

Administrative Contingency Account: Penalties and Interest (Fund 120)

In 1973, the state legislature established the Administrative Contingency Account (ACA) (RCW 50.16.010), to be administered by the Employment Security Commissioner. The fund consists of moneys collected as:

- 1) Penalties and interest from employers for late or incorrect unemployment taxes. When an employer's contributions are not paid when they are due, interest at the rate of 1 percent per month is charged on the remaining unpaid amount. Employers also may be penalized for incorrect reporting, such as late or incomplete reports or using an incorrect format.
- 2) Interest from unemployment-insurance recipients who must repay benefits to which they were not entitled. When a recipient fails to repay an overpayment assessment that is due and fails to arrange for satisfactory repayment terms, an interest penalty of 1 percent of the outstanding balance per month is imposed.

In 2006, the Employment Security Department collaborated with the state legislature to invest in greater fraud detection, which significantly increased the amount of penalties and interest flowing into this account. Simultaneously, the legislature eliminated allocations from the account for non-Employment Security programs, and also modified spending from the account so that it now may be used to support a wider array of state-approved employment-security expenditures for which federal funding is not available.

Allowable expenditures for the ACA are as follows.

- Job-skills classes at community and technical colleges.
- Reemployment services, such as business and project development assistance, local economic development capacity-building, and local economic development financial assistance at the Department of Community, Trade and Economic Development.

- Fully fund either Social Security number cross-match audits or other effective activities to ensure that individuals are entitled to all the benefits they are paid.
- Other detection and recovery of overpayment and collection activities.
- A variety of employment-related activities and disallowed costs. Some activities are targeted toward economic development, job retention and other services for businesses. A part is used to provide specialized employment, support services and crisis-intervention services for juvenile and adult offenders and ex-offenders.
- Provide the required federal matching funds for Americorps, a community-service program where participants receive a stipend and training while performing important community-based services such as tutoring, environmental conservation, disaster planning and response, etc.
- State and local labor-market information.
- Proper administration of the fund when insufficient federal funds are available.

The 2007-09 biennial budget appropriation is \$26.1 million. The department's request for the 2009-11 biennium is \$34.5 million.

The authorizing laws for the Administrative Contingency Account are RCWs 50.16.010(c) and 50.20.190 (6).

Contacts

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