

**TO REVIEW STATE USE OF FEDERAL
UNEMPLOYMENT FUNDS**

HEARING
BEFORE THE
SUBCOMMITTEE ON HUMAN RESOURCES
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

MARCH 20, 2003

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**TO REVIEW STATE USE OF FEDERAL
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THURSDAY, MARCH 20, 2003

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:00 p.m., in room B-318, Rayburn House Office Building, Hon. Wally Herger (Chairman of the Subcommittee) presiding.

[The advisory and revised advisory announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE
March 13, 2003
HR-1

CONTACT: (202) 225-1025

Herger Announces Hearing to Review State Use of Federal Unemployment Funds

Congressman Wally Herger (R-CA), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing to review State use of \$8 billion in surplus Federal unemployment funds distributed in March 2002. **The hearing will take place on Thursday, March 20, 2003, in room B-318 Rayburn House Office Building, beginning at 1:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Unemployment Compensation (UC) program is a State-Federal partnership under which benefits are paid to laid-off workers who have a history of attachment to the workforce. Federal payroll taxes paid by employers support Federal responsibilities under the system, including certain administrative expenses, loans to States, and the Federal half of extended benefit costs. These Federal taxes are held in accounts that are part of the unified Federal budget.

When balances in the Federal accounts exceed certain ceilings, excess funds are generally transferred to State accounts, under a process known as "Reed Act transfers" in reference to legislation first passed in the 1950s. However, in recent years a provision in the 1997 Balanced Budget Act (P.L. 105-33) retained most excess funds in the Federal accounts in an effort to reduce Federal deficits. By early 2002, this change had resulted in the accumulation of significant surpluses in the Federal accounts.

The Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) transferred a total of \$8 billion in Federal unemployment funds to the States. The legislation provided that these funds could be used for unemployment program administration, payment of unemployment benefits, and re-employment efforts. In addition, States could use these funds to provide unemployment benefits to individuals not otherwise eligible for regular UC, such as those seeking only part-time work or those eligible only under an alternative base period.

In announcing the hearing, Chairman Herger stated, "In March 2002, Congress transferred an unprecedented \$8 billion to help States provide unemployed workers with benefits and support in finding new jobs, including by keeping payroll taxes low. This hearing will review how those funds have been used by States to assist workers and prevent tax increases, among other important uses."

FOCUS OF THE HEARING:

The hearing will focus on how States have used the \$8 billion in Federal unemployment funds distributed in March 2002.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to hearingclerks.waysandmeans@mail.house.gov, along with a fax copy to (202) 225-2610, by the close of business, Thursday, April 3, 2003. Those filing written statements who wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the Subcommittee on Human Resources in room B-317 Rayburn House Office Building, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.


1. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to hearingclerks.waysandmeans@mail.house.gov, along with a fax copy to (202) 225-2610, in Word Perfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://waysandmeans.house.gov>.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.



* * * POSSIBLE TIME CHANGE * * *

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE
March 20, 2003
HR 1-REV

CONTACT: (202) 225-1025

Possible Change in Time for Hearing to Review State Use of Federal Unemployment Funds

Congressman Wally Herger (R-CA), Chairman, Subcommittee on Human Resources of the Committee on Ways and Means, today announced the Subcommittee hearing to review State use of Federal unemployment funds previously scheduled for Thursday, March 20, 2003, at 1:00 p.m., in room B-318 Rayburn House Office Building, **will begin 30 minutes after the conclusion of the Health Subcommittee markup. The Health Subcommittee markup will begin at 11:30 a.m., or at the conclusion of the Republican conference meeting. If the Health Subcommittee markup ends at 12:30 p.m., then the hearing will still begin at 1:00 p.m.**

All other details for the hearing remain the same. (See Subcommittee Advisory No. HR-1, dated March 13, 2003.)

Chairman HERGER. Welcome to today's hearing.

I do want to acknowledge that circumstances in the world today are much different than they were, when we planned this hearing; and I appreciate all of you coming to take part in this important part of our Nation's democratic process. We are fortunate to live in a free Nation where all opinions are valued. We owe a great deal of debt to the brave men and women serving our country today who are laying their lives on the line to protect this right for all of us.

Now to our hearing.

This Committee has a long history of assisting unemployed workers. Today's hearing focuses on one specific effort, the \$8 billion in Federal funds we provided States last March. I expect additional hearings in the coming months will review other features of the Nation's unemployment benefits program, so we will have ample opportunity to consider ways to improve this program and make the benefits more responsive to worker needs.

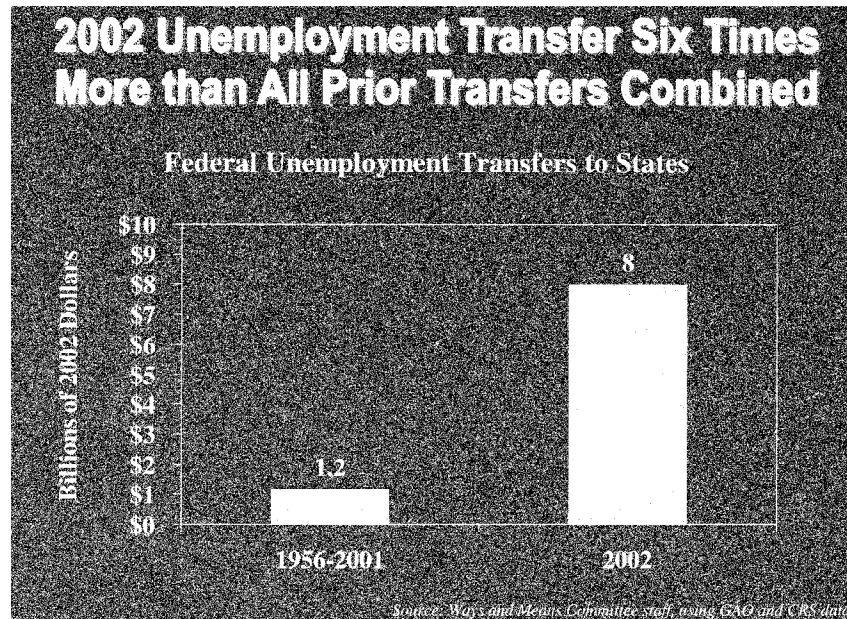
This Committee also will continue to work to stimulate economic growth and job creation. That is the only way workers can receive what they really want, a paycheck, not an unemployment check.

I want to begin by thanking our Ranking Member, Ben Cardin, for requesting a U.S. General Accounting Office (GAO) report on how States used this \$8 billion we provided last year. Here is what we know.

First, when States asked for help with budget demands, this Committee delivered. The \$8 billion Federal unemployment fund transfer made in March 2002, was unprecedented in size. According to data from GAO and the Congressional Research Service, the March, 2002 transfer was six times larger than all prior transfers combined, using inflation-adjusted dollars.

I have prepared the chart on my right, a copy of which is also in the Members' folders, that shows how this transfer compared with prior transfers.

[The chart follows:]



Chairman HERGER. Second, we have detailed information about how States used the broad flexibility in spending or reserving this money for their unemployment benefit needs. The GAO reports 30 States were able to pay promised unemployment benefits without having to raise State payroll taxes. Absent this infusion of Federal funds, those States would have had to raise taxes in a recession. These funds also kept more States from having to borrow to pay benefits. A number of States have updated their computer and other systems to better handle claims and prevent fraud and abuse.

It is noteworthy that only a handful of States used this money to increase unemployment benefits, but about \$6 billion remains available to extend or expand benefits if States choose that path.

This hearing also will let us consider the conditions under which these huge Federal surpluses accumulated. If we had not torn down the walls around this Federal money, the Federal accounts would have remained in surplus, while most States had to raise taxes to pay benefits.

We also should consider whether broader funding reforms like those proposed by the Administration are needed. These reforms

would allow States to set and collect a more appropriate amount of taxes to pay for getting unemployment benefits to workers in need.

Without objection, each Member will have the opportunity to submit a written statement and have it included in the record at this point.

Mr. Cardin, would you like to make an opening statement?
[The opening statement of Chairman Herger follows:]

**Opening Statement of The Honorable Wally Herger, Chairman, and a
Representative in Congress from the State of California**

This Committee has a long history of assisting unemployed workers. Today's hearing focuses on one specific effort—the \$8 billion in Federal funds we provided States last March. I expect additional hearings in the coming months will review other features of the Nation's unemployment benefits program. So we will have ample opportunity to consider ways to improve this program and make benefits more responsive to worker needs.

This Committee also will continue to work to stimulate economic growth and job creation. That's the only way workers can get what they really want—a paycheck, not an unemployment check.

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A number of States have updated their computer and other systems to better handle claims and prevent fraud and abuse. It is noteworthy that only a handful of States used this money to increase unemployment benefits. But about \$6 billion remains available to extend or expand benefits if States choose that path.

This hearing also will let us consider the conditions under which these huge Federal surpluses accumulated. If we had not torn down the walls around this Federal money, the Federal accounts would have remained in surplus while most States had to raise taxes to pay benefits. We also should consider whether broader funding reforms like those proposed by the Administration are needed. The reforms would allow States to set and collect a more appropriate amount of taxes to pay for getting unemployment benefits to workers in need.

Mr. CARDIN. Thank you, Mr. Chairman; and let me join you in expressing our thoughts for the men and women in armed services who are in harm's way today. Obviously, it is difficult for us to continue our business, but we must continue our business. Our prayers are certainly with our troops, and the subject of today's hearing is an important hearing dealing with those people who have lost their jobs who need unemployment insurance (UI).

Over the last 2 years, our economy has lost 2 million jobs. A strong unemployment system moderates the negative impact that these job losses have on individual workers and on our entire economy. Our UI system is designed to take in more revenue than it needs during good times so it can pay out more than it takes in during hard times. It is exactly what has happened.

The Federal Unemployment Insurance Trust Fund played such a role during this current economic downturn. If you look at what has happened in recent history, the Federal account paid down almost \$3 for every \$1 collected during the last year. These payments went out in three different forms. We had the Reed Act distributions that Chairman Herger has referred to, the extended benefits to dislocated workers, and administrative payments for State unemployment programs.

We should be extremely careful, though, about undermining the ability of the unemployment system to provide a similar response during future economic downturns. In this context, Mr. Chairman, I challenge the wisdom of the Administration's proposal to eliminate three-quarters of the revenue now dedicated to the Federal unemployment trust funds.

Along with Senator Kennedy, I requested the GAO to evaluate how States utilized the \$8 billion in refund distributions 1 year ago. Let me just observe that we supported the legislation and the transfer of these funds to the States. We thought that was an appropriate thing to do. However, we did not believe it would, in fact, add greatly to the States' ability to increase their UI benefits to their workers, their unemployed workers. There was some who thought that that would be sufficient, just give the agreed money to our States and that they would be able to take care of the increased needs. That was not the case, and we thought it would not be the case.

The Chairman has already referred to the preliminary results of that survey showing that, yes, it did help States from having to increase their UI taxes, but very few States used that money to expand the benefits itself. This means Congress still has work to do to eliminate barriers preventing low-wage workers and part-time workers from receiving unemployment benefits when they are laid off.

In a GAO report from 2 years ago, you informed us that low-wage workers are only one-half as likely to receive unemployment benefits compared to higher wage workers, even when employed for similar lengths of time. Mr. Chairman, we should be working on solving that problem, because my observation is that it is probably even worse today than it was 2 years ago.

I look forward to hearing from our witnesses, some of whom have traveled to Washington during this very difficult time. We appreciate you being here, and we look forward to your testimony.

Chairman HERGER. Thank you, Mr. Cardin.

Before we move on to our testimony, I want to remind to our witnesses to limit their oral statements to 5 minutes. However, without objection, all of the written testimony will be made a part of the permanent record.

For our first witness today, we are honored to have the Honorable Emily Stover DeRocco, the Assistant Secretary of the Employment and Training Administration at the U.S. Department of Labor. Secretary DeRocco.

STATEMENT OF THE HONORABLE EMILY S. DEROCCO, ASSISTANT SECRETARY, EMPLOYMENT AND TRAINING ADMINISTRATION, U.S. DEPARTMENT OF LABOR

Ms. DEROCCO. Good afternoon, Chairman Herger and distinguished Members of the Subcommittee. Thank you for inviting me to testify. I am extremely pleased to have the opportunity to talk with you about how States used last year's Reed Act distribution.

I want to start by thanking you, Mr. Chairman, and the Subcommittee for your leadership in crafting the legislation that established the Temporary Extended Unemployment Compensation (TEUC) program and transferred \$8 billion in Federal unemployment funds to the States via a Reed Act distribution. This unprecedented action is helping to meet the present needs of unemployed workers as well as providing critical economic stimulus.

Before discussing the Reed Act distribution, I would like to just mention briefly the Administration's proposal to reform the UI system and to thank and recognize Mr. McCrery and Mr. Herger for their leadership on that issue.

As you know, our proposal would promote job growth by cutting Federal unemployment taxes and simplifying the filing; strengthening the extended benefits program by lowering the "trigger;" and giving States new opportunities and flexibility to administer the UI program. The UI reform is indeed one of the Administration's highest priorities, and I want to express my eagerness to work with this Subcommittee on that issue.

Turning to the Reed Act, since the GAO and the National Association of State Workforce Agencies (NASWA) are in a better position to detail their reports to you, I want to give you a broad overview of State actions; and I do want to thank both of those organizations for the fine work they have done in surveying the States.

Further, a complete assessment of the distribution cannot be made at this time because many States plan to propose further use of Reed Act funds in 2003.

As to the requirements concerning the use of the 2002 Reed Act distribution, generally, Federal law requires that these funds only be used for the payment of unemployment benefits and for the administration of the UI laws and the State's system of public employment offices. State legislative action is required if Reed Act moneys are used for administrative purposes and to change benefit eligibility provisions.

With respect to benefits, the law specifically referenced some optional expansions of eligibility to groups of workers who are not currently eligible in some States and optional extensions of State benefits for TEUC exhaustees.

The immediate effect of the Reed Act distribution was an improvement in the account balances of State unemployment funds. On average, those fund balances were raised by about 20 percent at the time of the distribution. This, in turn, did postpone or avoid the need to raise employer taxes in many States, which is important at a time when business investment is needed to spark economic growth.

The Reed Act distributions also delayed borrowing for some States. Although we do have some States in borrowing status now

and others may need to borrow in the future, indeed, the Reed Act distribution helps States that otherwise would have had to borrow.

The GAO report indicates that, for 2003, the Reed Act distribution mitigated or avoided tax increases in 26 States.

It is important to note that using Reed Act funds to avoid or mitigate tax increases now does not preclude States from using these funds in the future to increase benefits or for expanded services after their trust fund balances have recovered. There is no time limit on the use of the Reed Act distributed funds.

With respect to benefits, the GAO report found that nine States increased or expanded benefits either temporarily or permanently. These States either increased their weekly benefit amounts, they enacted alternative base periods, or they enacted a State benefits extension for certain exhaustees.

Given the relatively short period of time many State's legislatures were in session following the distribution last year and the fact that heavy demands were already being placed on their State unemployment trust funds, I think this shows that the States took very seriously your suggestion to consider expanding eligibility.

The Department of Labor also clarified and encouraged use of some of these funds for certain administrative purposes:

One, to fund reemployment activities through the One-Stop Career Center systems; two, in line with your Subcommittee's concerns and the President's management agenda, to improve systems for preventing, detecting, and recovering overpayments of unemployment benefits; three, to improve performance; and, last, to improve customer service to both claimants and employers.

As to State actions related to these administrative issues, according to the GAO, again, 21 States appropriated some funds for UI administrative improvements such as general technology, claims systems development and, we are pleased to note, benefit payment integrity.

So, in sum, the information received so far indicates that States are using Reed Act funds to meet the unique needs of their workforce and their labor markets and that these funds are contributing to local economies as this Subcommittee intended.

This concludes my remarks, and I will be glad to respond to any questions.

[The prepared statement of Ms. DeRocco follows:]

**Statement of The Honorable Emily S. DeRocco, Assistant Secretary,
Employment and Training Administration, U.S. Department of Labor**

Good morning, Chairman Herger and distinguished members of the Subcommittee. Thank you for inviting me to testify. I am extremely pleased to have the opportunity to discuss how states have used last year's Reed Act distribution. I would like to start by thanking you, Mr. Chairman and the Subcommittee, for your leadership in crafting legislation that established the Temporary Extended Unemployment Compensation (TEUC) program and transferred \$8 billion in federal unemployment funds to the states via a Reed Act distribution. This unprecedented action is helping to meet the present needs of unemployed workers as well as providing critical economic stimulus.

Before discussing the Reed Act distribution, I would like to mention briefly the Administration's proposal to reform the unemployment insurance (UI) program. In the 2004 Budget, the Administration again proposes long-term reforms that will promote flexibility and strengthen the critical UI assistance that states provide to America's workers. Our proposal will promote job growth, help unemployed workers

and businesses alike, and give states new administrative opportunities. Specifically, the proposal:

- Promotes job growth by cuts in federal unemployment taxes and simplified filing;
- Gives states over \$5 billion in “special” Reed Act distributions to phase in the new system over five years;
- Helps unemployed workers by making it easier to access Extended Benefits by reforming the automatic “trigger mechanism”;
- Allows states to determine administrative funding levels and provides new flexibility in program administration; and
- Continues federal oversight and preserves workers’ UI safety net by continuing state access to federal loans to pay benefits, should states run short of funding.

As you know, the UI program is a key element of our Nation’s economic infrastructure. While the program acts as a critical automatic stabilizer during economic downturns, the system’s administrative structure is an unwieldy relic that badly needs an overhaul. For this reason, UI reform is one of the Administration’s highest priorities. I want to express the Administration’s eagerness to work with the Subcommittee to enact reform legislation to make the UI system more responsive to the needs of workers and employers by giving states flexibility and control.

Now, turning to the Reed Act, I would like to thank my colleagues at the General Accounting Office (GAO) and the National Association of State Workforce Agencies (NASWA) for the fine work they have done to date in detailing state use of the recent distribution. Since GAO and NASWA are in a better position to provide detailed information from their reports, I will give you a broad overview of state actions in the context of overall economic policy. Further, I will reference the GAO report since its survey is the most recent. A complete assessment of the distribution cannot be made at this time because many states plan to propose further use of Reed Act funds in 2003.

I’d like to briefly recap the requirements concerning the use of the 2002 Reed Act distribution. In general, federal law requires that these funds only be used for the payment of unemployment benefits and for the administration of the state’s unemployment laws and its system of public employment offices. State legislative action is required if Reed Act moneys are used for administrative purposes and, obviously, state legislative action is necessary to change benefit eligibility provisions. With respect to benefits, the law specifically referenced optional expansions of eligibility to groups of workers who are not currently eligible in some states, such as those seeking only part-time work and those workers who would qualify if more recently earned wages were available for determining benefit eligibility. It also referenced optional extensions of state benefits for TEUC exhaustees.

The immediate effect of the \$8 billion Reed Act distribution was a marked improvement in the account balances of state unemployment funds. On average, fund balances were raised by about 20% at the time of the distribution. This, in turn, postponed or avoided the need to raise employer taxes in many states, which is important at a time when business investment is needed to spark the economy. For example, New York’s fund level went from a negative balance to positive when it used its Reed Act distribution to pay back a loan from the federal Unemployment Trust Fund.

Broadly speaking, the balance in a state’s fund directly affects employer taxes because the employer tax rates are tied to the unemployment fund’s balance; when the fund’s balance goes up, employer tax rates go down and vice versa. The GAO report indicates that, for 2003, the Reed Act distribution mitigated or avoided tax increases in 26 states.

It is important to note that using Reed Act funds to avoid or mitigate tax increases now **does not** preclude states from using these funds in the future to increase benefits or for expanded services. Since the law does not establish a time limit with respect to using Reed Act funds, states may choose to use these funds for new benefits or services after trust fund balances have recovered from their current levels.

And even in this time of economic difficulty, some states did use their Reed Act funds to enhance benefits. The GAO report found that nine states increased/expanded benefits either temporarily or permanently. Alabama, Maryland, Oregon, and Vermont increased their weekly benefit amounts. Connecticut, the District of Columbia, Georgia, and Oklahoma enacted alternative base periods, which will make more recent wages available for determining benefit eligibility. Minnesota enacted a state benefits extension for certain exhaustees. Given the relatively short period of time many states’ legislatures were in session following the distribution

last year, and the fact that heavy demands were already being placed on state unemployment funds, I think this shows that states took seriously your suggestion to consider expanding eligibility in ways that made sense for their own particular situations.

Before discussing state actions concerning administrative use of Reed Act funds, I'd like to mention that the Department of Labor has been very active in encouraging their use for certain administrative purposes, including:

- Funding activities that support One-Stop Career Center systems, such as staff for delivery of core and intensive reemployment services, thereby returning workers to jobs as soon as possible;
- Improving systems for preventing, detecting, and recovering fraudulent and other types of overpayments of unemployment benefits, an issue of particular interest to your Subcommittee and others in Congress, the Department's Inspector General, the GAO, the President, as reflected in the Management Agenda, and the Department of Labor, which has been actively providing technical assistance to the states;
- Improving performance, with an emphasis on areas where performance problems have persisted through several years, such as evaluating current delivery systems and funding the costs of improvement; and
- Enhancing customer service by creating systems that allow Internet reporting of wage and tax information by employers and Internet claims filing by workers. We also recommended creating systems for the electronic payment of employer taxes and direct deposit of unemployment checks for claimants.

As to state actions, according to the GAO report, 21 states appropriated some of these funds for UI administrative improvements. Activities for which funds were appropriated include general technology, claims system development, and, we are very pleased to note, benefit payment integrity.

In summation, information received so far indicates that states are using Reed Act funds to meet the unique needs of their workforce and local economies, and these funds are contributing to economic stimulus as this Subcommittee intended.

This concludes my remarks. I will be glad to respond to any questions you may have. Thank you.

Chairman HERGER. Thank you for your testimony. I would like to remind Members that they each have 5 minutes for witness questioning. With that, the gentleman from Louisiana, Mr. McCrery, to inquire.

Mr. MCCRERY. Thank you, Mr. Chairman. Ms. DeRocco, could you review for us how we got this money in the first place, this \$8 billion that we sent back to the States? How did that accumulate?

Ms. DEROCO. Certainly. These are employer payroll taxes, as you know, that every employer pays into the unemployment trust fund. The Federal unemployment accounts, there are three in the overall unified Federal budget. Those accounts are dedicated to employment security Administration for the payment of loans and for the Federal share of extended benefits.

Over time, the payment of dollars into the trust fund with the interest accrued continues to grow, and when they reach a certain cap there is an automatic Reed Act distribution. Because the account levels were so high, this Committee made the determination to do a Reed Act distribution of \$8 billion to return those employer-paid tax dollars to the States from whence they came in order for the States to use them more effectively.

Mr. MCCRERY. So, in those Federal accounts, do we still have a surplus?

Ms. DEROCO. Absolutely. Right now, the account's balance is at \$23 billion; and, by all estimations, we have sufficient dollars for all of our needs long into the future.

Mr. MCCRERY. Now, some of those taxes that are sent to Washington from the States are supposed to be used for administrative expenses of the unemployment system, isn't that correct?

Ms. DEROCCO. That is correct, and the States have long held that Congress does not appropriate sufficient funds for their administrative purposes.

Mr. MCCRERY. Well, is there some formula that determines what amount of the taxes sent to Washington should be set aside for administrative purposes?

Ms. DEROCCO. We determine administrative needs for the States based on workloads. So, there is a very strong workload-driven formula for the identification of administrative needs for the States and the requests for administrative dollars in the subsequent appropriation.

Mr. MCCRERY. Until last year when we sent back the \$8 billion, were we returning to the States the full amount of the payroll taxes that they were sending to us for administrative purposes?

Ms. DEROCCO. Yes, sir. I believe, on average, about 55 cents of every dollar was being returned for administrative purposes.

Mr. MCCRERY. So every dollar of taxes that were collected by the States for the purpose of administering their unemployment systems, they were only getting back 55 cents?

Ms. DEROCCO. That is correct.

Mr. MCCRERY. They were only getting that back because that amount is subject to an annual appropriation by Congress?

Ms. DEROCCO. That is correct. The level in the unemployment trust fund allows other spending against the amounts accumulated in the unemployment trust fund.

Mr. MCCRERY. Was your department hearing complaints from the States over the last few years about an inability to administer properly their programs because of insufficient funds appropriated by the Congress?

Ms. DEROCCO. Absolutely. I would say there is not a State that has not expressed their concern about not receiving all of their employer-paid tax dollars back in order to properly administer this program.

Mr. MCCRERY. Well, is that an important part of the UI system, this administrative burden that the States have?

Ms. DEROCCO. Well, it is an important Federal-State partnership at this juncture for—

Mr. MCCRERY. Well, no. The Federal doesn't administer any of this, does it?

Ms. DEROCCO. No. We have some minimum administrative requirements as they relate to interstate claims and as they relate to assurance of conformity with Federal law.

Mr. MCCRERY. Right.

Ms. DEROCCO. The actual operation and Administration of this program is wholly a State function, and it is in the State's realm of responsibility to set benefit eligibility requirements to establish a system that operates effectively and efficiently on behalf of both claimants and employers.

Mr. MCCRERY. So, does the administrative function have anything to do with getting the cash to the beneficiaries?

Ms. DEROCCO. It has everything to do with getting the cash to the beneficiaries. If the administration of the program is broken, the claimants will not receive timely and accurate benefits.

Mr. MCCRERY. So, it is kind of important, isn't it?

Ms. DEROCCO. Absolutely.

Mr. MCCRERY. Thank you.

Chairman HERGER. I thank the gentleman. Now the Ranking Member, Mr. Cardin, from Maryland.

Mr. CARDIN. Thank you, Mr. Chairman.

Just to follow up a little bit with Mr. McCrery's comments. When the stakeholders came in with recommendations several years ago that deal with the issues that Mr. McCrery was raising in addition to other problems concerning low-wage workers and part-time workers—and we have been looking for a little leadership for someone to bring these proposals before the Congress. Can we count on the Administration coming forward with perhaps that recommendation so at least we have a starting point for reform of the system?

Ms. DEROCCO. Well, we would like the Administration's proposal for reform to be the starting point for discussion. I do have great respect for the stakeholders who came together to discuss these issues. Many of them I am sure, if not all of them, will continue to be involved in the public policy discussions; and it is important for them to continue to be.

Mr. CARDIN. Well, I appreciate that answer, although I don't think it was an answer.

As you know, the Administration could come in and request for money in their budgets for the administration of the UI system by the States. Have you put more money in the budget for this purpose? Are you requesting more money?

Ms. DEROCCO. We have attempted to request administrative dollars that are adequate for State Administration that are—

Mr. CARDIN. Does your budget this year—

Ms. DEROCCO.—that are close to the cost that we now assess based on a new resource justification model as possible and still stay within the constraints of the overall President's budget.

Mr. CARDIN. Yes, and I understand that, and I think the answer is, no. I don't think you have requested the extra money, nor do I think the budget document that is on the floor today provides for that extra funds. I could be wrong on that.

Mr. MCCRERY. Will the gentleman yield?

Mr. CARDIN. Yes, I would be glad to.

Mr. MCCRERY. Does the President's budget make room for the administrative reforms that the Administration has proposed?

Ms. DEROCCO. The President's budget does speak to the reforms of the Administration's proposal. The President's budget—

Mr. CARDIN. I guess my point, Mr. McCrery—

Mr. MCCRERY. That is a reform proposal that would give the States total control over their—

Mr. CARDIN. I understand what you are suggesting. I guess my point is that the statement has been made that there is more money paid in than being paid out. I don't think that was true for last year, we paid out a lot more, because the administrative cost is only one area that the revenues are used for. The redistribution

money came out of there as well as the payment for extended benefits.

I guess my point, Secretary Chao was before our Committee last week, and I raised the issue that the extended benefit program will terminate in May absent additional action by Congress. She promised that the Administration will be monitoring that situation as to whether to recommend a further extension, and I reminded her that our calendar moves pretty quickly around here, and Congress doesn't act quickly. So, the earlier the Administration makes a decision, the more orderly the process can be.

I just was curious as to what standards the Administration would be using. I believe the unemployment rate is higher today than it was when we last extended the benefits by a tenth of a percentage point. The exhaustee rate is higher. Last month, we had 308,000 people who lost their jobs. We have three people unemployed for every person who is trying to seek a job today. So, can you enlighten this Committee as to what standards the Administration will be monitoring in order to decide whether to recommend an extended—further extension of the benefit program?

Ms. DEROCCO. Yes, sir. We have committed to continuously assess the state of the economy. The unemployment rate in February was 5.8 percent, which is below the 6.0 percent high recorded in December 2002. We are watching the unemployment, the total unemployment.

Mr. CARDIN. The 5.8 percent is higher than when the benefit program was first started, isn't that correct? Wasn't it 5.7 percent at that point?

Ms. DEROCCO. I believe the first extension was at a point when the total unemployment rate was 5.7 percent. We also monitor the initial claims that are reported every week. We monitor the index of leading indicators, which for the third consecutive month had risen as of December. Real personal income is higher than pre-recession peak and increasing, and other economic indicators are important to an analysis of the need for another extension of the temporary extended unemployment program.

Mr. CARDIN. By what you are suggesting, does that mean the Administration has made a decision already that it will not seek further extension?

Ms. DEROCCO. Absolutely not.

Mr. CARDIN. I am glad to hear that.

Ms. DEROCCO. We have not made that decision. We are going to continually assess the economic situation.

Mr. CARDIN. Let me just make an observation, that I strongly recommend that you monitor this closely and make a decision in an orderly way.

I just tell you, on the streets in our community and around the Nation, people are hurting and can't find employment who are looking for employment and that, obviously, we need to do everything we can to strengthen our economy and provide jobs which the Administration has talked about frequently and which we in the Congress support. Those who can't find jobs need the protection of our system, and I would just urge the Administration to make a decision as early as possible.

Thank you, Mr. Chairman.

Chairman HERGER. Thank you. The gentleman from Kentucky, Mr. Lewis, to inquire.

Mr. LEWIS OF KENTUCKY. Yes. Thank you, Mr. Chairman.

I just might make a note of the fact that, in 1994, the unemployment benefits ceased when the unemployment rate was 6.4, so I think we are a little better off with 5.8 today.

Secretary DeRocco, I would like to—you referred to some stimulant effects to the economy when we transferred this \$8 billion to the States, and GAO's report states that 30 States were able to keep unemployment taxes from rising last year. Nonetheless, a later witness, Maurice Emsellem, says in his testimony that it is clear that the \$8 billion in funding did not help stimulate State economies, apparently because States chose not to use the money to expand benefits.

Can you review for us why you feel the economy has been helped by this?

Ms. DEROCCO. Absolutely. Employer taxes under the UI system in virtually all States are tied to the condition of the unemployment trust fund; and when trust fund levels are low, employer taxes trigger higher. We believe that higher employer taxes lead to more difficulty for employers to have a positive bottom line, and often that results in additional job loss. Our ability through the good work of this Committee to ensure that the \$8 billion transferred to the States allowed States to increase their solvency to assure the balance in their unemployment trust fund and to keep those employer taxes from increasing dramatically in turn kept the employers operating, in many cases still creating jobs and keeping people working. That is an important offsprung from this distribution of Reed Act funds.

Mr. LEWIS OF KENTUCKY. Absolutely. Thank you. Thank you, Chair.

Chairman HERGER. Thank you. The gentleman from Michigan, Mr. Levin, to inquire.

Mr. LEVIN. I just would like to pursue these questions from the point of view of a person who is out of a job. You said there are \$23 billion in the trust fund now, right?

Ms. DEROCCO. Um-hmm.

Mr. LEVIN. Eight billion dollars was distributed to the States. Most of that money remains in State treasuries, right?

Ms. DEROCCO. That is correct. About \$6 billion of it.

Mr. LEVIN. Three-quarters.

Ms. DEROCCO. Right.

Mr. LEVIN. Mr. Lewis talks about the unemployment rate being lower. What is the exhaustion rate today? Isn't it higher?

Ms. DEROCCO. Well, right now, we have about 2.7 million people that have exhausted their extended benefits.

Mr. LEVIN. Okay, and how many are predicted to exhaust their benefits between now and June?

Ms. DEROCCO. I don't know that. I don't have that.

Mr. LEVIN. I think it is about 200 a month. That sounds more or less correct?

Ms. DEROCCO. That is a reasonable estimate.

Mr. LEVIN. So, what is your answer to the person who has exhausted their benefits, who is looking for work and are required to

look for work under State law? That is monitored, and the exhaustion rate is high. So, tell me, what is your answer to that unemployed worker?

Ms. DEROCCO. Well, Mr. Levin, I have tremendous compassion for every worker that is unemployed.

Mr. LEVIN. Tell me what your answer is.

Ms. DEROCCO. My answer is two-fold.

Number one, this economy is in a very dynamic economy. For example, in the month of November, we had 3.85 million people who were separated from their jobs. At the same time, 3.96 million were newly hired and 2.8 million job vacancies remained unfilled. That is just 1 month's data from the Bureau of Labor Statistics to illustrate that there are job opportunities.

We invest taxpayer dollars in a system called the Workforce Investment System in the range of \$10 to \$12 billion a year; and the intention of that system is to provide employment and reemployment services for unemployed workers, for those who don't have the skills that are marketable in their local labor market, to provide for skills development for the jobs that are available so they have a chance at reemployment.

Mr. LEVIN. Okay. I am fully aware of that. Those are the data. So, your conclusion from those data—your conclusion is that the huge numbers of people who have exhausted their benefits aren't finding jobs that are there or that they are not seeking retraining? Just put together your data and look at it from the individual point of view. There are hundreds and hundreds of thousands of people who have exhausted their benefits who are looking for work.

Ms. DEROCCO. There are billions of dollars in services available to help them find work.

Mr. LEVIN. I know, but they are not finding work.

Ms. DEROCCO. Well, perhaps they are not accessing those services, either. That is an important component of a plan to get people back to work. I don't believe unemployed workers want another unemployment check. I believe they want a paycheck.

Mr. LEVIN. Okay. Then if they want another paycheck, but they are not getting one, there is something wrong.

Ms. DEROCCO. Their skills may not match the requirements for the jobs that are available in their local labor market or in one close by.

Mr. LEVIN. Okay. So, while they are looking for jobs, why have an unemployment system that provides less of a base for living for those people than was true 10 years ago?

Ms. DEROCCO. Well, right now, we have an unemployment system with extended benefits opportunities that is providing up to 65 weeks of unemployment.

Mr. LEVIN. Well, that is for a small number of people in a few States. Yes, you know that.

Ms. DEROCCO. Well, the minimum—

Mr. LEVIN. The 65 weeks is for a very few people. What do you tell the people in the vast majority of States who have exhausted their 39 weeks, can't find a job? Give me a simple answer that I can tell those people.

Ms. DEROCCO. I would tell them that we want to help you find a job, and we have the services, we have the resources, and we have the capability to help you find a job.

Mr. LEVIN. So, why aren't they finding it? What is the problem?

Ms. DEROCCO. I think there is a disconnect among many of the current services that are available and knowledge of those services, our ability to reach unemployed workers, which is why—

Mr. LEVIN. Whose fault is that?

Chairman HERGER. The gentleman's time has expired.

Mr. LEVIN. Whose fault is that?

Ms. DEROCCO. These are State and locally run systems with Federal oversight, and all of us need to do a better job in outreach.

Chairman HERGER. The gentleman's time has expired.

Madam Secretary, I note that the GAO report provides results through November 30, 2002. For those who are concerned that States have not spent enough of this money, is it quite possible that some of these States have spent more since then or plan to spend more this year?

Ms. DEROCCO. Absolutely. We know for a fact that there are two additional States that have taken action to extend or expand eligibility. The State of Virginia has an alternative base period plan pending finalization. The State of Utah has an extension of extended benefits pending action as well.

Again, because the distribution was made at a time when State legislatures were partway through their sessions, many States didn't have an opportunity to consider or to recommend use of the Reed Act dollars. We expect significantly more actions in 2003.

Chairman HERGER. Thank you very much. Now I recognize the gentleman from Washington, Mr. McDermott, to inquire.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Having been in a State legislature for a number of years like many on this panel, I sometimes look at it from what it looks like down their end. Can you give me the names of the governors who support your plan? It has been out there for a year for them to look at. Which governors have put their name in support of it?

Ms. DEROCCO. We do have governors who have support it, but we—

Mr. MCDERMOTT. Give me the names.

Ms. DEROCCO. We had a significant change in governors as of the November election.

Mr. MCDERMOTT. I am asking you, what governors do you have? Give their names.

Ms. DEROCCO. I have not had personal discussions with the governors yet, because the revised plan was just made available in the President's budget in February. I have not personally had meetings with any governors.

Mr. MCDERMOTT. Did he talk to all the governors and say, here is my plan; what do you think of it?

Ms. DEROCCO. He may have talked to governors. I am not sure.

Mr. MCDERMOTT. So, this is another one of those plans from Washington, DC, that is going to help the States, and you haven't got a single governor's name to give me who is in support of this.

Ms. DEROCCO. I will be glad to get back—

Mr. MCDERMOTT. Not one single one.

Ms. DEROCCO. With the governors that will be supportive of it.
Mr. MCDERMOTT. Will be. I see. Well, why wouldn't they have already come forward and said, this is great thing. Hurry up and do it.

Ms. DEROCCO. In large measure, because we haven't had the opportunity to go talk with them, brief them on it, and ask them for their input.

Mr. MCDERMOTT. What has Administration been doing?

Ms. DEROCCO. Since February?

Mr. MCDERMOTT. Yes.

Ms. DEROCCO. Been working very hard on helping unemployed workers, on workforce investment system changes to ensure better reemployment and skills development services, and other priorities.

Mr. MCDERMOTT. It isn't working in my State, whatever you are doing. It isn't working. We have still got the highest unemployment or second or third highest unemployment in the United States. So, whatever you have been doing since February has been wasted.

Let me ask another question. The legislatures—I know they are all imbedded right now in enormous financial problems. The legislatures have certainly come forward and asked for this plan, haven't they?

Ms. DEROCCO. For the UI plan?

Mr. MCDERMOTT. Yes.

Ms. DEROCCO. I would suspect most State legislatures are not familiar with the manner in which their employer-paid taxes are sent to Washington and kept in Washington and not used for the benefit of their citizens and their employees.

Mr. MCDERMOTT. So, you are going to pull the money out, but you haven't talked to them about how they are going to replace it?

Ms. DEROCCO. No, sir. We pulled the money out a long time ago. We are going to talk to them about how we are going to give it back to them.

Mr. MCDERMOTT. Give it back to them how?

Ms. DEROCCO. Transferring administrative financing responsibility to the States.

Mr. MCDERMOTT. So, you are not giving them money; you are giving them the responsibility.

Ms. DEROCCO. They will be able to keep their employer taxes in their States in their budgets.

Mr. MCDERMOTT. So, what you are saying to them is, we are going to take off a Federal tax, and you people have to raise the tax to replace it. Right?

Ms. DEROCCO. The States would need a replacement tax but at a significantly lower level than the—

Mr. MCDERMOTT. Why? Why would it be a significantly lower level?

Ms. DEROCCO. Right now the taxes that we are assessing against employers we bring to Washington, we put in the unemployment trust fund, and it accumulates high balances and additional interest, leaving us with a situation where you return to the States in 1 year \$8 billion in a Reed Act distribution.

Mr. MCDERMOTT. Isn't that the point of unemployment? You save it up during the fat period? This is the Bible story. The old

fat years and the lean years. So, in the fat years, you put the money in, and then when you come to the lean years, you have got it to give out. Isn't that exactly the deal?

Ms. DEROCCO. That is exactly what is done in the State unemployment trust funds, which is—because the State unemployment trust funds are the source from which the benefits are paid. So that in those lean years when there is an additional need for benefits to unemployed workers, the State unemployment trust fund balances are the important level. The Federal unemployment trust fund balances in large measure for administrative purposes have grown to such an extent that there is more than sufficient dollars.

Mr. MCDERMOTT. Is that fund used for anything besides administrative purposes?

Ms. DEROCCO. Certainly.

Mr. MCDERMOTT. What?

Ms. DEROCCO. It is used for, 50 percent, the Federal responsibility, for extended benefits and for—

Mr. MCDERMOTT. So, in the lean times, when you want to put the extended benefits out there, you have to have that money.

Ms. DEROCCO. We have more than sufficient funds. We now have a balance of \$29 billion.

Mr. MCDERMOTT. Why haven't you extended the benefits if you have got plenty of money? I am glad to hear you say that. I hope the press will remember that you said we have plenty of money. Why is the Administration sitting still on extending benefits when you have all these people blowing out of their benefits?

Ms. DEROCCO. It is our intention to return that money to the States so that if they choose to extend benefits or enhance benefits they have the opportunity to do it.

Mr. MCDERMOTT. What is it that you think it is better shipping it back down there? Why is it you just don't extend the program that is already there?

Ms. DEROCCO. I have more confidence in the State executive and legislative branches to deal effectively and efficiently for their employers and their constituents than I do with the Federal Government.

Mr. MCDERMOTT. You are talking about yourself.

Ms. DEROCCO. I am talking about all of us in Washington.

Mr. MCDERMOTT. You are talking about yourself.

Ms. DEROCCO. Yes.

Mr. MCDERMOTT. You have more.

Ms. DEROCCO. I do.

Chairman HERGER. The gentleman's time has expired.

Mr. MCDERMOTT. What I get from you is that you think you are incompetent and they are competent. So, if you just ship the money back to them, they will figure out how to put it to use.

Chairman HERGER. The gentleman's time has expired.

Ms. DEROCCO. I think they are far more competent than Washington.

Mr. MCDERMOTT. Boy, that is an amazing admission.

Chairman HERGER. Thank you.

Madam Secretary, could you contrast our March 2002, action with past legislation, including the 1997 Balanced Budget Act? Is it correct that if we had behaved in 2002 like Congress had in the

past, all or most of this money probably would have stayed in Federal accounts? Hasn't there been a number of times that the Federal account ceilings have been raised, leading to bigger Federal balances and less being returned to the States as the Reed Act was intended?

Ms. DEROCCO. Absolutely. The normal course of operation historically seems to have been to raise the caps in the Federal accounts, to retain the money in Washington, again primarily for the purpose of offsetting other spending, because it all resides in the unified Federal budget and it provides an opportunity to be used as an offset.

Prior distributions of Reed Act funds since 1956, we have had only eight occasions for distribution, most of them at fairly minimal levels, the lowest at \$16 million; and, of course, the highest has been the distribution that this Congress made last year of \$8 billion to the States.

Chairman HERGER. I thank you, Madam Secretary.

As our chart showed, we can see very little was returned in the years after the Reed Act was enacted, and it really wasn't until just this last year that we finally did return funding to the States so that they could use it as they needed it and are doing so with the balance now.

Madam Secretary, I thank you for your testimony. With that, I would like to ask the next panel to come up and be seated.

Today we are hearing from Sigurd Nilsen, Director of the Education, Workforce, and Income Security Division at the U.S. GAO; Jon Brock, former President of the NASWA and Executive Director of the Oklahoma Employment Security Commission; Melissa DeLisio, Assistant Director of the Ohio Department of Job and Family Services; Maurice Emsellem, Director of Public Policy at the National Employment Law Project.

To introduce the next witness, I turn to my colleague from Louisiana, Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

We have with us today on our second panel from my State of Louisiana the Secretary of Labor, Dawn Watson. Ms. Watson, prior to becoming Secretary since 1997, served as the Deputy Secretary of the Department of Labor in Louisiana; and prior to that she worked as a staff attorney for the Louisiana State House of Representatives from 1991 to 1997. She is a graduate—an honor graduate of the University of Southwestern Louisiana, now the University of Louisiana at Lafayette, and my law school alma mater, Louisiana State University (LSU). She has her juris doctorate from LSU.

She brought with her today Mrs. Raj Jindal. Mrs. Jindal's name may be familiar to the Members of the panel. She is the mother of Bobby Jindal who has just departed Washington, having served up here as the Assistant Secretary of Planning and Evaluation at the U.S. Department of Health and Human Services, and is now back home in Louisiana about to run for Governor.

So, Mrs. Jindal, welcome; and, Ms. Watson, welcome to you.

Ms. WATSON. Thank you.

Mr. CARDIN. Mr. Chairman, if I might, I would like to welcome Mr. Emsellem on behalf of Mr. Stark. He apologizes for not being

here, but he wanted to welcome his constituent to our Committee. It is a pleasure to have you.

Chairman HERGER. I would like to recognize someone who is a Member of the full Committee to introduce one of our witnesses, Stephanie Tubbs Jones.

Ms. TUBBS JONES. Thank you, Mr. Chairman.

I would like to introduce to each and every one of you a Buckeye, Melissa DeLisio, who is the Assistant Director of the Ohio Department of Job and Family Services in Columbus, Ohio. We actually just met this afternoon, but I have learned in that short period of time that she has been with the Department for 23 years; and, say it, gentlemen, she only looks like she is about 26. Come on, join in. No.

We are pleased to have her here to make some presentations this afternoon about what is going on in Ohio. We are struggling in Ohio, and we need help, so we have got to figure out what to do.

Thank you, Mr. Chairman.

Chairman HERGER. You are welcome. With that, we will hear from our witnesses. Mr. Nilsen.

STATEMENT OF SIGURD R. NILSEN, DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Mr. NILSEN. Thank you, Mr. Chairman, Members of the Subcommittee. I am pleased to be here today to discuss how States are using the \$8 billion that was allocated to them in March 2002, under the Reed Act.

These funds, as we have heard earlier, may be used to pay UI benefits or be appropriated by States for the administrative costs of UI, Employment Service (ES), or one-stop centers. Today, I will be providing information from our report that was issued earlier this month that has been alluded to already.

First, as you can see from the pie chart I have over there, 17 percent of the funds, a relatively small proportion, has been spent so far; and, again, this is through November 30th, 2002. Almost all of the \$1.34 billion that was spent was used to pay regular UI benefits in three States with very low trust fund reserves. New York spent about \$300 million on regular UI benefits; and the remainder of its distribution, nearly \$190 million, was used to repay a Federal UI loan. North Carolina spent all of its Reed Act funds, \$241 million, on regular UI benefits. Texas used 90 percent of its Reed Act funds, \$535 million, to pay regular UI benefits.

According to the Department of Labor, Texas has since spent its remaining Reed Act funds and, along with New York, has received a Federal loan to continue paying UI benefits.

Although nine States reported that they have made or plan to make enhancements to UI benefits with the help of Reed Act dollars, Vermont is the only State that told us it was spending Reed Act funds to do so during 2002, spending \$1.67 million to increase weekly UI benefit payments.

You have already heard Ms. DeRocco relate some of the findings from our study that found that five States reported

that Reed Act dollars enabled them to enhance UI benefits in 2002, and three others told us that they are planning to do so in 2003.

Next, as the pie chart also shows, 83 percent of the Reed Act funds is remaining in State unemployment insurance trust funds. This \$6.66 billion boosted UI reserves in a number of States and enabled 30 States to avoid automatic employer tax increases or surcharges in 2002. While five States told us that they had lowered employer taxes in 2003, only two of them, the District of Columbia and Maine, said it was because of their Reed Act distribution.

In addition, nine States made binding policy decisions that obligated 16 percent or \$1.27 billion to their trust funds. Nearly half of it was accounted for by California, that obligated about \$600 million or two-thirds of its allocation to its trust fund. Four States—Missouri, Kansas, Nevada, and Delaware—obligated their entire Reed Act distribution to their trust funds, most frequently citing their desire to avoid raising employer taxes as a reason for obligating Reed Act dollars to UI trust funds.

Finally, over half of the States appropriated some Reed Act funds for the administrative expenses associated with UI or employment services, including their one-stops. Twenty-seven States appropriated a total of \$662 million, about 8 percent of the Reed Act distribution, for these purposes. So far, 15 States have spent about \$74 million. Interestingly, two States, Michigan and Montana, have appropriated almost all of their Reed Act funds for administrative purposes.

Of the \$662 million that was appropriated, a total of \$313 million was appropriated in 21 States for UI purposes. These funds were targeted for a range of purposes, including enhancing technology, improving systems for handling UI claims, maintaining or increasing the number of UI staff, and improving tax filing and payment systems for employers.

For example, New Jersey is completely overhauling its 1970-era benefit payment system. Michigan is also updating its computer systems, and California is looking at improving its tax system.

Eighteen of the 21 States that have appropriated money for UI have reported that these investments would enhance program integrity by improving wage reporting for employers, strengthening its eligibility procedures and enhancing benefit payment control systems. For example, Virginia is increasing its staff in its benefit payment control center.

Twenty-two States appropriated roughly \$350 million for their ES or one-stop systems. As with funds appropriated for the UI system, most States were planning to use these funds to enhance technology, 12 States plan to use funds to maintain or increase staff, and 10 States plan to enhance reemployment services for UI claimants. Some States also plan to use funds to improve resource rooms in one-stop centers and to increase their outreach activities.

Mr. Chairman, that concludes my statement, and I would be happy to answer any questions you or other Members of the Subcommittee might have.

[The prepared statement of Mr. Nilsen follows:]

Statement of Sigurd R. Nilsen, Director, Education, Workforce, and Income Security Issues, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss how states are using the March 2002 Reed Act distribution, which was part of the Job Creation and Worker Assistance Act of 2002. This broad stimulus package included an additional 13 additional weeks of federally-funded extended unemployment insurance (UI) benefits for all states and a distribution to states of \$8 billion of the unemployment tax revenue it holds in reserve, referred to as a Reed Act distribution.¹ Under the act, these funds may be used to pay UI benefits, and/or to enhance UI benefits, such as increasing weekly benefit payments, extending the period of time benefits are paid, or otherwise expanding eligibility to groups that currently do not qualify for benefits. States may also appropriate these funds for the administrative costs of UI, including activities related to program integrity, and employment services (ES) programs, including one-stop service centers.²

Today, I will be providing information from our recent report on how states have used the Reed Act distribution so far.³ I will discuss: (1) the proportion of Reed Act dollars that states have spent; (2) the proportion of total Reed Act dollars that remains in state UI trust funds and the effect this has had on employer UI taxes; and (3) the proportion of Reed Act dollars that have been appropriated by states for administering the UI, ES, or one-stop systems.

To determine how Reed Act dollars are being used, we surveyed state workforce agency administrators in 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands.⁴ We also reviewed legislation, federal guidance, and other documents and data relevant to UI and Reed Act distributions and interviewed U.S. Department of Labor officials responsible for overseeing state activities related to the 2002 Reed Act distribution. We also interviewed various interest groups and met with state UI and workforce agency officials and state legislative representatives in Virginia and New Jersey.

In summary, we found that about 17 percent (\$1.34 billion) of the \$8 billion 2002 Reed Act distribution had been spent as of November 30, 2002, primarily on regular UI benefits, and only a small portion had been spent on benefit enhancements, or administrative costs of UI, ES, and one-stop systems. A total of \$6.66 billion (83 percent) remains in state trust funds, which, according to state workforce officials, has prevented automatic increases in employer taxes in 30 states. Twenty-seven states appropriated about \$662 million for administrative costs of UI, ES, or one-stop systems, of which \$74 million has been spent.

Background

The UI program was established by Title III of the Social Security Act in 1935 and is a key component in ensuring the financial security of America's workforce. This complex program, which is jointly administered by the U.S. Department of Labor's Employment and Training Administration and the states, provides temporary cash benefits to workers who lose their jobs through no fault of their own. By providing unemployed workers money for basic needs, UI helps boost demand for goods and services, thereby stabilizing the economy during recessions. Although Labor provides oversight and guidance, primary responsibility for administering the program lies with the states.

The UI program is funded through federal and state taxes levied on employers. The federal tax generally covers the administrative costs of the UI and ES pro-

¹The term "Reed Act" refers to a part of the Employment Security Financing Act of 1954. The Reed Act provides that when federal accounts in the UI trust fund reach their statutory limits at the end of a federal fiscal year, any excess funds are transferred to state UI trust funds. Unlike "traditional" Reed Act distributions, the calendar year 2002 distribution was required regardless of the ceilings and did not take place at the beginning of a fiscal year.

²The employment services system, established by the Wagner-Peyser Act of 1933, provides job seeker and employer labor exchange service and information. The Workforce Investment Act (WIA) of 1998 amended the Wagner-Peyser Act to require that the employment service activities be provided as part of the WIA one-stop system, which is a centralized service delivery structure consolidating delivery of most federally funded state and local employment and training assistance.

³See U.S. General Accounting Office, *Unemployment Insurance: States' Use of the 2002 Reed Act Distribution*, GAO-03-496 (Washington, D.C.: Mar. 6, 2003).

⁴For UI purposes, federal law designates the District of Columbia, Puerto Rico, and the Virgin Islands as "states."

grams,⁵ loans to states, and the federal share of extended UI benefits.⁶ State taxes are used to pay UI benefits. States deposit their taxes with the U.S. Treasury, which maintains one trust fund with a separate account for each state. States are responsible for ensuring the solvency of their individual trust funds. To ensure trust fund solvency, states can build up trust fund reserves during good economic times, so that they have sufficient reserves to pay UI benefits if unemployment rises, without raising taxes or borrowing money from the Federal Government. Forty-nine states set triggers that automatically increase employer taxes when UI trust funds fall below specific levels.

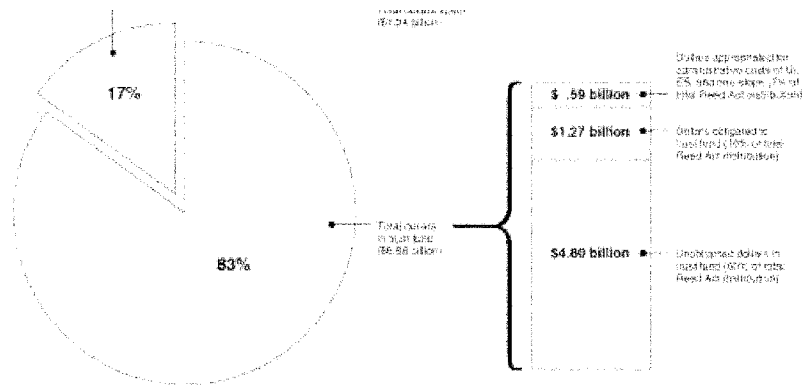
The current Reed Act distribution was authorized by the Job Creation and Worker Assistance Act of 2002 on March 9, 2002, and provided \$8 billion, the largest Reed Act distribution to date, to the UI trust funds of all 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. Appendix I presents the Reed Act allotment by state, the percent expended, and the percent unexpended. The allotted amounts ranged from \$1.95 million to the Virgin Islands to \$936.9 million to California. Each state's share was based on its proportionate share of the Federal Unemployment Tax Act (FUTA) taxable wages for calendar year 2000.

To use the funds for administrative costs of state UI, ES or one-stop systems, states are required to have a specific appropriation from their legislatures. In addition, there is no time limit on using the 2002 Reed Act dollars for administrative purposes. Finally, Labor issued guidance encouraging states to use 2002 Reed Act dollars to support one-stop systems.

Only A Small Portion Of The 2002 Reed Act Distribution Had Been Spent As Of November 30, 2002

Only 17 percent of the \$8 billion Reed Act distribution had been spent as of November 30, 2002. (See fig. 1.) Of the \$1.34 billion spent as of November 30, 2002, almost all was used to pay regular UI benefits in three states with very low trust fund reserves. New York spent most of its Reed Act distribution (\$302.5 million) on regular UI benefits, and the remainder (\$188.8 million) to repay a federal UI loan. North Carolina spent all of its Reed Act funds (\$240.9 million) on regular UI benefits. Texas used 90 percent of its Reed Act funds (\$534.7 million) to pay regular UI benefits. According to Labor, Texas has since spent its remaining Reed Act dollars on UI benefits, and along with New York, has received a federal loan to continue paying UI benefits.

Figure 1: Status of the \$8 Billion Reed Act Distribution (as of November 30, 2002)



Source: BACI survey of states.

Although nine states reported that they made or plan to make enhancements to UI benefits with the help of Reed Act dollars, Vermont is the only state that re-

⁵ Labor provided about \$2.2 billion to states in fiscal year 2003 to administer these programs.

⁶ The federal tax accumulates in three separate accounts. These three accounts are the (1) Employment Security Administration Account (ESAA), which covers both federal and state administrative costs of UI and ES; (2) Extended Unemployment Compensation Account (EUCA), which covers the federal share of extended UI benefits and has been used to fund temporary extended unemployment compensation benefits; and (3) Federal Unemployment Account (FUA), which funds loans to insolvent state accounts.

ported spending any Reed Act funds to do so during calendar year 2002. Vermont spent \$1.67 million to increase weekly UI benefit payments. Five states reported that Reed Act dollars enabled their states to use non-Reed Act dollars in their trust funds to make UI benefit enhancements in 2002:

- Alabama, Maryland, and Oregon increased weekly UI benefit payments,
- Minnesota extended benefits to individuals who have exhausted coverage, and
- Oklahoma implemented an alternative base period.⁷

Connecticut, the District of Columbia, and Georgia reported that they are planning to use Reed Act dollars to implement an alternative base period in calendar year 2003.

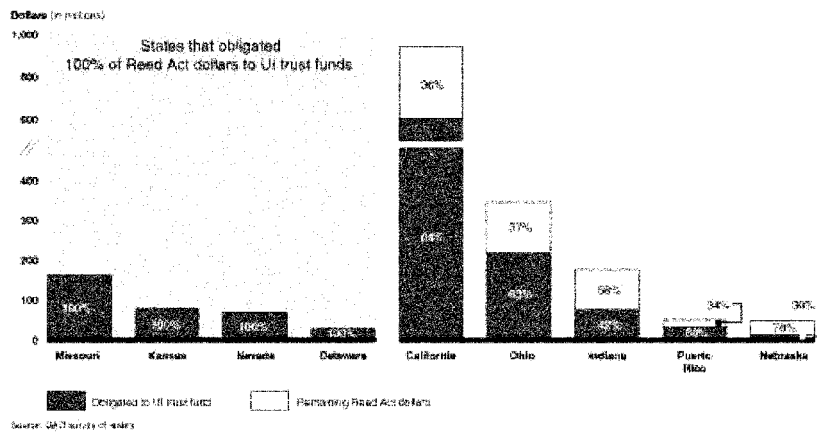
A relatively small amount of Reed Act funds was spent for administrative costs of the UI, ES, or one-stop systems. Seventeen states spent a total of about \$74 million (1 percent of the total Reed Act distribution) to cover the administrative costs of the UI, ES, or one-stop systems.

Most Reed Act Dollars Remained In State Trust Funds And Helped Many States Avoid UI Tax Increases

Eighty-three percent of the Reed Act distribution had not been spent as of November 30, 2002. This \$6.66 billion boost in state UI trust fund reserves enabled 30 states to avoid automatic employer tax increases or surcharges in 2002, according to the workforce agency officials from those states. (See app. II.) Five states—Alaska, the District of Columbia, Maine, the Virgin Islands, and Wyoming—reported lowering employer tax rates for 2003. The District of Columbia and Maine were able to lower them because of the Reed Act distribution.

Nine states made binding policy decisions that obligated 16 percent, or \$1.27 billion, of the Reed Act dollars to their trust funds. (See fig. 2.) States are not required to pass legislation or take other official action to retain Reed Act dollars in their UI trust funds, yet these nine states explicitly specified in legislation, the governor’s budget, or other official documentation, that some or all Reed Act dollars should be kept in their trust funds. State officials most frequently cited their desire to avoid raising employer taxes as the reason for obligating Reed Act dollars to UI trust funds. Other reasons they gave for obligating these funds to the trust fund included: to avoid borrowing from the Federal Government, to avoid cutting benefits, and to enhance benefits.

Figure 2: Reed Act Dollars Obligated to UI Trust Funds (as of November 30, 2002)



⁷Most states use previous earnings—recorded on a quarterly basis in state wage records—to measure whether a claimant has had a sufficient employment history. For the most part, states require that a claimant have earned a certain minimum amount over a specified four calendar quarters (the “base period”). Typically, the base period consists of the first four of the last five completed calendar quarters immediately preceding the filing of a claim, which is referred to as a “regular base period.” An “alternative base period” uses wages earned in more recent quarters as a basis for determining eligibility.

OVER HALF OF THE STATES APPROPRIATED SOME FUNDS FOR ADMINISTRATIVE COSTS OF THE UI, ES, OR ONE-STOP SYSTEMS

Twenty-seven states had appropriated a total of \$662 million (8 percent) for administrative costs of UI, ES, and one-stop systems—\$74 million had been spent and about \$590 million had not been spent—as of November 30, 2002.⁸ (See app. III.) Close to half the states appropriated Reed Act dollars for ES and one-stop systems. (See table 1.)⁹ About the same number of states appropriated these funds to enhance UI system technology, operations, and program integrity. Some states plan to use Reed Act dollars to replace funding that previously came from other state and/or federal sources.

Table 1: Number of States That Appropriated Reed Act Dollars for Administrative Costs of UI, ES, and One-Stop Systems, as of November 30, 2002

System	Number of states
UI systems, only	5
ES/one-stop systems, only	6
Both UI and ES/one-stop systems	16
Total	27

Source: GAO survey of states.

States Appropriated Reed Act Dollars to Enhance UI System Technology, Operations, and Program Integrity

Twenty-one states appropriated \$313 million for UI administrative costs, of which \$22 million had been spent by nine states, as of November 30, 2002. (See app. IV.) Many states appropriated funds for more than one UI administrative activity. Close to half of the 21 states that appropriated Reed Act dollars for UI activities did so for at least one of four major purposes. These included establishing, maintaining, or enhancing technology; improving systems for handling UI claims; maintaining or increasing the number of UI staff; and improving tax filing and payment systems for employers. (See table 2.)

Table 2: Number of States That Appropriated Reed Act Dollars for Various UI Administrative Activities, as of November 30, 2002

UI administrative activities	Number of states (n=21)
Establishing, maintaining, or enhancing technology	14
Improving systems for handling UI claims	13
Maintaining/increasing Staff	10
Improving tax filing and payment systems for employers	9

Source: GAO survey of states.

States targeted Reed Act dollars toward a variety of UI administrative activities. Idaho and New Jersey, reported that the Reed Act distribution provided the “shot in the arm” they needed to upgrade outdated computer systems. New Jersey is funding a complete overhaul of its 1970’s benefit payment system, which will allow it to provide more self-service information to claimants so that they will be able to track their own claims. Michigan earmarked funds to enhance an Internet-based UI claims system, updating computer software systems to improve customer service. A number of states targeted funds to improve tax filing and payment systems for em-

⁸Two states, Montana and Michigan, have appropriated all or almost all of their Reed Act funds to administer UI, ES, or one-stop systems.

⁹Together, Michigan and New Jersey reported spending about \$41 million of the total \$74 million spent on UI and ES/one-stop systems. Neither state was able to report the amount spent on each system, however.

ployers, including California, which is funding a review of its employment tax system.

Eighteen of the 21 states that targeted Reed Act dollars for UI systems reported that these investments would enhance program integrity by improving wage reporting for employers, strengthening eligibility procedures, and enhancing benefit payment control systems. For example, Virginia is increasing staff in the benefit payment control center, including fraud investigators. New Jersey is enhancing its Benefits Audit Report and Tracking system, which cross matches data on newly hired employees with current UI recipients.

States Appropriated Reed Act Dollars to Improve ES and One-Stop Systems in a Variety of Ways

Twenty-two states appropriated \$349 million for ES and one-stop administrative costs, of which just under \$12 million had been spent by 6 states, as of November 30, 2002. (See app. V.) As with funds states appropriated for administration of UI systems, most of the 22 states appropriated Reed Act dollars for enhancing technology in ES or one-stop systems. (See table 3.) For example, Massachusetts, is building a database for its one-stops that integrates the performance management systems of a number of programs

Table 3: Number of States That Appropriated Reed Act Dollars for Various ES and One-Stop Administrative Activities, as of November 30, 2002

ES and one-stop administrative activities	Number of states (n=22)
Enhancing technology	17
Providing labor exchange and employment services	14
Maintaining/increasing staff	12
Providing reemployment services to UI claimants	10
Enhancing resource room resources, outreach efforts, or informational materials	9
Covering the shared costs of operating one-stop centers	7
Improving access for clients with disabilities or limited English proficiency	5

Source: GAO survey of states.

Most of the states that appropriated Reed Act dollars for ES or one-stop administration, targeted these funds for labor exchange and employment services; half appropriated them to maintain or increase the number of ES or one-stop staff; and some earmarked Reed Act dollars to reemployment services for UI claimants. For example, Louisiana reported expanding its reemployment services by updating the state's UI client profiling model, and designing job search workshops for at-risk youth, older workers, single heads of households, ex-offenders, and other high-risk groups. Some states committed these funds to enhancing one-stop resource rooms, outreach efforts, or information materials.

A number of states reported that they appropriated Reed Act dollars to improve one-stops in other ways. Virginia, for example, targeted Reed Act dollars for economic recovery crisis centers, enhanced one-stops that grew out of a center that was established to help workers in northern Virginia in the aftermath of the September 11, 2001, terrorist attacks. New Jersey is using Reed Act dollars to pilot test and expand a scan card technology statewide for all of its one-stop centers, and to support business service centers that provide services to employers within the one-stop centers. According to a state official in New Jersey, these and other Reed Act-funded investments to improve one-stops and core services have helped transform New Jersey's ES system into a significant partner in that state's one-stop system.

Some States Plan to Use Reed Act Dollars to Replace Funding from Other Sources.

As allowed by law, nine states reported they plan to use Reed Act dollars to replace funding for UI, ES, or one-stop systems that previously came from other state and/or federal sources. Five states reported planning to replace funds that previously came from state funding sources such as general revenue funds or penalty

and interest funds. Three states reported planning to replace funds that previously came from a combination of state funding sources and federal sources such as the Workforce Investment Act or the Temporary Assistance for Needy Families (TANF)¹⁰ programs. One state reported planning to replace funds that previously came from the TANF program.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other members of the subcommittee may have.

GAO Contacts and Acknowledgments

If you or other members of the Subcommittee have questions regarding this testimony, please contact Sigurd Nilsen at (202) 512-7215 or Clarita Mrena at (202) 512-3022. Individuals making key contributions to this testimony include Laura Heald, Carolyn Blocker, Cheri Harrington, and Patrick DiBattista.

Appendix I: Status of CY 2002 Reed Act Dollars by State, as of 11/30/2002

State	Total Reed Act allotment	Percent expended	Unexpended		
			Percent appropriated for administration of UI, ES, or one-stop systems	Percent officially obligated to UI trust fund	Percent neither appropriated nor obligated
Alabama	\$110,623,477	0	15.0	0	85.0
Alaska	14,820,932	0.5	19.7	0	79.8
Arizona	144,079,575	0	0	0	100
Arkansas	63,958,998	0	0	0	100
California	936,873,766	0.6	3.7	64.0	31.6
Colorado	142,666,574	0	0	0	100
Connecticut	100,418,304	0	9.0	0	91.0
Delaware	26,024,719	0	0	100	0
District of Columbia	25,765,401	0	31.3	0	68.7
Florida	449,667,718	0.4	3.2	0	96.4
Georgia	249,673,858	0	a	0	100
Hawaii	30,761,048	0	0	0	100
Idaho ^b	32,244,586	21.7	0	0	78.3
Illinois	376,244,918	0	0	0	100
Indiana	174,573,012	0	0	42.4	57.6
Iowa	82,395,262	1.2	35.2	0	63.6
Kansas	78,166,750	0	0	100	0
Kentucky	103,829,381	0	0	0	100
Louisiana	105,499,296	0	24.9	0	75.1

¹⁰ Welfare reform legislation in 1996 created the Temporary Assistance for Needy Families (TANF) block grants to help move welfare recipients into jobs and provide greater flexibility to states in designing training services for TANF clients.

Appendix I: Status of CY 2002 Reed Act Dollars by State, as of 11/30/2002—Continued

State	Total Reed Act allotment	Percent expended	Unexpended		
			Percent appropriated for administration of UI, ES, or one-stop systems	Percent officially obligated to UI trust fund	Percent neither appropriated nor obligated
Maine	32,486,816	0	0	0	100
Maryland	142,929,005	0	0	0	100
Massachusetts	193,639,110	0	1.3	0	98.7
Michigan	291,485,481	13.9	85.0	0	1.2
Minnesota ^b	163,061,573	7.4	0	0	92.6
Mississippi	64,670,097	1.4	23.3	0	75.3
Missouri	161,426,814	0	0	100	0
Montana	18,551,627	3.0	97.0	0	0
Nebraska	48,380,203	0	0	28.9	71.1
Nevada	68,082,942	0	0	100	0
New Hampshire	38,475,620	0	0	0	100
New Jersey	242,816,310	0.2	15.1	0	84.8
New Mexico	38,599,338	0	0	0	100
New York	491,343,135	100	0	0	0
North Carolina	240,892,032	100	0	0	0
North Dakota	15,267,835	0.4	1.1	0	98.5
Ohio	343,709,635	0.4	14.4	63.0	22.1
Oklahoma	81,441,628	0	2.5	0	97.5
Oregon	98,029,105	0	0	0	100
Pennsylvania	337,595,975	0.1	4.3	0	95.6
Puerto Rico	48,875,605	0	33.8	66.2	0
Rhode Island	27,123,409	0	9.6	0	90.4
South Carolina	108,203,982	1.5	0	0	98.5
South Dakota	19,140,671	0	0	0	100
Tennessee	162,633,730	0	4.6	0	95.4
Texas	596,446,497	89.7	0	0	10.3
Utah	61,627,678	0	3.5	0	96.5
Vermont	16,395,967	10.2	0	0	89.8

Appendix I: Status of CY 2002 Reed Act Dollars by State, as of 11/30/2002—Continued

State	Total Reed Act allotment	Percent expended	Unexpended		
			Percent appropriated for administration of UI, ES, or one-stop systems	Percent officially obligated to UI trust fund	Percent neither appropriated nor obligated
Virgin Islands	1,950,917	5.1	2.9	0	92.0
Virginia	214,949,942	1.2	13.2	0	85.6
Washington	167,011,815	0	0	0	100
West Virginia	36,210,068	0	10.3	0	89.7
Wisconsin	166,214,419	0	0	0	100
Wyoming	12,043,444	0	0	0	100
United States	\$8,000,000,000	16.8	7.4	15.9	60.0

Source: GAO data and U.S. Department of Labor data.

^aAppropriated Reed Act funds for administration of UI, but could not specify the dollar amount allocated for this purpose.

^bAppropriated Reed Act funds for administration of UI, ES, or one-stop systems and expended all the dollars appropriated.

Appendix II: Effect of Reed Act Distribution on Employer Taxes as Reported by States

States where automatic increases in UI tax/surcharge are triggered if trust fund falls below certain level	Reed Act funds prevented triggering an increase in a tax or surcharge in 2002 ^a
Alabama	•
Alaska	
Arkansas	•
California	•
Colorado	•
Connecticut	•
Delaware	•
District of Columbia	
Florida	•
Georgia	
Hawaii	
Idaho	
Illinois	
Indiana	•
Iowa	•
Kansas	

**Appendix II: Effect of Reed Act Distribution on Employer Taxes as Reported by States—
Continued**

States where automatic increases in UI tax/surcharge are triggered if trust fund falls below certain level	Reed Act funds prevented triggering an increase in a tax or surcharge in 2002 ^a
Kentucky	•
Louisiana	
Maine	
Maryland	•
Massachusetts	•
Michigan	
Minnesota	•
Mississippi	•
Missouri	•
Montana	•
New Hampshire	•
New Jersey	
New Mexico	
New York	•
North Carolina	•
Ohio	•
Oklahoma	•
Oregon	•
Pennsylvania	•
Puerto Rico	
Rhode Island	
South Carolina	•
South Dakota	
Tennessee	•
Texas	•
Utah	•
Vermont	•
Virgin Islands	
Virginia	•
Washington	•
West Virginia	

**Appendix II: Effect of Reed Act Distribution on Employer Taxes as Reported by States—
Continued**

States where automatic increases in UI tax/surcharge are triggered if trust fund falls below certain level	Reed Act funds prevented triggering an increase in a tax or surcharge in 2002 ^a
Wisconsin	
Wyoming	
Total: 49	30

Source: GAO Survey of States.
^aAccording to the Department of Labor, for most states, any increases triggered in CY 2002 would not have gone into effect until CY 2003.

Appendix III: States with Reed Act Dollars Appropriated by Law for UI, and ES, or One-Stop Systems, as of 11/30/2002

State	Reed Act dollars appropriated for UI system	Reed Act dollars appropriated for ES or one-stop system
Alabama	•	•
Alaska	•	•
California	•	•
Connecticut	•	•
District of Columbia	•	
Florida		•
Georgia	•	
Idaho	•	•
Iowa	•	
Louisiana	•	•
Massachusetts		•
Michigan	•	•
Minnesota	•	
Mississippi		•
Montana	•	•
New Jersey	•	•
North Dakota	•	
Ohio	•	•
Oklahoma		•
Pennsylvania	•	•
Puerto Rico	•	•
Rhode Island		•
Tennessee	•	•

Appendix III: States with Reed Act Dollars Appropriated by Law for UI, and ES, or One-Stop Systems, as of 11/30/2002—Continued

State	Reed Act dollars appropriated for UI system	Reed Act dollars appropriated for ES or one-stop system
Utah		•
Virgin Islands	•	•
Virginia	•	•
West Virginia	•	•
Total: 27	21	22

Source: GAO survey of states.

Appendix IV: UI Administrative Activities for which CY2002 Reed Act Dollars had been Appropriated, as of 11-30-2002

State	General technology	Staff	Claims system developments	Tax filing and paying enhancements	Appeals system improvements	Direct deposit/debit cards
Alabama	•	•	•	•		
Alaska				•		
California		•				
Connecticut	•		•	•		
District of Columbia		•				•
Georgia ^a						
Idaho	•	•	•			
Iowa	•		•	•	•	•
Louisiana	•		•	•		
Michigan		•				
Minnesota	•		•	•	•	•
Montana	•	•	•			
New Jersey	•		•		•	
North Dakota	•					
Ohio	•	•	•	•	•	
Pennsylvania						
Puerto Rico	•	•	•	•	•	•
Tennessee	•	•	•	•		
Virgin Islands	•		•			
Virginia		•				
West Virginia	•		•			

Appendix V: ES and One-Stop Administrative Activities for which CY2002 Reed Act Dollars had been Appropriated, as of 11-30-2002—Continued

State	Labor exchange and employment services	Maintain or increase staff	Shared cost of operating one-stop centers	Reemployment services to UI claimants	Enhance technology	Resource room resources, outreach or informational material	Improve access for those with disabilities or limited English proficiency
West Virginia					•	•	
Total: 22	14	12	7	10	17	9	5

Source: GAO survey of states.

Related GAO Products

Unemployment Insurance: States' Use of the 2002 Reed Act Distribution. GAO-03-496. Washington, D.C.: Mar. 6, 2003.

Unemployment Insurance: Increased Focus on Program Integrity Could Reduce Billions in Overpayments. GAO-02-697. Washington, D.C.: July 12, 2002.

Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations. GAO-02-69G. Washington, D.C.: Oct. 1, 2001.

Unemployment Insurance: Role as Safety Net for Low-Wage Workers Is Limited. GAO-01-181. Washington, D.C.: Dec. 29, 2000.

Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity. GAO/HEHS-00-119. Washington, D.C.: Sept. 13, 2000.

Unemployment Insurance: Program's Ability to Meet Objectives Jeopardized. GAO/HRD-93-107. Washington, D.C.: Sept. 28, 1993.

Chairman HERGER. Thank you, Mr. Nilsen. Mr. Brock to testify.

STATEMENT OF JON BROCK, PAST PRESIDENT, NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES, AND EXECUTIVE DIRECTOR, OKLAHOMA EMPLOYMENT SECURITY COMMISSION, OKLAHOMA CITY, OKLAHOMA, ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES

Mr. BROCK. Thank you, sir.

Chairman HERGER. Thank you.

Mr. BROCK. I am coming to you today as past President of the NASWA and as the Executive Director for the Oklahoma Employment Security Commission.

On behalf of NASWA today and its 53 State and territorial workforce agencies, I would like to tell you some of the things that we have been doing.

Although the \$8 billion Reed Act distribution was made available to States relatively late in the State legislative cycles, it still had positive effects in 2002 and beyond. Overall, the \$8 billion Reed Act distribution increased the aggregate balance in the State accounts of the unemployment trust fund by about 21 percent.

In 2002, the Reed Act distribution helped New York repay a Federal loan it had obtained to cover the cost of regular State benefits of about \$189 million. New York used its remaining \$302 million to cover UI benefits in 2002 and to avoid further borrowing. Texas and Minnesota also avoided borrowing in 2002 as a result of receiving Reed Act distributions. However, each of these three States

needed to borrow in 2003; and three more States have applied for Federal loans. That is Illinois, Missouri, and North Carolina.

The GAO report noted that States had spent only about \$2 billion of the \$8 billion Reed Act distribution in 2002. This should not imply, however, that employers and workers did not benefit from the additional \$6 billion in State unemployment trust fund accounts. In fact, nearly three out of five States either avoided automatic employer tax increases or lowered employer taxes because their State unemployment account balances were higher as a result of the Reed Act distribution. This helped maintain employment and wage levels that might have been dampened by pending payroll tax increases.

In addition, one out of five States were able to improve benefits in 2002. About two out of five States were able to appropriate funds for improvements in UI Administration or ES.

Mr. Chairman, Oklahoma received \$81 million under the Reed Act distribution. It could not have come at a better time. Because of cuts in its ES grant, the Oklahoma Employment Security Commission was facing a \$1.7 million shortfall. The commission also needed \$300,000 to cover its share of the overhead expenses of the one-stop employment centers. The State legislature appropriated \$2 million of the Reed Act funds to cover these deficiencies. This action averted a reduction in force and the loss of much-needed ES.

It has been projected that the Commission will experience a budget shortfall by the end of this year in its UI division, in addition to a continuing deficit in ES budget. This year, the Commission is requesting appropriation from the Reed Act funds in the amount of \$6.2 million to meet these shortfalls. Without this money, the unemployment service and UI Administration benefit program in Oklahoma would be severely compromised.

Our employers' tax rates in Oklahoma are set based upon the health of the UI trust fund. Had we not received the Reed Act distribution, Oklahoma's employers would have paid another \$40 million in taxes in 2003.

Now, on the benefits side. The receipt of the Reed Act funds gave impetus to the passage of an alternate base period which will extend UI benefits to some low wage and relatively inexperienced workers. About three out of five States reported that they plan to spend more Reed Act funds this year. Utah, for example, just passed an extension of benefits for 5 weeks after exhaustion of currently available benefits.

Finally, sir, I would like to ask the Subcommittee to study a technical change to the law. Under past Reed Act distribution, States have been able to restore funds spent on benefits to Reed Act status so that they can use them for UI Administration or ES later. This restoration authority was not included with the \$8 billion Reed Act distribution in 2002. Such restoration would be particularly important for less solvent States. Once these States recover from the recession and become more solvent, they could restore Reed Act funds and use them to improve administrative performance of their programs.

On behalf of the State workforce agencies, we thank you for the opportunity to testify before the Subcommittee today. The \$8 billion Reed Act distribution has helped States weather the storm

while we await UI and employment reform. We hope you will begin work on this reform this year.

Thank you, sir.

[The prepared statement of Mr. Brock follows:]

Statement of Jon Brock, Past President, National Association of State Workforce Agencies, and Executive Director, Oklahoma Employment Security Commission, Oklahoma City, Oklahoma, on behalf of the National Association of State Workforce Agencies

Mr. Chairman and Members of the Subcommittee on Human Resources, I am Jon Brock, Past-President of the National Association of State Workforce Agencies (NASWA) and Executive Director of the Oklahoma Employment Security Commission. Thank you for inviting me to testify today on behalf of NASWA and its members. NASWA represents 53 state and territorial workforce agencies in general and Unemployment Insurance and Employment Service programs in particular. Most of our state members also administer programs authorized under the Workforce Investment Act, and some administer public assistance programs, such as Temporary Assistance for Needy Families or "TANF."

I want to thank the Chairman for scheduling a hearing to review states' use of the \$8 billion in so-called "Reed Act" funds that the Federal Government distributed from the federal accounts to the state accounts of the unemployment trust fund in March of 2002 under the Job Creation and Worker Assistance Act of 2002. Although these funds were made available to states relatively late in state legislative cycles, they still had positive effects in 2002 and beyond for employers, workers, state unemployment insurance programs, and the economy.

Mr. Chairman, today I would like to summarize the results of a NASWA survey of the states' use of Reed Act funds that was conducted last September. The results of this survey are similar to the results of a study conducted by the U.S. General Accounting Office that was summarized in an "Advisory" from the Committee on Ways and Means last week. In addition, I would like to briefly mention what happened in my own state, Oklahoma, and what appears to be happening in states early this year.

Overall, the \$8 billion Reed Act distribution increased the balance in the state accounts of the unemployment trust fund by about 21 percent in March 2002. State shares were based on state shares of covered taxable wages paid by employers under the Federal Unemployment Tax Act. The percentage increase was higher in less solvent state programs because their distribution was relatively large compared to their unemployment account balances. The distribution increased the unemployment insurance account balance in nine states by more than 50 percent. These states were Arkansas, Illinois, Minnesota, Missouri, New York, North Carolina, North Dakota, South Dakota, and Texas.

In 2002, the Reed Act distribution helped New York repay a federal loan it had obtained to cover the cost of regular state benefits of about \$189 million. New York used its remaining \$302 million to cover UI benefits in 2002 and to avoid further borrowing. Texas and Minnesota also avoided borrowing in 2002 as a result of receiving Reed Act distributions.

However, each of these three states needed to borrow in 2003, and three more states have applied for federal loans in 2003—Illinois, Missouri, and North Carolina.

Mr. Chairman, the Committee Advisory noted that states had spent only about \$2 billion of the \$8 billion Reed Act distribution in 2002. This should not imply, however, that employers and workers did not benefit from the additional \$6 billion in state unemployment trust fund accounts. In fact, nearly three out of five states either avoided automatic employer tax increases or lowered employer taxes because their state unemployment account balances were higher as a result of the Reed Act distribution. This helped maintain employment and wage levels that might have been dampened by payroll tax increases that might have occurred otherwise. As you said, "Helping workers, keeping payroll taxes low, and strengthening the economy is exactly why we provided States this record support."

In addition to providing lower taxes, about one out of five states were able to improve benefits in 2002. These changes included extended benefits in Minnesota, an increase in weekly benefits in Alabama and Vermont, and new alternate base periods in Connecticut, the District of Columbia, and Georgia. Alternate base periods allow some workers to qualify for benefits even though they did not have enough earnings in the normal base period, which usually is the first four of the last five completed calendar quarters. By taking into account the last three to six months,

alternate base periods allow some workers to qualify for benefits by counting more recent earnings.

About 2 out of five states were able to appropriate funds for improvements in Unemployment Insurance administration or employment services. These funds were allocated toward such spending as implementing telephone claims call centers, modernizing computer benefit and tax systems, improving timeliness of claims determinations, reducing fraud, compensating for federal under funding for administration of unemployment insurance and employment services, building an internet labor exchange, and purchasing computers, imaging equipment, and network enhancements.

Mr. Chairman, my state of Oklahoma received \$81 million under the Reed Act distribution. It could not have come at a better time. Because of cuts in its Employment Service grant, the Oklahoma Employment Security Commission was facing a \$1.7 million budget shortfall. The Commission also needed \$300,000 to cover its share of overhead expenses in the state One Stop Employment Centers. The state legislature appropriated \$2 million of the Reed Act Funds to cover these deficiencies. This action averted a reduction in force and the loss of much needed employment services.

It has been projected that the Oklahoma Employment Security Commission will experience a budget shortfall by the end of this year in its Unemployment Insurance Division, in addition to a continuing deficit in its Employment Service budget. This year, the Commission has requested an appropriation from the Reed Act Funds in the amount of \$6.2 million to make up for these shortfalls. Without this money, the Employment Service and the Unemployment Benefit Program in Oklahoma would be severely compromised.

The Reed Act Distribution also helped to keep Unemployment Insurance taxes in Oklahoma at the lowest possible level. Oklahoma has five levels of UI tax scales. As the balance in its UI Trust fund sinks to certain levels, the tax scale is stepped up to increase taxes for employers. In 2002, Oklahoma was operating under the lowest tax scale available. Due to the economic recession which caused a drop in the Trust Fund balance, Oklahoma could have gone up two steps in the tax scales for 2003. After the Reed Act Distribution was deposited into the Oklahoma UI Trust Fund, the balance was raised sufficiently to hold the increase to only one step up. By being able to set tax rates on the lower tax scale, Oklahoma employers will save approximately \$40 million in 2003.

On the benefits side, the receipt of the Reed Act funds gave impetus to the passage of an alternate base period in Oklahoma. The alternate base period will extend UI benefits to low wage workers and those who have not been attached to the workforce for long enough to qualify for benefits under the regular base period.

Nationwide, we believe more positive effects probably will unfold this year. About three out of five states reported they plan to spend more Reed Act funds this year. Already, states have been reporting action early in 2003. Utah just passed an extension of benefits for 5 weeks after exhaustion of currently available benefits; Colorado just enacted a bill to spend \$7 million on additional employment services; and the Indiana House of Representatives just passed the Governor's Reed Act proposals, which included spending most of Indiana's Reed Act funds on a modernizing Unemployment Insurance administration and helping workers find jobs.

Finally, Mr. Chairman, I would like to ask the Subcommittee to study a technical change in the Title II of the Job Creation and Worker Assistance Act of 2002 that authorized the \$8 billion Reed Act distribution. Under past Reed Act distributions, states have been able to restore funds spent on benefits to Reed Act status so that they can use them for Unemployment Insurance administration or employment services later. This restoration authority was not included with the \$8 billion Reed Act distribution in 2002. Such restoration would be particularly important for less solvent states or states that have borrowed to cover benefit costs already. Once these states recover from the recession and become more solvent, they could restore Reed Act funds and use them to improve administrative performance of their programs in the future.

On behalf of the state workforce agencies, we thank you for the opportunity to testify before the subcommittee today. The \$8 billion Reed Act distribution was a valuable component of the economic stimulus package last year that still yields benefits this year. It has helped states weather the storm while we await Unemployment Insurance and Employment Service reform. We hope you will begin work on that difficult task this year.

Thank you.

Chairman HERGER. Thank you very much, Mr. Brock. Now Ms. DeLisio to testify.

**STATEMENT OF MELISSA DELISIO, ASSISTANT DIRECTOR,
OHIO DEPARTMENT OF JOB AND FAMILY SERVICES, COLUMBUS, OHIO**

Ms. DELISIO. Thank you, Mr. Chairman; and thank you for inviting me here today to testify regarding the 2002 Reed Act distribution. I would also like to thank you and your colleagues on behalf of Governor Bob Taft, Business and Labor in Ohio for allowing the Reed Act distribution a year ago.

Ohio received \$343 million in Reed Act funds. We treated this as one-time money and focused Ohio's allocation plan on one-time expenditures. Our goal was to allocate a portion of the money to support the administration of both Unemployment Compensation (UC) and ES programs, as well as ensure the integrity of Ohio's UI trust fund.

For every dollar of Ohio Federal Unemployment Tax Act (FUTA) tax paid by employers that was sent to the Federal Government for 2000, only 36 cents was returned to Ohio to operate the UC and ES programs. This return has remained low for a number of years and remains well below 50 percent. As a result of this lack of return, it has been necessary for Ohio to use general revenue funds and State penalty and interest fund dollars to make up that shortfall.

The 2002 Reed Act distribution enabled Ohio to address the shortfall in administrative needs as follows:

Ohio appropriated up to \$18 million per year to reimburse the General Revenue Fund (GRF) in State fiscal years 2003, 2004, and 2005 for the amount of GRF that would have otherwise been used to operate the State's UI and ES programs. This will be advantageous to Ohio as the money to support these expenditures will be drawn on a reimbursement basis, which will leave the Reed Act funding in Ohio's unemployment benefit account for a longer period of time, allowing it to accumulate interest.

Ohio's current UC tax system is over 26-years-old and has been targeted as high risk for potential failure. The current tax system does not lend itself well to modifications to assist Ohio's employers, to implement law changes, or take advantage of technological improvements. Reed Act funds will be used to replace this system, and costs will be spread out over a 3-year period.

With the implementation of the Federal Workforce Investment Act (WIA), the local service delivery system for workforce development services is evolving into local one-stops. Over the next year, Ohio will transition its traditional ES functions from former field service delivery offices to local one-stops.

Resource rooms are a critical component of successful one-stops; and Reed Act funds will be provided so that each certified one-stop will have a resource room that will offer services that can be utilized by job seekers and employers providing them with access to computers, the Internet, fax machines, telephones, and other services and resources. Ohio will also provide funds for the development of matching systems for employers and job seekers.

Ohio will use some of its Reed Act funding in promotion and marketing of certified one-stops. While getting claims checks to our claims customers is critical, our ultimate goal is getting unemployed workers back to work as soon as possible and providing adequate resources to accomplish that. These one-time expenses will be spread over 2 to 3 years.

We currently provide specific labor market information to the Federal Government, but we also provide valuable labor market information to local one-stops to support decisionmaking by both employers and job seekers. Our primary goal is to expand locally focused labor market information products and ensure that information is complete, timely, accessible, and user friendly. Reed Act funds will be used for this as well.

As the services Ohio provides under the UC and ES programs are delivered by call and processing centers and one-stops, it is apparent that our staff will need additional training and equipment to meet the demands of the new ways of doing business. Due to continued underfunding at the Federal level, we have not committed the resources necessary to continuously improve the skills of our staff and upgrade equipment. We will use Reed Act funds for this as well.

Ohio employers will benefit from Reed Act distribution funds of approximately \$216 million remaining in the UC Trust Fund after these administrative expenditures. One solvency tax associated with the mutualized portion of the State's unemployment tax structure will be avoided in 2003 and 2004, and the magnitude of the other solvency tax will be lessened for 2003. We completely avoided a tax rate schedule increase for calendar year 2003, and the severity of an increase for 2004 will be lessened as a result of this distribution.

Our allocation plan was unanimously approved by our Unemployment Compensation Advisory Council (UCAC), cochaired by the president of the Ohio American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) and the president of the Ohio Chamber of Commerce. As a result of this allocation plan, the advisory council also assigned a Subcommittee to review Ohio's law with respect to requirements of eligibility for benefits.

In the past 24 months, benefit payouts have increased dramatically; and the maximum weekly benefit amounts increased automatically under Ohio law at the same rate as average weekly wages. Without this Reed Act distribution, these automatic increases would have been frozen as they were from 1982 through 1987 in Ohio.

Ms. DELISIO. We are in the process of proposing additional allocation of \$25 million to complete the planned closing of 56 local offices, and transitioning of services to call centers, process centers and one-stops. That will leave an unobligated balance of \$11 million of Reed Act funds in Ohio's trust fund account. Additional information regarding the cost of each of these items I mentioned is attached to my written testimony. Thank you again for the opportunity to testify and for the Reed Act distribution, and I would be happy to answer questions.

[The prepared statement of Ms. DeLisio follows:]

Statement of Melissa DeLisio, Assistant Director, Ohio Department of Job and Family Services, Columbus, Ohio

Mr. Chairman and Members of the Subcommittee:

My name is Melissa DeLisio and I am Assistant Director of the Ohio Department of Job and Family Services. Thank you for inviting me to testify today regarding the 2002 Reed Act distribution. I would also like to thank you and your colleagues on behalf of Governor Bob Taft, business and labor in Ohio for allowing the Reed Act distribution a year ago.

Ohio received \$343 million in Reed Act funds. We treated this distribution as "one time" money and focused Ohio's allocation plan on "one time" expenditures. Our goal was to allocate a portion of the money to support the administration of both Unemployment Compensation and Employment Service programs as well as ensure the integrity of Ohio's Unemployment Insurance trust fund.

For every dollar of Ohio FUTA tax paid by employers that was sent to the Federal Government for 2000, only 36 cents was returned to Ohio to operate the Unemployment Compensation and Employment Service programs. This return has remained low for a number of years, and remains well below 50 percent. As a result of this lack of return, it has been necessary for Ohio to use General Revenue Fund (GRF) & State Penalty & Interest Fund dollars to make up the shortfall. The 2002 Reed Act distribution enabled Ohio to address the shortfall in administrative needs as follows:

Ohio appropriated up to \$18 million per year to reimburse the General Revenue Fund in SFY 2003, 2004 and 2005 for the amount of GRF that would have otherwise been used to operate the state's Unemployment Insurance and Employment Services programs. This will be advantageous to Ohio as the money to support these expenditures will be drawn on a reimbursement basis, which will leave the Reed Act funding in Ohio's unemployment benefit account for a longer period of time, allowing it to accumulate interest.

Ohio's current UC Tax system is 26 years old and has been targeted as "high risk" for potential system failure. The current tax system does not lend itself to modifications to assist Ohio employers, implement law changes or take advantage of technological improvements. Reed Act funds will be used to replace this system and costs will be spread out over a three year period.

With the implementation of the federal Workforce Investment Act the local delivery system for workforce development services is evolving into the local One Stops. Over the next year, Ohio will transition its traditional employment service functions from former field service delivery offices to local One Stops.

Resource rooms are a critical component of successful One Stops. Reed Act funds will be provided so that each certified One Stop will have a resource room that will offer services that can be utilized by local job seekers and employers providing them access to computers, the Internet, fax machines, telephones and other services and resources. Ohio will also provide funds for the development of user friendly computer links that allow on-line interactive access within various local workforce systems that link employers and jobs seekers.

Ohio will also use some Reed Act funding in the promotion and marketing of certified One Stops and services provided in local communities. While paying benefits in a timely fashion is critical to claims customers, our ultimate goal is getting unemployed workers back to work as soon as possible and providing adequate resources to accomplish that. Again, these are one-time expenses that will be spread over 2-3 years.

We are currently required to provide specific Labor Market Information to the Federal Government, but we also provide valuable information to local One Stops to support decision-making by employers and job seekers. A primary goal is to expand locally focused Labor Market Information products and ensure the information is complete, timely, accessible and user friendly for local employers and job seekers.

As the services Ohio provides under the Unemployment Compensation and Employment Service programs are delivered by call and processing centers and One Stops it has become apparent that our staff will need training and equipment to meet the demands of the new ways of doing business. Due to continued under funding at the federal level we have not committed the resources necessary to continuously improve the skills of our staff or upgrade equipment. Reed Act funds will be used for staff training and equipment upgrades.

Ohio employers will benefit from Reed Act distribution funds of approximately \$216 million remaining in the Unemployment Compensation Trust Fund after these administrative expenditures. One solvency tax associated with the mutualized portion of the state's unemployment tax structure will be avoided for 2003 and 2004. The magnitude of the other solvency tax will be lessened for 2003. We completely

avoided a tax rate schedule increase for calendar year 2003. The severity of the increase for 2004 will be lessened as a result of the Reed Act distribution.

Our allocation plan was unanimously approved by our Unemployment Compensation Advisory Council (UCAC), which is co-chaired by the President of the Ohio AFL-CIO and the President of the Ohio Chamber of Commerce. As a result of this allocation plan, the advisory council also assigned a subcommittee the task of reviewing Ohio's law with respect to requirements of eligibility for benefits.

In the past 24 months, benefit payouts have increased dramatically and the maximum weekly benefit amounts increased automatically under Ohio law at the same rate as average weekly wages. Without this Reed Act distribution, these automatic increases may have been frozen as they were in Ohio from 1982 through 1987.

We are in the process of proposing an additional allocation of \$25 million to complete the planned closing of 56 local offices and transitioning services to call centers, processing centers and One Stops. That will leave an unobligated balance of \$191 million in Reed Act funds within Ohio's Trust Fund Account.

Additional information regarding the cost of each allocation item I mentioned is attached to my written testimony.

Again, thank you for the opportunity to testify and I would be happy to answer any questions.

ATTACHMENT

The Ohio Reed Act Appropriation Plan is as follows:

1. Up to \$26 million each year in SFY '03, '04, and '05 to offset GRF & Penalty & Interest.
2. Up to \$30 million to replace the current Unemployment Compensation Tax system.
3. Up to \$10 million for operation of local One Stops.
4. Up to \$3 million for one time improvements to ODJFS's Labor Market Information system.
5. Up to \$6 million for one time equipment and training expenses for program delivery and policy staff.
6. Up to \$216 million to remain in the Unemployment Compensation Employers' Trust Fund.

* Under consideration as of March 18, 2003, an additional \$25 million to complete the local office transition plan.

Chairman HERGER. Thank you, Ms. DeLisio. Now Mr. Emsellem to testify.

STATEMENT OF MAURICE EMSELLEM, DIRECTOR, PUBLIC POLICY, NATIONAL EMPLOYMENT LAW PROJECT, OAKLAND, CALIFORNIA

Mr. EMSELLEM. Thank you, Chairman. Thank you, Members of the Committee. I would like to discuss a few key concerns related to the Reed Act distribution. As a result of these concerns, we believe that the Reed Act survey, findings of the GAO support the conclusion that Congress should enact more targeted reforms to expand benefits and that proposals to further devolve Federal UI funding to the States should be reconsidered.

First, has the Reed Act distribution helped to close the major gaps in the unemployment system? In our view, it has not, as documented by the GAO. Even during the recession, most unemployed workers are not collecting unemployment benefits in the United States, because the State laws have failed to keep pace with changes in the labor market, the growth of low wage, part time and women worker. Low wage workers are especially hard hit. They are half as likely to collect unemployment benefits compared to hire wage workers. That is at a rate of 18 percent. When Congress

passed the Reed Act measure along with the temporary extension of unemployment benefits, the opportunity existed for States to bring many more workers into the unemployment system. Certainly the funding is there to help do it. For example, compared to the \$8 billion in funding, the Department of Labor estimated that the annual cost, if every State adopted the key eligibility reforms benefiting low-wage and part-time workers, would not exceed \$1.16 billion.

However, while Congress nearly tripled the amount of Reed Act funding that was scheduled to be released in October, it did not target any specific portion of the Reed Act funds to fill the gaps in the unemployment program. According to the GAO, only 9 States indicated that they expanded benefits or even planned to do so as a result of the Reed Act funds, and of the 14 States with the most solvent trust funds that also pay benefits below the average reciprocity rate, only 3 indicated that they were expanding benefits. Thus, as of today, there are only 35 States that have not adopted the alternative base period and 31 States that failed to provide protections to part-time workers.

The GAO findings thus support the conclusion that block granting has not substantially helped to bring more workers into the unemployment system and that more target of Federal reforms are necessary to close the gaps in the program.

Second, if the Reed Act funds were not used to help close the gaps in the program, has the funding helped to produce other significant benefits in line or commensurate with the unprecedented size of the 2002 distribution? In our view, the answer is no, primarily because the funding was block-granted to the States and held in reserve to reduce unemployment taxes.

First, it is clear that the \$8 billion funding did not help stimulate State economies. According to the GAO, 88 percent of the funding was held, and most of the Reed Act funding that was spent for regular benefits in those States—was for those States experiencing funding problems, not for new programs.

Second, and most significant, the States were lobbied aggressively to ensure that the Reed Act funding was held in the State trust funds to benefit employers in the form of reduced unemployment taxes. However, two-thirds of the States that benefited most as a result were already paying relatively low unemployment taxes, that is, below the national average. The national average has fallen in recent years to literally record-low levels.

Thus, even from the standpoint of reducing employer taxes, it is fair to say that the Reed Act funding could have been better targeted.

Third, the Reed Act funding provided some support to the underfunded UI Administration ES, amounting to 7 percent of the total. However, a significant percentage of this represents Reed Act funding appropriated in just a few States.

Finally, Reed Act funds have had the effect of reducing trust fund levels in the States at a time when more benefits are being paid as a result of the recession. However, while the extra funding is welcome, it is important to emphasize that the solvency situation cannot be characterized as severe, except in the limited number of States.

So, we believe that the Reed Act block grant did not produce substantial benefits commensurate with the unprecedented size of the program. As the UI stakeholder consensus proposal concluded, specific targeting of Reed Act funds to provide greater administrative resources, expand eligibility and tax relief to employers will produce more results at far less cost to the Federal trust fund.

Finally, what lessons can be learned from the Reed Act experience as applied to the Administration's new balance proposal? We believe that the experience documented by the GAO underscores the serious limitations of the Administration's initiatives, especially when the demands on the UI system are the greatest in times of recession.

This year's Reed Act experience demonstrates that the Administration's initiative will probably fail to achieve the goal of increasing administrative funding for the States, because most States were unable or unwilling to use the funds for anything other than UI payroll tax deductions despite the substantial demand for services.

I guess my time is up. Can I take a couple more seconds to conclude?

Chairman HERGER. Your time is up, but certainly your testimony will be submitted for the record.

Mr. EMSELLEM. Thank you.

[The prepared statement of Mr. Emsellem follows:]

**Statement of Maurice Emsellem, Director, Public Policy, National
Employment Law Project, Oakland, California**

Good afternoon, Chairman Herger and members of the Committee. My name is Maurice Emsellem, and I am Director of Public Policy with the National Employment Law Project. Thank you for this opportunity to testify with regard to the \$8 billion in federal unemployment funds ("Reed Act") distributed to the states as part of the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147, Section 209).

For the reasons described below, we believe that the Reed Act survey findings of the U.S. General Accounting Office (GAO) (*Unemployment Insurance: States' Use of the 2002 Reed Act Distribution*, March 2003) support the conclusion that Congress should enact more targeted reforms to expand unemployment benefits and that proposals to further devolve federal unemployment insurance (UI) funding to the states should be rejected.

The National Employment Law Project (NELP) is a non-profit organization that specializes in the unemployment insurance system. We provide technical assistance to state lawmakers and advocates in support of reforms of the unemployment system to fill the gaps in coverage that deny benefits to many low-wage and women workers. We have published extensively on the unemployment system, including a recent analysis of the 2002 Reed Act distribution (*Strengthening the UI Safety Net with \$8 Billion in New Federal Reed Act Funding: State Findings and Recommendations*).

In today's testimony, I will expand on the following key concerns related to the 2002 Reed Act distribution.

- **Even in those states with especially solvent trust funds and where most unemployed workers still do not collect unemployment benefits, the 2002 Reed Act funding has failed to help close the major gaps in the unemployment system.**
- **Because the Reed Act block grant was most often held in the state trust funds to reduce unemployment taxes, it has thus far failed to produce other significant benefits commensurate with the unprecedented size of the 2002 distribution.**
- **The Reed Act experience documented by the GAO underscores the serious limitations of the Administration's "New Balance" proposal especially when the demands on the UI system are the greatest in times of recession.**

* * *

- **Even in those states with especially solvent trust funds and where most unemployed workers still do not collect unemployment benefits, the 2002 Reed Act funding has failed to help close the major gaps in the unemployment system.**

The critical question is whether the Federal Government received a fair return on its investment of \$8 billion in Reed Act funds distributed to the states in March 2002. In our view, it has not thus far, especially given the failure of the states to expand unemployment benefits to meet the needs of today's working families.

The unemployment insurance safety net is being sorely tested, as monthly layoffs show few signs of subsiding and long-term unemployment reached a 10-year high last month. According to our recent analysis,¹ the long-term jobless now represent nearly all sectors of the workforce. For example, the most significant increases in long-term unemployment since 2000 have been among manufacturing workers (177% increase from 2000–2002), professional workers (up 234%) and the college educated (up 207%).

Yet even during the recession, most unemployed workers are not collecting unemployment benefits in the United States. That is because state unemployment laws have failed to keep pace with the changes in the labor market, including the growth in the number of low-wage workers, part-time and women workers. As of the 3rd Quarter of 2002, the average state provided unemployment benefits to 41% of the unemployed (a figure which has increased since the recession began in March 2001 because a larger percentage of laid off workers qualify for benefits). In 14 states, less than one-third of all unemployed workers collect benefits, while only twelve states provide benefits to more than 50% of the unemployed. As documented by another GAO report, low-wage workers are especially hard hit—they are half as likely to collect unemployment benefits compared to higher-wage workers.²

When Congress passed the Reed Act measure along with the temporary extension of unemployment benefits, the expectation of many was that the states would take advantage of the \$8 billion in funding to bring more workers into the unemployment system. The costs of most eligibility measures, compared with the significant amount of funding available, raised the hopes for significant state reform. The Reed Act funds represented the equivalent of 38% of the revenue collected in an entire year by the states. It represents even more of the UI revenue collected in those states where unemployed workers have the hardest time collecting benefits (of the 14 states providing unemployment benefits to less than one-third of the unemployed, Reed Act funds represented an average of 81% of the state's revenue generated in one year). In contrast, the Labor Department estimated that the annual cost if every state adopted two of the key eligibility reforms benefiting low-wage and part-time workers (630,000 workers total) would not exceed \$1.16 billion.

However, while Congress nearly tripled the amount of Reed Act funding that was scheduled to be released in October 2002, it did not target any specific portion of the Reed Act funds to fill the gaps in the unemployment program. Instead, the law listed several categories of UI reforms that the states could adopt at their option, including state-funded extended unemployment benefits (limited to those workers who were able to first access the temporary extension program), coverage for workers who do not qualify for state UI benefits because the state does not count their recent earnings (the "alternative base period"), and benefits for workers who are only available for part-time employment.

As the GAO survey found, only a small percentage of the states took advantage of their Reed Act funds to expand their UI programs. According to the GAO, only nine states indicated that they expanded unemployment benefits, *or even planned to do so*, as a result of their Reed Act funds. That is true as well of the states with the most solvent UI trust funds. Of the 21 states that had sufficient trust fund reserves (as of October 2002) to pay benefits for more than one year at peak recession levels (the recommended solvency level recognized by the U.S. Department of Labor), just six states (Alabama, District of Columbia, Georgia, Oklahoma, Oregon, and Vermont) indicated that they planned to expand benefits as a result of Reed Act funding.³

¹National Employment Law Project, "Crisis of Long-Term Unemployment is Far From Over Now Reaching Most Segments of the Labor Market" (February 2003).

²U.S. General Accounting Office, *Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited* (December 2000).

³Even more alarming is the lack of meaningful progress in those states that have especially abundant UI reserves and a below-average proportion of workers collecting unemployment bene-

Continued

While it is still possible that some of these states will eventually adopt eligibility reforms, most of them will not according to judgment of the state officials that responded to the survey. Thus, as of today, there are still 35 states that have not adopted the alternative base period and 31 states that fail to provide unemployment benefits to workers who cannot look for full-time work.

The GAO findings thus support the conclusion that block granting did not work to help bring more workers into the UI system and thus that more targeted federal reforms are necessary to close the gaps in the program. Federal legislation should include structural reform of the unemployment system to cover more low-wage and part-time workers and provide additional weeks of benefits for those who have exhausted their federal extension or will do so come May when the federal program expires.

- **Because the Reed Act block grant was most often held in the state trust funds to reduce unemployment taxes, it has thus far failed to produce other significant benefits commensurate with the unprecedented size of the 2002 distribution.**

If the Reed Act funds were not used to help close the gaps in the unemployment program, then the question is whether the funding produced other measurable benefits in proportion to the size of the Reed Act distribution. In our view, the answer is thus far no, primarily because the funding was block granted to the states and held in reserve to reduce unemployment taxes.

First, it's clear that the \$8 billion in funding did not help stimulate state economies. Local economies would have benefited if the funding were directed to pay for expanded unemployment benefits, thus building purchasing power in those areas hit hardest by unemployment and paying for goods and services. However, according to the GAO, 88% of the funding had not been spent (\$6.66 billion) as of November 2002. And most of the Reed Act funding that was spent paid for regular benefits in those states experiencing funding problems (especially New York and Texas), not for new programs.

Second, and probably most significant, the states were lobbied aggressively to ensure that the Reed Act funding was held in the state trust funds to benefit employers in the form of reduced unemployment taxes. However, those states that benefited most as a result were already paying relatively low unemployment taxes. Thus, even from the standpoint of reducing employer taxes, it's fair to say that the Reed Act funding was poorly targeted.

According to the GAO, 30 states held onto their Reed Act funds, which had the effect of avoiding scheduled increases in taxes or new solvency taxes. However, in two-thirds of these states (19), unemployment taxes were already at or below the national average of just half of one percent of total wages (.5%). In eight of these states (Colorado, Florida, Indiana, Missouri, New Hampshire, Oklahoma, Utah and Virginia), unemployment taxes were already below three-tenths of one percent (.3%) of total wages.

It's important to point out that unemployment taxes have fallen to historic low levels in recent years. In 2001, the average tax was lower than at any time since 1950 when the data were first collected, and from 1994 to 2002 (2002 rates estimated by the Labor Department) the average UI tax rate fell nearly in half (from .92% to .5%). The story of the last decade is that the states have moved to "pay as you go" financing, thus maintaining the lowest possible unemployment taxes even during those periods when the unemployment trust funds should be building reserves to pay benefits during a recession.⁴

Third, the 2002 Reed Act funding provided some support to the under-funded UI administration and employment services, amounting to 7% of the total distribution (or \$590 million). However, a significant percentage of this total represents Reed Act funding appropriated in just a small number of states, most notably Michigan and Ohio. Thus, even assuming that double or triple the current amount is appropriated by the states in future years, the Reed Act funding would still represent a relatively modest portion of the need and a limited amount of the total funds available.

Finally, Reed Act funds have had the effect of raising trust fund levels in the states at a time when more benefits are being paid as a result of the recession. While the extra funding is welcome, it's important to emphasize that the solvency

fits. 14 states (Alabama, Arizona, Florida, Georgia, Indiana, Louisiana, Maine, Mississippi, Montana, New Hampshire, New Mexico, Oklahoma, Utah, Wyoming) fall in this category, while only three of them (Alabama, Georgia, Oklahoma) reported that they planned on expanding benefits as a result of Reed Act funding.

⁴Marc Baldwin, *Beyond Boom and Bust: Financing Unemployment Insurance in a Changing Economy* (National Employment Law Project, April 2001)

situation cannot be characterized as a crisis except in a handful of states. Without the Reed Act funding, about half the states (23) had sufficient reserves as of September 2002 to pay benefits at peak recession levels for a least nine months. That is not significantly short of the one-year standard that applies *before* a recession begins, *not* 19 months after a recession started. Moreover, the solvency measure assumes that the states are not taking in *any* additional revenue. Yet the states are still accumulating significant reserves which are projected to total \$28 billion in 2003. With the Reed Act funding, the number of states with at least nine months of recession-level reserves increased from 23 to 32.

In sum, the Reed Act block grant did not produce substantial benefits commensurate with the unprecedented size of the distribution. As the UI stakeholder “consensus” proposal concluded in 2001, specific targeting of Reed Act funds to provide greater administrative resources, expanded eligibility and tax relief to employers would still likely produce more results at far less cost to the federal UI trust fund.

- **The Reed Act experience documented by the GAO underscores the serious limitations of the Administration’s “New Balance” proposal especially when the demands on the UI system are the greatest in times of recession.**

Lastly, it is important to evaluate the Administration’s “New Balance” proposal in light of the state experience with the latest Reed Act distribution. In our view, the experience documented by the GAO underscores the serious limitations of the Administration’s initiative especially when the demands on the UI system are the greatest in times of recession.

The “New Balance” initiative calls for a 75% cut in federal unemployment taxes, coinciding with a major shift in responsibility for UI administrative funding from the Federal Government to the states. The states would be expected to raise the necessary funding to administer the UI system by creating a new state tax. During the transition, they would receive an additional \$5.4 billion in Reed Act funding. The primary rationale for the proposal is that the states do not receive sufficient funding to pay for administration of their UI programs.

This year’s Reed Act experience demonstrates that the Administration’s initiative will probably fail to achieve its stated goal because most states were unable or unwilling to use the funds for anything other than UI payroll tax reductions despite the substantial demand for services for unemployed workers and the extreme pressures on state government budgets. Thus, in most states, there is every reason to believe that the \$5.4 billion in proposed Reed Act funding will end up remaining in the state trust funds to reduce unemployment taxes, not to pay for administration of a state’s UI program. Even more significant, the proposal introduces a new political dynamic into state UI funding by requiring the states to create a tax to fund administration that will for the first time compete with other more salient state priorities (e.g., state police, homeland security, Medicaid) and even with the funding necessary to pay UI benefits. After the dust settles, we strongly believe that the Administration’s initiative will lead to reduced services and even more pressure to restrict benefits for unemployed workers.

Moreover, by eliminating most of the federal unemployment tax, the Administration’s proposal also eliminates most of the federal role that exists to support the states especially during recessions. For example, the prospects of building sufficient federal reserves to fund an adequate extension of unemployment benefits when a severe recession hits or to distribute large sums of Reed Act funding are far more limited if the unemployment tax is substantially reduced. And certainly, the states will not be in a position to raise enough revenue on their own to fill the void, as demonstrated by the state budget crisis they are currently experiencing as a result of the recession.

A recent analysis prepared by the Congressional Research Service documents the critical role that segregated federal funding plays, especially during recessions. It examines how much the states received in 2002 compared with how much they contributed to the federal trust funds in UI taxes. The analysis found that the states contributed about \$7 billion to the federal trust funds in 2002, while they received about \$19.5 billion in the form of administrative grants, Reed Act funding and federal extended benefits.

These figures call into question the claims that the states do not receive a proportion share of the funding that they contribute to the federal unemployment trust funds. Indeed, when recessions hit, they receive much more. The funding is thus targeted to respond to recessions in order to serve the key federal role of the program—to help stimulate the economy and ensure that all unemployed workers (regardless of where they live) receive the income support they need to survive hard economic times.

Accordingly, we urge the Committee to reexamine the "New Balance" proposal and reject the initiative in light of the significant limitations described above. We strongly agree that UI administrative funding should be increased, and thus we also urge the Committee to consider the measures adopted by the 2001 "consensus" proposal to address this key concern.

Chairman Herger and members of the Committee, thank you again for this opportunity to testify.

Chairman HERGER. Thank you, Mr. Emsellem. Now Ms. Watson to testify.

STATEMENT OF DAWN ROMERO WATSON, SECRETARY, LOUISIANA DEPARTMENT OF LABOR, BATON ROUGE, LOUISIANA

Ms. WATSON. Mr. Chairman and Members of the Subcommittee, my name is Dawn Romero Watson, and I am the secretary for the Louisiana Department of Labor. I am honored to be invited to testify before you today and would like to thank you personally and your colleagues on behalf of our Governor and the workers and employers in Louisiana for allowing the Reed Act distribution to take place a year ago. Louisiana's trust fund received over \$105 million as a result of the distribution.

As has been said earlier, dollars in the trust fund are dedicated exclusively for the payment of benefits. The use of Reed Act dollars can be used for administrative purposes only by State-legislated appropriation. The distribution occurred in mid March of last year, and our Legislature was scheduled to go into a 60-day session beginning at the end of April. The timeframe for developing the proposal, building consensus and passing it was very tight. As soon as our allocations per State were set and the guidance from the Department of Labor were released, we began developing our proposal.

As in most States, our law provides triggers based on the UI trust fund for increases and decreases in benefits. It actually provides what will be the taxable wage base, which tax rate table will be used, how the benefits will be calculated and what is the maximum weekly benefit amount. They are always in equal percentages. If benefits are going up by 5 percent, then taxes are going down by 5 percent. These are carefully negotiated in the State law by our State leaders on the business side and the labor side.

For a variety of reasons, we decided that about half of our \$105 million needed to remain in the trust fund to guarantee we would not trigger an increase in taxes or decrease in benefits in the foreseeable future. With the balance of the distribution, we put our best thinking into developing projects using one-time money to invest in our department to provide better services to both our business and worker customer. We presented our legislature with a \$36.5 million proposal, leaving about \$69 million for benefits and future appropriation for administrative needs.

Our proposal can be divided into three different categories, a comprehensive UI tax and benefit system redesign; second, integration of new technology and upgrading of existing technology infrastructure to improve the services and accountability. Third, professional development of and additional resources for our staff to address special needs of targeted populations.

The single most critical project to the future of the Department in terms of its ability to provide services and to respond to its business and worker customers is the comprehensive redesign of the UI tax and benefit system. The current system has been in place since 1970, and it was state of the art in 1970, but there has been substantial changes through the years to laws and also the way the employment relationship has evolved.

The last major upgrade to the system was in 1985. Our proposal is to move to an object-oriented programming environment and an enterprise-wide relational database with access through a browser or portal. Specific areas in work flow processes that will be included are delinquency and legal accounting, remittance processing—which is how we process taxes received—experience rating, benefit charges and maintenance of employer information, claimant information, wage record information, benefit payments and benefit overpayments.

Modernization of the system will significantly impact the integrity of our programs and our ability to provide quality services timely. We anticipate this being a 3-year to 5-year project and costing upwards of \$20 million. We are currently in the planning stages, and should be releasing either a Request for Information or a Request for Proposal (RFP) later this year or early next year.

The second major category is an investment of about \$10 million in the integration of new technologies and upgrading of existing technology infrastructure to improve our service, delivery and accountability. Projects included the replacement of about 700 computer workstations in our local offices and one-stops, expansion of an imaging system to local offices, upgrading the interactive voice response system to be Web-enabled and substantial network enhancements to accommodate the additional traffic. We are also adding a card scan system in our local offices and one-stop centers so we can better track the services that are being delivered and evaluate them and adjust our offerings.

Another major category is about \$5.8 million for professional development of and additional resources for our staff to assist targeted populations. These projects are largely in response to feedback gained from legislative hearings and from our customers directly. They include the development of workshops and materials customized to the typical needs of older workers, ex-offenders, at-risk use and single heads of household.

Prior to the Committee hearing, our proposal was endorsed by both Louisiana Association of Business and Industry, which is our counterpart to the State Chambers of Commerce, and the State AFL-CIO. It passed all Committee hearings in the House and Senate floors unanimously and became Act No. 76 of the 2002 regular session of the Louisiana Legislature.

This concludes my formal remarks. Again, I am honored to be before you today, and on behalf of Louisiana, I sincerely appreciate the Reed Act distribution last March. I will be happy to answer any questions. Thank you.

[The prepared statement of Ms. Watson follows:]

Statement of Dawn Romero Watson, Secretary, Louisiana Department of Labor, Baton Rouge, Louisiana

Mr. Chairman and Members of the Subcommittee:

My name is Dawn Romero Watson and I am the Louisiana Secretary of Labor. I am honored to be invited to testify before you today and would like to personally thank you and your colleagues on behalf of our Governor M.J. "Mike" Foster and the employers and workers in Louisiana for allowing for the Reed Act distribution a year ago. Louisiana's trust fund received over \$105 Million as a result of the distribution.

I'm going to begin by telling you a little about our state so you will have a point of reference in relation to other states, then talk about how our proposal was developed and outline the major projects approved. A complete list of projects, with a short description and amount appropriated, is attached to my submitted remarks.

At the time of the distribution, Louisiana's Trust Fund Balance was just over \$1.4 Billion, making us one of the most solvent states in the country. We have an employer base of approximately 97,000, and in 2001, we collected approximately \$130 Million in state unemployment taxes. We have a workforce of about 1.9 Million people, and in 2001, we paid out about \$220 Million in unemployment insurance (UI) benefits. Prior to the distribution, growth in our trust fund occurred because taxes and interest exceeded benefits paid.

By law, dollars in the trust fund are dedicated exclusively for the payment of benefits. The use of Reed Act dollars for administrative expenses can only be accomplished by state legislative appropriation. The distribution occurred mid-March of last year and our Legislature was scheduled to go into a sixty (60) day session beginning at the end of April. The time frame for developing a proposal, building consensus and passing it was very tight. As soon as allocations per state were set and the guidance from the United States Department of Labor was released, we began developing our proposal.

As in most states, our law provides triggers, based on our UI Trust Fund balance, for increases and decreases in taxes and benefits. For a variety of reasons, we decided that about half of the \$105 Million needed to remain in the trust fund to guarantee we would not trigger an increase in taxes and a decrease in benefits in the foreseeable future. With the balance of the distribution, we put our best thinking into developing projects using "one-time" money to invest in our department to provide better services to our business and worker customers.

We presented our Legislature with a \$36.5 Million proposal, leaving \$69 Million for benefits or future appropriation for administrative needs. Our proposal can be divided into three major categories: (1) Comprehensive UI tax and benefit system redesign for \$20.5 Million; (2) Integration of new technologies and upgrades to existing technology infrastructure to improve services and accountability for \$10 Million; and, (3) Professional development of and additional resources for our staff to address special needs of targeted populations for \$5.8 Million.

The single most critical project to the future of the department in terms of its ability to provide services and to respond to its business and worker customers is the comprehensive redesign of the UI tax and benefit system. The current system has been in place since 1970. It has been modified many times over the years as laws were changed and the nature of employers and employment evolved. The last major upgrade to the system was in 1985. Our proposal is to move to an "object oriented" programming environment and enterprise wide relational database with access through a browser or portal. Specific areas and workflow processes that will be included are Delinquency and Legal Accounting, Remittance Processing, Experience Rating, Benefit Charges, and Maintenance of Employer Information, Claimant Information, Wage Record Information, Benefit Payments and Benefit Overpayments. Modernization of system will significantly impact integrity of programs and our ability to provide quality services timely. We anticipate this being a three to five year project and costing upwards of \$20 Million. We are currently in the planning stage and should be releasing a Request for Information and Request for Proposal later this year or early next year.

The second major category is an investment of about \$10 Million in the integration of new technologies and upgrades to existing technology infrastructure to improve our service delivery and accountability. Projects included replacement of about 700 computer workstations in our local offices, expansion of imaging system to local offices, upgrading of interactive voice response system to be web enabled, and substantial network enhancements to accommodate the additional traffic. We are also adding a card scan system in our local offices and One Stop Centers so we can better track services delivered and evaluate and adjust offerings. We are also investing

in technologies to provide better services to our customers with disabilities in our local offices and through the Internet.

The final major category is about \$5.8 Million for professional development of and additional resources for our staff to assist targeted populations. These projects are largely in response to feedback gained from legislative hearings and from our customers directly. They include the development of workshops and materials customized to the typical needs of older workers, ex-offenders, “at-risk” youth, and single heads of households. For example, older workers seeking employment desire information on how wages will impact their social security benefits and tend to be less concerned about health insurance. On the other hand, health insurance and career advancement opportunity as part of an employment package tend to be critical concerns for single heads of households.

To improve our services to employers, we plan to hire an outside facilitator to moderate employer forums to gather information from the employer’s perspective on awareness and quality of the services that the Department is currently providing. The forum will also solicit suggestions in the mode of continuous improvement to meet the needs of our business customer. We are also piloting a CD-ROM package that provides basic information on each of the department’s major program areas related to employers with hyperlinks directly to the online version of those services.

Prior to the first committee hearing, our proposal was endorsed by both the Louisiana Association of Business and Industry (similar to other state’s State Chamber of Commerce) and the Louisiana AFL-CIO. It passed all committee hearings and the House and Senate floors unanimously and became Act No. 76 of the 2002 Regular Session of the Louisiana Legislature.

This concludes my formal remarks. Again, I am honored to be before you today, and on behalf of Louisiana, I sincerely appreciate the Reed Act distribution last March. I’ll be happy to answer any questions.

Thank you.

Project	Appropriation	Description
UI Tax and Benefit Redesign	\$20,000,000	Comprehensive redesign of our automated UI tax and benefit system. Move to an “object oriented” programming environment and relational database with browser/portal access. Modernization of system will significantly improve integrity of programs and ability to provide services.
Remittance Processing	\$580,571	Upgrading of current system with additional software to capture check amount by Intelligence Character recognition, additional scanners and mail openers, customized index programming and creation of a test site.
LaVOS VOScan System	\$292,254	A card scan system to be implemented in local offices and OneStop Centers to more easily and accurately record services provided to customers. Data accumulated will then be used to evaluate success of services and adjust offerings. The data captured will be integrated into our network operating system called Louisiana’s Virtual OneStop System.
Network Enhancements	\$791,000	Router Upgrades for our field offices to support additional voice ports for additional traffic on our interactive voice response system. Additional gigabit support for growing bandwidth for additional file services, imaging, database, and web activity. Additional network management and monitoring support.

Project	Appropriation	Description
Imaging	\$1,802,500	Expand use of imaging system to local offices. This will allow documents relative to a customer's contact with the department to be readily available throughout the state thereby enabling our staff to provide better and faster service to the employer and the claimant concerning UI matters.
Interactive Voice Response	\$395,000	Upgrade to allow current IVR applications (claim renewal, check status, employer inquiries, etc.) to also be deployed on the web.
Mainframe	\$430,200	Upgrade will reduce the processing capacity in order to "right size" the equipment to current load. This will lower the software license cost and operating cost.
Streaming Media-Content Distribution	\$523,000	Intranet/Internet website enhancements, as well as on-demand training for all local offices. Adds capability to distribute rich media content close to our target users, overcoming issues such as network bandwidth availability/congestion and latency. Allows consistent information or instruction to be disseminated simultaneously without the added cost of travel to a central location and time out of the office.
Computer Equipment	\$1,456,690	Replaced workstations in local offices with updated computers and laptops.
ADA Compliance Technology	\$1,956,780	Added ADA workstations and software in each local office. Workstations will integrate speech recognition, print and screen to speech technologies, screen and print magnification, work prediction, tools for learning differences, Braille embossing and refreshable Braille. Also, staff training.
Storage Area Network	\$750,000	Provides a high-speed network direct central storage for all department client servers in one centrally managed storage array. Simplifies off site backup procedure to assure data is protected.
Color Copier	\$130,000	Expands color copy or printing capabilities of the Department.
Administrative Office Improvements	\$1,508,100	Building and parking lot improvements including handicap access, fire alarm system, lighting, furnishings, restrooms, etc.
Technical Training for Wagner Peyser Staff	\$755,000	Training for staff on promoting labor exchange services of the department and providing such services. Hire a consultant through an RFP to evaluate staff skills and abilities; develop performance measures and establish measurement methodology; develop a training needs matrix and identify training to meet the identified needs; and, develop follow-up evaluation tool to measure training effectiveness and ensure continuous improvement.

Project	Appropriation	Description
Specialized Assistance for Older Workers	\$650,000	Increase capacity for outreach to older workers through partnerships & local affiliates of the AARP and correlating outreach, promotion and support to employers. Develop more specialized job preparatory and job search workshops customized to unique needs of older workers.
Specialized Assistance for Single Heads of Households	\$693,000	Develop an automated match of individual's education major to careers and availability of those careers in Louisiana. Identify standards to enable an automated match of skill sets and employment needs to jobs and job seekers. Develop an online mock interviewing service to better prepare job seekers for job interviews. Automate resource mapping to identify services in close proximity to where an individual lives or works.
Specialized Assistance for At-Risk Youth	\$1,100,000	Conduct focus groups with youth and high school counselors to gain feedback on needs and services currently provided. Use information to improve job development efforts, identification of internships, part-time after school jobs, youth job fairs and summer job fairs, etc.
Specialized Assistance for Ex-Offender Population	\$652,000	Develop special workshops for unique needs that can be delivered in different formats such as paper-based materials, computer-based software, video technology and lectures. Design workshop materials and job fairs using current labor market information to determine industries most likely to hire and appropriate skills set requirements. Outreach to target industries tax credits associated with the hiring from this population.
Expansion of Reemployment Initiative	\$1,200,000	Expand REI program to more job seekers. Also, update videos and instructional materials and add workshops.
Employer Forums	\$200,000	Facilitate employer forums to gain information on how to continue changing and improving to meet the needs of the employer and ultimately our citizens. Gauge awareness and quality of services to adjust program delivery.
Assistance to Alien Labor Program	\$565,000	Amnesty legislation inundated office and tremendous backlog of cases exists. Professional services contract to review processes and make recommendations and automate where ever possible.
Employer Services CD-ROM	\$11,200	CD providing basic information on each of the department's major programs areas related to employers. CD has hyperlinks to take the user directly to the online version of services. This funding is to test market and pilot before a mass distribution. CD's provide a mechanism for feedback on the content and the usefulness of the product.

Chairman HERGER. Thank you very much, Ms. Watson. The gentleman from Louisiana, Mr. McCrery, to inquire.

Mr. MCCRERY. Thank you, Mr. Chairman. Mr. Brock, you are here from Oklahoma, but you also represent a nationwide organization.

Mr. BROCK. Yes, I do.

Mr. MCCRERY. Which organization is that?

Mr. BROCK. It is the NASWA.

Mr. MCCRERY. So, that is the employment agencies?

Mr. BROCK. That is correct. Ms. Watson is a Member of that organization.

Mr. MCCRERY. Has your organization looked at the Administration's proposal for overall reform of the UI system?

Mr. BROCK. Yes, we have.

Mr. MCCRERY. What is your impression of it?

Mr. BROCK. We are still—we are as diverse as the States and territories, and we are in the process of developing a consensus on that, but at this time, we do not have one.

Mr. MCCRERY. Okay. You worked, though, on a former proposal, which I introduced into—in the Congress, and the purpose of—or one of the purposes of my legislation was to give States more control over the tax dollars that they were collecting for administrative purposes. Wouldn't the Administration's newest proposal—or new proposal accomplish that goal?

Mr. BROCK. Yes, it would, sir.

Mr. MCCRERY. Mr. Brock, Ms. DeLisio, Ms. Watson, I would like for you to briefly explain how the—your use of the Reed Act money so far has helped workers in your State. Just briefly, if you can explain how the expenditures—I think Mr. Brock already mentioned that Oklahoma, for example, created an alternative base—

Mr. BROCK. That is correct, sir.

Mr. MCCRERY. For eligibility. That clearly would help some workers. Anything else, Mr. Brock?

Mr. BROCK. That is primarily—from the benefits side that is all that was accomplished last year. That is right.

Mr. MCDERMOTT. Would the gentleman yield?

Mr. MCCRERY. Yes.

Mr. MCDERMOTT. Do you know what he means by an alternative base?

Mr. MCCRERY. Yes, sir.

Mr. MCDERMOTT. Can you explain that for the rest of us?

Mr. MCCRERY. On your time you can ask him that.

Mr. MCDERMOTT. Thank you very much.

Mr. MCCRERY. Ms. DeLisio.

Ms. DELISIO. Yes. In Ohio, we have had an alternate base period from about 1988. So, that was already in existence. The ways that we have worked to benefit the claimant customer first is the Subcommittee that I mentioned. There have been two issues that have been significant in Ohio for a number of years and debatable between business and labor around our eligibility requirements, and the Reed Act distribution was the impetus to bring both parties to the table to talk about it. One is dependency. In Ohio, we are one of the few States that still has dependency, which means you make more or less dependent on the number of dependencies

you have. The second issue is around weeks and wages. We still require both in order to be eligible while most States go just with the wages. This is the first time that we have been able to have a thoughtful discussion with both parties at the table about that issue, which would help our claimants as we resolve that issue.

The investment in the one-stops and the resource rooms. Our one-stops are very anxious to begin moving on that, because in the one-stop setting, claimants really need to get access to the Internet. They need to get access to job-matching services. They need to have access to information about what wages are reasonable, what training is available, if I need retrained. This really helps support getting them back to work.

Our employer community certainly has commented that keeping their tax rates lower has kept them in a position to be less likely to lay off again or even considering reducing staff or going out of the business considering with other tax issues they are dealing with.

Mr. MCCRERY. Ms. Watson.

Ms. WATSON. The projects that stand out the most to me were our investments, like Ohio did, in our resource rooms that are in the one-stops and upgrading of the computer stations there. We also have a several RFPs that we have been awarded, and they are developing the products for the specialized workshops to help the unique needs of the targeted populations. Those are the ones that I mentioned at the end for the single heads of household, the older workers and the at-risk youth and the former customers of our correctional institutions. The special needs that they have in attaching to the labor force.

Mr. MCCRERY. All of these expenditures that you have done from the Reed Act distribution would be classified generally as administrative expenditures?

Ms. WATSON. That is correct.

Mr. MCCRERY. Ms. DeLisio, same thing?

Ms. DELISIO. That is correct.

Mr. MCCRERY. Briefly, Mr. Emsellem talked about the need for the Federal Government in any future Reed Act distributions to be more specific in how those funds could be used and specifically maybe having to use part or all of it for benefits or increasing benefits. Do you representatives from the States think that is a good idea?

Mr. BROCK. That is an issue for the States to decide myself, and I think I pretty well represent that opinion within my State.

Ms. DELISIO. I would agree that it is an issue for the States to decide, and it is exactly why we have an UCAC that is so active between business and labor to decide those kinds of issues.

Mr. MCCRERY. Thank you.

Chairman HERGER. The time of the gentleman has expired. The gentleman Mr. Levin from Michigan to inquire.

Mr. LEVIN. Well, thank you for being here. Let me ask you a question of the three people from the State agencies you all hold responsible, I guess key positions, and at least two of you have been in those agencies for some time. I am not sure, Ms. Watson, how long you have been there. How long?

Ms. WATSON. I went in 1997 to the Louisiana Department of Labor.

Mr. LEVIN. This recession has seen a lot of exhaustion of benefits. Right?

Ms. WATSON. Yes, sir.

Mr. BROCK. Yes, sir.

Mr. LEVIN. In fact, in terms of exhaustions, it has exceeded the recession of the early nineties. We spent out of the trust fund, as I understand it, in the nineties, early nineties, about \$28 billion. We have spent less than half of that, as I understand it, this recession. There are \$20-some billion in the trust fund. So, let me ask you, are the States suggesting, urging the Federal Government to be more vigilant and diligent about the extension of benefits, and if not, why not?

Mr. BROCK. I can speak for Oklahoma. Just looking at exhaustions compared to 2001, our exhaustions are up 150 percent. Our initial claims are up 50 percent over that period of time, the last 2 years. Obviously, the need for this system continues to increase, and not only does there need to be the money there for the benefits, which is obvious, but there has to be the money there, too, to administer the programs.

Mr. LEVIN. Ms. DeLisio, you go back into the early nineties and a bit before, like at the figures for Ohio, you have got, as of February, over 40,000 people who had exhausted their benefits and were out of work. So, what is your response? Is the State urging this Congress and White House to pass a broader extended benefit program when there are 20-some billion dollars in the fund?

Ms. DELISIO. Ohio would be looking at it from a couple of different angles. We would—there are several pieces of legislation, the President's proposal on WIA reform, that could impact whether or not we get full funding and that could change decisions about how we administer our benefits in the State.

We are also paying close attention to what is happening with the WIA reauthorization around that and the potential block granting of the re-employment dollars, the training dollars, the Wagner-Peyser dollars, what impact that could have.

Also paying close attention to the economic picture. We are seeing a very similar situation that was mentioned earlier that the skills aren't necessarily matching the jobs that we have today.

Mr. LEVIN. Let me just interrupt. Look, you have run these programs. You run these programs. You have got 40,000 plus people. Now it is probably 50—who has exhausted their benefits. In the earlier recession, we exhausted benefits beyond the 39 weeks.

Now, what do you tell an unemployed worker, you are responsible for the training programs, you monitor whether to look for work? How do you tell the person that in this recession with the higher rate of exhaustion, they don't get any help? What do you say to that individual that you are looking at reforms or that—what do you tell that person?

Ms. DELISIO. We do our absolute best to invest in getting them either retrained or matched up with jobs that are in the labor market.

Mr. LEVIN. I know, but you have got 40,000 plus people, for whom that hasn't worked, and with \$20 some billion in this trust

fund, you logged the \$8 billion that was given back. Why aren't you asking for the Federal Government in this recession to allocate more money in extended benefits?

Ms. DELISIO. It is not that we have not done that yet. We also are paying attention to what is happening with the economic climate, and we are also paying attention to the other legislation that could affect how much more money we have available—

Mr. LEVIN. Look—my time is up. You come to Michigan. You are not very far. Or I will come to Ohio and meet unemployed workers, and you tell them that, face to face. Essentially, you are saying I am not doing a good enough job. You are in charge of matchmaking, and I don't know why you are not here with all this money available for unemployed workers asking that this institution—

Chairman HERGER. The gentleman's time has expired.

Mr. LEVIN. Meet its responsibilities.

Chairman HERGER. The gentleman's time has expired. The gentleman from Kentucky, Mr. Lewis, to inquire.

Mr. LEWIS OF KENTUCKY. Yes. Thanks, Mr. Chairman. There is always, I think—the testimony of Mr. Emsellem and some of those that have directed question at the witnesses, there seems to be this paternalistic view of Washington, DC and only good things can be done here. It reminds me of the Wizard of Oz movie, that you have got this wizard behind this screen behind these curtains cranking out lightning and these thunderous sounds, and the only good thing that can happen has to come from the wizard. It seems to be that there is this thought that States and the people who run the States have no brains, they have no heart, they have no courage, that only can happen here in Washington, DC.

That is kind of amusing, because it is the same human beings that are elected to offices here that are elected to offices in our States, and it is a lot closer for the people that are out of work to go down the street and talk to their State legislator or to call or to visit the governor or to come to your offices when they have needs than to come to Washington, DC.

I don't know about some folks here, but I pretty well trust the people in our States to make good judgments, to know what is going on in their communities and have just as much compassion for people out of work as those that would have compassion here. I think the ability to have—and by the way, where does the money come from? What money are we talking about? Where does it come from? Does it come out of the pockets of bureaucrats in Washington, DC? Where does it come from? Whose money is it? Maybe you would like to answer that, Mr. Brock.

Mr. BROCK. Well, that money comes from employers within the States. It is the State's money. I have been involved with this system coming out of the private sector about 7-years-ago, and the more I learned about this system, frankly, the more—the angrier I became, in the sense that it seemed to me like it was a pretty good deal at the beginning, between the States and the Federal Government. As time went by, for whatever reason, the money that was paid, particularly from employers to administer this program, I know in my State, I think on the average, we have gotten back about 60 percent.

The last year that we have a measurement of a couple of years ago, it was about 43 percent, and this money stays up here for some reason. It seems to me and particularly, too, when I am trying to administer a program, that is exponentially increasing, as I have pointed out, from our exhaustions and from our increased claims and so on, and we don't have the resources to keep up with the need. The system is broke.

Mr. LEWIS OF KENTUCKY. Yes. I think, Ms. Watson, you said you get back 36 cents on the dollar?

Ms. WATSON. Thirty eight cents.

Mr. LEWIS OF KENTUCKY. Thirty eight cents on the dollar. That is a bad deal. You are paying in 100 percent and getting back 38 percent. That is a bad deal. So, it just amazes me that there is this elitist attitude here in Washington, DC that all good things can only happen here, and that the States and their elected officials and the administrators of their laws can't do as good a job as what can be done here in DC it amazes me. Thank you.

Chairman HERGER. I thank the gentleman. Next the gentleman from Washington, Mr. McDermott, to inquire.

Mr. MCDERMOTT. That last discussion was kind of interesting. You get 36 cents back on every dollar.

Mr. BROCK. That was Louisiana. We get—

Mr. MCDERMOTT. How much do you get?

Mr. BROCK. On the average—well, you may have more recent numbers than I do, but the most recent number I have seen was about 2-years-old, and I think it was about 43 percent. On the average, I said over the last 10 years or so, I think we have gotten back about 60 percent.

Mr. MCDERMOTT. So, where does that money evaporate to?

Mr. BROCK. You tell me.

Mr. MCDERMOTT. You think it goes into that reserve fund, that \$28 billion that is sitting there that they don't give you back for extended benefits? Maybe that is where some of it is?

Mr. BROCK. These pots continue to swell here in Washington, and that money does not flow back to the States, as was the original deal with the States.

Mr. MCDERMOTT. Mr. Emsellem, can you tell me why it is that these States have not picked up their part-time workers? What is it? We gave them \$8 billion. They are sitting on a bunch of it, \$6 billion or whatever. Why haven't they picked up—why haven't they changed their base—their base cost so they can get them?

Mr. EMSELLEM. Well, that is the problem, and it is partially in response to Congressman Lewis's point as well. We have a problem. Eighteen percent of low-wage workers are collecting unemployment benefits. Everybody agrees you need to expand the program to bring more workers into the system.

So, the question is, as you have asked, why is it that there are still 35 States that don't have the alternate base and 31 States that don't cover part-time workers? Of the measures that have been passed, very few States have done very much to bring more people into the system. It has mostly been in response to raising benefits.

So, the reality of the situation is that it is a dog fight in the States. To be blunt, it is a dog fight in the States. The politics there make it very difficult—

Mr. MCDERMOTT. So, it is between these guys and the Social Health Services Department and the welfare. If these women that they have kicked off welfare go out and get a low-wage job as a maid in a motel, and they work 30 hours a week or 25 hours a week and they don't qualify for unemployment benefits, when they get laid off, where do they go? Back to welfare. Right? These people don't care. That is basically—as long as it isn't on their watch, they are glad to get it—get rid of them?

Mr. EMSELLEM. If I can elaborate briefly, I think it speaks very directly to the problems with the new balance proposal and devolution. These are the realities of the politics in the State. It is very hard for workers in most States to get what they need to expand benefits, and now with devolution, you are asking States to create a new tax on its own that now is going to compete with other State priorities, Medicaid, everything else under the sun related to budgets, against employers, their tax interests and against the States, literally the agencies seeking administrative funding. All that gets thrown into the pot now when workers are going to try to argue for expanded benefits. That is the reality of the politics of the situation.

It would be great if every State did everything right, but the reality is that there is still 18 percent of the wage—

Mr. MCDERMOTT. Okay. Let me stop you, because I want to ask these three—

Mr. MCCRERY. Would the gentleman yield for just a clarification?

Mr. MCDERMOTT. Yes.

Mr. MCCRERY. States now set their tax rates for unemployment. So, it is already in competition with everything else.

Mr. MCDERMOTT. Okay. We got that. The next thing is, the President has said we are going to take this tax away. So, not going to send you any money anymore. That is built into the budget that is going to go out of here in a few hours. How many of your governors are going to ask for a rate increase to pick up this money, or where are they going to get the administrative money for their program when it no longer comes from us, when we have devolved it down to you? What will your governors do?

Ms. WATSON. Do you want to go first?

Mr. MCDERMOTT. Any one of you. Start anyplace. I have got a couple Republicans and a Democrat, so we will see what they say.

Ms. WATSON. Well, I am a Democrat, but I work for a Republican governor. So, I am not sure—

Mr. MCDERMOTT. I am talking about your governor. All that matters is your governor.

Ms. WATSON. Our State—our employers already subsidize our UI grant to the tune of about \$5 million. Now, what we plan to do in our State is try to—because I think that we can work—I respectfully disagree that we don't care about our workers, because we really do, and I think our State leaders advocate strongly on their behalf, and so does the business community advocate strongly on the business's side. We try to work it out. I really think that we can show that employers will save money if you devolve it to the State, because you are not going to—if—

Mr. MCDERMOTT. So, you don't expect your governor is going to raise taxes?

Ms. WATSON. He is going to have to raise taxes, but to the employer who pays the tax, he should get a net savings, because he is not going to pay as much—

Mr. MCDERMOTT. He is not going to raise it as much. Is that it?

Ms. WATSON. That is right, as the reduction is from the FUTA.

Mr. MCDERMOTT. For Ohio?

Chairman HERGER. The gentleman's time has expired.

Mr. MCDERMOTT. Well, but let them answer. Tell me—okay.

Ms. TUBBS JONES. I will ask them.

Mr. MCDERMOTT. Okay. You don't want to know the answer. That is your problem.

Mr. MCCRERY. Well, the only answer we got was yes.

Chairman HERGER. We will give the gentlelady a turn here, but I would just like follow up on this line of questioning myself. We hear there isn't a free lunch. In the long run, States will use up the \$8 billion we transfer to them, and then the lasting effects of increasing benefits or expanding eligibility will fall to them. That means they would have to raise State unemployment taxes above levels they would have otherwise been to pay for the higher benefits or expanded eligibility. Is that correct, Mr. Brock, Ms. DeLisio?

Ms. DELISIO. That is correct.

Chairman HERGER. Thank you. Now, I do turn to the gentlelady, who even though she does not serve on this Subcommittee, is on our full Committee, for questioning. Ms. Tubbs Jones.

Ms. TUBBS JONES. Thank you, Mr. Chairman. I would like to yield to my colleague to complete his questioning on that one issue. Go ahead.

Mr. MCDERMOTT. I'd like Ohio and Oklahoma to tell me what your governor is going to do.

Ms. DELISIO. Our governor supports devolution as we know it today, and we would be in a similar situation as in Louisiana that we would have to raise taxes, but there would still be a net gain, because we are one of the States that gets 36 cents back on every dollar, and to keep the money in the State and allow us the administration of the fund and the money would be beneficial to us.

As far as the—

Mr. MCDERMOTT. Is he going to do anything else with the benefit package or the base on which people are eligible or anything else? Is he going to keep everything the same and just raise the money for administration, or is he going to cut some corners?

Ms. DELISIO. First, we haven't seen—the complete legislative bill is not available, obviously, to get into specifics, but anything we would do to change our benefit package would go through our UCAC that is equally cochaired with business and labor, Senate and House, Democrat, Republican, and equal amounts of business and labor membership. We would work that out together with them about what their desires are to take that forward to our governor. That Committee has been active for over 60 years, and every piece of legislation that they have taken forward, 17 pieces have passed

unanimously. So, we would work together to what is in the benefit and best interest of both of those parties and what they agree to.

Mr. MCDERMOTT. Even though they have to cut? They are going to get less money from the Federal Government. They are going to be—he is going to put the taxes up in the business community in Ohio?

Ms. DELISIO. The business community in Ohio would support us having more control over the money today and the likelihood of getting more than 36 cents back on the dollar than we have been, yes.

Mr. BROCK. Well, basically, we would see a net decrease in taxes to the employers. By the way, I am a Republican in a Democratic Administration.

Mr. MCDERMOTT. I said it doesn't make any difference.

Mr. BROCK. You are exactly right. It doesn't matter what I am. I would tell you that, sir, that in Oklahoma, we do have—we do cover part-time workers, and we—

Ms. WATSON. We cover them, too.

Mr. BROCK. We have just passed, as I said, the alternate base period. As for those inexperienced short-term workers, it gives a—

Ms. TUBBS JONES. If you don't mind, very quickly, in Ohio we have got so many more problems with regard to taxing issues in Ohio right now, that our Governor is getting ready to—we are getting ready to tax manicures, tax hairdos, tax all kinds of things because of the economic situation Ohio finds itself in. Can you tell me how many more workers are unemployed currently in Ohio than there were 6-months-ago?

Ms. DELISIO. I can tell you the difference in our claims from 2001 to 2002. In 2001, we processed 811,000 new claims. In 2001. In 2002 we processed 794,000 new claims.

Ms. TUBBS JONES. In 2002 as of December?

Ms. DELISIO. As of December. That does not take into consideration—

Ms. TUBBS JONES. It was 800 or—

Ms. DELISIO. In 2001 there was 811,000, and 794,000 in 2002.

Ms. TUBBS JONES. Can you tell me how many as of the beginning of this year?

Ms. DELISIO. I do not have that number with me, but we had several weeks where it actually decreased as compared to last year, but we did have some weeks it increased.

Ms. TUBBS JONES. That number is based on how many people actually apply for unemployment. It may not be accurately reflecting the number of people who are out here unemployed.

Ms. DELISIO. That is correct. That is the number that filed for UC.

Ms. TUBBS JONES. So, if, in certain instances, for example, in Ohio, you are not eligible—we had this discussion before the hearing about how you become eligible if you are a part-time worker, and it is too complicated to get through in this session, but there are a significant number of people who are working part-time in some capacity, who under Ohio law, are not eligible to claim, and so they are not counted in that number either, are they?

Ms. DELISIO. That is possible. However, in a situation where if you are working full-time and laid off and you would accept a part-

time job, we would pay partial benefits to those who are working part-time if there was a difference between what they were making in their wages and what their weekly benefit amount would be. So, it is possible for a part-time worker to get partial benefits. We do not currently have part-time benefits for part-time workers as a result of the discussion between the UCAC on dependency and weeks and wages.

Ms. TUBBS JONES. Thank you, Mr. Chairman, for the opportunity to be heard. I look forward to talking to you more at a later time.

Ms. DELISIO. Thank you.

Chairman HERGER. The gentlelady is welcome. Just so Mr. Nilsen doesn't feel left out here, I would like to address a final question to you. What was the effect of artificially keeping this surplus money in the Federal accounts since 1997 in terms of the Federal deficit instead of returning it to the States, and has the law ever been changed in the past to raise the Federal ceiling, which would have the same effect of keeping more Federal money in the Federal accounts instead of returning it to the States?

Mr. NILSEN. Well, the way the UI system and the budget works is if money raised by the States is put into Federal accounts and less money is transferred back to the States, in a sense, that has the net effect of reducing the deficit. Over some periods of time when actually less dollars have been sent back to the States, that has been the case.

Overall, given the fact that there is still \$23 billion in the trust funds, that has, over time, a cumulative effect of reducing the deficit by that much.

Caps on the Federal trust funds have been raised a number of times. The Reed Act provides that when they hit the cap in those funds, then the excess funds are to be transferred back to the States. A number of times legislation has been passed that raised those caps, so that additional funds were built up in those accounts.

Chairman HERGER. So, the essence of that would be that the Federal deficit would appear to be less than—

Mr. NILSEN. Exactly.

Chairman HERGER. It would have been if these funds had been transferred to the States to be used as they had been intended to be used?

Mr. NILSEN. Yes.

Chairman HERGER. I thank you, and I want to thank each of our witnesses for appearing before us today. With that, this hearing stands adjourned.

[Whereupon, at 2:40 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Texas Workforce Commission
Austin, Texas 78778
March 25, 2003

The Texas Workforce Commission appreciates the opportunity to comment on our use of the Reed Act distribution that was included in the Job Creation and Worker Assistance Act of 2002.

Texas received \$596.4 million through the Reed Act distribution at a critical moment for Texas; our fund was close to insolvency. We greatly appreciated having the flexibility to spend it in the way that most benefited Texas. In our case, due to the rapid depletion of our Unemployment Trust Fund, we decided to put 100% of the

funds toward paying benefits for eligible laid-off workers. Not only did local economies and laid-off workers benefit, but because employers had paid the taxes that made the distribution possible, we felt that the distribution should go toward mitigating the inevitable employer tax rate increases that accompany any economic downturn.

Per the U.S. Department of Labor, the Federal Trust Fund Accounts still hold \$22 billion. We urge the Congress to consider returning a portion of those funds in another flexible Reed Act distribution this year. With the national economy in an uncertain recovery, another distribution of employer tax money would allow states to provide additional tax relief to the business community at a time when business hiring is the key to an economic rebound.

Thank you for hearing our comments.

Sincerely,

Diane D. Rath
Chair and Commissioner Representing the Public

T.P. O'Mahoney
Commissioner Representing Labor

Ron Lehman
Commissioner Representing Employers

Statement of Eric Oxfeld, UWC—Strategic Services on Unemployment & Workers' Compensation, and Deron Zeppelin, Society for Human Resources Development

We appreciate the Human Resource Subcommittee's ongoing oversight of the unemployment insurance (UI) system and specifically the \$8.1 billion "Reed Act" distribution to state unemployment insurance trust accounts pursuant to the *Job Creation and Worker Assistance Act of 2002* (H.R. 3090). The Reed Act distribution was a very important and helpful response to the economic recession and the economic dislocation resulting from the terrorist attacks on September 11. It also provides funding available for use by the states to make over-due administrative improvements that otherwise are not possible because of the chronic under-funding of state UI and employment services (ES) agencies through the normal UI/ES administrative financing mechanism.

These comments are submitted jointly by UWC—Strategic Services on Unemployment & Workers' Compensation (UWC) and the Society for Human Resource Management (SHRM). UWC and SHRM support a strong UI/ES program through which employers provide fair and affordable insurance benefits for a temporary period of time to workers with a strong attachment to work who are temporarily and involuntarily jobless when suitable work is no longer available. We believe that a sound UI program is best embodied through the state UI/ES system, with a limited federal role where uniformity of state law is considered essential.

UWC is the only association exclusively devoted to providing legislative/regulatory representation for the business community in connection with national UI and workers' compensation public policy (WC) issues. UWC's members include employers of all sizes, industries and geographic locations; national and state business associations; third party service companies; accounting and law firms and other organizations who advocate sound, cost effective UI and WC programs for workers and employers. UWC members and their clients and members represent a major share of the business community in the United States. The Society for Human Resource Management (SHRM) is the world's largest association devoted to human resource management. Representing more than 170,000 individual members, the Society's mission is to serve the needs of HR professionals by providing the most essential and comprehensive resources available. As an influential voice, the Society's mission is also to advance the human resource profession to ensure that HR is recognized as an essential partner in developing and executing organizational strategy. Founded in 1948, SHRM currently has more than 500 affiliated chapters within the United States and members in more than 120 countries.

UWC and SHRM support the UI program and its purposes. For more than 65 years, the UI program has protected jobless workers, employers, and the public by assuring that workers who lose their jobs when employers do not have work can

receive temporary partial income replacement during their transition to new employment. The UI system is funded by dual state and federal payroll taxes paid by employers. State UI (SUI) taxes are deposited into a trust account for each state, dedicated to the payment of UI benefits. The Federal Unemployment Tax (FUT) is deposited into 3 accounts: the Employment Security Administration Account (ESAA), which funds the administrative costs of the UI program (state and federal) and the public labor exchange under the Wagner-Peyser Act (state); the Extended Unemployment Compensation Account (EUCA), which funds 50% of the benefits payable under the permanent Federal-State Extended Benefits (EB) program; and the Federal Unemployment Account, which funds loans to states who deplete their UI benefits trust accounts. Congress has from time to time dipped into the EUCA account to finance special federal UI benefit extensions, such as the Temporary Extended Unemployment Compensation (TEUC) program now in effect. The state benefits accounts and the three federal accounts are held by the US Treasury in the Unemployment Trust Fund and are included in the unified federal budget.

In recent years, the FUT has been excessive relative to the need for these funds. Less than half the FUT revenue was actually spent in many years, leading to an unhealthy accumulation in the FUT accounts in the Trust Fund. Despite the fact that Congress doubled the ceiling on these accounts in 1997, as recently as 2 years ago the Department of Labor projected that FUT revenue would exceed the legal ceiling by more than \$40 billion over 10 years. Federal law (known as the Reed Act) requires distribution of FUT balances above the ceiling into the state UI trust accounts, where the funds will be available to pay for UI benefits or may be appropriated by the state legislature to pay for UI/ES administrative costs.

The principal reason for the excessive FUT revenue is the continuation of a “temporary” FUT surtax, which originally was imposed in 1976 to finance a supplemental benefits extension in the 1970’s. The surtax was to expire when the deficit was retired, which would have occurred in 1987. However, driven by the federal budget process, Congress intervened 4 times to continue this unnecessary surtax. The surtax was most recently extended in 1997, and under current law it does not expire until the end of 2007.

It is especially maddening for employers that despite the excessive FUT tax, states are not receiving enough money to provide the services for workers and employers that business has paid for through the FUT tax. The Federal Government has chronically declined to appropriate adequate funding for the state UI/ES agencies. To avoid this very situation, the FUT revenue is held in a dedicated Trust Fund and by law may be expended only for the specific purposes for which the FUT is levied. However, in practice, the inclusion of FUT revenue and expenditures in the federal budget means that the Federal Government can meet its tax and spending targets for other, general revenue funded programs by keeping the FUT rate at inflated levels and by appropriating less than the amount needed for efficient and effective UI/ES agencies. The now-chronic under-funding for UI/ES administration has caused many states to impose add-on state payroll taxes and/or dip into their own general funds to supplement inadequate FUT funding.

Under-funding of state UI/ES agencies has many unintended consequences which adversely affect workers, employers, and states, as well as the federal budget. Inadequate administrative funding has directly contributed to an unacceptable level of fraud, abuse, and improper payments involving UI claims, running into payment of billions of dollars each year on improper claims that should never have been paid in the first place. It has resulted in inadequate re-employment services for UI claimants, which in turn causes an increase in the average length of time UI claimants receive benefits before finding new employment and an increased total payout for UI claims. In turn, the higher expenditures needlessly inflate state payroll tax levels needed to fund the benefits. At the same time, inadequate administrative funding reduces state UI tax collections because states lack the financial resources to detect, prevent and recover under payment of UI taxes by *employers*. The consequence of higher payouts and reduced revenue is the bleeding down of UI benefits trust fund balances. Depleted reserves means that states lack funds needed to ride out recessionary periods and avoid federal loans and the imposition of payroll tax increases during economic recovery—the worst possible time to raise payroll taxes. And because state UI benefits trust accounts are included in the federal budget, outside the appropriations process, higher spending on UI benefits, lower state revenue from state UI payroll taxes, and federal loans to the states negatively affect the federal budget, also.

The UI system is designed to be countercyclical. During economic downturns the state trust accounts are caught in a financial squeeze that results from layoffs: a simultaneous *reduction in revenue* from the shrinkage of taxable payroll and *increase in expenditures* as UI claims increase in number and duration. Inadequate

administrative funding makes the states especially vulnerable during recessions and their aftermath, when the sudden spike in claims workload simply overwhelms the administrative infrastructure.

The recent recession is extremely mild by historical standards but follows a period of near-record low unemployment. Despite (or perhaps because of) the low unemployment rate preceding the recession, balances in state UI trust accounts were generally well below recommended reserve levels. Consequently, the recession quickly depleted many state accounts. Five states have received federal loans, and several more may need them soon. In many states, UI taxes are headed sharply upward, creating a new burden on employment that will weaken or delay full economic recovery.

In this environment, the decision by Congress in 2002 to distribute the \$8.1 billion in Reed Act funds to the state UI benefits trust funds was an exceptionally helpful response to the recession because it returned to the states FUT tax revenue that should never have been collected in the first place, thereby providing a boost to state trust fund balances and the flexibility for each state to decide how best to use its own UI needs.

- Thirty states were able to avoid automatic tax increases or additional surcharges because the \$8 billion distribution sufficiently replenished their trust fund accounts. And as Assistant Secretary Emily De Rocco testified, increasing employer taxes inevitably means more layoffs and fewer jobs for workers, a result which simply must be avoided in an already sluggish economy. Sigurd Nilsen of the General Accounting Office also noted that the distribution actually allowed the District of Columbia and Maine to lower employer taxes.
- New York and Texas were able to repay federal loans they had already received in order to continue paying benefits. Repaying these loans as soon as possible reduced interest rate charges for the states, monies which are inevitably recouped from employers and workers in the form of higher taxes. It also avoided or reduced the state tax increases or repayment of the loans through an increase in the FUT rate for employers in states with overdue UI loans.
- Many states provided much needed employment services to unemployed workers. Twenty-seven states appropriated approximately \$662 million for UI/ES administrative services, and to their “one stop” centers. Access to adequate UI/ES services is critical to ensuring that unemployed workers return to work as soon as possible, a fact which reduces benefit duration and therefore the UI tax rates paid by employers.
- States improved the integrity of their programs and reduce fraud and benefit overpayments, which again inevitably lowers costs and taxes for employers and workers.
- States had more funding available if they wanted to provide benefit extensions or other expansions of eligibility. Five states used Reed Act monies in this fashion, including the implementation of an alternative base period in Oklahoma.

An important issue for Congress is whether states *should* or *must* use their Reed Act funds to increase benefits or expand eligibility. We strongly oppose any federal pressure on states to implement expansions. Benefit eligibility and weekly benefit amounts are decisions most appropriately made at the state level. Decisions on these issues are better made at the state level, because states are more responsive to local needs and conditions, which vary widely. Furthermore, states have the general responsibility for benefit levels and eligibility and are thus better able to balance the competing interests of their workers and employers. Federal decisions even on limited questions of eligibility or benefits will inevitably upset the delicate balance on the entire range of such questions. For example, some states have chosen to help low wage workers by lowering the minimum qualifying earnings during the standard base period, rather than using an alternative base period that is more burdensome to administer. A federal mandate for an alternative base period would needlessly overturn this judgment.

Furthermore, we are constrained to point out the inherent flaws in using the *temporary* infusion of Reed Act funds to finance *permanent* benefit expansions. Once the Reed Act funds are spent, states are faced with the choice of restricting eligibility or reducing benefits, or more likely, adding to the “sticker price” for the UI program, directly inflating *future* UI payroll taxes on employers. UI is after all an insurance program. We hope Congress won’t be misled into thinking that because the insurance premiums are collected through a tax mechanism, somehow the premiums will not increase when benefits are expanded.

Although the flexibility the Reed Act distribution afforded the states is one of its strengths, there are a few states where the Reed Act funds have not been used as intended by being functionally diverted to purposes completely unrelated to UI benefits or UI/ES administration. Michigan and New Jersey used part of their Reed Act money to plug holes in the state general revenue budget. New Jersey did this by in effect reducing the state UI tax and then imposing a new tax that will generate an amount of state revenue equivalent to the Reed Act funds. Michigan did this by stretching the definition of "employment services" to include expenditures that are only tenuously connected to the UI/ES system, such as placing internet-enabled computers in public libraries general use. Although a computer housed in a library can be used to file UI claims or access employment services over the internet, such use is incidental to other purposes. If this use can be considered "employment services," there may be very few uses that are not! We do not believe it is appropriate public policy to impose unemployment payroll taxes on employers to buy computers for libraries, and we believe that clearer boundaries of what are acceptable and unacceptable uses are needed.

Notwithstanding the foregoing problems, we believe that in general the Reed Act distribution has been very successful in achieving its purpose. We want to stress that this purpose is one that is not only limited in the scope of allowable use, but also in time. The Reed Act money does not eliminate the need to repeal the FUT surtax, enact permanent administrative financing reform, and address other chronic problems such as fraud and abuse. Additional reforms to the UI system which will help employers and workers, and reduce fraud and abuse, include the following:

- Repeal of the 0.2% FUTA surtax.
- Allowing the state UI agencies access to the National Directory of New Hires (NDNH) in order to verify that claimants are not currently employed.
- Prohibiting the collection of FUTA and state UI taxes more often than quarterly.

We look forward to working with the Human Resources Subcommittee on these and other UI policy issues, as well as on a reduction in the Federal Unemployment Tax and reform of the UI administrative financing system.

Statement of Dolores Esser, Virginia Employment Commission, Richmond, Virginia

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to submit testimony regarding the Virginia Employment Commission's use of Reed Act funds distributed under the Job Creation and Worker Assistance Act of 2002. The Reed Act distribution provided timely financial support to the Commission and to the Commonwealth's unemployed.

The Commonwealth of Virginia received a Reed Act distribution of \$214.9 million. This amount was deposited in Virginia's unemployment insurance trust fund on March 13, 2002. The Reed Act distribution provided significant assistance in maintaining the solvency of the trust fund, compensating for administrative funding shortfalls for the past decade, offsetting the cost of enhanced unemployment compensation benefits instituted after September 11, 2001, and helping the Virginia Employment Commission (VEC) to enhance customer service to job seekers and employers.

Reed Act Distribution Compensated for Administrative Under Funding

Before the Reed Act distribution, the VEC had experienced declining federal funding for Unemployment Insurance (UI) and Employment Services (ES) administration for a decade. As a result of significant under funding, the VEC has unfortunately experienced decreased levels of services, particularly among employer services and follow up services. Circumstances had become so critical that field staff have had to devote a greater proportion of resources to "front-end" services to respond to increases in the number of claimants. In the six years prior to the Reed Act distribution, staff in the ES program had decreased by more than 20% while the number of claimants seeking services increased. The number of registrations with job services in the first half of program year 2002 (368,446) is almost equal to registrations for the entire program year in 2000 (385,677). In addition, the ES program was expecting to have to absorb substantial increases in infrastructure costs when UI services transition from field offices to telephone and Internet services.

Unlike several states, Virginia imposed no additional surtax on employers to maintain levels of UI and ES services. Instead, Virginia initiated program efficiency improvements, including cross-training staff, streamlining processes, and instituting information technology improvements. Although these measures helped, the VEC's costs were increasing faster than its grant revenues.

Frankly, we are of the view that if Reed Act funds had been distributed regularly, the UI and ES administrative funding would have kept pace with service demands, and our customers would not have faced a decade of service declines. Instead, as the Ways and Means Advisory notes, the Congress kept "excess" funds in the federal accounts in an effort to reduce federal deficits. So while we are appreciative that the Reed Act distribution allowed us to restore service levels, we would have preferred to maintain a consistent level of service with predictable adequate funding.

In 2000, the most recent year for which we have figures, Virginia received only 28% return on FUTA taxes paid by Virginia employers. We are not asking that the state receive 100% of the FUTA taxes paid by our employers for state administration, as we appreciate the need to maintain adequate balances in the federal accounts for purposes that are appropriate. What we are asking for, however, is adequate funding for proper and efficient administration of the Unemployment Insurance program.

In order to effect this change, we suggest that the Congress continue with its annual discretionary appropriation for UI administration, but supplement insufficient amounts appropriated with annual mandatory special Reed Act distributions. These special Reed Act Distributions would make up for the difference between adequate funding and inadequate discretionary appropriations. A workload formula based on Average Weekly Insured Unemployment (AWIU) and the cost of administration, as determined by the new UI administration resource justification model, would determine the mandatory special Reed Act spending. If implemented, this would give states an opportunity, for the first time in a decade, to administer their UI programs in a proper and efficient manner.

Background Before Reed Act Distribution:

Virginia received the Reed Act distribution between the close of the state's regular General Assembly session and its reconvened or "veto" session. In the months before the distribution, the Commonwealth had experienced a significant increase in unemployment due to major plant closings in Southwest and Southside Virginia and because of the terrorist attacks of September 11, 2001. Virginia's rural regions had been experiencing significant declines in manufacturing jobs prior to September 11, 2001, and plant closures accelerated after September 11. In addition, the terrorist attacks had an immediate and widespread impact on the economy of Northern Virginia. The closure of Reagan National Airport and loss of tourism in the wake of the attacks cost tens of thousands of jobs immediately and sent shock waves throughout the regional service and transportation economy.

In the weeks following the terrorist attack, then-Governor Gilmore instituted a 37.3% increase in unemployment benefits. The Virginia Employment Commission also incurred nearly \$1 million in administrative costs to establish temporary unemployment offices at Reagan National Airport to process thousands of unemployment claims expeditiously.

During the General Assembly Session immediately following these events, the legislature grappled with the issue of either extending or curtailing the enhanced benefits provided by emergency executive order. Members weighed the sudden drain on the unemployment trust fund and the need to enhance benefits, and compromised on an approach that allowed the 37.3% increase to continue until January 2003, at which time it was reduced by half. In January 2004, benefit levels were scheduled to revert to their pre September 11, 2001 with a maximum benefit of \$268 per week.

2002 General Assembly Appropriations

The Reed Act distribution in March 2002 immediately followed the achievement of this hard-fought compromise on unemployment insurance benefit levels. Although the Governor proposed using a portion of the Reed Act funding to maintain the 37.3% benefit increase for an additional six months, the legislature rejected the proposal. However, during the veto session, the General Assembly did approve the VEC and Governor's request to appropriate approximately \$30.9 million of the state's Reed Act Distribution to supplement the VEC's ES and UI program administration. Of this amount, \$6.16 million was appropriated for the biennium for administering the ES program, and \$24.74 million was appropriated for the biennium for administering the UI program. The remainder of the distribution, \$184 million, remained in the unemployment insurance trust fund to offset the increasing cost of benefits and ensure the fund's continued solvency.

Recent Statutory Changes to UI Benefits

During the past year, UI payouts to claimants have continued to be high. The deposit of \$184 million in Reed Act funding has provided a cushion to our trust fund that has prevented our solvency level from declining and tax rates increasing as rapidly as projected. Without the Reed Act distribution, increases in benefit payments would have increased employer tax rates higher and more rapidly than is currently projected. Because of the improved solvency of the trust fund, employers are projected to save an average of \$8.53 per employee per year through 2008. The per-employee tax savings for 2003 is projected to be \$5.93.

With the Reed Act funding, Virginia UI trust fund is 80% solvent for calendar year 2003. Without the Reed Act funding, the trust fund would have been 60% solvent this year. Without the Reed Act funding, solvency was projected to drop to 20% next year and the year after. Instead, trust fund solvency is projected to decline to 40% in CY 2004 and 2005 before increasing again in 2006.

To the extent that the Reed Act distribution improved trust fund solvency by 20% over projected levels, the increased solvency may have weighed into the General Assembly's decision this year to maintain rather than decrease current benefit levels. Rather than allowing the maximum benefit to revert from its current \$318 per week to the pre-September 11, 2001 maximum of \$268, the General Assembly elected to reduce benefits by only \$2 per week for the state fiscal year beginning July 1, 2003. Additionally, the maximum will increase in July 2004 to \$326. Had the trust fund been projected to decrease to 20% solvency for the next two years, it is unlikely that the General Assembly would have maintained benefits amounts at these levels.

During the 2003 Session, the General Assembly also elected to institute an alternative base period and to eliminate 50% of the offset of Social Security benefits from UI benefits. Although the cost of these two benefit enhancements is comparatively minor, these measures may not have been approved without the positive impact of the Reed Act distribution.

Conclusion

Thank you again for the opportunity to present testimony. The Reed Act distribution allowed us to partially compensate for 10 years of administrative under funding and to restore and maintain certain services to our customers. The funds also helped maintain state trust fund solvency in the face of significant increases in unemployment. We urge the subcommittee to support adequate funding for the UI and ES programs to prevent serious declines in services and benefits in the future.

