

TRANSMITTAL # 3

MEMORANDUM

February 24, 2010

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:

The Department of Labor requests permission to spend the Special Administration Fund to assist the Department of Labor in carrying out its mission. Beginning July 1, 2010, the funds would be used for administration of Idaho's Employment Service, Unemployment Insurance, Workforce Investment Act and related activities. Our request also includes a proposal to use funds to supplement private donations for administration of the Idaho Youth Corp which proved so popular last summer. In anticipation of the transfer of the Idaho Commission on Human Rights to the Department, we are requesting use of these funds to supplement the reduced state funding. This memorandum represents that request for the next two years.

The following information is attached:

- 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 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.

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

Attachments

Attachment 1
IDAHO DEPARTMENT LABOR
Workforce Development Council
Administrative Tax Spending Request
PROGRAM YEARS 2010 and 2011/FISCAL YEARS 2011 and 2012
February, 2010

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



C.L. "BUTCH" OTTER, GOVERNOR
ROGER B. MADSEN, DIRECTOR

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
Tammy Perkins
Cathy Holland-Smith, LSO

From: Roger B. Madsen, Director

A handwritten signature in cursive script that reads "Roger B. Madsen".

Date: July 2, 2009

Re: Special Administration Fund - 2008 Annual Report

Attached for your review is the annual report of 2008 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 restriction on the amount that can be deposited in the Reserve Fund each year. The 17 percent diversion can 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 and, except for calendar year 2006, as reflected in Idaho Code 72-1347A, the Reserve Fund does not 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
2008 ANNUAL REPORT
Prepared July 2, 2009**

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 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 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 on the 17 percent diversion until the Reserve Fund reaches 1 percent of total taxable wages under 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 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	2006 ~ on
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 taxable 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 trigger was off for 2008 because the Reserve Fund balance exceeded 1 percent of total taxable wages and because the Reserve Fund balance exceeded 49 percent of the Employment Security Fund.

Interest Earnings/Fund Balance - Interest earned on the Reserve Fund in 2008 totaled \$5.49 million, down \$65,742.73 from the previous year's earnings. The Reserve Fund totaled \$117.4 million at the end of 2008, up \$2.79 million from the previous year-end balance.

Expenditures - Total 2008 expenditures from the Special Administration Fund, at \$2,128,452, were \$3.4 million less than 2008 income and \$1.3 million more than 2007 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 \$1,685,340 in 2008.

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 \$345,525 was invested in enhancing the department's automation capabilities.

3. Facilities – A total of \$43,732 was used for facilities in 2008, primarily for maintenance of the central office parking lot and sale of the old Canyon County local office building.

4. Workforce Investment Act Implementation – In 2008 \$45,027 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 \$8,828 was used to pay for travel, meeting expenses and related costs of the council.

Special Administration Fund Expenditure Strategies for 2009

The Workforce Development Council approved the following expenditure strategies for fiscal years 2009 and 2010:

- 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 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 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.

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.

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

Roger B. Madsen, Director
Idaho Department of Labor

07/02/2009

Date Submitted

**DEPARTMENT OF LABOR
Employment Security Reserve Fund Information**

	JANUARY 1991 TO DECEMBER 2003	JANUARY 2004 TO DECEMBER 2004	JANUARY 2005 TO DECEMBER 2005	JANUARY 2006 TO DECEMBER 2006	JANUARY 2007 TO DECEMBER 2007	JANUARY 2008 TO DECEMBER 2008	JANUARY 1991 TO DECEMBER 2008
20% Diversion of Trust Fund Contributions							
Beginning Balance	\$ -	\$ 86,708,353.62	\$ 86,720,778.64	\$ 86,728,655.25	\$ 109,018,824.91	\$ 114,600,615.52	\$ -
Diversions - As Received	\$ 86,708,353.62	\$ 12,425.02	\$ 8,876.61	\$ 22,289,169.66	\$ 5,581,790.61	\$ 2,786,420.99	\$ 117,387,036.51
Total Diversions	\$ 86,708,353.62	\$ 86,720,778.64	\$ 86,728,655.25	\$ 109,018,824.91	\$ 114,600,615.52	\$ 117,387,036.51	\$ 117,387,036.51
These dollars remain in an in-state trust fund to be used only for benefit purposes							
Earnings							
Beginning Balance	\$ -	\$ 9,216,376.71	\$ 8,124,515.78	\$ 5,383,571.22	\$ 5,118,523.58	\$ 9,887,507.08	\$ -
Interest Earnings to IDCL Administrative Fund	\$ 41,363,164.18	\$ 4,026,786.95	\$ 4,885,934.40	\$ 4,508,212.80	\$ 5,551,280.28	\$ 5,485,537.55	\$ 65,820,916.16
IDCL Expenditures	\$ 32,146,787.47	\$ 5,120,647.88	\$ 7,628,878.96	\$ 4,771,260.44	\$ 782,296.80	\$ 2,128,452.34	\$ 52,576,323.89
Balance in Administrative Fund	\$ 9,216,376.71	\$ 8,124,515.78	\$ 5,383,571.22	\$ 5,118,523.58	\$ 9,887,507.06	\$ 13,244,592.27	\$ 13,244,592.27
Expenditures By Type							
Personal Services	\$ 1,575,389.07	\$ 112,068.79	\$ 120,845.89	\$ 132,094.17	\$ 161,040.74	\$ 210,367.49	\$ 2,317,806.25
Personnel Benefits	\$ 440,782.99	\$ 37,925.00	\$ 42,856.76	\$ 45,079.83	\$ 57,482.11	\$ 79,383.31	\$ 703,510.00
Total Personnel Costs	\$ 2,016,172.06	\$ 149,993.79	\$ 163,702.75	\$ 177,174.00	\$ 218,522.85	\$ 289,750.80	\$ 3,021,316.25
Supplies	\$ 111,781.87	\$ 4,094.00	\$ 17,878.11	\$ 2,596.11	\$ 2,728.02	\$ 10,356.69	\$ 149,444.90
Communication	\$ 246,473.45	\$ 156,777.52	\$ 134,654.85	\$ 101,031.13	\$ 25,244.70	\$ 4,745.12	\$ 668,926.77
Travel	\$ 169,007.42	\$ 2,158.31	\$ 1,053.67	\$ 3,804.40	\$ 1,049.06	\$ 2,008.92	\$ 179,081.78
Equipment Rent	\$ 13,249.95	\$ 471.80	\$ 484.46	\$ 551.17	\$ 778.05	\$ 760.08	\$ 16,295.51
Equipment Expense	\$ 924,735.46	\$ 115,088.80	\$ 96,819.27	\$ 9,477.73	\$ 191.74	\$ 158.93	\$ 1,146,271.93
Premises Rent	\$ 947,365.05	\$ 149,925.73	\$ 16,037.65	\$ 20,671.71	\$ 10,046.38	\$ 12,075.33	\$ 1,199,121.85
Premises Expense	\$ 1,778,481.83	\$ 58,589.64	\$ 4,489.03	\$ 4,286.09	\$ 8,965.49	\$ 38,561.25	\$ 1,893,373.33
Services	\$ 920,692.35	\$ 280,087.12	\$ 359,857.87	\$ 289,177.50	\$ 434,646.24	\$ 194,811.05	\$ 2,479,252.13
Other	\$ 1,561,226.02	\$ 810.93	\$ 113,100.06	\$ 299,041.96	\$ 163,774.38	\$ 8,676.01	\$ 2,146,632.36
Total NPS Costs	\$ 6,673,026.50	\$ 767,983.85	\$ 744,174.87	\$ 730,637.80	\$ 647,424.06	\$ 272,153.38	\$ 9,635,400.56
Capital Equipment	\$ 3,467,823.21	\$ 58,325.37	\$ 39,818.23	\$ 12,000.00	\$ 107,558.92	\$ (74,004.72)	\$ 3,611,521.01
*Adjustments	\$ 19,988,765.70	\$ 4,144,344.87	\$ 6,679,163.01	\$ 3,851,448.64	\$ (191,209.03)	\$ 1,634,552.88	\$ 36,108,086.07
Grand Total Costs	\$ 32,146,787.47	\$ 5,120,647.88	\$ 7,628,878.96	\$ 4,771,260.44	\$ 782,296.80	\$ 2,128,452.34	\$ 52,576,323.89
*ES Subsidy, UI Subsidy, UI Banking Costs, Govt Overhead, Transfers to federal grants and the Workforce Development Fund							
Expenditures By Project							
Federal Funding Reditions	\$ 13,310,999.20	\$ 3,949,569.44	\$ 6,158,450.81	\$ 4,072,009.58	\$ (74,535.82)	\$ 1,685,340.30	\$ 29,101,833.51
Idaho Works Career Center Facilities	\$ 1,560,662.52	\$ 215,302.31	\$ 15,333.10	\$ 14,675.58	\$ 6,278.76	\$ 43,731.80	\$ 1,560,682.52
Automation	\$ 2,566,997.26	\$ 867,346.11	\$ 1,075,646.37	\$ 323,479.06	\$ 592,031.57	\$ 345,525.11	\$ 2,862,308.61
Miscellaneous Pre-1995	\$ 11,180,862.14	\$ 7,662.80	\$ 7,637.61	\$ 6,047.33	\$ 8,786.51	\$ 8,828.33	\$ 14,404,892.36
Workforce Development Council	\$ 380,172.17	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380,172.17
Transfer to Workforce Development Fund	\$ 210,505.75	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210,505.75
Commerce/Gov of	\$ 1,600,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,600,000.00
Workforce Investment Act	\$ 1,336,598.43	\$ 60,765.22	\$ 267,757.23	\$ 18,521.69	\$ -	\$ 45,027.00	\$ 2,494,688.33
Grand Total	\$ 32,146,787.47	\$ 5,120,647.88	\$ 7,628,878.96	\$ 4,771,260.44	\$ 782,296.80	\$ 2,128,452.34	\$ 52,576,323.89

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.