

TRANSMITTAL # 3

MEMORANDUM

May 4, 2006

TO: Workforce Development Council

FROM: Bob Fick, Communications & Legislative Liaison

SUBJECT: Federal-State Legislative Report

ACTION REQUESTED: Information only.

BACKGROUND:

THE BUDGET

The assault on the federal financial support for Labor Division programs has continued unabated. The impending fall election appears to be the only thing that may slow down this erosion of resources. The state has stepped in to ease the impact on services and access to them.

In the last four to five years, the federal government has cut its support of the Workforce Investment Act in Idaho by \$5.6 million, the grants for the Unemployment Insurance program by \$2.3 million and for Employment Service and Reemployment Services each by \$350,000.

This has forced significant adjustments already – the restructuring of the Workforce Investment Act program that a number of the council members experienced a year ago as well as a reduction in staff positions of over 30 in the last year. Departmental reorganizations and increasing reliance on technology have helped bridge this gap.

FEDERAL PLANS

The pending federal budget slashes another \$2.2 million in Idaho Commerce & Labor's (the department's) federal grants for the 2006-2007 budget year and then \$4.3 million more in 2007-2008.

The Bush Administration wants to merge Employment Service and Workforce Investment Act and reduce the total appropriation for the merged program by almost 16 percent. Without protection for small states like Idaho, the department's Employment Service grant could be reduced by as much as 50 percent. In addition, President Bush wants to convert the merged program into Career Achievement Accounts, where 75 percent of the funds must be spent for \$3,000 accounts that applicants spend on

training. The remainder of the grant could be used for service delivery, but this combination of plans represents a 90 percent reduction to the Employment Service grant, which is the financial foundation for operation of the 24 local offices.

The value of Idaho's work force system is not in doubt but is in jeopardy. More than 15,600 Idaho employers relied upon Idaho Commerce & Labor to find workers for nearly 84,000 job openings for the 12 months through mid-2005. Over 206,000 workers, 29 percent of Idaho's labor force, used Idaho Commerce & Labor services to gather labor market information, attend job seeking classes and find their first or next jobs. More than 4,000 low-income, at-risk youth, adults and dislocated workers were provided training needed to gain the academic and occupational qualifications necessary for good employment.

STATE INTERVENTION

To maintain a level of service Idaho employers and employees have come to rely on, Gov. Dirk Kempthorne and the Legislature supported the department's request for a \$9 million allocation from federal Reed Act funds, which are earmarked for support of the Unemployment Insurance and Employment Service programs. This money will be used over the next two budget years to offset the dramatic reductions in the federal government's distribution of the Federal Unemployment Tax Act taxes being paid annually by Idaho's 46,000 covered employers. Idaho's Reed Act balance remains over \$15 million, offering a dwindling cushion against further reductions in federal support.

In addition, the governor and Legislature supported a realignment of the holdings in the state's Unemployment Insurance Trust Fund, increasing the balance in the state-invested portion of the \$220 million trust to \$110 million. This adjustment enables the department to earn another \$1 million – possibly more with interest rates rising – on investment of the portion of the trust the state controls. That money is also being used to help cover the lost federal funds.

The department has also seen a comparatively modest increase in revenue from the new penalties for Employment Security Law violations that were part of the overhaul of the Unemployment Insurance program unanimously approved by the Legislature and fully backed by business and labor last year.

FEDERAL TAX MANAGEMENT

These attempts to avert drastic reductions in labor programs have been necessary despite the fact that cash is piling up in the funds made up of employer-paid Unemployment Insurance taxes now being held in Washington, D.C. for purposes other than direct benefit payments.

While the Employment Security Administration Account holds just a \$1.5 billion balance, the Federal Unemployment Account has a current balance of nearly \$14 billion and the Extended Unemployment Compensation Account has a \$12.5 billion balance.

This year, the combined balance of those three accounts is nearly \$28 billion. It is projected to exceed \$32 billion next year and \$37 billion in 2008. Currently, employers are making about \$5.6 billion a year in Federal Unemployment Tax Act payments, but the U.S. Department of Labor is returning to the states

for program operations only about \$3.6 billion. This seeming over-collection of employer taxes has been aggravated by the federal government's decision to continue a 33 percent surcharge on the Federal Unemployment Tax for several more years.

BUDGET-BALANCING PREPARATION

Recognizing that the federal squeeze on state operating grants is likely to continue, Idaho Commerce & Labor Director Roger B. Madsen established an internal task force to develop a strategy for eliminating what is now estimated as a \$10 million deficit in the 2008-2009 budget year – despite the infusion of money at the state level – should the current Bush Administration budget plan be carried out in full.

The director has made the preservation of the 24 local offices a top priority in any budget-balancing strategy, but he also advised legislators during their deliberations of the special financial assistance for the department that the persisting federal reductions have placed a cloud over the long-range future of those offices, the department's critical link to the local communities of businesses and workers.

The key element of the internal budgeting strategy is the elimination, through attrition, of 60 to 70 more positions over the coming two years. This would be adjusted depending on the outcome of congressional deliberations on the Bush Administration budget plan.

LEGISLATIVE INITIATIVES

Beyond financial matters, Gov. Kempthorne and the Legislature made a number of significant program decisions for the department.

- The Workforce Development Training Fund was extended for another five years through 2012.
- The Rural Economic Development and Integrated Freight Transportation program was created and placed within the department, financed by a one-time appropriation of \$5 million in general tax money. This program will provide revolving, low-interest loans to Idaho's short-line railroads for rehabilitating and upgrading their infrastructure to meet shipping needs of rural businesses.
- The Rural Broadband Development Matching Fund was established within the department, which will funnel \$5 million to telecommunications companies, cable companies, Internet providers and other technically eligible businesses to bring broadband services to the state's most rural communities to enhance business, education and other opportunities. These businesses would have to match any state grant dollar for dollar.
- The \$2 million Incumbent Worker Training Revolving Loan Fund was set up within the department to provide the next step in worker training beyond the Workforce Development Training Fund. The department will operate this fund as a pilot project focused on nursing and commercial truck driving, providing tuition or other financial assistance as required without supplanting any existing grant or loan assistance that would be available to trainees. The conceptual view of the program by its developers calls for the loans to be made to employers

who have identified employees or potential employees who could benefit from the training, and the employer would match the amount of the loan and guarantee the trainee a job in the new skill upon completion of the coursework. Repayment of the loans would be over eight years with the employer covering 12.5 percent of the repayment for each year the trainee remains employed at that business.

While the Legislature provided general frameworks for these three programs, department staff are working on specific rules to implement them. The Workforce Development Council will be asked to advise the governor on policy and provide oversight on the Incumbent Worker Training Revolving Loan Fund. Director Madsen wants those rules in place so the programs will be up and running when the money is released on July 1.

The Legislature also approved some housekeeping changes to the Employment Security Law to make it consistent with both revisions that were approved in the overhaul last year and with existing department practice.

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