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Paul E. Miller: Another bailout looms in W.Va.

By

CHARLESTON, W.Va. -- Policymakers are now suggesting that "surplus revenue" from the state's Rainy Day Fund be used to lend money to the state's financially strapped Unemployment Insurance Trust Fund to keep it from becoming insolvent by the end of 2010. Thirty-one other states have been unable to keep their unemployment insurance funds solvent in the recession.

Workforce West Virginia estimates that the Trust Fund currently stands at \$109 million while the balance in the state's Rainy Day Trust Fund is \$565 million. Should the Rainy Day Fund be used to cover inadequate revenues in the state's Unemployment Insurance Trust Fund, even in the short-term?

There are five reasons why the state should not:

First, jobless benefits will still continue to be paid to unemployed workers even if the state's UI Trust Fund becomes insolvent. The federal UI Trust Fund will pay benefits to jobless workers from revenues paid by employers directly to the federal government as part of their federal unemployment tax obligations. The federal government recoups these payments later from employers in the form of higher federal unemployment taxes.

Second, the pending insolvency of the unemployment trust fund is the result of 30 years of neglect and not adequately adjusting the taxable wage base to offset indexed increases in jobless benefits since 1981. Benefits to jobless workers have increased 120 percent since 1981; yet, the taxable wage, which forms the basis of determining the level of employer unemployment contributions, remained insufficient to cover the costs until the Legislature enacted Senate Bill 246 in 2009.

Third, the Rainy Day Fund is made up of surplus general revenue including personal income, sales, severance and other taxes and fees collected from the general public. The funding of the state's unemployment insurance, however, is the sole responsibility of employers who are assessed a tax for each employee up to the taxable wage base threshold. Using the Rainy Day Fund to avoid insolvency in the unemployment fund would result in the transfer of fiduciary responsibility from businesses, who've enjoyed paying too little for the past 30 years, to the general taxpayer, who will once again be asked to bail out the business community.

Fourth, other alternatives can help the state replenish its Unemployment Insurance Trust Fund. West Virginia received \$11 million already as a down payment toward modernizing its unemployment program. The state can collect another \$22 million once it completes the modernization process; the state must enact two out of four possible reforms that would extend coverage of unemployment insurance benefits to workers who are currently ineligible.

Finally, the use of Rainy Day funds should be reserved only for natural emergencies and unforeseen catastrophic events. The pending insolvency of the Unemployment Insurance Trust Fund doesn't qualify.

It is permissible, however, for the Legislature to spend "surplus revenues" from the Rainy Day Fund for any purpose deemed worthy. As a reminder, West Virginia has \$23 billion in unmet, major funding needs and another \$16 billion in unfunded liabilities. It is misleading, therefore, to conclude that West Virginia has \$565 million in "surplus revenues" because the state is still short \$38.5 billion to cover these liabilities.

If insolvency in the Unemployment Insurance Fund were to occur, jobless workers would continue to receive their benefits initially paid by the federal government and later paid back by businesses in the form of higher contributions. As a matter of fairness, "surplus revenues" should

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not be used to bail out businesses that have benefited from watching unemployment funds atrophy since 1981.

Rather, West Virginia should take steps to make permanent the temporary increase in the taxable wage base that was adopted in SB 246. The state could also adopt the remaining unemployment modernization reforms that would draw down another \$22 million in federal funding.

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