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The Joint Finance-Appropriations Committee
Federal Stimulus Provisions Impacting the Department of Labor
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Chairman, members of the Joint Finance-Appropriations Committee, I appreciate the opportunity to discuss the provisions of the American Recovery and Reinvestment Act of 2009 that positively affect the Idaho Department of Labor and thousands of Idaho workers and businesses.

With the responsibility you have, I don't have to tell you how challenging our economic situation is.

The unemployment rates for February and January will be released today. It's up again – this time another two-tenths of a percentage point to 6.8 percent. That's the highest rate since 1988. Just over a year ago the rate was 2.8 percent. But since Idaho experienced this record low unemployment rate, the rate has been rising steadily – two or three-tenths or more each month. Nationally, unemployment hit 8.1 percent in February, up from 7.6 percent in January.

Over 51,000 Idaho workers were without jobs in February. The number was closer to 30,000 a year ago.

This recession has essentially stalled much of our economic activity, and the need for assistance by these workers is putting Idaho's Unemployment Insurance Trust Fund under severe pressure and straining our department's resources and staff.

Our 25 local offices have never been busier. The computers in the lobbies are in great demand. Our telephone traffic totaled over 660,000 calls last month. The number of job seekers is over 120,000 – up from 70,000 a year ago.

Some local offices especially hard hit with layoffs have offered extended hours, and several have held community resource fairs to link unemployed workers and their families with agencies and organizations that can help them through these tough economic times. Our priority remains helping these people not just find jobs – that's where our numerous job fairs come in – but to be prepared for the jobs emerging industries will be filling as the economy improves. The training the Department of Labor can arrange is as important now as it was two years ago when we faced skill shortages in most regions of Idaho.

This week the department issued over 49,000 checks to Idaho workers who are out of jobs. That's about \$14.5 million in regular state and federal extended benefits being pumped into communities across our state in one week. A year ago, fewer than 22,000 checks were issued.

We will begin seeing the impact of the latest round of Micron and other layoffs next week.

Until last December, Idaho had never paid \$6 million in regular state unemployment benefits in any week. We broke \$6 million the first week of December. By the last week of December, we were at \$7.5 million. That put total regular state benefits for 2008 at a record \$210 million – twice what was paid in 2006. An additional \$20 million was paid since August 2008 in federally financed extended benefits.

The payout jumped over \$9 million the first week of January, \$10 million the next week and most of the weeks in February until we passed \$11 million these last two weeks. In just 10 weeks this year, the trust fund payout is nearly twice what it was the first 10 weeks of 2008 and about as much as the entire payout for all 52 weeks of 2006.

In the fourth quarter of 2008 we collected less than \$20 million in unemployment taxes. In the first 10 weeks of this year we have paid over \$100 million in regular benefits and about \$20 million in federal extended benefits.

But the federal stimulus package offers some assistance. I'm not here to contend that the overall stimulus bill is a good bill for Idaho or for Idaho's congressional delegation, or that all its provisions are sound. There's been plenty of debate over that, and that's for others including our governor and for you to decide.

But after analyzing the provisions that affect the Idaho Department of Labor, I believe all of them are beneficial and that accepting all of them would be financially prudent. That is why I recommended to Governor Otter's Stimulus Advisory Committee that it advise the governor do just that – accept all the provisions relating to our department.

This package provides immediate financial benefits to workers without jobs and more money to train these workers for the jobs businesses will be filling when the recovery starts. This is also an opportunity for some short-term minor relief for our employers coupled with a cash injection that will help stabilize our Unemployment Insurance Trust Fund.

Governor Otter took the first step on this issue two weeks ago when he signed the contract with the U.S. Department of Labor for a \$25 a week temporary increase in all unemployment benefits checks. Those 49,000 workers getting checks this week each got an extra \$25 because of this provision of the stimulus package. This may not seem like much, but this money – about \$1.25 million statewide – along with the regular benefits is mostly being spent in local businesses on food and clothes and rent and utilities and the other necessities of life. The additional payout is being made to all claimants who establish their eligibility by next December 20. Over the course of this program, another \$35 to \$40 million will be spent across Idaho from this additional \$25 a week.

The package also continues beyond this month through the end of the year the federal extended benefit program that began late last July. Under this program, claimants who exhaust their state benefits begin receiving the same benefits financed with federal money for up to 33 more weeks. Over \$39 million has already been paid out since last August in federal extended benefits and approximately another \$75 million will be paid because of this extension.

The federal government also just assumed the state's 50 percent liability for another program called federal-state extended benefits for 2009. This program commences when a worker has exhausted both state and federal extended benefits and still can't find a job. The federal assumption of our share of these benefits will save the trust fund about \$1.5 million. We contend that every little bit helps.

As you are aware, there is a cost associated with the income tax exemption for the first \$2,400 in benefits paid this year. That's about \$5 million in uncollected taxes from about 60,000 Idaho claimants. But these people will be paying tax on the rest of their benefits, and they are spending this money with local merchants, who are collecting the sales tax on those purchases.

To handle the increased demand for unemployment benefits and for administration of our benefit and training programs, the state will receive a \$2.2 million one-time grant. This helps offset somewhat the significant reductions in the department's federal operating grants over the last quarter century. As you know, we have reduced our staffing by about 100 positions the past three years. We have recently added positions due to our increased workload.

A \$3.6 million grant for employment services will be primarily targeted at workers who do not have jobs, providing them increased services in areas like résumé writing, job interviewing skills, counseling on education or training opportunities and direct job search. About a third would be used to assist the escalating number of workers who are looking for better jobs – the underemployed whose jobs are only part time or who have wages, benefits or responsibilities below their skills.

An infusion of about \$7 million into Workforce Investment Act programs will be used for training and educational assistance for low-income adults and youth and dislocated workers. That's \$2.9 million for disadvantaged and low-income youth; \$1.2 million for disadvantaged and low-income adults and \$3 million for dislocated workers.

Our agency provided training for over 2,000 adults and youth under this program in 2008. Like the employment services grant, our focus will be on training people for the higher-demand, higher-paying jobs that will be increasingly available once the economy begins recovering. This grant is especially good for our department because our Workforce Investment Act programs have been slashed dramatically in the past several years. Our program this year is funded at \$6.4 million. It was \$15.2 million in 2002 and about \$37 million in the late '70s when I first worked for the department.

Both these grants extend the services and programs the department has provided so that the increasing number of unemployed and underemployed workers can benefit. As mentioned, some additional staff will be needed to handle the heightened service level, but most of this money will be directly financing worker services.

Idaho is also eligible for additional financial resources through the Trade Adjustment Assistance program. It's unclear just how much right now. This program helps the workers who have lost their jobs due to foreign competition. Laid-off workers at Micron and other companies are benefiting now. The stimulus package extends this extra support beyond manufacturing to services and government jobs lost to foreign competition. We aren't sure how that will affect Idaho yet, but there is likely to be need before the economy rights itself.

The most controversial piece of the stimulus package – one that has generated a lot of debate and has drawn criticism – is the Unemployment Insurance Modernization proposal.

Under this proposal, Idaho would receive a \$33 million one-time Reed Act distribution into our trust fund in exchange for adopting three expansions of unemployment benefits.

These proposals have been discussed for years – and a number of states have adopted them. But this is the first time there has been a substantial incentive to consider implementing them.

When we initially saw the proposal, my reaction was that it would be too expensive – that the cost of additional benefits would eat up the \$33 million so fast that it wasn't worth recommending to the governor and the Legislature.

Our researchers put a pencil to the proposals. I've resisted some of these proposals for years, but their analysis has convinced me that adopting these changes in exchange for the Reed Act money is a financially responsible response for Idaho.

Here's how it would work.

Idaho would get \$11 million in Reed Act funds as early as March 19 if it adopts what is called an alternative base period. Currently worker eligibility for benefits is determined by the wages earned in the first four of the previous five completed quarters before layoff. That's the base period. The alternative base period would use the wages in the last four completed quarters before layoff. We estimate that up to 8 percent of our claimants would be affected and the additional payout would be about \$1 million a year.

There would be about \$65,000 in one-time costs for computer modifications and \$275,000 a year in administrative costs to track down the wages during the last quarter and handle anticipated overpayments. Staff time is needed to determine wages because employers may not have filed their quarterly tax reports yet for that most recent quarter.

If the alternative base period is adopted, the state would get a second \$22 million Reed Act distribution by adopting two of four expanded benefits.

Two of these provisions – benefits for voluntarily quitting a job for a compelling family reason such as caring for a dying parent and secondly benefits for a claimants' dependants – were rejected not only because of cost -- \$15 million a year in payouts for compelling family reasons and \$13 million a year for dependants benefits – but also because they violate core principles of the unemployment insurance program. They become more like welfare payments than unemployment insurance benefits for the involuntarily unemployed.

But the other two, we believe, are financially viable and philosophically acceptable.

Providing additional benefits to workers in approved training who have exhausted all other benefit programs would affect less than 1 percent of all claimants and cost about \$1.5 million in additional payouts each year. Many claimants have already qualified for extended benefits because they are in the Trade Adjustment Assistance program. This would pick up some who are not eligible. But it is compatible with the view Idaho employers have expressed since supporting the Workforce Development Training Fund in 1996 – that investing in worker training pays off both for the workers and for the businesses who will be employing them.

The other provision adds benefits for workers who are seeking only part-time jobs. Eligibility for benefits ignores hours worked and considers only wages earned so people laid off from part-time jobs can get benefits if they earned enough money during their base period. But to continue getting them, they currently have to be looking for full-time jobs. This provision would let them look for part-time jobs as long as the work involves at least as many hours as they worked before their layoffs.

Again less than 1 percent of claimants would be affected, and the additional payout would be about \$500,000 a year.

To summarize, our state trust fund can receive an infusion of \$33 million if it adopts these three expanded benefits costing about \$3 million a year. That means it will be more than 10 years before the incentive the government provided for expanding benefits is depleted paying for the expansions. As mentioned, the earliest time we can accept this \$33 million is March 19, at which time we could begin earning additional interest.

There is nothing in the law that prohibits the Legislature in seven or 10 or 12 years from deciding that this was a bad idea and repealing these provisions. Idaho still keeps the \$33 million. The U.S. Department of Labor confirmed the acceptability of that option last week, agreeing with our deputy attorney general's opinion prepared last week at my request.

The immediate value of this proposal in Idaho, however, is that the infusion of Reed Act money into the trust might eliminate the need to borrow from the federal government later this year.

By limiting any loans with this cash infusion, the tax increase for employers in 2010 will be an estimated 11 percent less than it will be without the Reed Act distribution. There would be a lesser reduction in the increase in 2011. This will lessen a bit the negative impact of that tax increase on Idaho's 50,000 businesses.

This is the one provision that requires legislative action. The Employment Security law will need to be amended. But we have discussed this with business and labor and have received commitments of support from both the AFL-CIO and the Idaho Association of Commerce and Industry and the National Federation of Independent Business. We are awaiting word from the retailers. (The retailers endorsed the plan later in the day.)

The one last provision of the stimulus package that will benefit our state is the waiver of interest on any loan we have to take to keep paying benefits after the trust fund is depleted. This saves us \$470,000 a year in interest on every \$10 million borrowed.

In conclusion, regardless of the debate over other provisions of the stimulus package, I believe the training and employment service grants and the benefits it provides for Idaho workers and our businesses make it valuable to our agency and our state during this time when money is tight and the need substantial and growing.

I want to say that I am optimistic. These are challenging times, but this is Idaho. We will get through this. We have no choice. But there is reason for optimism. Calls to our offices are down from January, initial claims in February were 15,000, down from 21,000 in January. Our unemployment rate went up

only two-tenths from 6.6 percent to 6.8 percent while the national rate was up five-tenths from 7.6 percent to 8.1 percent. We were converging with the national rate. Now we're moving away. While the new hires in February were low, there were still about 10,000. So there is some hiring going on.

I'll be glad to answer any questions.