

Unemployment Insurance Deficit Financing Study

Supporting Material for OMB Clearance

Part A. Justification

The Chief Evaluation Office (CEO) of the U.S. Department of Labor (DOL) is sponsoring an analysis of alternative strategies for financing Unemployment Insurance (UI) benefits when trust fund balances are insufficient, referred to for simplicity as the UI Deficit Financing Study. This UI Deficit Financing Study, conducted by the Urban Institute, will describe and assess the methods and costs associated with various private financing methods for addressing UI trust fund deficits, as compared with the method for Federal financing.

The study is designed to answer the following research questions:

- What are the permissible methods for Unemployment Trust Fund (UTF) deficit financing, and what is the pattern and frequency of their use over the last three recessionary cycles?
- What are the consequences of not meeting statutory or financial obligations under the UTF deficit financing methods identified?
- What do states perceive as the potential benefits and potential challenges in their use of the different UTF deficit financing methods?
- What are the direct and indirect costs associated with obtaining and administering funds through the UTF deficit financing methods identified? What are the differences in costs and outcomes of different deficit financing methods? Are there optimal deficit financing methods with respect to cost given specific situations including deficit size, economic conditions, or legal constraints?
- How have States initiated and administered the bonding process, and how do states monitor these bond issuances to determine if repayment is appropriate or advantageous?
- How do State and National economic conditions, pre-, during and post-recession, as well as state solvency and credit rating affect state decisions in administering their deficit financing strategy?
- What factors appear to be associated with the increased use of bonds and methods other than Title XII loans for deficit financing over the last several recessionary cycles?

The study uses a mix of qualitative and quantitative methods to gather information that can be used to answer and address the research questions listed above. This package requests clearance for the following information collection instruments:

- 1) Semi-Structured Interview Guide– state UI representatives: to be used with state officials who can provide cost information on UI trust fund financing and perspectives on the decisions to use or not use bonds;
- 2) Semi-Structured Interview Guide – national experts: to be used with national experts who can provide a better understanding of how the bond market supports UI deficit financing or provide additional perspective on public finance, bonding costs, and bonding options.

1. Circumstances that make the collection of information necessary

DOL seeks to assess the strategies states use to finance state UI trust fund deficits and make decisions about financing. The study is designed to address the limited information and analysis available on the advantages and disadvantages of the borrowing methods that states use, including both federal and private financing. The study will also develop information on the economic, logistic, and organizational factors associated with why decisions are made to borrow from commercial sources, the municipal bond market, or Federal Title XII loans. Its goal is to help both federal and state officials better understand the comparative costs of the two financing options using simulation models and modeling the decision-making processes of states in making choices between the two options.

Federal financing for UI trust fund deficits is offered through the U.S. Treasury through the provisions of Title XII of the Social Security Act of 1935 and Federal Unemployment Tax Act of 1939 (FUTA) (P.L. 76-379). The Federal-State Unemployment Insurance system is authorized by Title III of the Social Security Act of 1935 (P.L. 74-271), and FUTA. The UI system provides payments to those registering as unemployed throughout this country. In most years, state UI payroll taxes exceed benefits paid and states accumulate reserve funds held by the US Treasury. The federal government pays interest on these funds and states can draw down positive fund balances in years when claims are elevated, unemployment spells are longer, or taxable wages are falling. This forward financing allows states to avoid raising taxes on employers or cutting benefits to workers in a recession and puts money in the hands of credit-constrained consumers most likely to spend it. UI, thus, functions an automatic stabilizer, or program that helps dampen the effects of recessions.

Due to the depth of the 2007-2009 recession (the Great Recession), payroll taxes and accumulated trust fund balances were inadequate to pay regular (26 week) benefits in 36 out of 53 state and territorial UI programs. States therefore borrowed a record \$41 billion from the federal government under Title XII of FUTA.

In addition, eight states accessed private capital markets by issuing municipal bonds and obtaining interim bank loans to repay Title XII loans. Although some states had previously accessed private capital markets to finance UI trust fund deficits, they had not done so on the scale of the 2007 downturn, when total private borrowing reached nearly \$11 billion. Moreover, two of the eight states (Illinois and Texas) also borrowed privately after the much milder recession of the early 2000s, suggesting a possible emerging pattern or trend.

No study has been conducted to understand why states elect to use different deficit financing methods their associated costs. DOL's Chief Evaluation Office (CEO) undertakes a learning agenda process each year to identify Departmental priorities for program evaluations. 29 USC 3224a (1), authorizes the Secretary of Labor to conduct ongoing evaluation of programs and activities to improve the management and effectiveness of these programs. This study is expected to assist DOL in understanding the advantages and disadvantages associated with various deficit financing methods. CEO contracted with Urban Institute to conduct the study.

2. How, by whom, and for what purpose the information is to be used

The main data collection activity will be to conduct interviews with administrators and professional staff from approximately eight states, including a mix of states that borrowed from the municipal bond market during the most recent recession, and those who used other methods of deficit financing. The interviews will provide in-depth qualitative information on the reasons for selecting a specific process for borrowing.

Interviews will be held with a variety of state UI representatives to obtain multiple perspectives on the factors that go into selecting borrowing methods, the relevant costs, and logistical aspects of obtaining and administering the funds.

In addition, interviews with national experts including bond market representatives and national UI experts will provide additional perspectives on cost variance among the different methods of UI deficit financing.

As part of this data collection, requests will be made, to appropriate state representatives, for existing data on the costs of obtaining funds. In most cases, these are loan origination documents which should be a matter of public record, but may also include available data on administrative costs and the estimated workload and burden associated with administering the funds and tax assessments to repay the principal and interest on the bonds when they fall due. There are no new information systems, or requests for information to be collected on a prospective basis, this information collection request is limited to existing financial and administrative records. These data will be used to support the development and benchmarking of a simulation model for research. The estimated burden for providing data responsive to this request is incorporated into the current estimates. Any additional burden in aggregating, processing and synthesizing the data is covered by the contract costs and Federal burden described in Section 14.

Analysis based on the information collected is expected to be of use to both Federal and state officials regarding all aspects of initiating, administering and optimizing the various borrowing methods. All materials developed from the analyses of these data collection efforts are intended to reach multiple audiences including DOL and U.S. Treasury officials, state officials responsible for making decisions about UI trust fund borrowing, researchers, policymakers at the state and federal levels of government looking to understand public finance, and others interested in understanding the experiences and lessons from different UI borrowing methods.

3. Use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology

Respondents will not interface with any automated, electronic, mechanical, or other technological collection techniques or other forms of information technology as a part of the data collection. Researchers will use minimal technology for data collection. The team will conduct interviews in-person and by phone. Interviewers will mainly take notes on a laptop computer. The study team will store electronic versions of site visitor notes on a confidential drive set up by the Urban Institute IT department.

4. Identification of duplication of data collection efforts

The information to be collect from state UI officials, bond market representatives, and national UI experts will be new and is not otherwise available publicly or through other studies. No assessment of the various borrowing methods being used by state UI systems has been conducted to date.

5. Impacts on small businesses or other small entities

The data collection will not impact small businesses or other small entities. All interview respondents are state employees, members of large bond issuing companies, or national experts who are part of nonprofit organizations.

6. Consequences if the data collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles in reducing burden

Given the significant expenditures involved in the federal-state UI system, and the role that it plays in both supporting our nation's workforce during a recession and the costs to states, it is critical to document

why certain states chose different borrowing methods during the last recession and their experiences in doing so. The data collected through the interviews are critical to this evaluation project, as they represent the only opportunity to gather comprehensive and in-depth information on the decisions made to use the municipal bond market or not. The data will be collected once during the two-year study.

7. *Special circumstances*

No special circumstances apply to this data collection.

8. *Public comments in response to Federal Register notice and consultation with outside representatives*

1) Federal Register Notice

A 60-day notice to solicit public comments was published in the Federal Register, 82 FR 58219 on December 11, 2017. During this time period, five comments from the public were received. Both the comments and the response are available in ROCIS.

2) Consultation outside the agency

Consultation on the research design and data needs is being coordinated by the study team and involves discussions with subject matter experts in the field of finance, as well as state program staff with intimate knowledge of how states access and use financing systems. The purpose of consultation with outside experts is to ensure the technical soundness of the study, and to verify the importance, relevance, and accessibility of the information sought in the study. These experts will formally provide feedback to the project team as the technical working group.

9. *Payment or gift to respondents*

There will be no payments or gifts to those who are interviewed.

10. *Assurance of privacy provided to respondents*

Information collected will be kept private to the extent permitted by law. All participants will be informed that the information collected will be reported in aggregate form only and no reported information will identify any individuals. Terms of the DOL contract authorizing data collection require the contractor to maintain the privacy of all information collected, unless written permission is provided by the respondent. The study team will protect personal information in accordance with Federal and state laws and contractual requirements.

Findings from the interviews may be presented at the state and organizational level, in order to provide detail and illustrative examples, but no individual respondents will be identified or quoted in any publication.

To protect site visit respondent's privacy, all hard copies of site visitor notes and audiotapes will be stored in a locked file cabinet when not in use. At the Urban Institute, electronic versions of site visitor notes will be stored on a confidential drive set up by its IT department. Access to this drive will be limited to research staff members who are working on the project and have signed the confidentiality pledge. A similar data security procedure will be followed for information obtained from the follow-up telephone interviews with program staff. Three years after the project is completed, notes will be shredded and electronic files securely deleted.

11. Additional justification for any questions of a sensitive nature

There are no questions of a sensitive, personal, or private nature included in the survey or the site visit interview guides.

12. Estimates of the hour and cost burden for the information collection

This package requests clearance for the following information collection instruments:

- 1) Semi-Structured Interview Guide– state UI representatives
 Researchers will conduct semi-structured interviews during visit to approximately eight states as a part of the data collection. At each of these states, we plan to interview approximately six UI representatives that may include state UI trust fund administrators, state Treasurer’s Office personnel, and representatives from other relevant financing agencies responsible for issuing tax-exempt and taxable bonds.
- 2) Semi-Structured Interview Guide-- national experts
 Researchers will conduct semi-structured interviews with approximately ten subject matter experts who have applied experience in state deficit financing or have experience and expertise on general state financing issues.

Table 1 summarizes estimates for the annualized hour burden and associated cost burden to respondents in responding to this collection of information. The estimated cost for the respondents presented in table 1 for staff at state agencies is based on median hourly wages for management occupations for state government, as listed in the May 2016 National Industry-Specific Occupational Employment and Wage Estimates, from the U.S. Department of Labor, Bureau of Labor Statistics and available on the Department’s website.¹ The cost burden for other respondents was estimated using the median wages in May 2016 for economists (SOC 19-3011) as most respondents in the national expert category are likely to be economists.

Table 1. Estimated Annualized Time and Cost Burden for Respondents

Instrument	Number of Respondents	Number of Responses per Respondent	Total Number of Responses	Average Burden per Response (Hours)	Total Annual Burden Hours	Median Hourly Wage	Total Annual Cost Burden
Semi-Structured Interview Guide-- State UI representatives ^a	16 ^a	1	16	1.5	24	\$41.20	\$989
Semi-Structured Interview Guide-- National experts ^b	3	1	3	1	3	\$48.58	\$146
Unduplicated Totals	19	--	19	--	27		\$1,135

^a The annualized number of respondents reflects 6 respondents per state in each of the 8 states divided by 3 years.

^b The annualized number of respondents reflects 10 respondents divided by 3 years.

¹ See: <http://www.bls.gov/oes/current/oesrci.htm>.

13. Estimate for the total annual cost burden to respondents or record-keepers resulting from the collection of information

The site visits and interviews will not require respondents to purchase equipment or services or to establish new data retrieval mechanisms. There are no capital/start-up or ongoing operation/maintenance costs associated with this information collection. There are no additional cost other than the respondents' time.

14. Estimates of annualized costs to the Federal government

The total annualized cost to the federal government is \$295,284. Costs result from the following categories:

The estimated cost to the federal government for the contractor to carry out this study is \$840,637. Annualized, this comes to \$280,212.

The annual cost borne by DOL for federal technical staff to oversee the contract is estimated to be \$15,072. We expect the annual level of effort to perform these duties will require 200 hours for one federal GS 14 step 4 employee based in Washington, D.C., earning \$47.10 per hour. (See Office of Personnel Management 2018 Hourly Salary Table at <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2018/GS.pdf>). To account for fringe benefits and other overhead costs, the agency has applied multiplication factor of 1.6:

$$200 \text{ hours} \times \$47.10 \times 1.6 = \$15,072.$$

Thus the total annualized federal cost is $\$280,212 + \$15,072 = \$295,284$.

15. Reasons for any program changes or adjustments

This is a new information collection.

16. Plans for tabulation and publication

After collecting the interviews data during the site visits, we will present it in summary formats that allow DOL and other stakeholders to better understand the reasons for borrowing from the bond market and the costs associated with it. Details of the programs will be summarized and tables, charts, and graphs will be used to illustrate the results.

Once the interviews are completed, the research team will prepare an internal summary report and submit it to DOL. The report will include findings from the site visits and a summary of the team's findings. The report will provide context for the team to develop state simulation models of the two borrowing methods. These models, along with the information collected through interviews done during the site visits will inform the final report, due toward the end of the study, that will draw conclusions about the costs of the two methods, and other factors that could influence the relative attractiveness of the two methods of borrowing.

17. Approval to not display the expiration date for OMB approval

The OMB approval number and expiration date will be displayed or cited on all information collection instruments.

18. *Exceptions to the certification statement*

There are no exceptions to the certification statement.