UNEMPLOYMENT INSURANCE ADVISORY COUNCIL

Meeting Minutes

Department of Workforce Development
GEF-1 Building Room F305
201 East Washington Avenue
Madison, Wisconsin

February 6, 2013

Members Present: Mr. Buchen, Mr. Gotzler, Mr. Gustafson, Mr. Lump, Mr. LaCourt, Ms. Knutson (Chair), Mr. Neuenfeldt, Ms. Feistel, Mr. Rainey, Mr. McGowan, and Mr. Reihl.

Department Staff: Mr. Rodriguez (UI Administrator), Mr. Sussman, Ms. Maxwell (Executive Assistant to the Secretary), Ms. Schulze (Legislative Advisor for the Office of the Secretary), Mr. McHugh, Ms. James, Ms. Rosenak, Mr. Partha, Ms. Sausen, Mr. Usarek, Ms. Moksouphanh, Mr. Shahrani, Ms. Banicki, Mr. Schunk, Mr. Brueggeman, and Ms. Gallagher.

1. Call to Order and Introductions: Ms. Knutson convened the Unemployment Insurance Advisory Council (Council) meeting at approximately 9:40 a.m. in accordance with Wisconsin's open meetings law. Council members and state legislators present introduced themselves. The state legislators and their aides present were: Representative David Murphy (56th Assembly District); Representative Chris Kapenga (99th Assembly District); Lindsey Brabender, (Representative Chris Kapenga's Office); Mary Beth George (Representative Christine Sinicki's Office); BJ Dernbach (Rep. Daniel Knodl's Office) and John Soper (State Assembly Staffer).

2. Approval of Minutes: Ms. Knutson recognized a typographical error on page eight of the January 17, 2013 meeting minutes. Mr. Lump moved to approve the minutes with a correction to the typographical error, second by Ms. Feistel. The minutes were unanimously approved.

3. Presentation by Robert Usarek on 2013 Financial Outlook: Mr. Usarek, who is a Research Analyst with the Office of Policy Research within the Department's Unemployment Insurance Division, gave a PowerPoint presentation entitled "Overview: Financial Outlook of the Wisconsin Unemployment Insurance Program." Each Council member was provided a print out of the PowerPoint slides. The presentation was organized into seven distinct parts:

(a) The first part addressed the Current Status of the UI Trust Fund. The Trust Fund is showing improvement, but ended 2012 with a negative balance of $876 million. This was the fourth consecutive year the Trust Fund ended the year with a negative balance. Mr. Usarek pointed to four main reasons that there has been improvement in the Trust Fund balance. The four reasons are an improving economy, a higher tax schedule combined with a higher wage base, the Federal Unemployment Tax Act (FUTA) credit reduction, and imposition of a waiting week.

(b) The second part dealt with Wisconsin UI Benefits. Mr. Usarek noted there are three different unemployment insurance programs. Under the regular benefit program claimants can receive up to 26 weeks of unemployment payments. Twenty-six weeks is the maximum in the vast majority of unemployment insurance programs (46 out of the 53 UI programs). The second program is known as the Emergency Unemployment Compensation (EUC08) program. The EUC08 is a federal program that currently may provide an additional 43 weeks of unemployment benefit for eligible claimants. Wisconsin currently qualifies for claimants to receive up to 28 additional weeks of unemployment benefits. The program is entirely federally funded and so it does not impact Wisconsin's UI Trust Fund. Federal law provides that the program is set to end December 28, 2013. The third program is known as the Extended Benefits (EB) program. Wisconsin no longer qualified for claimants to be eligible for the EB program as of April of 2012.

(c) The third part highlighted UI Taxes and the Financing of the Wisconsin UI System. Mr. Usarek explained there are currently three taxes that Wisconsin employers pay for the Wisconsin state unemployment insurance program. The first tax is the State Unemployment Insurance Tax and there are two components to it. One component is the basic tax and its amount is determined by an employer's experience with unemployment insurance and is credited to the employer's account. The second component of the state tax is the solvency tax that is used to pay benefits that are not charged to an employer and are credited to the balancing account. Mr. Usarek also elucidated that a second unemployment insurance tax is imposed on employers by the federal government. This tax funds the administration of the unemployment insurance program, special programs, and provides loans to state unemployment insurance programs. It was noted that Wisconsin used all three funding streams over the past two years. The final tax experienced by Wisconsin employers is known as the Special Assessment for Interest (SAFI). Under certain circumstances, Wisconsin must pay interest on the loans taken by the Wisconsin UI system from the Federal government. Federal law forbids using regular state UI taxes to pay this interest. As a result, Wisconsin law assesses SAFI on employers to pay this interest owed on the loans.

(d) The fourth part focused on the History of Wisconsin UI Trust Fund. It was noted that the cause of the current borrowing is both the recent recession and Wisconsin's unemployment insurance financing system. The recent recession caused a significant increase in benefits paid. During 2004 through 2007, Wisconsin paid $3.1 billion in UI benefits; whereas, during 2008 through 2011, Wisconsin paid $5.2 billion in UI benefits. This represented an increase of sixty-eight percent in benefits paid to claimants. Moreover, tax collection decreased as wages declined. In 2006, there was $684 million in collected taxes; whereas, in 2009 there was $621 million in paid taxes. Mr. Usarek emphasized that the recent recession determined the amount of borrowing, but due to the financing system set-up, the unemployment insurance system was likely to borrow even under mild recessionary conditions. After the 2001-2002 recession, unemployment insurance tax collections never exceeded benefit payments. The financing system was unresponsive to the large benefit payments and the balance in the Unemployment Insurance Trust Fund was declining throughout the 2000's.

(e) The fifth part centered on the Response to the Unemployment Insurance Trust Fund Decline. Mr. Usarek pointed to two reasons that the unemployment insurance financing system did not keep the Trust Fund solvent. First, the taxable wages are not keeping pace with total wages. The recent increase in taxable wage base authorized by the Wisconsin Legislature only accounts for the past ten years of wage growth. Second, the fixed dollar tax schedule triggers were set to reflect the economy of the late 1980's. The tax schedule triggers are set at a level not reflective of current economic activity and have not kept pace with benefit expenditures.

(f) The sixth part highlighted Wisconsin UI Trust Fund Projections for 2012 through 2015. The Trust Fund is expected to end 2013 and 2014 with negative balances. It is projected to end 2015 with a positive balance. November 10th of each year is the date relevant for determining if federal law mandates employers experience a FUTA credit reduction. If Wisconsin's Trust Fund balance is positive on that date, employers will not experience a FUTA credit reduction for the next calendar year. If Wisconsin's balance is negative in the Trust Fund on that date, employers will experience a FUTA credit reduction for the next calendar year. The Trust Fund is projected to be positive on November 10, 2014, but is expected to have a negative balance at the end of 2014. Thus, since the Trust Fund is projected to be positive on November 10, 2014, Wisconsin employers are not expected to experience another FUTA credit reduction in 2015.

(g) The seventh part addressed Measuring Unemployment Insurance Trust Fund Solvency. Mr. Usarek explained there are three accepted measures to reflect trust fund solvency. These measures are the Reserve Ratio, the high cost multiple (HCM), and the Average High Cost Multiple (AHCM). These relate the Trust Fund risk to the unemployment insurance system and the economy as a whole. Mr. Usarek stated he would only address the AHCM measure. The AHCM looks at the average of the highest three years of benefits over the last twenty years or past three recessions, whichever is longer. In 1995, a Federal Advisory Council recommended an AHCM benchmark to be

achieved by States in financing their Unemployment Insurance programs. If Wisconsin had met the AHCM benchmark before the recent recession, Wisconsin would not have had to borrow to pay Unemployment Insurance benefits. In the past, Wisconsin has met this AHCM benchmark (up until the 2001 recession).

4. Correspondence: Ms. Knutson noted that she had received no correspondence addressed to the Council since the last meeting.

5. Department Law Change Proposals: Ms. Knutson highlighted that at the last meeting the Council approved seven Department law change proposals. These had all been forwarded to the Legislative Reference Bureau and the Department had received and answered questions pertaining to those proposals. She advised that when the Legislative Reference Bureau has completed the draft statutory language for these proposals the Department would forward those to the Council for its review.

Mr. McHugh then provided a further explanation on Department Proposal D12-10 relating to authorizing use of the Financial Records Matching Program as a tool to collect unpaid debts. It was explained that the fiscal impact of this proposal would potentially increase collections by up to $8 million annually. He remarked that child support agencies have had the authority to use this program since 1996. The child support agencies enter into agreements with banks in order to cross-match the child support debtor's file against the bank file and if this results in a match it enables the child support agency to levy the bank account to collect delinquent child support. In certain circumstances, the Department already has the authority to levy debtors' bank accounts. Mr. McHugh clarified that one of the biggest benefits of the proposal is that it will enable the Department to locate individuals and sources of money that the Department may then be able to collect unpaid debts. He further highlighted there should be no additional cost to the banks because they are already participating in this program for other state agencies.

Ms. Knutson inquired whether any Council member had additional questions on the remaining eleven Department proposals. Mr. Buchen then noted that the purpose of the meeting was to provide an opportunity for each side to caucus.

Motion by Mr. Buchen, second by Mr. Neuenfeldt to recess and to go into closed caucus session pursuant to section 19.85(1)(ee) of the Wisconsin statutes and reconvene later in the afternoon. The motion carried unanimously and the meeting was recessed at approximately 10:45 p.m.

The Council reconvened at approximately 1:10 p.m.

Ms. Knutson asked for a report regarding what occurred during the caucus time. Mr. Buchen reported that both sides agreed on some of the Department proposals and were prepared to vote today on these proposals.

Motion by Mr. Buchen, second by Mr. Neuenfeldt to support Department Proposals D12-02 (increasing work search requirements) and D12-10 (authorizing use of the Financial Records Matching Program). The motion carried unanimously.

6. Future Meetings: Ms. Knutson noted that each Council member should have on his or her calendar to attend meetings on the dates of February 21st, March 14th, March 21st, and April 18th. A number of Council members noted that holding a meeting on March 21st may create some problems for them, but Ms. Knutson recommended at this point there would not be a change to the scheduled meeting dates and advised that this could be discussed at the next meeting.

7. Other Business: Ms. Knutson updated that per the motion made by the Council at its last meeting the Department had sent the draft legislation by Senator Julie Lassa related to implementing a work share program in Wisconsin onto the Department of Labor for its review. Consistent with what had

been stated at the last meeting, Mr. Neuenfeldt pointed out that the labor side of the Council was obtaining a legal opinion on the draft legislation.

8. Adjournment: Motion by Mr. Neuenfeldt, second by Mr. Buchen to adjourn. The motion carried unanimously and the meeting was adjourned at approximately 1:20 p.m.