Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

May 13, 2013 | Joint Committee on Finance | Paper #737

Reestimate Unemployment Interest Payments and Transfers (DWD)

[LFB 2013-15 Budget Summary: Page 516, #10]

CURRENT LAW

If the amounts in Wisconsin's unemployment insurance (UI) reserve account at the U.S. Treasury are insufficient to cover anticipated benefit payments, the state can borrow from the federal unemployment account. This borrowing is done at an interest rate which is the lower of 10% or the average rate on specified federal securities. However, no interest is charged if the loan is made January 1 through September 30 and repaid prior to October 1 in the same calendar year, provided that no additional loans are made before the end of the calendar year. Federal law prohibits the state from making a payment of interest on a federal loan from the state's UI reserve fund.

Wisconsin began borrowing money from the U.S. Department of Labor in 2009 to meet the increased amount of benefit payments to unemployed individuals during the 2008-2009 recession. The federal government had suspended the payment and accrual of interest on borrowed federal funds for all states from February 17, 2009, through December 31, 2010. As a result, Wisconsin was not required to pay the accrual of interest on the federal loan in 2009 or 2010. Beginning in 2011, states were again required to pay interest on September 30th of each year in which interest accrued during the prior twelve months.

State law requires the Department of Workforce Development (DWD) to determine a special annual assessment on employers subject to the state's unemployment insurance law, the proceeds of which are used to pay the amount of interest due to the U.S. Treasury. The assessment is based on the employer's taxable payroll. The assessment rate for employers using reimbursement financing (most governmental units, some nonprofit, nongovernmental organizations, and a small number of Indian Tribal employers) must be equal to 75% of the rate imposed on employers using contribution financing (most private employers). Employers with taxable payroll of $25,000 or less for the prior year are exempt from the assessment. Subject to these restrictions, DWD must set the assessment rate at a level sufficient to generate the required interest payment. The following table shows the assessment rates that were imposed on employers and the amount of interest paid to the federal government in 2011 and 2012. The reduced assessment rate for 2012 was, in part, a result of the 2011 assessment generating a greater amount of revenue than DWD had expected. The Department carried that balance to offset part of the employers' 2012 assessment. In addition, the 2012 assessment was imposed on a higher taxable wage base (the first $13,000 of wages paid to each employee instead of the first $12,000). It is anticipated that the state will maintain a negative balance in the UI reserve fund through the 2013-15 biennium.

Interest Paid to the Federal Government and Assessments Rates Imposed on Employers

Year	Assessment Rate for Employers Subject to Contribution Financing	Assessment Rate for Employers Subject to Reimbursement Financing	Amount Paid to Federal Government (Millions)
2011	0.2249%	0.1687%	$42.3
2012	0.0806	0.0605	35.8

Note: For comparing the assessments, the taxable wage base per employee was $12,000 in 2011 and $13,000 in 2012.

The amount collected by the assessment is deposited into a separate, nonlapsible trust fund called the Unemployment Interest Payment Fund. For a year in which the amount collected exceeds the interest payment due, the balance must be used to pay interest owed in subsequent years on advances from the federal unemployment account. If DWD determines that additional interest payments in subsequent years are unlikely, the balance must be deposited into the balancing account of the UI reserve fund. Interest and penalties collected from employers who make delinquent tax or reimbursement payments are also deposited into the Unemployment Interest Payment Fund.

GOVERNOR

Estimate annual expenditures of $37,000,000 SEG from the sum sufficient unemployment interest payments and transfers appropriation. This amount is slightly higher than the 2012 payment.

MODIFICATION

Reduce estimated expenditures from the unemployment interest payments and transfers appropriation by $18,000,000 SEG in 2013-14 and $30,000,000 SEG in 2014-15.

Explanation: DWD presented a revised forecast of the UI reserve fund to the UI Advisory Council on February 6, 2013. In that forecast, the Department estimated that interest payments to the federal government would be approximately $19,000,000 for September, 2013, and $7,000,000 for September, 2014. The reduction would more accurately align the appropriation amount with the current estimate for required interest payments to the federal government. The assessment rates will be adjusted to generate the estimated payment amounts.

	Change to Bill Funding
SEG	- $48,000,000

Prepared by: Sean Moran