

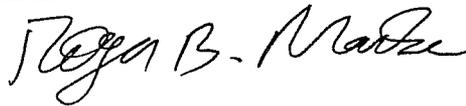
TRANSMITTAL # **1**

MEMORANDUM

September 11, 2006

TO: Workforce Development Council

FROM: Roger B. Madsen, Director



SUBJECT: Request for use of the Special Administration Fund

ACTION REQUESTED: Approval of the attached request for expending amounts from the Special Administration Fund

BACKGROUND:

The Department of Commerce and Labor requests permission to expend amounts in the Special Administration Fund for administration of Idaho's Employment Service, Unemployment Insurance, Workforce Investment Act, Commerce Division, and related activities. This memorandum represents that request for the next two years.

The following information is attached:

- An excerpt from the section of Idaho Code that mandates this request.
- The request form for the next two years. This form must be signed by the Chair of the Workforce Development Council and kept on file at the Idaho Department of Commerce and Labor to authorize expenditures from the Special Administration Fund.
- The Department's most recent report to the Joint Finance Appropriations Committee of the Idaho Legislature. The last two pages of this report describe how amounts from the Special Administration Fund have been spent since its inception in 1991. The three largest categories of expenditures are covering federal funding reductions, automation, and facility upgrades. Automation and facility upgrades were primarily related to building the IdahoWorks information system and the IdahoWorks Career Centers.

Contact: Primary Joni Booth (208) 332-3570 ext 3165
Secondary John McAllister (208) 332-3570 ext 3101

Attachments

IDAHO CODE

72-1347A. Employment security reserve fund -- Special administration fund. (1) There is established in the state treasury a special trust fund, separate and apart from all other public funds of this state, to be known as the employment security reserve fund, hereinafter "reserve fund." Except as provided herein, all proceeds from the reserve tax defined in subsection (2) of this section shall be paid into the reserve fund. The moneys in the reserve fund may be used by the director for loans to the employment security fund, section 72-1346, Idaho Code, as security for loans from the federal unemployment insurance trust fund, and for the repayment of any interest bearing advances, including interest, made under title XII of the social security act, 42 USC 1321 through 1324, and shall be available to the director for expenditure in accordance with the provisions of this section. The state treasurer shall be the custodian of the reserve fund and shall invest said moneys in accordance with law. The state treasurer shall disburse the moneys from the reserve fund in accordance with the directions of the director.

(2) A reserve tax is imposed on all covered employers required to pay contributions pursuant to section 72-1350, Idaho Code. The reserve tax shall be due and payable at the same time and in the same manner as contributions. If the reserve fund is less than one percent (1%) of state taxable wages in the penultimate year as of September 30 of the preceding calendar year, the reserve tax rate for all eligible, standard-rated and deficit employers shall be equal to the taxable wage rate then in effect less the assigned contribution rate and training tax rate. The provisions of this chapter which apply to the payment and collection of contributions also apply to the payment and collection of the reserve tax, including the same calculations, assessments, method of payment, penalties, interest, costs, liens, injunctive relief, collection procedures and refund procedures. In the administration of the provisions of this section and the collection of the reserve tax, the director is granted all rights, authority, and prerogatives granted the director under the provisions of this chapter. Moneys collected from an employer delinquent in paying contributions and reserve taxes shall first be applied to pay any penalty and interest imposed pursuant to the provisions of this chapter and shall then be applied pro rata to pay delinquent contributions to the employment security fund, section 72-1346, Idaho Code, and delinquent reserve taxes to the reserve fund pursuant to this section. Any interest and penalties collected pursuant to this subsection shall be paid into the state employment security administrative and reimbursement fund, section 72-1348, Idaho Code, and any interest or penalties refunded under this subsection shall be paid out of that same fund. Reserve taxes paid pursuant to this subsection may not be deducted in whole or in part by any employer from the wages of individuals in its employ. All reserve taxes collected pursuant to this subsection shall be deposited in the clearing account of the employment security fund, section 72-1346, Idaho Code, for clearance only and shall not become part of such fund. After clearance, the moneys shall be deposited in the reserve fund established in subsection (1) of this section. No reserve tax shall be imposed for any calendar year if, as of September 30 of the preceding calendar year, the balance of the reserve fund equals or exceeds one percent (1%) of the state taxable wages for the penultimate calendar year, or exceeds forty-nine percent (49%) of the actual balance of the employment security fund, section 72-1346, Idaho Code.

(3) The interest earned from investment of the reserve fund shall be deposited in a fund established in the state treasurer's office, to be known as the department of labor special administration fund, hereinafter "special administration fund." The moneys in the special administration fund shall be held separate and apart from all other public funds of this state. The state treasurer shall be the custodian of this fund and may invest said moneys in accordance with law. Any interest earned on said moneys shall be deposited in the special administration fund. **In the absence of a specific appropriation, the moneys in the special administration fund are perpetually appropriated to the director and may be expended with the approval of the advisory council appointed pursuant to section 72-1336, Idaho Code, for costs related to employment service programs and unemployment insurance programs administered under this chapter.** The director shall report annually to the joint finance-appropriations committee and the advisory council the expenditures and disbursements made from the fund during the preceding fiscal year, and the expenditures and disbursements and commitments made during the current fiscal year to date.

(4) Administrative costs related to the reserve fund and the special administration fund shall be paid from federal administrative grants received under title III of the social security act, to the extent permitted by federal law, and then from the special administration fund.

IDAHO DEPARTMENT OF COMMERCE AND LABOR

Workforce Development Council

Administrative Tax Spending Request

PROGRAM YEARS 2006 and 2007/FISCAL YEARS 2007 and 2008

September, 2006

Beginning in 1995, the Department asked the Employment Security Advisory Council for authority to spend UI Reserve Fund interest earnings for specific purposes, with exact amounts to be determined later by the Department. Prior to 1995, the Department based its request to the Advisory Council on an estimate of what was needed to accomplish specific objectives. Uncertainty relating to federal funding levels made the pre-1995 approach impossible. Since federal funding is still unreliable and unpredictable, the Department would like to continue the 1995 practice. As required in 72-1347A(c) of the Idaho Code, the Idaho Department of Labor requests approval from the Workforce Development Council to spend UI Reserve Fund interest earnings, also referred to as the Special Administration Fund, for the following purposes:

1. **FEDERAL FUNDING REDUCTIONS:** To cover Federal funding reductions in ES, UI and related programs. The primary goal of this strategy is to maintain the current service delivery structure of 24 local offices. These reductions can include failure of federal grants to increase sufficiently to cover general inflation. For example, the Department has experienced several instances where the legislature enacted pay increases and the federal government did not fund them in its grants.
2. **AUTOMATION:** To invest in the equipment, development or purchase of software, training, etc. needed to continually modernize Department automated systems to make the Department more efficient and effective. This includes efforts such as construction of the Idaho Works System and its various components including the Workforce Investment Information System; enhancement of the Department's Internet offerings; and creation of the Unemployment Insurance Virtual Call Center. Included in this category is funding for Department staff as well as for private sector contractors to provide support on Department PC's, LAN's, and mainframe.
3. **FACILITIES:** To cover the cost of remodeling owned facilities or purchasing new facilities for Department of Labor operations around the state. These facility enhancements are partially funded by Idaho's Permanent Building Fund and are dedicated primarily to establishing or enhancing Idaho Works Career Centers. These facility enhancement efforts have resulted in greater premises costs to the Department. The Department needs to use UI Reserve Fund interest earnings to augment federal grants because of increased premises costs and because some costs such as those for construction are not allowable charges to federal grants.
4. **WORKFORCE INVESTMENT ACT:** To supplement federal funding in the Department's operation of the Workforce Investment Act of 1998.
5. **WORKFORCE DEVELOPMENT COUNCIL COSTS:** To cover the Department of Labor's share of any operating costs of the Workforce Development Council.
6. **COMMERCE DIVISION:** To cover the Commerce Division's share of indirect costs per agreement with the United States Department of Labor and to supplement funding of Commerce Division programs.

Annually, the Department reports actual use of the Special Administration Fund to both the Workforce Development Council and to the Joint Finance and Appropriations Committee of the Idaho Legislature. A copy of the most recent report to the Legislature is attached. This request for authority to expend monies from the Special Administration Fund was reviewed by the Workforce Development Council and is hereby approved.

Chair, Workforce Development Council

DATE

Idaho Department of Commerce and Labor
Special Administration Fund
2005 ANNUAL REPORT
 May 3, 2006

Legislation establishing the Employment Security Reserve Fund and the Employment Security Special Administration Fund calls for an annual report to be provided to the Legislature outlining expenditures and disbursements from the Special Administration Fund during the preceding year. This legislation restricts the Director of the Idaho Department of Commerce and Labor to use these funds solely for costs related to programs administered by the Department.

The attached financial report, "Department of Commerce and Labor - Employment Security Reserve Fund Information," provides a summary of the Special Administration Fund receipts and expenditures since its inception in 1991. The following highlights are provided to assist you in interpreting this financial information:

17% Diversion - The Idaho Employment Security Law provides for two Reserve Fund diversion triggers. The first provision triggers the 17 percent diversion on until the Reserve Fund reaches one percent of total wages covered by the Unemployment Insurance program, and triggers off when the Fund exceeds one percent. The second provision triggers the 17 percent diversion off when the balance in the Reserve Fund exceeds 49 percent of the balance in the Employment Security Fund. Below is a history of these diversion triggers:

1991 ~ on	1994 ~ on	1997 ~ off	2000 ~ off	2003 ~ off
1992 ~ on	1995 ~ off	1998 ~ on	2001 ~ on	2004 ~ off
1993 ~ on	1996 ~ off	1999 ~ off	2002 ~ off	2005 ~ off

The Reserve Fund diversion triggered off in 2002 and stayed off in 2003 and 2004 as the Reserve Fund exceeded one percent of total covered wages. The trigger stayed off in 2005 as the Reserve Fund exceeded 49 percent of the Employment Security Fund. The law was amended in 2006 to provide that for calendar year 2006 the imposition of a reserve tax for the Employment Security Reserve Fund shall not be precluded even if the balance of the reserve fund exceeds 49 percent of the actual balance of the Employment Security Fund.

Interest Earnings/Fund Balance - Interest earned on the Reserve Fund in 2005 totaled \$4.89 million, up \$857,000 from the previous year's earnings. The Reserve Fund totaled \$86.73 million at the end of 2005, up \$8,900 from the previous year-end balance. There was little change in the Reserve Fund because the trigger remained off for the fourth year in a row.

Expenditures - Total 2005 expenditures from the Special Administration Fund, at \$7.63 million, were \$2.75 million more than income and \$2.51 million more than 2004 expenditures. This year's expenditures were in accordance with those authorized by the Workforce Development Council, as follows:

1. **Federal Funding Reductions** – Special Administration Fund resources were used to cover federal funding reductions in the Employment Service and Unemployment Insurance programs. These expenditures helped the Department maintain the current quality and level of services delivered through our 24 Idaho Commerce and Labor local offices. A total of \$6.16 million was used to subsidize the Employment Service and Unemployment Insurance programs.
2. **Automation** - Investments were made in equipment, software, and training to continually modernize the Department's automated systems to make the Department more efficient and effective. A total of \$1.08 million from this source was invested in enhancing the Department's automation capabilities.
3. **Workforce Investment Act Implementation** – A total of \$267,800 was used to supplement federal funding in the Department's operation of the Workforce Investment Act of 1998.
4. **Facilities** – \$15,300 was used for facilities in 2005.
5. **Workforce Development Council Costs** - Financial support was provided to pay for the Department's share of the operating costs for the Governor's Workforce Development Council, which coordinates Idaho's workforce development system. A total of \$7,600 was used to pay for travel, meeting expenses, and related costs of the Council.
6. **Commerce Division** – Commerce Division indirect costs for the year totaled \$102,000.

Special Administration Fund Expenditure Strategies for 2006

The Workforce Development Council approved the following five expenditure strategies for 2005:

1. **Federal Funding Reductions** - To cover federal funding reductions in Employment Service, Unemployment Insurance, and related programs. The primary goal of this strategy is to maintain the current service delivery structure of 24 local offices. These reductions can include failure of federal grants to increase sufficiently to cover general inflation. For example, the Department has experienced several instances where the Idaho Legislature enacted pay increases to state employees and the federal government did not fund them in its grants.
2. **Automation** - To invest in the equipment, development or purchase of software, and training needed to continually modernize Department automated systems in order to make the Department more efficient and effective. This includes efforts such as construction of the *IdahoWorks* system and its various components including the Workforce Investment Act information system, enhancement of the Department's Internet offerings, and creation of the Unemployment Insurance Virtual Call Center. Included in this category is funding for Department staff as well as private sector contractors to provide technical support and maintenance for Department personal computers, local area networks, and the mainframe.
3. **Facilities** - To cover the cost of remodeling owned facilities or purchasing new facilities for Department of Labor operations around the state. These facility enhancements are partially funded by Idaho's Permanent Building Fund and are dedicated primarily to establishing or enhancing *IdahoWorks* One Stop Career Centers. These facility enhancement efforts have resulted in greater premises costs to the Department. The Department needs to use UI Reserve Fund interest earnings

to augment federal grants because of increased premises costs and because some costs, such as those for construction, are not allowable charges to federal grants.

4. **Workforce Investment Act** - To supplement federal funding in the Department's operation of the Workforce Investment Act of 1998.
5. **Workforce Development Council Costs** - To cover the Department's share of any operating costs of the Workforce Development Council.
6. **Commerce Division** – To cover the Commerce Division's share of indirect costs per agreement with the United States Department of Labor.

The support of the Idaho Legislature in authorizing this Fund is very much appreciated, as these resources have allowed the Department to upgrade its services to Idaho's citizens.

Roger B. Madsen, Director
Idaho Department of Commerce and Labor

Date Submitted

DEPARTMENT OF COMMERCE AND LABOR

Employment Security Reserve Fund Information

	JANUARY 1991 TO DECEMBER 2001	JANUARY 2002 TO DECEMBER 2002	JANUARY 2003 TO DECEMBER 2003	JANUARY 2004 TO DECEMBER 2004	JANUARY 2005 TO DECEMBER 2005	JANUARY 1991 TO DECEMBER 2005
20% Diversion of Trust Fund Contributions						
Beginning Balance	\$ -	\$ 83,677,567.53	\$ 86,658,799.89	\$ 86,708,353.62	\$ 86,720,778.64	\$ -
Diversions - As Received	\$ 83,677,567.53	\$ 2,981,232.36	\$ 49,553.73	\$ 12,425.02	\$ 8,876.61	\$ 86,729,655.25
Total Diversions	\$ 86,720,778.64	\$ 86,658,799.89	\$ 86,708,353.62	\$ 86,720,778.64	\$ 86,729,655.25	\$ 86,729,655.25
These dollars remain in an in-state trust fund to be used only for benefit purposes						
Earnings						
Beginning Balance	\$ -	\$ 4,478,149.70	\$ 6,171,654.46	\$ 9,216,376.44	\$ 8,124,515.51	\$ -
Interest Earnings to IDCL Administrative Fund	\$ 31,764,107.24	\$ 5,051,252.36	\$ 4,547,804.58	\$ 4,028,786.95	\$ 4,885,934.40	\$ 50,277,885.53
IDCL Expenditures	\$ 27,285,957.54	\$ 3,357,747.60	\$ 1,503,082.60	\$ 5,120,647.88	\$ 7,626,878.96	\$ 44,894,314.58
Balance in Administrative Fund	\$ 4,478,149.70	\$ 6,171,654.46	\$ 9,216,376.44	\$ 8,124,515.51	\$ 5,383,570.95	\$ 5,383,570.95
Expenditures By Type						
Personal Services	\$ 1,358,925.21	\$ 110,677.05	\$ 105,786.81	\$ 112,068.79	\$ 120,845.99	\$ 1,808,303.85
Personnel Benefits	\$ 374,453.91	\$ 32,997.00	\$ 33,332.08	\$ 37,925.00	\$ 42,856.76	\$ 521,564.75
Total Personnel Costs	\$ 1,733,379.12	\$ 143,674.05	\$ 139,118.89	\$ 149,993.79	\$ 163,702.75	\$ 2,329,868.60
Supplies	\$ 48,428.71	\$ 42,428.26	\$ 20,935.00	\$ 4,094.00	\$ 17,878.11	\$ 133,764.08
Communication	\$ 36,811.14	\$ 25,239.78	\$ 184,422.53	\$ 156,777.52	\$ 134,654.85	\$ 537,905.82
Travel	\$ 165,060.06	\$ 1,824.51	\$ 2,122.85	\$ 2,158.31	\$ 1,053.67	\$ 172,219.40
Equipment Rent	\$ 12,045.42	\$ 728.93	\$ 475.60	\$ 471.80	\$ 484.46	\$ 14,206.21
Equipment Expense	\$ 318,406.03	\$ 224,026.83	\$ 382,302.60	\$ 115,088.80	\$ 96,619.27	\$ 1,136,443.53
Premises Rent	\$ 1,048,831.13	\$ (104,767.03)	\$ 3,301.22	\$ 149,925.73	\$ 16,037.65	\$ 1,113,328.70
Premises Expense	\$ 1,626,065.62	\$ 88,491.02	\$ 63,925.19	\$ 58,589.64	\$ 4,489.03	\$ 1,841,560.50
Services	\$ 528,755.06	\$ 146,405.56	\$ 245,531.73	\$ 280,067.12	\$ 359,857.87	\$ 1,560,617.34
Other	\$ 1,556,686.56	\$ 3,796.74	\$ 745.72	\$ 810.93	\$ 113,100.06	\$ 1,675,140.01
Total NPS Costs	\$ 5,341,089.73	\$ 428,174.60	\$ 903,762.44	\$ 767,983.85	\$ 744,174.97	\$ 8,185,185.59
Capital Equipment	\$ 3,180,265.76	\$ 2,186.31	\$ 285,371.14	\$ 58,325.37	\$ 39,818.23	\$ 3,565,986.81
*Adjustments	\$ 17,031,222.93	\$ 2,783,712.64	\$ 174,830.13	\$ 4,144,344.87	\$ 6,679,183.01	\$ 30,813,293.58
Grand Total Costs	\$ 27,285,957.54	\$ 3,357,747.60	\$ 1,503,082.60	\$ 5,120,647.88	\$ 7,626,878.96	\$ 44,894,314.58

*ES Subsidy, UI Banking Costs, Gov't Overhead, transfers
to federal grants and the Workforce Development Fund

Expenditures By Project	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
Federal Funding Reductions	\$	12,720,161.97	\$	618,896.96	\$	(28,059.73)	\$	3,949,569.44	\$	6,158,450.81	\$	23,419,019.45
Idaho Works Career Center	\$	1,560,662.52	\$	-	\$	63,584.65	\$	215,302.31	\$	15,333.10	\$	1,560,662.52
Facilities	\$	2,528,625.13	\$	(25,222.52)	\$	1,141,479.75	\$	887,348.11	\$	1,075,646.37	\$	2,797,622.67
Automation	\$	7,423,146.91	\$	2,616,235.75	\$	9,861.86	\$	7,662.80	\$	7,637.61	\$	13,143,856.89
Miscellaneous Pre-1995	\$	380,172.17	\$	-	\$	-	\$	-	\$	-	\$	380,172.17
Workforce Development Council	\$	199,240.74	\$	1,403.15	\$	-	\$	-	\$	-	\$	225,806.16
Transfer to Workforce Development Fund	\$	1,600,000.00	\$	-	\$	-	\$	-	\$	-	\$	1,600,000.00
Commerce/Gov off	\$	873,948.10	\$	146,434.26	\$	316,216.07	\$	60,765.22	\$	102,053.84	\$	1,02,053.84
Workforce Investment Act	\$	27,285,957.54	\$	3,357,747.60	\$	1,503,082.60	\$	5,120,647.88	\$	7,626,878.96	\$	1,665,120.88
Grand Total	\$		\$		\$		\$		\$		\$	44,894,314.58

This report is accrual basis and thus contains accrued revenues and expenditures. For management purposes, accrual basis reporting is superior to cash basis.
As a result, this report will not agree with cash basis reports produced by the State Controller's Office.
Prepared 5-3-2006