

TRANSMITTAL #2

MEMORANDUM

March 24, 2011

TO: Workforce Development Council

FROM: Roger B. Madsen, Director *Roger B. Madsen*

SUBJECT: Request for use of the Special Administration Fund

ACTION REQUESTED: Approval of the attached request for use of the Special Administration Fund

BACKGROUND:

Each year, the Department of Labor submits a request to spend money from the Special Administration Fund for a two-year period beginning July 1st for administration of Idaho's employment services, unemployment insurance, Workforce Investment Act and related programs. No changes have been made to the request approved by the council in May of 2010.

A request form for the next two years is attached. This form must be signed by the chair of the Workforce Development Council and kept on file at the Idaho Department of Labor to authorize expenditures from the Special Administration Fund.

ACTION REQUESTED:

Approve the attached request to approve expenditure of the Special Administrative Fund for Program Years 2011/2012 and Fiscal Years 2012/2013.

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

Attachment

IDAHO DEPARTMENT LABOR
Workforce Development Council
Administrative Tax Spending Request
PROGRAM YEARS 2011 and 2012/FISCAL YEARS 2012 and 2013
March, 2011

Beginning in 1995, the department asked the Employment Security Advisory Council for authority to spend Unemployment Insurance 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 Reserve Fund interest earnings, also referred to as the Special Administration Fund, for the following purposes:

1. **FEDERAL FUNDING REDUCTIONS/ENHANCE THE DEPARTMENT'S ABILITY TO PROVIDE WORKFORCE SERVICES:** Due to federal funding reductions in Employment Services, Unemployment Insurance, and related programs such as Career Information Systems and Alien Labor Certification, maintaining the current service structure of 25 local offices requires supplemental funding. Federal funding reductions can include failure of federal grants to increase sufficiently to cover general inflation, or a reduction in grant funds. 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 and related items 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 and the Labor Market Information/Career Information Systems; enhancement of the department's Internet offering and maintenance and enhancement of the unemployment insurance benefits and tax systems. 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 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. **IDAHO YOUTH CORPS:** To supplement private donations for Department of Labor administration of the Idaho Youth Corps.
7. **IDAHO HUMAN RIGHTS COMMISSION:** To supplement reduced State funding.

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

MEMORANDUM

To: Senator Dean L. Cameron, Co-Chair, JFAC
Representative Maxine T. Bell, Co-Chair, JFAC
Senator John C. Andreason, Chair, Commerce and Human Resources
Representative Robert E. Schaefer, Chair, Commerce and Human Resources

Cc: Governor C.L. "Butch" Otter
Cathy Holland-Smith, LSO

From: Roger B. Madsen, Director *Roger B. Madsen*

Date: August 10, 2010

Re: Special Administration Fund - 2009 Annual Report

Attached for your review is the annual report of 2009 income and expenditures from the department's Special Administration Fund. The legislation creating this fund was passed by the Idaho Legislature in 1991 to help the department cope with a decade of federal funding reductions. Under present federal and state law, state unemployment insurance taxes paid by Idaho employers flow into a trust fund in Washington, D.C. The Special Administration Fund legislation provides that 17 percent of those contributions will remain in Idaho and be invested by the State Treasurer.

The funds kept in the state by the 17 percent diversion are used for the same purpose as the Washington, D.C., trust fund, that is, to pay unemployment benefits. This state-held fund is commonly referred to as the Reserve Fund since it is held in reserve to pay benefits should the Washington, D.C., trust fund be exhausted. However, the interest earned on these diverted funds is deposited in the Special Administration Fund and is used for administering department programs.

There is a ceiling on the amount that can accumulate in the Reserve Fund. The 17 percent diversion will only occur in years when the balance in the fund is less than 1 percent of state taxable wages under Idaho's unemployment insurance law. Except for calendar year 2006, as reflected in Idaho Code 72-1347A, the Reserve Fund cannot exceed 49 percent of the balance in the Washington, D.C., trust fund.

Expenditures from the Special Administration Fund are approved in advance by Idaho's Workforce Development Council, and they are summarized in the attached annual report. If you have any questions or need additional information, please contact me at 332-3570 ext. 6110 or Bob Fick at 332-3570 ext. 3628. Your continued support, by way of this Special Administration Fund, is critically needed and very much appreciated.

**Idaho Department of Labor
Special Administration Fund
2009 ANNUAL REPORT
Prepared August 10, 2010**

Legislation establishing the Employment Security Reserve Fund and the Employment Security Special Administration Fund calls for an annual report to the Joint Finance-Appropriations Committee and the advisory council outlining expenditures and disbursements from the Special Administration Fund during the preceding year. This legislation restricts the director of the Idaho Department of Labor to use these funds solely for costs related to programs administered by the department.

The attached financial report, "Department of 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 may 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 on the 17 percent diversion until the Reserve Fund reaches 1 percent of total wages covered by the unemployment insurance program and triggers off when the fund exceeds 1 percent. The second provision triggers off the 17 percent diversion when the balance of the Reserve Fund exceeds 49 percent of the balance of the Employment Security Fund. Below is a history of these diversion triggers.

1991 ~ on	1994 ~ on	1997 ~ off	2000 ~ off	2003 ~ off	2006 ~ on	2009 ~ off
1992 ~ on	1995 ~ off	1998 ~ on	2001 ~ on	2004 ~ off	2007 ~ off	
1993 ~ on	1996 ~ off	1999 ~ off	2002 ~ off	2005 ~ off	2008 ~ off	

The Reserve Fund diversion triggered off in 2002 and stayed off in 2003 and 2004 as the Reserve Fund exceeded 1 percent of total covered wages. The trigger stayed off in 2005 as the Reserve Fund exceeded 49 percent of the Employment Security Fund. The trigger was on for 2006 because an amendment to the law did not preclude it even though the balance of the reserve fund exceeded 49 percent of the actual balance of the Employment Security Fund. The Reserve Fund diversion triggered off in 2007 and remained off through 2009.

Interest Earnings/Fund Balance - Interest earned on the Reserve Fund in 2009 totaled \$2.87 million, down \$2,616,743.35 from the previous year's earnings. The Reserve Fund totaled \$75.69 million at the end of 2009, down \$41,693,635.88 from the previous year-end balance. Withdrawals of \$41,708,635.88 were used to pay unemployment insurance benefits during the year.

Expenditures - Total 2009 expenditures from the Special Administration Fund, at \$579,232.25, were \$2.29 million less than 2009 earnings income and \$1.55 million less than 2008 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 are used to cover federal funding reductions in the Employment Service, Unemployment Insurance and related programs. These

expenditures help the department maintain the current quality and level of services delivered through our 25 local offices. Federal grants were subsidized \$418,088.25 in 2009.

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 \$123,228.24 was invested in enhancing the department's automation capabilities.

3. Facilities – A total of \$30,124.07 was used for facilities in 2009 including cubicle panels, facility repairs and premises costs.

4. Workforce Investment Act Implementation – In 2009, no Special Administration Fund resources were used to supplement federal funding in the department's operation of the Workforce Investment Act of 1998.

5. Workforce Development Council Costs - Financial support was provided for the department's share of the operating costs for the Governor's Workforce Development Council, which coordinates Idaho's work force development system. A total of \$7,791.69 was used to pay for travel, meeting expenses and related costs of the council.

Future Special Administration Fund Expenditure Strategies

The Workforce Development Council approved the following expenditure strategies for fiscal years 2011 and 2012:

- 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 25 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 for state employees and the federal government did not fund them in its grants.
- 2. Automation** - To invest in the equipment, development or purchase of the software, training and related items needed to continually modernize department automated systems to make the department more efficient and effective. This includes construction of the IdahoWorks system and its various components including the Workforce Investment Information System and the Labor Market Information/Career Information Systems; enhancement of the department's Internet offerings and enhancement of the unemployment insurance benefits and tax systems. Included in this category is funding for department staff as well as private sector contractors to provide support on department PCs, LANs 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 IdahoWorks Career Centers. These facility enhancements have resulted in greater premises costs to the department. The department needs to use 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.

DEPARTMENT OF LABOR

Employment Security Reserve Fund Information

	JANUARY 1991 TO DECEMBER 2004	JANUARY 2005 TO DECEMBER 2005	JANUARY 2006 TO DECEMBER 2006	JANUARY 2007 TO DECEMBER 2007	JANUARY 2008 TO DECEMBER 2008	JANUARY 2009 TO DECEMBER 2009	JANUARY 1991 TO DECEMBER 2009
20% Diversion of Trust Fund Contributions							
Beginning Balance	\$ -	\$ 86,720,778.64	\$ 86,729,655.25	\$ 109,018,824.91	\$ 114,600,615.52	\$ 117,387,036.51	\$ -
Diversions - As Received	\$ 86,720,778.64	\$ 8,876.61	\$ 22,289,169.66	\$ 5,581,790.61	\$ 2,786,420.99	\$ 15,000.00	\$ 117,402,036.51
Withdrawals (used to pay UI benefits)						\$ (41,708,635.88)	\$ (41,708,635.88)
Total Diversions	\$ 86,720,778.64	\$ 86,729,655.25	\$ 109,018,824.91	\$ 114,600,615.52	\$ 117,387,036.51	\$ 75,693,400.63	\$ 75,693,400.63
<i>This dollars remain in an in-state trust fund to be used only for benefit purposes</i>							
Earnings							
Beginning Balance	\$ -	\$ 8,124,515.78	\$ 5,383,571.22	\$ 5,118,523.58	\$ 9,887,507.06	\$ 13,244,592.27	\$ -
Interest Earnings to IDCL Administrative Fund	\$ 45,391,951.13	\$ 4,885,934.40	\$ 4,506,212.80	\$ 5,551,280.28	\$ 5,485,537.55	\$ 2,868,794.20	\$ 68,689,710.36
IDCL Expenditures	\$ 37,267,435.35	\$ 7,626,878.96	\$ 4,771,260.44	\$ 782,296.80	\$ 2,128,452.34	\$ 579,232.25	\$ 53,155,556.14
Balance in Administrative Fund	\$ 8,124,515.78	\$ 5,383,571.22	\$ 5,118,523.58	\$ 9,887,507.06	\$ 13,244,592.27	\$ 15,534,154.22	\$ 15,534,154.22
Expenditures By Type							
Personal Services	\$ 1,687,457.86	\$ 120,845.99	\$ 132,094.17	\$ 161,040.74	\$ 216,367.49	\$ 243,991.32	\$ 2,561,797.57
Personnel Benefits	\$ 478,707.99	\$ 42,856.76	\$ 45,079.83	\$ 57,482.11	\$ 79,383.31	\$ 91,685.43	\$ 795,195.43
Total Personnel Costs	\$ 2,166,165.85	\$ 163,702.75	\$ 177,174.00	\$ 218,522.85	\$ 295,750.80	\$ 335,676.75	\$ 3,356,993.00
Supplies	\$ 115,885.97	\$ 17,878.11	\$ 2,596.11	\$ 2,728.02	\$ 10,356.69	\$ 135,126.41	\$ 284,571.31
Communication	\$ 403,250.97	\$ 134,654.85	\$ 101,031.13	\$ 25,244.70	\$ 4,745.12	\$ 5,629.05	\$ 674,555.82
Travel	\$ 171,165.73	\$ 1,053.67	\$ 3,804.40	\$ 1,049.06	\$ 2,008.92	\$ 2,930.56	\$ 182,012.34
Equipment Rent	\$ 13,721.75	\$ 484.46	\$ 551.17	\$ 778.05	\$ 760.08	\$ 937.55	\$ 17,233.06
Equipment Expense	\$ 1,039,824.26	\$ 96,619.27	\$ 9,477.73	\$ 191.74	\$ 158.93	\$ 231.25	\$ 1,146,503.18
Premises Rent	\$ 1,097,290.78	\$ 16,037.65	\$ 20,671.71	\$ 10,046.38	\$ 12,075.33	\$ 13,300.45	\$ 1,169,422.30
Premises Expense	\$ 1,837,071.47	\$ 4,489.03	\$ 4,286.09	\$ 8,955.49	\$ 38,561.25	\$ 8,951.96	\$ 1,902,325.29
Services	\$ 1,200,759.47	\$ 359,857.87	\$ 289,177.50	\$ 434,646.24	\$ 194,811.05	\$ (20,192.78)	\$ 2,459,059.35
Other	\$ 1,562,039.95	\$ 113,100.06	\$ 299,041.96	\$ 163,774.38	\$ 8,676.01	\$ 25,358.47	\$ 2,171,990.83
Total NPS Costs	\$ 7,441,010.35	\$ 744,174.97	\$ 730,637.80	\$ 647,424.06	\$ 272,153.38	\$ 172,272.92	\$ 10,007,673.48
Capital Equipment	\$ 3,526,148.58	\$ 39,818.23	\$ 12,000.00	\$ 107,558.92	\$ (74,004.72)	\$ -	\$ 3,611,521.01
*Adjustments	\$ 24,134,110.57	\$ 6,679,183.01	\$ 3,851,448.64	\$ (191,209.03)	\$ 1,634,552.88	\$ 71,282.58	\$ 36,179,368.65
Grand Total Costs	\$ 37,267,435.35	\$ 7,626,878.96	\$ 4,771,260.44	\$ 782,296.80	\$ 2,128,452.34	\$ 579,232.25	\$ 53,155,556.14
*ES Subsidy, UI Subsidy, UI Banking Costs, Gov't Overhead, transfers to federal grants and Workforce Development Fund							
Expenditures By Project							
Federal Funding Reductions	\$ 17,260,568.64	\$ 6,158,450.81	\$ 4,072,009.58	\$ (74,535.82)	\$ 1,685,340.30	\$ 418,088.25	\$ 29,519,921.76
Idaho Works Career Center	\$ 1,560,662.52	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,560,662.52
Facilities	\$ 2,782,289.57	\$ 15,333.10	\$ 14,675.58	\$ 6,278.76	\$ 43,731.60	\$ 30,124.07	\$ 2,892,432.68
Automation	\$ 12,068,210.25	\$ 1,075,646.37	\$ 323,479.06	\$ 592,031.57	\$ 345,525.11	\$ 123,228.24	\$ 14,528,120.60
Miscellaneous Pre-1995	\$ 380,172.17	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380,172.17
Workforce Development Council	\$ 218,168.55	\$ 7,637.61	\$ 6,047.33	\$ 8,786.51	\$ 8,828.33	\$ 7,791.69	\$ 257,260.02
Transfer to Workforce Development Fund	\$ 1,600,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,600,000.00
Commerce/Gov off	\$ -	\$ 102,053.84	\$ 336,527.00	\$ 249,735.78	\$ -	\$ -	\$ 688,316.62
Workforce Investment Act	\$ 1,397,363.65	\$ 267,757.23	\$ 18,521.89	\$ -	\$ 45,027.00	\$ -	\$ 1,728,669.77
Grand Total	\$ 37,267,435.35	\$ 7,626,878.96	\$ 4,771,260.44	\$ 782,296.80	\$ 2,128,452.34	\$ 579,232.25	\$ 53,155,556.14

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 8-10-2010