



Office of Program Policy Analysis And Government Accountability



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Follow-Up Report on the Unemployment Compensation Program Administered by the Department of Labor and Employment Security

Abstract

- The Department has developed a simulation model to assist the Legislature evaluate and consider options for improving the capacity of the Unemployment Compensation Trust Fund.
- The Department has developed a comprehensive set of performance measures for purposes of Performance-Based Program Budgeting.
- The Department is now charging state agencies interest on delinquent unemployment compensation taxes. The Department is also using more aggressive collection techniques to keep state and local government accounts more current.

unemployment and assists the countercyclical stabilization of the economy during recessions by maintaining workers' purchasing power.

One of the primary functions of the Program is to distribute benefit payments to qualified claimants. To receive benefits, claimants must first apply at Department field offices located throughout the state. During calendar year 1996, 263,956 claimants received initial benefits. Overall, qualified claimants received about \$664 million in total benefits. Weekly benefits averaged approximately \$178 per week for an average duration of 14 weeks. The Program also collects taxes from liable employers. Generally, employers with sufficient payroll history are assigned an earned tax rate, which can vary from 0.1% to 5.4% of the first \$7,000 of each employee's annual wages.

Purpose

In accordance with s. 11.45(7)(f), F.S., this follow-up report informs the Legislature of actions taken by the Department of Labor and Employment Security in response to Report No. 95-37, issued February 21, 1996. This report presents our assessment of the extent to which the Department has addressed the findings and recommendations included in our report.

Background

The Unemployment Compensation Program in Florida was established as a direct result of the high unemployment experienced during the Great Depression of the 1930s and has been in operation in Florida since 1939. The Program provides workers temporary and partial insurance against income loss resulting from

Prior Findings

Capacity of the Trust Fund. At the time of the original report, we stated that the capacity of the Unemployment Compensation Trust Fund to pay for benefit payments had declined since 1989. The Fund's reserves in 1994 had the capacity to pay benefits for less than one year in a severe recession, while in 1989 the Fund's reserves could have lasted almost one and one-half years. Although the Trust Fund had a balance of \$1.6 billion at the end of calendar year 1994, solvency measures indicate the Fund's capacity may be inadequate to finance the benefits that would have to be paid if a severe recession developed.

To alleviate this condition, we recommended that the Legislature increase the size of reserves in the Trust Fund. To assist the Legislature in determining how much the reserves should be increased, we recommended that the Department develop a means to use the Program's database to evaluate the impact of several tax modification options available to the Legislature.

Reporting on Program Performance. We also reported that the Department has established goals, objectives, and performance measures for the Unemployment Compensation Program. Pursuant to federal regulatory requirements, the Department reports Program statistics to the federal government. However, it provided the Legislature with limited information about Program performance and accomplishment of its goals. As a result of monitoring Program performance internally, the Department determined that proposing a statutory change could reduce benefit payment errors and employer bookkeeping and reporting requirements.

We recommended that the Department develop and report a more comprehensive set of performance measures and outcome measures such as the solvency of the Unemployment Compensation Trust Fund. We also endorsed the Department's proposed changes to s. 443.111, F.S., which were intended to reduce benefit payment errors and employer administrative requirements.

Processing of Taxes. We reported that the Department's manual processing of unemployment taxes is labor intensive and was not the most cost-effective approach to handling these monies. The Department planned to redesign and automate this process, but had not yet completed its plans or cost estimates for automation. The Department also had not evaluated the alternative of contracting with the Department of Revenue or a private entity to process taxes.

We recommended that the Department, as part of its tax processing improvement planning, consider contracting-out some portions of its tax processing.

Tax Payment Enforcement. Lastly, we reported that some state and local government entities were not promptly paying owed unemployment compensation taxes. The Department had not been using all of the tax collection and enforcement tools provided by statute. In addition, the Department had not been charging state agencies interest on delinquent unemployment compensation taxes, which it was authorized to do by state law in order to encourage prompt payment of taxes.

We recommended that the Department begin charging state agencies interest for late payment of unemployment compensation taxes. We also recommended that the Department use all of its collection tools authorized in statutes to collect delinquent UC taxes from state and local government entities.

Current Status

Capacity of the Trust Fund. Since issuance of our report the Trust Fund has stabilized and no recession has occurred. However, OPPAGA remains concerned over the long-term ability of the Trust Fund to respond to increased unemployment compensation claim requests in the case of a severe recession. During its 1997 session, the Legislature passed a one-year tax cut and raised benefits. These actions place additional limits on the Fund's capacity to respond to a recession.

The Department reports that it is near to completing a means to evaluate the impact of various Trust Fund options, should the Legislature decide to consider increasing the capacity of the Trust Fund. The Department is developing a simulation model that will use the Program's database to forecast results of options such as raising the taxable wage base or changing the Fund size formula factor. Although these simulations will require mainframe computer runs for each option test, it is an important new tool available to the Department and the Legislature. The Department reports that the simulation model will be ready for use starting April 1998.

Reporting on Program Performance. The Department has developed a full array of performance measures for its participation in Performance-Based Program Budgeting. These measures are more comprehensive and will receive a detailed examination by OPPAGA as part of the Justification Review phase of Performance-Based Program Budgeting, scheduled for fiscal year 1998-99. When submitting its Performance-Based Program Budgeting performance measures for approval, the Department included a macro program indicator that reports on the capacity of the Trust Fund.

Processing of Taxes. The Department included contracting-out as an alternative in its tax processing improvement planning. Based on initial response from the Department of Revenue and one private contractor, the Department concluded that contracting tax processing was not a cost-effective alternative. However, the Department reported that it has not abandoned contracting-out as an option in its plans for automating tax processing.

Tax Payment Enforcement. The Department now charges state agencies interest on delinquent payment of unemployment compensation taxes. As a result of using more aggressive tax collection efforts, the Department reports the average time to collect unemployment compensation taxes from state and local government entity accounts has improved by 78%.

This project was conducted in accordance with applicable evaluation standards. Copies of this report may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302). Web site: <http://www.state.fl.us/oppaga/>

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