

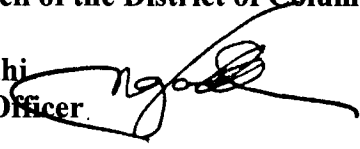
**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: July 13, 2009

SUBJECT: Fiscal Impact Statement – “Unemployment Compensation
Administrative Modernization Emergency Amendment Act of 2009”

REFERENCE: Draft legislation shared with OCFO on July 7, 2009 – No Bill Number

Conclusion

Funds are sufficient in the FY 2009 budget and the proposed FY 2010 through FY 2013 budget and financial plan to implement the provisions of the proposed legislation. Enactment of the proposed legislation would not have an impact on the District’s budget and financial plan.

The estimated cost of the proposed legislation is \$3.4 million in FY 2009 and \$24.1 million through FY 2013. These costs would be absorbed by the reserves of the Unemployment Insurance Trust Fund of the District of Columbia.

By allowing the District of Columbia’s Unemployment Insurance Program to conform to the federal requirements, the proposed legislation would allow the Unemployment Insurance Trust Fund to receive a one-time transfer of \$18.4 million from the federal government.¹

Background

The proposed legislation would amend, on an emergency basis, Section 7(f) of the District of Columbia Unemployment Compensation Act² to establish dependent benefits for recipients of

¹ For details on the eligibility requirements, please see Unemployment Insurance Program Letter No 14-09, and its attachments, available at http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=2715.

unemployment insurance payments through the District of Columbia’s Unemployment Insurance Program. The benefits would be \$15 per week per dependent, not to exceed \$50 per week or one-half of a claimant’s weekly unemployment amount, whichever is less. Dependent allowance benefit would be payable to all recipients of unemployment payments, including those on the regular program, Extended or Additional Benefits Program. To qualify, claimants must submit their initial unemployment claims after the proposed legislation becomes effective. The program will expire at the end of one year from its effective date.

The proposed legislation would also amend Section 10 of the District of Columbia Unemployment Compensation Act to provide up to 26 weeks of unemployment payments to those claimants who have exhausted all unemployment benefits, including any extensions, so long as they are enrolled in and making satisfactory progress in a District approved training program. To qualify, a claimant must apply before the end of his initial benefit year or extended benefits period and must be enrolled in a District of Columbia approved or Workforce Investment Act authorized job training program. Claimants separated from “declining occupations” are expected to prepare for a return to the workforce in a “high demand” occupation as those terms are defined in the local labor market. Benefits cease if the claimant stops making normal progress towards completion or completes the training program.

According to the Department of Employment Services, the estimated number of trainees who would be covered under this program in FY 2009 is 69. The agency estimates that from FY 2010 through FY 2013, each year, 210 trainees would be eligible for training extension benefits.

The dependent allowance and training extension benefit payments would not affect the experience rate³ of those who participate in the unemployment insurance program. Nor would the cost of these benefits be charged to the employers with fully reimbursable programs, where employers are billed for and required to pay the full cost of regular unemployment benefits paid to their ex-employees.

Financial Plan Impact

Funds are sufficient in the FY 2009 budget and the proposed FY 2010 through FY 2013 budget and financial plan to implement the provisions of the proposed legislation. The District of Columbia has a fully reimbursable unemployment program. Since the proposed legislation requires that the dependent allowance and training extension benefits be paid through the fund balance of the Unemployment Insurance Trust Fund and not be billed to the employers with reimbursable programs, the District of Columbia would not bear the costs of dependent allowance or training extension benefits offered to its own ex-employees.

² Effective August 28, 1935 (49 Stat 951; D.C. Official Code § 51-110)

³ The experience rate of employers compares their individual contributions—that is the unemployment tax payments—to the benefits paid to their ex-employees. The experience rate determines the tax rate for each employee.

The proposed legislation, however, will reduce the fund balance of the District's Unemployment Trust Fund. The below table summarizes the fiscal impact of the proposed legislation on the District's Unemployment Compensation Trust Fund. Details explaining the calculations are presented in the Appendix.

Fiscal Impact on the District of Columbia Unemployment Insurance Trust Fund						
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Five-Year Total
<i>Costs to Unemployment Insurance Trust Fund</i>						
Dependent Allowance	\$3,280,328	\$14,155,154	NA	NA	NA	\$17,435,481
Training Extension Allowance	\$128,809	\$678,582	\$1,960,140	\$1,960,140	\$1,960,140	\$6,687,811
Total Costs	\$3,409,137	\$14,833,735	\$1,960,140	\$1,960,140	\$1,960,140	\$24,123,292
<i>Positive Impact to Unemployment Insurance Trust Fund</i>						
Federal Funds Transferred to UIF	\$18,471,988	NA	NA	NA	NA	\$18,471,988

Source: Calculations presented in the Appendix

The estimated fund balance of the Unemployment Insurance Trust Fund at the end of 2008 is \$398.2 million. Given the rapid increase in the unemployment in and around the District of Columbia, the OCFO estimates that the fund balance could go down to \$324.9 million by the end of 2009.

The proposed legislation would reduce the fund balance by an additional \$3.4 million in FY 2009 but also generate federal funds of \$18.4 million, provided as a part of the American Recovery and Reinvestment Act of 2009 to be used for the modernization of the Unemployment Compensation Fund. Through FY 2013, the proposed legislation is likely to reduce the fund balance of the District of Columbia Unemployment Insurance Trust Fund by \$24.1 million. While the dependent allowance benefits will expire at the end of one year, the training benefits will continue indefinitely, with an impact of approximately \$9,300 per trainee assuming that each receive the maximum of \$359 per week over 26 weeks.

Per the proposed legislation, the benefits would be available to all unemployed District workers (both residents and non-residents) regardless of their ex-employers, and the benefit payments would not be charged to the individual employer accounts or affect experience rates of employers. It is important to note that the Unemployment Trust Fund Balance is high because of the relatively high tax collections in the past. Only the companies that pay unemployment taxes contributed to this high fund balance. In the District, a number of non-profit organizations and all public entities including the District of Columbia Government have what is known as "reimbursable" unemployment programs. These entities receive a "bill" from the Unemployment Insurance Program for all the benefits paid to their ex-employees, and expect to cover the benefits paid out to their ex-employees at the time these benefits are paid. Therefore, these entities with reimbursable programs have not contributed to the accumulated fund balance, but their ex-employees would be able to receive the benefits that are paid through the fund balance, at the expense of firms that pay unemployment insurance taxes.

Appendix – Calculation of the Calendar Year costs of Dependent Benefits and Training Extension Benefits

Dependent Benefits	CY 2009	CY 2010
Annual number of Claimants for Regular Benefits	9,508 ¹	12,678 ²
Average duration of Benefits ³	20.9	21
Average Dependent Benefits paid weekly ⁴	\$30	\$30
Total dependent benefits for regular benefits	\$5,961,639	7,948,852
Annual number of Claimants for Extended Benefits	5,800	7,619
Average duration of Extended Benefits	20 ⁵	13
Total Dependent Benefits ⁶	\$45	\$45
Total Dependent Benefits for recipients of Extended Benefits	\$5,220,000	\$4,457,252
Total Dependent Benefits for recipients of Additional Benefits ⁷	\$5,220,000	NA ⁸
Total Calendar Year	\$16,401,639	7,948,852.46
	FY 2009	FY 2010
Total cost to the Unemployment Insurance Trust Fund ⁹	\$3,280,327	\$14,155,154

¹ Based on the estimate that in CY 2009, approximately 5,800 people are expected to apply for extended benefits. According to the U.S. Department of Labor data, the exhaustion rate among the participants of the District's Unemployment Program in the first quarter of CY 2009 is 60.1 percent. This suggests that 9,508 claimants received regular benefits, which were effective starting April 2009.

² Prorated for the whole year based on the CY 2009 data.

³ Data as of the first quarter of CY 2009.

⁴ According to the American Communities Survey, the average family size in the metropolitan area is 3.1. Thus the number of dependents for this group is estimated at 2.

⁵ Per the American Recovery and Reinvestment Act of 2009.

⁶ According to the American Communities Survey, the average family size in the metropolitan area among the lowest income group is 3.6. It is assumed that those who will qualify for extended and additional benefits would likely be from lower income groups. Therefore, the analysis assumes that the average weekly payment would be for 3 dependents, at \$45 per week.

⁷ Assuming that the Unemployment Compensation Additional Benefits Program Emergency/ Amendment Act of 2009 would be passed.

⁸ It is assumed that the dependent benefits would expire in August 2010. The Additional Benefits would expire in January 2010, and therefore would not have an impact on CY 2010.

⁹ Assuming that the program commences in August, the FY 2009 cost is one fifth of the calendar year cost.

Training Extension Benefits	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
Number of claimants covered ¹	69	210	210	210	210
Weeks paid	26	26	26	26	26
Weekly payment	\$359	\$359	\$359	\$359	\$359
Total Benefit	\$644,046	\$1,960,140	\$1,960,140	\$1,960,140	\$1,960,140

	FY 2009²	FY 2010	FY 2011	FY 2012	FY 2013
	\$128,809	\$678,582	\$1,960,140	\$1,960,140	\$1,960,140

¹ Department of Employment Services estimate.

² One fifth of the calendar year costs.