

Borrowing Short-Term Federal Money to Pay Unemployment Benefits Will Help Boost Florida's Economy and Generate Jobs

Introduction

The Florida Legislature passed legislation in 2009 to prevent the insolvency of the state unemployment insurance Trust Fund. As a result of this change and an unexpectedly high unemployment rate, state employers are now facing an up to twelve-fold increase in their unemployment taxes. The Legislature is now considering the suspension of the 2009 changes for two years in order to give some relief to the state business community. If passed, the proposed legislation will allow the state to utilize more federal loans for 2010-2012 to fund unemployment benefits. Using a state recognized input-output model, this study estimates the economic impact of receiving the federal loans versus increasing the unemployment compensation taxes in terms of the impact on employment, state output, and personal income.

About the State Unemployment Program

The Federal-State Unemployment Insurance Program provides benefits to eligible unemployed individuals. The program is funded by employers through a tax on payrolls. Both state and federal governments collect unemployment compensation (UC) taxes. While states collect UC payroll taxes on a quarterly basis, the federal government does this through an annual federal payroll tax under the Federal Unemployment Tax Act (FUTA).¹ FUTA taxes are returned to states for the costs of administering state UC and job service programs, and covering half of extended unemployment benefits.

In Florida, the Agency for Workforce Innovation (AWI) is in charge of administering the state UC program. AWI contracts with the Florida Department of Revenue to collect the UC payroll tax which goes to the state UC Trust Fund and is used solely to pay UC benefits to unemployed Floridians. The tax rate for new employers is .0270 (2.7 percent). The rate may be reduced to as low as 0.1 percent based on certain factors after an employer is subject to taxes for eight-calendar quarters. The majority of the state's businesses (about 265,000) pay the minimum tax rate of 0.12

¹ FUTA taxes were imposed under 26 U.S.C. §§ 3301-3311.

percent. The “benefit ratio” is the key determining factor for the employer UC tax rate. This is also known as the “experience rating,” meaning that an employer tax rate is determined based on the employer’s experience in laying-off workers. Employers with greater job turnover rates are charged the highest UC tax rates. The first \$8,500 in wages paid to each employee during a calendar year is taxable. Any amount over \$8,500 for the year is excess wages and is not subject to taxes.

Due to the nature of the funding mechanism of the UC Trust Fund, UC taxes vary significantly depending on economic conditions. While employers generally do not notice UC taxes during a strong economy, they feel a heavy burden of high UC taxes when the economy is down. Indeed, the UC fund might not be sufficient to cover unemployment benefits in times of economic recession. That is when the UC Trust Fund’s “trigger mechanism” gets activated. When unemployment is too high and the money in the Trust Fund is too low, the UC tax rate is automatically adjusted to cover the benefits. According to the current law, if the fund falls below 4 percent of the total taxable payroll on June 30 of each year, the trigger mechanism begins to work until the balance of the fund becomes equal or greater than 5 percent of the taxable payroll for the year. The state also has an option of requesting federal loans to cover the fund deficit in the short term, which Florida has already opted to do.

The Current Problem

Due to the record level of unemployment in Florida, the state UC Trust Fund has been paying out more for unemployment benefits than what it has been collecting from employers. The fund turned to red in August 2009 and since then the state has received over \$1.2 billion federal advances in order to cover the benefits. As seen in the table below, Florida is not alone. Florida ranks fifteenth in terms of the current accumulated advances, far behind California, Michigan, New York, and Pennsylvania. In fact, this is the first time ever that Florida’s UC Trust Fund has become insolvent during the history of the trigger mechanism.

² Florida Senate Legislative Staff Bill Analysis, <http://www.flsenate.gov/data/session/2010/Senate/bills/analysis/pdf/2010s1666.wpsc.pdf>.

³ The taxable wage base was \$7,000 prior to 2010.

⁴ For more information about the current state UC taxes visit the following website: http://dor.myflorida.com/dor/taxes/unemploy_comp_law.html, accessed on February 23, 2010.

⁵ Section 443.131 (3)(e), F.S. (2009).

Table 1: Cumulative Federal Advances Requested for Unemployment Benefits for Fifteen States Ranking by Loan Amount

Ranking	States	Cumulative Federal Advances
1	California	\$7,307,160,245.36
2	Michigan	3,501,482,333.32
3	New York	2,527,904,446.67
4	Pennsylvania	2,378,148,123.72
5	Ohio	1,998,317,799.00
6	North Carolina	1,884,919,998.14
7	Texas	1,686,265,827.91
8	Indiana	1,669,240,880.33
9	Illinois	1,648,297,689.87
10	Florida	1,239,100,000.00
11	New Jersey	1,209,701,783.38
12	Wisconsin	1,148,114,515.19
13	South Carolina	781,334,430.00
14	Kentucky	675,800,000.00
15	Missouri	579,017,753.29

Source: http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiesched.htm

Foreseeing the current UC Trust Fund deficit, the Legislature passed legislation during the 2009 session, increasing the taxable wage base to \$8,500 from \$7,000 and raising the trigger activation rate from 3.7% to 4%. In other words, when the UC compensation fund falls below 4%, the UC taxes are automatically adjusted to rebuild the balance in the fund. Since the session, Florida's unemployment rate has jumped over one percentage point, hitting an all-time high level of 11.8 percent.⁶ The UC Trust Fund balance was less than one percent of the previous year taxable payrolls when the calculation for the 2010 UC taxes was done. Therefore, the state employers are now required to pay higher taxes due to the trigger and the new wage base. As seen in the table below, the UC tax per employee went up from \$8.40 in 2009 to \$100.30 in 2010, making the majority of state employers see around a twelve-fold increase in their UC tax payments.

⁶ Refer to the BLS website for the historical unemployment data: <http://www.bls.gov/lau/>

Table 2: Florida UC Tax Rates in 2009 and 2010

	2009 UC Taxes per Employee		2010 UC Taxes per Employee	
Minimum rate	0.12%	\$8.40	1.18%	\$100.30
Maximum rate	5.4%	\$378	5.4%	\$459

Source: Florida Senate Legislative Staff Bill Analysis,
<http://www.flsenate.gov/data/session/2010/Senate/bills/analysis/pdf/2010s1666.wpsc.pdf>

Business Community Proposal

Facing tough economic conditions, the state business community is pushing for a legislative change to suspend the recently adjusted unemployment taxes. They propose suspension of the \$8,500 taxable wage base and the fund balance trigger mechanism for two years. They argue that the suspension will give them some relief and allow time for the unemployment rate to go down. They think that this is crucial for them to expand their business and hire more employees. Proposed legislation covering the business community suggestions is currently under consideration. The proposed legislation would suspend the trigger mechanism for two years. The trigger would then be reactivated beginning January 1, 2012 with a three year recoupment period, followed by a four-year recoupment period on January 1, 2015 to allow a UC tax increase for the repayment of federal loans. The proposal will also reduce the taxable wage base back to \$7,000 for two years.

Table 3 on the next page summarizes the difference between the proposed legislation and the current law in terms of changes in UC taxes and requests for federal advances. The state has two options to cover unemployment benefits: First, increase the UC taxes as required by the current law and receive relatively less in federal advances. Second, change the current law according to the proposed legislation and receive relatively more in federal advances. In other words, either the state will collect an additional \$2.2 billion from employers within a few years or request the equivalent amount of federal loans.⁷ The loan will be paid back gradually beginning in 2012 both through direct payments by the state and an increase in FUTA taxes paid by employers. The net cost of this additional loan will be \$338.5 million which will be paid within the next several years as shown in Tables 3 & 4 in the appendix.

⁷ Florida Senate Legislative Staff Bill Analysis,
<http://www.flsenate.gov/data/session/2010/Senate/bills/analysis/pdf/2010s1666.wpsc.pdf>,
 accessed on February 24, 2010.

Table 3: The UC Taxes and Federal Advances Comparison for the Current Law and Proposed Legislation (in million\$)

	Years	Additional UC Taxes	Additional Federal Advances***
Current law	2009-2010	\$1,679.6	\$1,079.7
	2010-2011	2,417.5	650.3
	2011-2012*	1,016.2	782.6
	2012-2013**	4,421.617	-2,270.84
	Total	\$9,534.9	\$241.8
Proposed legislation	2009-2010	\$550.3	\$2,208.9
	2010-2011	1,369.9	1,697.8
	2011-2012*	1,353.1	445.7
	2012-2013**	4104.473	-1953.7
	Total	\$7,377.8	\$2,398.7
Net difference	2009-2010	-\$1,129.2	\$1,129.2
	2010-2011	-1,047.5	1,047.5
	2011-2012*	336.9	-336.9
	2012-2013**	-317.1	317.1
	Total	-\$2,157.1	\$2,157.0
<p>* The data covers July 2011 through March 2012 to show the net inflow of federal advances. ** The data covers the period between April 2012 and June 2013. *** The negative values indicate the reimbursement of the federal advances. Data source: Finance and Tax Council, Florida House of Representatives</p>			

REMI Impact Analysis

Florida TaxWatch used the Regional Economic Models, Inc. (REMI) to capture the direct, indirect, and induced economic impacts of receiving additional federal advances to cover the unemployment benefits instead of increasing the UC taxes in 2010-2012. This highly regarded econometric model (REMI) is widely implemented to measure the economic impacts of proposed legislation and other programs and policies. REMI is based on a nationwide input-output model that captures inter-relationships among sectors and measures the impact of changes in economic variables on overall economic activity. The REMI model was specifically developed for the state of Florida, and includes 169 sectors. The model’s principal advantages are that it is a dynamic input-output econometric model and that it can be used to forecast both direct and indirect economic effects over multiple-year time frames. REMI is used by the Florida Legislature’s Division of Economic & Demographic Research, the Florida Agency for Workforce Innovation, other state and local government agencies, universities, and private research groups.

The economic impact estimate was conducted based on the net flow of money to and from the state economy according to the proposed legislation. The model captures the impact of receiving an additional \$2.2 billion in federal loans with two scenarios. The first scenario assumes that the state will pay back an extra \$338.5 million in interest after year 2012 in addition to the principal. The second scenario assumes that the loan interest will be forgiven and the state will pay back the principal only. Of course, not getting the loan means the estimated benefits from the two scenarios will be forgone. The net difference data in Table 3 was used in the model for the estimate. The findings from the analysis will be presented in three major categories of impact: 1) Employment, 2) Gross State Product (GSP), and 3) Personal Income.

Table 4 presents the REMI results for Scenario 1 in terms of the impact of additional federal loans on employment, GSP, and personal income. It shows that in 2010 and 2011, with the net inflow of money, the state economy will create over 14,000 jobs each year. Due to the outflow in 2012 resulting from the difference between tax payments and federal loans, the economy will lose 2,856 jobs. Then, there will be creation of 2,253 jobs in the following year. During the time of loan payback, the economy will experience job losses of 10,643 to 15,315 jobs. However, the cumulative employment impact for the entire period will still be positive. The state economy will gain a net 2,013 by 2015 as a result of the proposed legislation even after paying interest. The second row shows the impact on GSP which is a measure of final goods and services produced in the state. GSP does not include intermediate goods and services. The model estimates that the contribution of an additional \$2.2 billion federal loan to GSP will be over \$1 billion for both 2010 and 2011. Then, it will go down in the following year, up in 2013, and again down in 2014 and 2015. The net contribution for the entire period will be around \$17 million. The model estimates that the net gain in the personal income for Floridians will be over \$2.6 billion by 2015. Table 5 shows the similar impact for Scenario 2, assuming that the loan interest will be forgiven. In this case, the cumulative net job gain for the entire period will be over 6,600. The contribution will be around \$389 million for GSP and \$2.9 billion for state personal income.

Table 4: REMI Results for Scenario 1: Getting Federal Advances and Paying Due Interest

	2010	2011	2012	2013	2014	2015	Total
Total New Employment	14,496	14,078	-2,856	2,253	-10,643	-15,315	2,013
Change in Gross State Product (million of 2010 dollars)	\$1,086	\$1,079	-\$216	\$185	-\$855	-\$1,262	\$17
Change in Personal Income (million of 2010 dollars)	\$1,728	\$1,750	-\$26	\$516	-\$486	-\$838	\$2,644

Table 5: REMI Results for Scenario 2: Getting Federal Advances without Paying Interest

	2010	2011	2012	2013	2014	2015	Total
Total New Employment	14,496	14,078	-1,973	3,353	-9,381	-13,938	6,635
Change in Gross State Product (million of 2010 dollars)	\$1,086	\$1,079	-\$148	\$272	-\$752	-\$1,149	\$389
Change in Personal Income (million of 2010 dollars)	\$1,728	\$1,750	\$15	\$573	-\$414	-\$752	\$2,900

Conclusion

Using the REMI model, this study estimated the economic impact of receiving additional federal advances to cover the cost of unemployment benefits between the years 2010-2015. The net difference in federal advances between the current law and proposed legislation is \$2.2 billion by 2015. The estimate was done for two scenarios. The first scenario assumes that the state will pay back an extra \$338.5 million in interests after 2012 in addition to the principal. The second scenario assumes that the loan interests will be forgiven and the state will pay back the principal only. For the first scenario, the model estimates that the additional loan will create over 14,000 jobs in 2010 and 2011. Even though there will be job losses when the money will be paid back, the net employment impact for the entire period will still be positive. The state economy will gain a net of 2,013 jobs by 2015. The model estimates that the contribution to GSP will be over one billion for both 2010 and 2011. After going down and up for the following years, the net contribution to GSP for the entire period will end up around \$17 million. The net gain in the personal income for Floridians will be over \$2.6 billion by 2015. The results for Scenario 2 are even greater due to the assumption that the loan interests will be forgiven. In this case, cumulative net job gain for the entire period will be over 6,600. The contribution will be around \$389 million for GSP and \$2.9 billion for state personal income.

In short, the study clearly shows that funding the unemployment benefits with additional federal loans will be better for two reasons. First, during a time of current severe recession, this money will create more jobs and provide relief to employers. Second, the net employment, GSP, and personal income impacts of the additional loan for the entire period will be positive even if the state ends up paying the interest due. Therefore, Florida TaxWatch supports the proposed legislation which will give the state business community some breathing room, Florida workers a greater chance for employment, and allow time for the recovery of the job market in the long-term.

APPENDIX:

Table 1: The State UC Rates based on the Current Law

	State UC Tax				
	Minimum Tax Rate	Effective Tax Rate *	Maximum Wage	Per Employee @ minimum rate	Per Employee @ maximum rate
2009	0.12%	1.56%	\$ 7,000	\$ 8.40	\$ 378.00
2010	1.18%	3.53%	\$ 8,500	\$ 100.30	\$ 459.00
2011	1.93%	4.00%	\$ 8,500	\$ 164.05	\$ 459.00
2012	2.27%	4.14%	\$ 8,500	\$ 192.95	\$ 459.00
2013	2.21%	4.09%	\$ 8,500	\$ 187.85	\$ 459.00
2014	1.86%	3.88%	\$ 8,500	\$ 158.10	\$ 459.00
2015	0.91%	3.11%	\$ 7,000	\$ 63.70	\$ 378.00
2016	0.65%	2.88%	\$ 7,000	\$ 45.50	\$ 378.00
2017	0.59%	2.83%	\$ 7,000	\$ 41.30	\$ 378.00
2018	0.55%	2.79%	\$ 7,000	\$ 38.50	\$ 378.00
2019	0.51%	2.74%	\$ 7,000	\$ 35.70	\$ 378.00

Source: Florida Office of Economic and Demographic Research (EDR)

* Taxes divided by taxable wages for the appropriate time period

Table 2: The State UC Rates based on the Proposed Legislation

	State UC Tax				
	Minimum Tax Rate	Effective Tax Rate *	Maximum Wage	Per Employee @ minimum rate	Per Employee @ maximum rate
2009	0.12%	1.56%	\$ 7,000	\$ 8.40	\$ 378.00
2010	0.36%	2.53%	\$ 7,000	\$ 25.20	\$ 378.00
2011	0.77%	2.95%	\$ 7,000	\$ 53.90	\$ 378.00
2012	1.95%	3.88%	\$ 8,500	\$ 165.75	\$ 459.00
2013	1.82%	3.74%	\$ 8,500	\$ 154.70	\$ 459.00
2014	1.55%	3.56%	\$ 8,500	\$ 131.75	\$ 459.00
2015	1.03%	3.16%	\$ 8,500	\$ 87.55	\$ 459.00
2016	0.91%	3.10%	\$ 8,500	\$ 77.35	\$ 459.00
2017	0.65%	2.91%	\$ 7,000	\$ 45.50	\$ 378.00
2018	0.57%	2.81%	\$ 7,000	\$ 39.90	\$ 378.00
2019	0.53%	2.77%	\$ 7,000	\$ 37.10	\$ 378.00

Source: Florida Office of Economic and Demographic Research (EDR)

* Taxes divided by taxable wages for the appropriate time period

Table 3: State UC Taxes, Benefits, Federal Advances, and Interest based on the Current Law

	Taxes	Benefits	Difference	Federal Advances	Extra Federal Tax Paid	Interest Dues
2009-2010	\$1,679.6	\$3,093.7	\$1,414.1	\$1,079.7	\$ -	\$0.0
2010-2011	2,417.5	3,067.7	650.3	650.3	-	54.3
2011-2012*	1,016.2	1,961.0	944.8	782.6	162.2	81.5
2012-2013**	4,421.6	2,485.1	-1,936.6	-2,270.8	334.3	82.4
2013-2014	2,721.8	1,814.6	-907.2	-241.8	515.4	6.8
2014-2015	2,171.5	1,749.5	-421.9	0.0		0.0
2015-2016	1,769.5	1,713.0	-56.5	0.0		0.0
2016-2017	1,716.1	1,680.8	-35.3	0.0		0.0
2017-2018	1,705.4	1,640.5	-64.8	0.0		0.0
2018-2019	1,694.7	1,565.6	-129.2	0.0		0.0
Total	21,313.9	20,771.5	-542.3	0.0		224.9

Data source: Finance and Tax Council, Florida House of Representatives

Table 4: State UC Taxes, Benefits, Federal Advances, and Interest based on the Proposed Legislation

	Taxes	Benefits	Difference	Federal Advances	Extra Federal Tax Paid	Interest Dues
2009-2010	\$550.3	\$3093.7	\$2,543.4	\$2,208.9	\$-	\$-
2010-2011	1369.9	3067.7	1697.8	1697.8	-	87.3
2011-2012*	1353.1	1961.0	607.9	445.7	162.2	158.2
2012-2013**	4104.5	2485.1	-1619.4	-1953.7	334.3	207.3
2013-2014	2495.3	1814.6	-680.8	-1196.2	515.4	107.9
2014-2015	2311.9	1749.5	-562.4	-1202.6	698.9	44.9
2015-2016	2205.7	1713.0	-492.7	0.0	886.4	1.5
2016-2017	1934.8	1680.8	-254.0	0.0		
2017-2018	1735.3	1640.5	-94.8	0.0		
2018-2019	1711.4	1565.6	-145.9	0.0		
Total	19772.4	20771.5	999.2	0.0		607.1091

Data source: Finance and Tax Council, Florida House of Representatives

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Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

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