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## LEGISLATIVE BUDGET BOARD

Robert E. Johnson Bldg.  
1501 N. Congress Ave. - 5th Floor  
Austin, TX 78701

512/463-1200  
Fax: 512/475-2902  
<http://www.lbb.state.tx.us>

## MEMORANDUM

**TO:** Representative Helen Giddings, Chair  
House Committee on Appropriations, Subcommittee on  
Business and Economic Development

**FROM:** Lea Isgur *li*

**DATE:** March 9, 2009

**SUBJECT:** Unemployment Insurance in Federal Stimulus

This memorandum is to clarify information and to answer questions about Unemployment Insurance (U.I.) provisions in the federal economic stimulus bill that were raised at hearings of the House Committee on Appropriations, Subcommittee on Business and Economic Development on February 24 and March 2.

### **Clarification:**

The U.S. Department of Labor (DOL) has provided information showing Texas' share of the \$7 billion U.I. modernization incentive funding will be \$555.7 million, up from the earlier estimate of \$530 million. U.I. administrative funds to Texas also increased to \$39.7 million from the earlier \$38.6 million estimate.

### **What are the cost estimates of the U.I. reforms?**

- **Alternative base period**, requiring states to include the most recently completed quarter in determining eligibility for unemployment compensation. Based on provisions of HB 162, the Texas Workforce Commission (TWC) estimates their cost will increase \$1.3 million in the first year and about \$1.0 million in each future year, excluding costs to the U.I. Trust Fund. They estimate added cost to the U.I. Trust Fund will be \$43.8 million in FY 2010, \$43.4 million in FY 2011, dropping to roughly \$40 million in subsequent years. They estimate a cost to employers of \$0.4 million the first year and \$0.3 million each subsequent year because the accelerated timing will require more direct contact with employers by TWC to get information (e.g. by phone rather than reports, which are due later.)

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- **Part-time workers**, requiring states to provide unemployment compensation to individuals seeking part-time work, but allowing states to exclude individuals if the majority of the weeks of work in the individual's base period did not include part-time work. Based on provisions of HB 1024, TWC estimates the added cost to the U.I. Trust fund would be about \$28.1 million per year in FY 2010-11, dropping slightly after that. They also indicate that HB 1024 does not meet DOL's requirements for the U.I. incentive funding, and costs to comply could be higher. TWC is currently working on this estimate.
  - **Compelling family reason**, requiring states to provide unemployment compensation to individuals who separate from employment due to domestic violence, illness or disability of an immediate family member, or a change in location of the spouse's employment when the new location is too far to commute from. Texas statute already covers domestic violence. In addition, TWC grants good cause for caring for certain family members who are ill or disabled, but DOL has not yet defined "immediate family member," and this provision would probably have to be statutory. Legislation has been filed that allows an individual to receive unemployment compensation if they separate from employment to move with a spouse. TWC is still developing their estimates. DOL would have to certify that the state statutes meet its requirements.
  - **Continuing unemployment compensation coverage for individuals in a state-approved training program**, requiring states to cover unemployed people for at least 26 additional weeks if they are making satisfactory progress in a state-approved training program that prepares the individual in a high demand occupation (as defined by the state), if the person had exhausted their "regular" unemployment compensation benefits. TWC is currently working on this estimate.
  - **Dependent allowances**, requiring states to provide a \$15 per dependent **per week** allowance, but allowing states to limit the allowance to a minimum of \$50 per week or 50 percent of the individual's weekly benefit amount, whichever is less. TWC is currently working on this estimate. Their data systems do not have information on dependents, so they will probably use other states' experience to estimate this. It is likely to be considerably more costly than the other options.

**What are the economic implications for employers if the state fails to draw down the \$555.7 million U.I. modernization incentive funds?** By making the above statutory changes, Texas will be able to access the \$555.7 million U.I. modernization incentive funding. Payout from the U.I. Trust Fund will increase to cover the new groups, but we believe the costs are likely to be considerably less than the additional \$555.7 million for the 2010-11 biennium, assuming the two additional provisions adopted are the least costly ones. Given the current economic outlook, we believe that employers would have higher U.I. assessments during the upcoming biennium without the additional \$555.7 million than with it. Once we receive more information from TWC, we hope to be able to analyze the "break-even" point where the additional costs would equal \$555.7 million, all things being equal.

**What is the current solvency status of the U.I. Trust Fund?** TWC testified that the U.I. Trust Fund had about \$1.1 billion in January 2009, down from \$1.3 billion in December 2008. The statutory floor is approximately \$874.6 million, equal to one percent of the total taxable wages for the four calendar quarters ending the preceding June 30. While TWC is currently above the floor, they estimate that the Trust Fund balance will be down to about \$109 million by October 1, 2009.

**Are there any time limits on receipt and use of the stimulus funds?**

We have received clarification that while the state must receive U.I. modernization funding from the U.S. Department of Labor by September 30, 2011, the state has no time limits on using the funds. We believe that other stimulus funds follow the restrictions of the programs they pertain to. Assuming this is correct, child care and Workforce Investment Act (WIA) funding would need to be obligated within two years, with an additional year to liquidate the obligation. We are seeking federal guidance to verify our assumption.

**Will the U.I. funds affect the Texas Enterprise Fund or Skills Development Fund?**

We don't believe this funding will impact either the Texas Enterprise Fund (TEF) or the Skills Development Fund (SDF). Funding for these two funds comes from a 0.1% tax on payable wages, which is kept in an employment and training investment holding fund which is separate from the U.I. Trust Fund. Release from the holding fund for TEF and SDF is triggered when the level of funding in the U.I. Trust Fund goes over 100 percent of the U.I. Trust Fund floor. TWC has indicated that the addition of the \$555 million federal UI stimulus funding will not increase the U.I. Trust fund to the trigger level.

As soon as we get more information from TWC, we will provide updates to you.

cc: Speaker Joe Straus

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