

NORTH CAROLINA GENERAL ASSEMBLY

REVENUE LAWS STUDY COMMITTEE

UPDATE ON ESC ISSUES

TRANSCRIPT OF THE PROCEEDINGS, EXCERPT
(TESTIMONY OF COMMERCE SECRETARY KEITH CRISCO AND
ASSISTANT SECRETARY LYNN HOLMES)

In Raleigh, North Carolina
Legislative Office Building, Room 544
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Reported by Rebecca R. LeClair, CVR

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1 CO-CHAIRMAN MCCOMAS: We're going to move
2 in now with Part III. Will the Committee stand at
3 ease for just a minute? We've got a few procedural
4 issues to take care of.

5 (RECESS, 10:11 A.M. - 10:15 A.M.)

6 CO-CHAIRMAN RUCHO: Okay. Well, let's
7 move forward to the next item of business.

8 As an effort for the Committee to
9 comprehend and understand the actions and what's
10 taking place regarding the Employment Security
11 Commission, the transfer over to the Department of
12 Commerce, which we applaud, I know Secretary Crisco
13 is a good partner in trying to get this problem
14 with ESC resolved. I hope today they can probably
15 show us the problem that exists, some
16 recommendations, and then subsequently Assistant
17 Secretary Holmes will be recognized to give a
18 report. And then there'll be some additional
19 questions subsequently.

20 Secretary Crisco, welcome to us. Happy
21 New Year to you, sir.

22 SECRETARY CRISCO: Thank you.

23 CO-CHAIRMAN RUCHO: Good to have you with
24 us. And the podium is yours.

25 SECRETARY CRISCO: Thank you very much.

1 Well, again, thank you for this opportunity to give
2 you an update on what is now officially called the
3 Employment Security Division of the Department of
4 Commerce.

5 My first and important task is to give a
6 very big, sincere voice of appreciation to
7 Undersecretary Dale Carroll, who in December made a
8 wonderful presentation, I understand, and stood in
9 for the other fellow over there, the tall, bald
10 guy, who was not around. And so he was able to, I
11 think, give a good update on what was going on at
12 that time. And I have some more progress to
13 report.

14 You'll be getting a lot of slides, so I
15 hope you're in good position to see what we're--
16 what we're going to be talking about.

17 Let me first of all review with you, if I
18 might, kind of the objectives of the merger and
19 what we're trying to do.

20 And number one is to improve customer
21 service for both employers seeking employees and
22 also for employees seeking work, so, again, it's a
23 double objective: implement the merger with
24 minimal impact on our customers; then consolidate
25 and improve the workforce-development efforts, and

1 there are many facets of that within our state; and
2 then leverage the labor-market data, which has been
3 around for a long time, to enhance our economic-
4 development efforts; and lastly and -- but very
5 importantly, to maximize savings not only to the
6 state, but, yes, federal resources, also.

7 Our implementation has taken really
8 four -- up to date, four main efforts: one -- and
9 I'll go into some detail on each of these -- is the
10 workforce and employment services area, policy
11 research and strategic planning and labor-market
12 info, and human resources and financial management.

13 First, and a very, very important area,
14 workforce development, employment services. You
15 may have seen that we made an announcement in
16 December that we have consolidated the entire
17 workforce area, formerly in what was called the
18 Employment Security Commission, in the Department
19 of Commerce, under a man, Roger Shackleford.

20 Roger was heading the Department of
21 Commerce workforce effort and has been in this
22 industry and doing this kind of work for 25 to 30
23 years. He's a real leader. I hope you know him.
24 If you haven't met him, you need to meet him. He's
25 viewed by the industry, so to speak, and by other

1 states in the nation as a real leader.

2 One of the most heartwarming comments was
3 made by Roger. Now, you and I are going through
4 this consolidation, and we see other consolidations
5 in state government and federal government, and
6 there are bumps in the roads, and there's some of
7 them are smooth. Roger came to us and said, "I've
8 been waiting for something like this to happen for
9 15 years. We've needed it for 15 years." So, you
10 should take some satisfaction in that we probably
11 did something right in -- and -- in getting this
12 group together, the consolidation and the focus and
13 the -- and the actual combined work will be great.

14 We have formed five teams underneath
15 Roger to study, come back, as we get deeper in the
16 weeds, so to speak, within those two organizations,
17 and how to pull it -- pull it together: workforce
18 WIA funds, policy and programs, technology
19 integration, which is a whole, again, world unto
20 itself, staff development, what kind of people we
21 need, what's the best type people for this merged
22 organization, and brand development -- that is,
23 what we call ourselves, what we need to be focusing
24 on, and what's -- what is our brand, and how do we
25 combine services.

1 There's about 70 people working on these
2 several committees. They have additional antennas
3 out to local workforce commissions, to many
4 stakeholder presentations before them, so -- and
5 the goal is, by mid-February, which is now only
6 about six weeks away, to have a presentation for
7 the total integration of how we move forward. But
8 those teams are working, have been working. They
9 have -- we have a leader assigned. And so I'm very
10 pleased to report where we are on that.

11 And again, as Roger said, they've all
12 been waiting around for somebody finally to do
13 this, and we finally did it. And so thank you for
14 helping us achieve that.

15 The other area that we would -- we have
16 taken specific leadership initiative is the general
17 area of policy research and strategic planning,
18 labor-market-info activity. You remember that
19 Labor Market was within the historical Employment
20 Security Commission, and the Policy Research was
21 for the Commerce. One had certain data; the other
22 had other data. And again, we believe the merger
23 will have a more honed-down, more-complete
24 information available.

25 Stephanie McGarrah has been appointed to

1 head that group, and she in turn has also assigned
2 five focus groups -- you have those on the slide --
3 Bureau of Labor Statistics programs, which we think
4 will be a separate department; Economic Analysis,
5 which was historically in Commerce, but how that
6 can be updated, be more complete; Occupational and
7 Policy Analysis. And the Workforce Research will
8 be part of helping Roger in his work, so -- and how
9 we deliver our information more efficiently and
10 more appropriately with some of the federal
11 standards.

12 So, those five groups are meeting. They
13 have the same timeline as far as reporting back and
14 getting an actual ongoing organization.

15 I know we're all interested in the status
16 of contracts that we have and the savings
17 achievement. The next speaker will speak a little
18 more to some of the contract situation, but as far
19 as the view out there, the study, we've talked
20 about many times on the UI debt and fund solvency.
21 RFP was initiated. We're in the process of
22 reviewing that, the results of that RFP. And we
23 hope to have something very soon on that. But it
24 was within the state purchasing procedure; we're
25 proceeding at -- under the time frame of -- that's

1 dictated there.

2 There were some budgeted savings for both
3 '11-'12 and '12-'13. We have certified the budget,
4 have identified those savings meeting the criteria
5 of the 251,000 and 377,000.

6 Let me informally say that -- again, we
7 certified that -- we hoped that it would be greater
8 than that, but that was at least -- we certified
9 the budget, that we will achieve those savings.

10 So, again, that's very quickly going
11 through kind of the status generally. The biggest
12 thing that we've done, I think, is to appoint an
13 Assistant Secretary for Unemployment Insurance.
14 And that Assistant Secretary is Lynn Holmes. And
15 Lynn is here today.

16 We're very pleased to have Lynn. Her
17 background in both the private sector and
18 government, both in -- and her work at the
19 Employment Security Commission since early 2010
20 gives her a good background to do this work. And
21 we're working closely with Lynn, and Lynn's working
22 very closely with us as we move forward.

23 And I'm going to ask Lynn to come forward
24 now --

25 CO-CHAIRMAN RUCHO: Mr. Secretary?

1 SECRETARY CRISCO: Yes.

2 CO-CHAIRMAN RUCHO: Before we just do
3 that, may we ask if the Committee has any questions
4 of you?

5 SECRETARY CRISCO: That'd be fine.

6 CO-CHAIRMAN RUCHO: Okay.

7 SECRETARY CRISCO: I'll be -- both now
8 and after Lynn's done.

9 CO-CHAIRMAN RUCHO: Yeah. Yeah. Right.

10 SECRETARY CRISCO: If there's some for me
11 afterwards.

12 CO-CHAIRMAN RUCHO: Okay. I mean, based
13 on --

14 SECRETARY CRISCO: Both. Both.

15 CO-CHAIRMAN RUCHO: -- on the Secretary's
16 comments up to this point, because we have a more
17 in-depth report coming on ESC, but Representative
18 Lewis.

19 REPRESENTATIVE LEWIS: Thank you, Mr.
20 Chairman. And I thank you, Mr. Secretary. I was
21 trying to write. You talk much faster than I can
22 write, and I --

23 SECRETARY CRISCO: I'm a Southerner --

24 REPRESENTATIVE LEWIS: -- apologize for
25 that.

1 SECRETARY CRISCO: -- so I can't talk too
2 fast.

3 REPRESENTATIVE LEWIS: Well, there's some
4 of us from the South actually say things twice, to
5 make sure people get them.

6 SECRETARY CRISCO: Right.

7 REPRESENTATIVE LEWIS: But I missed the
8 amount of certified save -- the amount of
9 certified --

10 SECRETARY CRISCO: Thank you. I'll be
11 glad to give you that.

12 REPRESENTATIVE LEWIS: -- savings that
13 you said.

14 SECRETARY CRISCO: Roughly \$251,000 in
15 this budget year and two -- 251,376, and in '12-
16 '13, \$377,064. And those were the initial
17 projected numbers. We have now certified those and
18 put them in the official budget. So, that's on
19 forecast, a businessman would say.

20 REPRESENTATIVE LEWIS: Thank you.

21 CO-CHAIRMAN RUCHO: Follow-up?

22 REPRESENTATIVE LEWIS: Yes, sir, Mr.
23 Chairman. Thank you, again, Mr. Secretary. I
24 don't know if the next presenter will get into
25 this. Did you want to go into, or will the next

1 presenter go into, how you met these goals? Or is
2 that a little bit further in the weeds than the
3 Chairman wants to go at this time? I'll be glad to
4 --

5 SECRETARY CRISCO: Well --

6 REPRESENTATIVE LEWIS: -- withdraw that
7 question if that's not where we want to go with it.

8 CO-CHAIRMAN RUCHO: Mr. Secretary, are
9 you comfortable with that question, or are you --
10 do you --

11 SECRETARY CRISCO: Well, it's -- very
12 frankly, it's in -- it's some personnel -- it's in
13 some assumed personnel changes. We don't have all
14 the details worked out yet, but we'll -- we will
15 make those -- the savings.

16 CO-CHAIRMAN RUCHO: Representative Lewis,
17 we can have the Secretary back another time as--

18 SECRETARY CRISCO: Yeah, we --

19 CO-CHAIRMAN RUCHO: -- as he proceeds
20 forward with that.

21 SECRETARY CRISCO: Yeah.

22 CO-CHAIRMAN RUCHO: Okay. Additional
23 questions?

24 SECRETARY CRISCO: Additional questions.

25 CO-CHAIRMAN RUCHO: Yes, sir, Senator

1 McKissick.

2 SECRETARY CRISCO: Yes, sir.

3 SENATOR MCKISSICK: Sure. A couple, Mr.
4 Secretary. I know during our last meeting, the
5 Lucas Group was identified as a company that met
6 all of the obligations for being considered
7 awarded, you know, the contract that was
8 contemplated under Senate Bill 99.

9 SECRETARY CRISCO: Right.

10 SENATOR MCKISSICK: And I was wondering
11 if this was the same group that was used in South
12 Carolina to do a similar evaluation, and if so,
13 what kind of findings came out of there that
14 might -- that -- or is it going to be close, or
15 analogous, or similar to what --

16 SECRETARY CRISCO: Well --

17 SENATOR MCKISSICK: -- we're looking for,
18 or what?

19 SECRETARY CRISCO: As to your first
20 question --

21 SENATOR MCKISSICK: Yes.

22 SECRETARY CRISCO: -- the Lucas Group you
23 talked about is the same group that did the study
24 in South Carolina. The Lucas Group -- the South
25 Carolina situation was a bit different than--in

1 several ways -- than North Carolina. I think they
2 should be considered.

3 And again, we're going through the RFP
4 submissions right now to look at how that would
5 fall out. But they are someone who have been in
6 this field, they've done it for many years, and
7 they've done -- worked more than just in South
8 Carolina. But they were the ones in South
9 Carolina. Again, you've got to make sure you're
10 apples and apples, and that's what we're trying to
11 do here.

12 SENATOR MCKISSICK: Sure. A quick
13 follow-up?

14 CO-CHAIRMAN RUCHO: Follow-up?

15 SENATOR MCKISSICK: Yeah. What findings
16 came out of South Carolina? If you are aware of
17 those or --

18 SECRETARY CRISCO: Well, I don't have all
19 the facts in front of me today, but they had
20 multiple issues, both in taxation and what I -- and
21 what I -- and also in the impact on -- the solvency
22 was an issue there, also. So, they had many
23 similar issues, but they had some other issues
24 that --

25 SENATOR MCKISSICK: Quick follow-up?

1 CO-CHAIRMAN RUCHO: Follow-up?

2 SENATOR MCKISSICK: Yeah. And let me ask
3 you this. I know last week I was reading the N&O,
4 and they mentioned this \$200 million in savings.
5 And I guess it goes to some of the same issues that
6 were just posed by Representative Lewis. I mean,
7 do we know at this point in time where those
8 savings will occur? And do we anticipate layoffs?
9 And if so, to what kind of magnitude do we think
10 those layoffs would be?

11 SECRETARY CRISCO: I don't -- I don't
12 have those.

13 SENATOR MCKISSICK: Okay. Quick follow-
14 up?

15 CO-CHAIRMAN RUCHO: Follow-up question?

16 SENATOR MCKISSICK: Yeah. Before we went
17 down this path, did the U.S. Department of Labor
18 provide any kind of guidance on whether they
19 thought this type of merger would be -- did they
20 look at it favorably? Did they feel there were
21 problems associated with it? Or what kind of
22 guidance did they provide, if we sought that?

23 SECRETARY CRISCO: I invite you to
24 discuss that also with the Assistant Secretary, who
25 was obviously very involved with the Department of

1 Labor more than I was during my -- prior to this
2 merger. But my understanding is, these type
3 mergers have taken place in many states, so --
4 which they've been involved both in helping and
5 advising. And I would certainly hope that they
6 would be doing that now.

7 It's hard -- I think the image of these
8 mergers being cookie-cutter, meaning the same in
9 each state, is wrong. And the Department of Labor
10 has been involved in many, many of them, and has
11 supported many of them. But again, it's -- it does
12 vary a bit by state. It's not a cookie-cutter
13 situation.

14 SENATOR MCKISSICK: Okay. And I guess
15 kind of a last follow-up, here.

16 CO-CHAIRMAN RUCHO: Last follow-up.

17 SENATOR MCKISSICK: In terms of the Board
18 of Review that's contemplated, has it been
19 established -- has it --

20 SECRETARY CRISCO: It has not been
21 established. And the one issue we have on the --
22 that we've reviewed with some of the leadership is,
23 it's still some legislative work we feel needs to
24 be done to give us the ability to have board
25 review. We've -- we encourage that to proceed,

1 because we need -- for full, full implementation,
2 we need a Board of Review in place.

3 SENATOR MCKISSICK: Is there money
4 involved --

5 CO-CHAIRMAN RUCHO: Thank you.

6 SENATOR MCKISSICK: -- for that? Funds
7 allocated at this time, or do we -- do you know?

8 SECRETARY CRISCO: Well, you know, that's
9 a budgetary issue for this body to determine.

10 SENATOR MCKISSICK: Thank you, Mr.
11 Secretary.

12 SECRETARY CRISCO: Thank you.

13 CO-CHAIRMAN RUCHO: Thank you.
14 Representative Howard?

15 CO-CHAIRMAN HOWARD: Thank you. Mr.
16 Secretary?

17 SECRETARY CRISCO: Yes.

18 CO-CHAIRMAN HOWARD: Under the --
19 following up with Senator McKissick's question:
20 When do you anticipate that the study will begin?
21 The RFP has been let. It's --

22 SECRETARY CRISCO: We are in final
23 stages. You know, it's hard for me to give you a
24 date, because, again, the State's purchasing
25 issue's got to be reviewed. But we're at -- we're

1 at the end part of that review. But soon, whatever
2 that means. I mean --

3 CO-CHAIRMAN HOWARD: Soon?

4 SECRETARY CRISCO: Soon. I mean, yeah.
5 Hopefully, I'm not going to be standing here again
6 without this stuff. But I've -- sorry.

7 CO-CHAIRMAN HOWARD: And just one other
8 question --

9 SECRETARY CRISCO: Yes.

10 CO-CHAIRMAN HOWARD: -- regarding that
11 study.

12 CO-CHAIRMAN RUCHO: Follow-up?

13 CO-CHAIRMAN HOWARD: Will that also study
14 tax issues and also the responsibilities of the
15 Department? What was actually --

16 SECRETARY CRISCO: Actually, the first --

17 CO-CHAIRMAN HOWARD: -- included in that?

18 SECRETARY CRISCO: Actually, this RFP, at
19 the end of the day, when we -- finally a submission
20 was -- was on the financial stability of the fund
21 only, but there's anticipation that there will be a
22 study on organization and responsibility,
23 et cetera, because we need in place some of our
24 advisor groups, which we've talked about would help
25 us with that, also.

1 CO-CHAIRMAN HOWARD: Okay.

2 CO-CHAIRMAN RUCHO: Any other questions
3 from members of the -- Senator Hartsell?

4 SENATOR HARTSELL: Thank you, Mr.
5 Chairman. Just fairly quickly, going back to this
6 Board of Review question.

7 SECRETARY CRISCO: Yes, sir.

8 SENATOR HARTSELL: The statute -- the
9 session law that we adopted identified that we have
10 that Board of Review in place by the 1st of
11 November '11.

12 SECRETARY CRISCO: Right.

13 SENATOR HARTSELL: And I understand it is
14 not in place.

15 SECRETARY CRISCO: It is not in place.
16 And the reason -- you want me to give you a
17 specific --

18 SENATOR HARTSELL: Please.

19 SECRETARY CRISCO: -- don't mean to
20 interrupt -- is that there was no stipulation for a
21 salary, what they should be paid. And it's
22 basically a full-time position. And we need to --
23 we need clarification in order to identify staff.
24 We understand this body needs to establish the
25 salaries. And as soon as that's done, we're ready

1 to go.

2 SENATOR HARTSELL: Follow-up?

3 CO-CHAIRMAN HOWARD: Follow-up?

4 SENATOR HARTSELL: In which case this
5 reduction of roughly \$300,000 in the two fiscal
6 years, as you identified, is still subject to
7 probably an additional appropriation associated
8 with those salaries, would it not be, so we don't
9 have that kind of reduction?

10 SECRETARY CRISCO: Well, yes. But let's
11 don't assume that --

12 SENATOR HARTSELL: Okay.

13 SECRETARY CRISCO: -- till we get into
14 it. Plus, it's about \$500,000, or 250 -- it's
15 about 600,000 in the--in the two years. It's 250
16 and 370, in two successive years.

17 CO-CHAIRMAN RUCHO: Members of the
18 Committee, any other questions? Just a comment,
19 Mr. Secretary?

20 SECRETARY CRISCO: Yes.

21 CO-CHAIRMAN RUCHO: I'm -- I do applaud
22 your work on the job training. I remember, back
23 when we -- when I was here the first time, we made
24 an effort to consolidate. Big step forward. I
25 hope you'll work with the community colleges --

1 SECRETARY CRISCO: Yes.

2 CO-CHAIRMAN RUCHO: -- also in that
3 effort. I think it's time that we can really help
4 out the workers in preparing them for the jobs of
5 the future.

6 SECRETARY CRISCO: We've already been in
7 communication with the community colleges, with the
8 president, and we anticipate doing that.

9 Now, let me -- again, as I said I would
10 do -- introduce Assistant Secretary Lynn Holmes.
11 And she will continue our presentation. There'll
12 be questions, I'm sure, of her, and I'll be glad to
13 come back up. Thank you very much.

14 CO-CHAIRMAN RUCHO: Thank you, Mr.
15 Secretary. Ms. Holmes, welcome. Happy New Year.

16 ASSISTANT SECRETARY HOLMES: Happy New
17 Year.

18 CO-CHAIRMAN RUCHO: And you've got a
19 presentation now in regards to questions that have
20 been represented. Correct?

21 ASSISTANT SECRETARY HOLMES: Yes. Thank
22 you.

23 CO-CHAIRMAN RUCHO: Thank you, ma'am.

24 ASSISTANT SECRETARY HOLMES: Good
25 morning. Good morning, Senator Rucho -- Chairman

1 Rucho, Representative McComas, and Representative
2 Howard. Good morning, members of the Committee.

3 I'm happy to be here this morning to
4 discuss the questions forwarded to me by the
5 Committee staff with reference to the Employment
6 Security Commission/Division of Employment
7 Security.

8 Let me say at the outset that I have the
9 utmost respect for this body. Some of you know
10 that I was a lobbyist here at one point in my
11 career. And at the Division of Employment Security
12 and -- first at the Division of Employment
13 Security, as well as Employment Security
14 Commission, we have done our best to be responsive
15 to this body.

16 So, we had a good meeting with Senator
17 Rucho and Representative Howard, Secretary Crisco
18 and I, yesterday. And so we look forward to
19 continuing to work with this Committee. It has
20 been our goal to always be responsive, and so I
21 wanted to at least get that out at the outset.

22 Secretary Crisco has covered several of
23 the questions that -- the first three questions, in
24 fact -- that were sent to us by the Committee. And
25 I -- it's my task to cover the vast majority of the

1 rest of them.

2 And so you have in front of you a very
3 large deck, a fairly thick deck. And we'll try to
4 go through this as soon -- as quickly as possible.
5 And to the extent that you have questions, we'll be
6 happy to answer them. Secretary Crisco and I
7 talked earlier. If there are questions of both of
8 us even after this presentation, we'll be here as
9 long as we need to be to answer questions.

10 So, we will start with the deck. I
11 want--I wanted to start with at least context,
12 because many times, I think, there's some
13 misunderstanding about what we do at the former
14 Employment Security Commission as well as the
15 Division of Employment Security, just to give you
16 some sense of the vastness, the volume, of the
17 organization.

18 Before the merger, the Commission
19 employed 1900 individuals in 100 service locations.
20 It's principally federally funded, and so, Senator
21 Hartsell, when you asked the question about board
22 review, it's likely that those positions would be
23 federally funded, given what the work is. So, I'm
24 not sure we'll have any general-fund impact once
25 these allocations are -- they'd have to be

1 allocated, but they may not have any general-fund
2 impact.

3 The federal funding is about \$250 million
4 in federal administrative funding, about \$19.5
5 million in state appropriations, 25 direct federal
6 program grants. And I think it's important to
7 mention the program grants, because they're not
8 just grants that you can put anybody on in terms of
9 doing the actual work. Anybody who does work on
10 federal program grants has to be working on the
11 work of the grant. For example, if you're working
12 on unemployment insurance, you have to be able to
13 do that. So, there's not very many opportunities
14 for split funds -- split funding, split positions.

15 The major programs in addition to
16 unemployment insurance was the Employment Service,
17 which is funded by the Wagner-Peyser grants. Of
18 course, with the new changes at Department of
19 Commerce, that's also going to be with Wagner-
20 Peyser as well as the Workforce Investment Act
21 funds.

22 And then finally, Labor Market
23 Information, and those -- that particular program
24 is funded by the Bureau of Labor Statistics.

25 So, those are the major programs that

Once again, on the next page, other
overview information: Over the last year, the
organization paid out \$1.4 billion in regular
unemployment benefits, paid \$3.8 billion in total
UI benefits. And the distinction is that total UI
benefits includes all of the Emergency Unemployment
Compensation funds, extended benefits.

10 We paid unemployment benefits to--in
11 2010--682,073 individuals. And that represents
12 people who got at least one unemployment-insurance
13 check. There are over 195,000 liable employers,
14 employers who are -- who have to pay unemployment-
15 insurance taxes in this state. And we served, over
16 the last year, between July 2010 and June 2011,
17 883,544 registered applicants, adjudicated over
18 100,000 claims in 2010, and held 53,565 appeals
19 hearings in 2010.

20 So, I wanted to give you a sense of -- a
21 sense of the context of what we do, serve several
22 customers -- a whole range of customers, employers,
23 job seekers, dislocated workers, veterans. We've
24 listed all of them on that page.

I wanted to also give you a sense of,

1 once again, the context. I think agencies like
2 ours have all been pressured over the last three
3 years. This is the longest recession in a long,
4 long time. And many of the agencies have never
5 been -- were never prepared to deal with not only
6 the volume but certainly the length of this
7 recession. So, when you see -- when you look at
8 the comparison of before the recession and the kind
9 of volume in terms of claims and benefits and
10 appeals cases, you see that many cases between 2007
11 and, say, 2009, you're seeing a 100-percent
12 increase just in the volume of work.

13 And let me just say this, as well, that
14 there -- we have a really good team of people,
15 public servants, at the Division of Employment
16 Security, many of whom have worked tirelessly,
17 really, over the last two or three years to serve
18 the citizens of this state, employers and
19 employees, job seekers, people who've lost their
20 jobs.

21 You probably recall or continue to hear
22 in the news about the various tiers, the various
23 extensions in benefits. The regular benefits,
24 state benefits, is about 26 weeks -- well, 26 weeks
25 of unemployment insurance. And then since 2008,

1 there have been four tiers -- and they're
2 highlighted here on this slide -- four tiers of
3 Emergency Unemployment Compensation, and also
4 extended benefits.

5 And you hear about 99 weeks. Some people
6 may be eligible. Everyone is not eligible to
7 receive 99 weeks of benefits. But that is how you
8 get to the 99.

9 Let me also mention that -- when you look
10 at the tiers and the -- and the various tiers over
11 the last several years, another challenge, in
12 addition to just responding to the volume, has been
13 just the information-technology challenges
14 associated with implementing the tiers.

15 In our agency, the information-technology
16 capacity really was launched in the 1980s. Some of
17 you may remember the late Betsy Justus, who was one
18 of my predecessors in this role. She was the one
19 who worked -- and you know she had an information-
20 technology background -- she was the one who
21 launched our system.

22 We have not had a new system since 1980.
23 And so one of the additional challenges is -- has
24 been to implement benefits, adding tiers, adding
25 extended benefits, going back and changing dates.

1 And that has been a huge challenge certainly not
2 only for our agency but for agencies like ours who
3 have aged and dated systems. The states that had
4 newer systems fared a lot better during this
5 period.

6 I've listed the questions again so you
7 can see. Secretary Crisco answered the first
8 three. And the balance of them are ours. What we
9 tried to do was to put the questions together as
10 they made sense, so we don't plan to go down the
11 list.

12 One thing I do want to mention -- and
13 this says "Question 6," but I wanted to get this
14 out at the outset. And I think as one of our
15 handouts we've given you a summary of -- really, a
16 comprehensive summary of all of the appearances
17 that representatives from the Employment Security
18 Commission and the Division of Employment Security
19 have made over the last several years.

20 The -- what you have at your desk is much
21 more comprehensive. What we've put in the slide
22 just really begins at 2005, just to give you some
23 sense of, leading up to the recession, the kinds of
24 information that we brought to the General
25 Assembly, to at least begin to sound the alarm that

1 we were headed toward insolvency.

2 My predecessor, Chairman Moses Carey,
3 started in this job in January 2009. And I think
4 he had only been here 30 days when our trust fund
5 became insolvent. And so we have been working in
6 that environment since February of 2009.

7 In addition to these discussions, we--
8 obviously, we've had a lot of informal discussions
9 with--and member inquiries, confidential member
10 inquiries, other informal discussions. There have
11 been press accounts that talked about the trust
12 fund, as well.

13 The next slide just gives you more more-
14 recent presentations to the Committee. As a matter
15 of fact, Kevin Carlson, who is here -- he's our
16 chief financial officer at the Division -- was here
17 in this space last year, January 5th, talking about
18 trust-fund issues, as well.

19 I wanted to really look at Questions 8
20 and 7. The questions are an analysis -- Number 8
21 is, "An analysis of the number of North Carolinians
22 unemployed, the average number of weeks a person
23 receives UI benefits, the average amount of UI
24 benefits a person receives, the number of people
25 who work part-time and receive UI benefits," and

1 also, "A description of how North Carolina's
2 unemployment numbers are derived."

3 You'll see this is just a snapshot to
4 give you some sense of what the labor force looks
5 like. And we've shown you the difference, or
6 the -- yeah, some of the differences between last
7 year, November 2010, and this year. And that's the
8 latest. These are the -- this is the latest data
9 that we have available.

10 We've also included -- and if you -- you
11 also have on -- at your desk an "NC Today." Our
12 Labor Market Information Division does a wonderful
13 job in putting together data and maps. And we
14 wanted to give you the first representation, just
15 to give you some sense of the trust fund -- trust-
16 fund regular benefits paid by county between July
17 2008 and June 2011. That doesn't lay completely
18 down with the technical dates for the recession.
19 The recession actually started in December 2007,
20 although in North Carolina the impact -- we lagged
21 a little behind.

22 And so we wanted to show you just the
23 amount of benefits in that time period. You can
24 see here counties here. And of course over that
25 period, there were -- there was \$6.2 billion in

1 statewide benefits.

2 The other thing I'd like to mention--and
3 I know many of you have seen this statistic--the
4 U.S. DOL mentions this quite a bit. There was a
5 study commissioned by the U.S. DOL under the Bush
6 Administration that said for every dollar spent on
7 unemployment benefits, two dollars are paid back
8 into the economy, into the local economy. So, in
9 addition to providing support for North
10 Carolinians, benefits provide stimulus back into
11 the counties of our state.

12 This is another map, which gives the
13 total for all programs. And that includes the
14 various tiers that I mentioned, as well as extended
15 benefits. And over that same period, we're looking
16 at \$13.3 billion in benefits.

17 The next one is just a year--same--
18 similar map. Just wanted to give you a year's
19 representation: 1.4 regular benefits, 3.8 total
20 benefits.

21 The next question relates to calculating
22 the unemployment rate. And I'm a little out of
23 order with the slides, here. Okay. Yeah. And
24 it's really Question 7. It's Question 7, "A
25 description of how North Carolina's unemployment

1 numbers are derived." And I think this question,
2 as I understand it, came up in the last meeting.

3 First of all, I need to say that the
4 unemployment rate is calculated by the Bureau of
5 Labor Statistics. It is not calculated here in
6 North Carolina. That has been the case since
7 about, as I understand it, 1989, as Web-based
8 applications, Internet applications began to take
9 off. So, the Bureau of Labor Statistics actually
10 does the calculation of the unemployment rate.

11 And the way that it happens--I think we
12 have it here on the slide--at the national level,
13 the rate is computed from data collected through a
14 monthly national survey, a Web-based application.
15 It's called the "Current Population Study." People
16 call it the "Household Study." Approximately 6000
17 households are surveyed nationwide and the
18 responses are utilized in the development of
19 statistical estimates.

20 And I think "estimates" is the key word.
21 Many times, we get wrapped around some of the
22 estimates, because they do change; they get revised
23 from month to month. But that's part one of how
24 the rate is calculated.

25 The second part of the rate is the--the

1 second part of the whole process--the rate is
2 calculated by using another survey, called the
3 "Local Area"--"LAUS" is the short word, and I've
4 lost the--I've lost the full text, here. But it's
5 the Local Area Unemployment Statistics, LAUS.

6 And we work with the Bureau of Labor
7 Statistics. We put in sub-state information, based
8 on claims, into a BLS Web-based model. And those
9 two surveys taken together, BLS then takes all of
10 that information and determines what the rate is.
11 And they approve--they approve it and go through
12 the whole process. So, it's not a process that's
13 generated here in North Carolina; it's really run
14 by the Bureau of Labor Statistics.

15 Which was--we put this slide in because
16 so many people wanted to know the distinction
17 between "seasonally adjusted" and "nonseasonally
18 adjusted." And I think I showed an earlier slide
19 with that distinction. This gives you the
20 explanation about the seasonal adjustment.

21 Back on Question 8, the ones that I read,
22 the average duration for regular UI benefits over
23 the last year was 16.3 weeks. And we wanted to
24 give you some comparison, so the average duration
25 for the first quarter 2008 was 13.7 weeks. It was

1 just as North Carolina was being impacted by the
2 recession. At probably the height of the
3 recession, in 2010, the average duration was 18.2
4 weeks. So, you see the difference. Obviously,
5 we're, hopefully, moving in the right direction
6 with a fewer number of weeks.

7 In November 2011, the average weekly
8 regular-UI-benefit amount was \$278.33. In January
9 2008, just as a way of comparison, the average
10 weekly regular-UI-benefit amount was \$265.77.

11 The next few slides deal with part-time
12 employment. And I don't want to go into any
13 detail, but the bottom line to all of this is that
14 our current law provides that part-time claimants
15 can indeed get UI benefits. Obviously, they don't
16 get the same level of benefits as persons who have
17 worked full time, but the current law provides for
18 that.

19 And I guess let me add at this point,
20 too--and I hope we have a chance to talk about
21 different questions. And we talked about this a
22 little bit yesterday with Senator Rucho.

23 Our role in this--in this process has
24 really been to implement the law as we have found
25 it. We--there are--there are regulations, there

1 are other rules, but what we do is--particularly on
2 the unemployment-insurance side--is very much
3 driven by the statute. And so we try to respond to
4 whatever the General Assembly says we ought to do.
5 And so when you see some of these--some of these
6 issues, these are issues that we have responded to,
7 as the agency that implements the Employment
8 Security law, Chapter 96.

9 Question 9, "Steps the Division of
10 Employment Security takes to help unemployed people
11 find work and help businesses who have a shortage
12 of employees find trained or qualified workers":
13 Senator Rucho just mentioned the community
14 colleges. What we do at the Division of Employment
15 Security is really just part of the whole Workforce
16 Development system.

17 As you--most of you know, we have local
18 offices in most of the counties here in the state,
19 and so we provide--kind of on the ground, we're
20 kind of the first face for many people. We do
21 offer reemployment services, as you see on this
22 slide.

23 We offer services--we've begun to offer
24 services for people who have exhausted their
25 benefits. One of the downsides of this recession

1 is that we're seeing more and more people who are
2 on unemployment insurance for a longer period of
3 time and may or may not be eligible for benefits
4 for an extended period of time. So, we have worked
5 with some of the other agencies in the state to
6 make sure that we--to make sure that people know
7 other options and other alternatives as they're
8 looking for work.

9 We work closely with the--with the
10 community colleges. We work closely with what had
11 been Roger Shackleford's group at the Division of
12 Workforce Development.

13 And I clearly agree. When I first came
14 to this role, I went to Atlanta, to our regional
15 U.S. DOL office, to ask them, "What are the states
16 that do this right? What are the states that are--
17 that are the leaders, in essence, in work for
18 development?"

19 And they mentioned to me that those
20 states that have combined the Division of Workforce
21 Development, the WIA--Workforce Investment Act--
22 programs/activities with the Wagner-Peyser group.
23 You'll know the Workforce Investment funds your
24 local--local Workforce Development boards. And so
25 I think that we'll get some good synergy with the

1 consolidation of those two--those two groups.

2 We also do employer outreach. We do--we
3 have a yearly Job Order Surge Campaign where we
4 work with employers to help them in their needs to
5 find workers.

6 In January of 2011, we launched a Web-
7 based application called NC JobConnector. This had
8 been--the process had begun a long time ago, but we
9 were able to get it off the ground, and it's--it
10 was a good partnership, frankly, with employers.
11 Employers came to us and asked us how can we help
12 them find the right kind of workers. Sometimes, in
13 some of the big job boards, it's catch as catch
14 can. But we were able to work with them and work
15 with our IT group and come up with a NC
16 JobConnector. And we've gotten quite a bit of
17 positive response, particularly from employers.

18 Also, the workforce--Work Opportunity Tax
19 Credit program, as well as we have a very extensive
20 Veterans Employment Service program that's also
21 funded by U.S. DOL, their Veterans and Employment
22 Training group.

23 Next, we'll go to Questions 5 and 6,
24 "Trust Fund Analysis." This is a slide that we use
25 quite a bit, once again, just to give you a current

1 graphical representation of the trust-fund money
2 flow from the various funds that make up what we do
3 to Total Benefits Paid. You'll see at the bottom,
4 "Total Benefits Paid," but it shows you the federal
5 benefits, which is--which really is the bucket that
6 includes Emergency Unemployment Compensation,
7 extended benefits, the federal loans--which we have
8 been using since February 2009--employer
9 contributions, as well as trust-fund interest and
10 the--and the large trust fund.

11 So, all those funds contribute to the
12 cash flow--current cash flow. Obviously, this is
13 not the optimum, but this is the current monetary
14 flow.

15 As I mentioned, we have 195,000 or so
16 liable employers. We've given the breakdown there.
17 There are reimbursable employers that don't pay
18 into the--into the trust fund. Those typically are
19 nonprofits and government entities.

20 This gives you a sense of the--where we
21 are with the experience-rated accounts.
22 "Experience-rated" in this state means those
23 employers that we--they're taxed based on their
24 layoff history, their experience with layoffs. And
25 so that's--that gives you a sense of that.

1 The annual tax computation is computed
2 every July 31st. And this is the current--this
3 shows you the shake-out of the current tax rates.

4 We only have about 25 percent of our
5 liable employers that would see higher rates in
6 2012, 36 percent lower, and 74,000, or 38 percent,
7 that would have no change in their taxes.

8 There are--and this is something that as
9 you talk about what happened with our trust fund, I
10 think there are several, several issues that you
11 can point to. And I think this slide just pretty
12 much lays out the convergence of several issues
13 that I think we were dealing with in this state.

14 One is the short recovery period between
15 recessions. We had a recession in the 2002-to-2004
16 time frame, and we in fact--our trust fund was
17 insolvent during that period, and we had to borrow,
18 and ended up paying back with tax-anticipation
19 notes. And then this recession, which came fairly
20 quickly, really didn't give, under the current
21 system, time for the trust fund to recover.

22 Also, an increase in the average duration
23 of weeks: This recession, as we've pointed out,
24 there were--there were longer weeks of people on
25 unemployment insurance, just to give you some

1 sense. I think we showed you the difference, but I
2 think even in pre-recession, we were looking at
3 maybe 10, 11, 12 weeks of duration at most.

4 The severity of this recession, and
5 frankly, the length of this recession, and also
6 tax-law changes--and I'm going to talk a little bit
7 more about that, but these were the contributing
8 factors that ultimately led, we believe, to
9 insolvency in 2009.

10 And I'm not going to go over these. Many
11 of you--some of you were here when this--when
12 these--some of these things took place. And we
13 weren't any different from any other states during
14 this time period. But there were several tax-law
15 changes that impacted our trust fund.

16 I see former Chairman Payne here. I
17 think he was here for some of that time. But
18 you'll see that these are the--and you can go back
19 when you want to, to look at this more carefully.
20 But this gives you a bit of history of the tax-law
21 changes that took place leading up to the 2009
22 insolvency.

23 This shows you, between 1995 and 2004, as
24 we were having the tax-law changes, how that
25 impacted--this shows you more clearly how this

1 impacted the trust fund. This slide does not
2 reflect any interest earned during that period, but
3 once again, does give you a good sense of the
4 impact.

5 This is another slide that we use
6 fairly--quite a bit, as a matter of fact, just
7 another graphical representation that shows the
8 difference the--the difference in the trends with
9 tax collections and benefits paid out. You'll see
10 the 2002-through-'4 time frame, that spike there,
11 and then of course the spike in the current
12 recession, see that the tax collections have
13 certainly lagged behind.

14 Another graphic representation just shows
15 the same thing.

16 This slide just gives the quote from
17 Title XII of the Social Security Act. The
18 Unemployment Insurance Act is part of the Social
19 Security Act. And the Social Security at Title XII
20 "provides for state advances"--most people call
21 them "loans"--"when a state determines their
22 Unemployment Fund will not have adequate funding to
23 allow for the payment of Unemployment Benefits."

24 As I mentioned, in February of 2009, when
25 Chairman Carey was here, our fund became insolvent,

1 and a decision was made--and it was not a decision
2 just only with the Commission; I think there were
3 several conversations that went on, discussions
4 with the current governor, with members of the
5 General Assembly, leaders of the General Assembly
6 at that time, to make a determination that in order
7 to pay benefits that were entitled to people who
8 were--who were--who needed benefits, that the state
9 would have to begin to borrow money. Our current
10 loan balance is \$2.6 billion.

11 Senator Rucho had asked me--and of course
12 the staff--in this--in the list of questions,
13 wanted us to talk about some of the--some of the
14 options that would--that we could recommend or that
15 other states are looking at. And other states have
16 begun to take a look at what they could do to begin
17 looking at their unemployment insurance.
18 Admittedly, we're one of 27, 28 states that
19 currently had outstanding loans. And so other
20 legislatures, just like ours, are looking for ways
21 to begin to start the process, to begin to make
22 sure that we're headed in the right direction.

23 One of the things that we were able to do
24 that we started the process--shortly after I
25 arrived in August of 2010, we formed an internal

1 committee to really look at tax policy. We didn't
2 look at anything beyond tax policy, just for that
3 short period of time, just to begin doing some
4 modeling.

5 We had U.S. DOL recommend staff to us,
6 who came down to North Carolina many times to help
7 us run a model, to run a benefit-financing model,
8 to begin giving us some idea about what was going
9 to be expected with respect to the tax side. Of
10 course, the tax side is just one part of the
11 process. But we had begun a process to begin
12 looking at it. It started in the summer of 2010.
13 And we pulled together staff, internal staff, both
14 from the--in the tax and benefits and legal
15 department, to begin looking at some of the
16 options.

17 We put together a report that came out in
18 February. As a matter of fact, I think in March of
19 2011, Deputy Chairman Clegg came over to the Senate
20 Finance Committee and talked about our internal
21 committee and the options that we looked at. And
22 these were the four options that came out of that
23 study: adjust the taxable wage base; we looked at
24 a new employer tax rate; modify existing tax
25 schedule; and eliminate zero-tax rate. And once

1 again, this was to begin the process of discussion
2 about what kinds of things we should be looking at.

3 The current taxable wage base in North
4 Carolina is indexed annually. And you can see it
5 represented in the--in the statutory authority
6 here. And the thinking is that if we adjust that,
7 that there--that could be another way to begin--to
8 begin recovering our trust fund.

9 At the current payout, we would need an
10 additional \$700 million in tax collections over the
11 next seven years to reach solvency. And so you see
12 that we will have to begin looking at some hard
13 issues and hard questions to begin to--to get our
14 trust fund back to solvency.

15 Adjust the standard beginning rate for
16 new employees, and you'll see--you'll see here--and
17 I don't go into a lot of the details. Here in
18 North Carolina, we have a 1.2-percent new-employer
19 rate for the first two years of liability. And
20 there are only a few states--I think we're maybe
21 one of three states that still have a rate that
22 low. So, one of the suggestions from the Committee
23 was to perhaps change the new-employer rate from
24 1.2 percent to 2.7 percent.

25 The other was, eliminate the zero-percent

1 tax rate. Only 11 states still have zero percent
2 on their highest-tax-rate schedule.

3 And the other was to adjust the tax rates
4 for debit-ratio employers.

5 I also wanted to include other options
6 that states are looking at to deal with solvency.
7 Obviously, U.S. DOL has been a part of the process,
8 too. They are continuing to look at legislation,
9 regulations to encourage states to plan better,
10 frankly, to plan to be prepared for the next
11 recession, which we know is surely coming.

12 But one is, "Impose new penalty
13 unemployment insurance contribution rates on
14 employers who are out of compliance due to failure
15 to file or failure to pay." New York, Ohio, and
16 Pennsylvania have begun to do that.

17 "Impose temporary solvency surcharges":
18 18 states have begun to impose that. And the--just
19 as a sidebar, although we have--we had to have
20 Title XII advances, we were prepared in this state
21 without any temporary solvency surcharges because
22 we did have a state surcharge already in place, and
23 that provided the interest payments, which--we had
24 to make the first one in 2011, at the end of the
25 federal fiscal year, of about \$70 million. So, we

1 were prepared in that regard.

2 "Impose a tax on employees": Alaska, New
3 Jersey, and Pennsylvania have done that.

4 "Participate with the IRS in the
5 Questionable Employment Tax Practice initiative."
6 And this is a program that helps identify employer
7 tax fraud.

8 These are some other options that we
9 know. Other states are looking at "Eliminate non-
10 charging of charges for UI benefits"; "Adjust the
11 maximum number of weeks"--some states have begun to
12 do that; "Adjust the minimum and maximum weekly
13 benefit amounts," and we've listed what the current
14 minimum and maximums are in North Carolina.

15 Question 5 on the list is a comparison of
16 North Carolina to other states as it relates to the
17 UI tax structure, UI debt levels, UI benefits, and
18 UI appeals processes and decisions.

19 We discovered a report the Tax
20 Foundation--some of you may be familiar with the
21 Tax Foundation based in Washington. It's a
22 nonpartisan group. And they have done a really,
23 really good study that I would commend to you, if
24 you really want to get into these details, on the
25 options and just the state of unemployment

1 insurance.

2 And so these are some of the findings
3 from the Tax Foundation report that I think could
4 be helpful as we move forward in looking at what
5 some of the options are. And I'm going to go over
6 these one-by-one, but this gives you--it aligns
7 with some of the things we've mentioned before.
8 But this is a nonpartisan report that also lays out
9 some of the issues.

10 This is just additional information on
11 employer taxes. I mentioned earlier that they're
12 experience-rated here in this state and computed
13 annually. Our tax-rate schedule is set forth each
14 year in accordance with Chapter 96-9(b)(3)(d).

15 Also, "Experience Rating of Employers":
16 Some are--some states have--are reserve-ratio
17 states, which we are one. And the other states are
18 benefit-ratio. And I have the distinction here.

19 I wanted to put this in the slide because
20 some states have also issued bonds in trying to pay
21 back their debt. And we've taken a look at Texas,
22 one state. Illinois just passed a law to begin to
23 issue bonds.

24 There is a--and the Treasurer's Office
25 knows more about this, because we've had some

1 conversations with them, and we would have to take
2 some additional--do some additional study to make
3 the determination about the difference between
4 issuing bonds with a reserve-ratio state and a
5 benefit-ratio state. I think there is a
6 distinction. I think the benefit-ratio states are
7 in a better position to let bonds.

8 The next few slides show you a comparison
9 of the taxable wage base. And the--and we pulled
10 out the 10 largest states, of which we are one.
11 But this shows you that--the difference between the
12 taxable wage, the lowest tax, the highest tax, the
13 new-employer rate, which I think gives you a good
14 view of how we compare with other large states.

15 The next slide--or the second thing would
16 be the benefit amounts for the same 10 largest
17 states. Once again, it gives you a good sense of
18 the distinction.

19 Let me also mention--and we didn't have a
20 slide specifically for this, but note--Question
21 Number 10 is the "Recommendations on what North
22 Carolina could do to reduce its unemployment rate
23 by reforming the eligibility process and UI benefit
24 structure."

25 We think that answer was embodied in what

1 we've gone through. I'm not sure that there's
2 necessarily a connection between the eligibility
3 process and the unemployment rate. But clearly,
4 there's a distinction--there's a connection between
5 reforming the eligibility process and the UI
6 benefits structure and our trust fund. So, some of
7 those issues that we discussed, I think, are
8 responsive to that question.

9 This is, once again, the 10 largest
10 states, and it shows the debt by comparison.
11 Illinois just passed a bill, so they have not paid
12 off their debt. But I think they intend to do so
13 soon, but because--as I recall, I think they intend
14 to--their target date is sometime in 2012.

15 The next slide shows the appeals process,
16 the 10 largest states. And that's still part of
17 Question 5. You'll see that there's a mix of
18 appeals entities: Some have appeals boards; some
19 have commissions; some have board reviews, as in
20 our new law.

21 The next slide shows how--under our
22 current law, the new law, how claims are
23 adjudicated.

24 This slide gives you--gives you some
25 sense of appeals in 2010. We have not collated all

1 of the 2011 data, but this gives you a bit of a
2 graphic representation of first-level appeals. I
3 think it's significant that the first-level appeals
4 are pretty much evenly split in terms of the
5 decisions between the claimant and the employer.

6 The second-level appeals, that percentage
7 is what percentage is affirmed on the next level.
8 What we did not have, and I can provide for you
9 later, with--but I think it's an interesting
10 statistic that even beyond the second-level
11 appeals, the ones that--the appeals that--decisions
12 that a court--what our success rate is at the--at
13 the next level, at the judicial level.

14 Finally, Question 4, which is really the
15 first question for us on this. You probably saw in
16 the news maybe 60 days or so--90 days or so ago,
17 there was a huge Wall Street Journal article about
18 a U.S. DOL report on improper payments.

19 "Improper payments" is really the term of
20 art, because it includes not only overpayments but
21 underpayments, as well. The U.S. Department of
22 Labor produces an annual report of U.S.--of
23 unemployment-insurance benefit integrity. And they
24 look at a sampling of cases. In North Carolina,
25 they sample about 520 cases, and they use a

1 benefit-accuracy measurement.

2 The \$549 million that was listed in the
3 latest report covers a three-year period, 2008 to
4 2011. Just to give you some context, over that
5 same period, I think you'll--you saw it in one of
6 the earlier slides--there was about 13 billion, 14
7 billion dollars in benefits, total benefits, paid
8 out during that same period.

9 So, while 549 million is a big number,
10 compared to the--to the context of how much was
11 spent out of benefits, it's not as big of a number.
12 Nevertheless, it is an important issue for us at
13 the Employment Security Commission, at the Division
14 of Employment Security.

15 Our--on the next page, you'll see that
16 the Benefit Accuracy Measure also includes what's
17 called an "improper payment rate based on the
18 review of randomly selected cases."

19 And our improper-payment rate in North
20 Carolina for that three-year period was 8.8
21 percent, lower than the national average, which was
22 11 percent. And we pulled out some neighboring
23 states to give you some sense of their improper-
24 payment rates.

25 Once again, when you look at the volume--

1 that's why I wanted to start the presentation kind
2 of giving you a sense of the volume over the last
3 several years. We're hopeful that as we move out
4 of the impact of this recession, that there can be
5 a lot of improvements made with benefit accuracy.

6 We are also--I'm going to have it on a
7 later slide. We're also in a consortium to improve
8 our system. Benefit-payment systems are not
9 systems you can just go to Best Buy and pull off
10 the shelf. There's a long process involved. U.S.
11 DOL underwrites it.

12 As a matter of fact, this is--we're kind
13 of in one of the first consortiums, because they
14 know, with the federal funding, that they will not
15 be able to underwrite new systems for every state,
16 so they have encouraged states to work together to
17 try to begin to plan for a system. We're already
18 in that process. It started, I think, in the 2009-
19 2010 time frame. But in addition to our new
20 system, certainly the wave receding a bit, I think,
21 will help us.

22 On the next page, it gives the various
23 causes of improper payments. And these are the
24 three major causes. These are the causes that were
25 put in the U.S. DOL report.

1 "Benefit Year Wages": "claimant
2 continues to claim and receive benefits after
3 returning to work." And I think it's just, in many
4 cases, a misunderstanding. So, we are--have
5 already worked on improving communication,
6 improving information for people getting claims.

7 "Separation Issues": "Employers or their
8 third party administrators"--because many employers
9 use third-party administrators to submit their
10 separation information. Sometimes, that's not
11 given to our organization timely.

12 And also "Work Search": "Claimants fail
13 to register with the state's Employment Service."

14 So, those are the three major causes of
15 improper payments.

16 I'd also like to add that we have a very
17 vigorous effort in recovering improper payments.
18 And so we--the Benefit Payment Group has lead
19 responsibility for doing that.

20 The "Improper Payment Rate," I've
21 mentioned before. These are the--some large
22 states, and it shows you their improper-payment
23 rate. Ours is 8.86 percent for that period, for
24 that report.

25 We have done several things to begin to

1 get at this whole issue of "UI Benefits Integrity."
2 We have--we are--we participate in a national
3 collaborative with 10 other states with U.S. DOL as
4 a--kind of a pilot group where we formed a cross-
5 section group--

6 (A STAFF MEMBER HANDS A CUP OF WATER
7 TO ASSISTANT SECRETARY HOLMES.)

8 ASSISTANT SECRETARY HOLMES: Thank you--
9 take a timeout, right? Thank you.

10 We've begun to implement weekly--and we
11 had not done this weekly, but we now implement
12 weekly cross-matches with the National Directory of
13 New Hires and develop automated processes to
14 immediately notify UI claimants when you get a,
15 quote, unquote, hit. So, we are part of the pilot
16 program with 10 states.

17 We are also planning to implement the
18 State Information Data Exchange System, and also we
19 have--we had begun to--as part of this
20 collaborative, we have a Cross-Functional Integrity
21 Task Force.

22 We've also--and I don't think we had it
23 on this slide. In the last 60 days, we have formed
24 a new UI Integrity Group, where we've put the fraud
25 team--UI Integrity Team together to really have a

1 more focused effort with respect to UI benefits
2 integrity.

3 I also wanted to mention, as we're ending
4 up, some other initiatives that we've been working
5 on over the last--certainly, since I've been there,
6 in the last couple of years, although one or two of
7 these issues had begun under Chairman Carey's
8 watch.

9 I mentioned the consortium, which is
10 called "SCUBI." This is the acronym. We're part
11 of four Southeastern states: North Carolina, South
12 Carolina, Georgia, and Tennessee. Tennessee's the
13 lead state. We've already gone through what is
14 called the "feasibility study phase," and we are
15 now headed toward the RFP phase. And so this--it's
16 quite an undertaking.

17 U.S. DOL has provided funds for this
18 whole process. We are one of two consortiums in
19 the nation. There's one in the West--I think
20 Wyoming, Colorado, Arizona--I think they're called
21 WyCAN, so somewhere out there--Nevada, maybe.

22 But this, we think, will put us--once we
23 get a new system, will put us on a good path toward
24 improving some of the improper-payment issues that
25 we've had over the last several years.

1 Also, we have a pilot program--and
2 Senator Hartsell knows about this--Opportunity
3 North Carolina. We--it's a pilot program. You've
4 heard in the national news about a program called
5 Georgia Works. And this is very similar to Georgia
6 Works, where you--we provide--we work with
7 employers to provide a--we call it an "extended job
8 interview."

9 We did a launch in Concord working with
10 one of the employers there. And they've been
11 really one of the success stories. We're looking
12 at trying to expand that over the next several
13 months, because it is a program that at least, even
14 on a small scale, begins to match up unemployed
15 workers with possible job situations.

16 And finally, these are other things
17 that--other accomplishments and initiatives that
18 we've been working on. And I don't want to go over
19 all of them, but in addition to just trying to keep
20 the trains running, with benefits, and responding
21 to the fires, we've also tried to improve our
22 operations. And so we've listed some of those
23 issues on this--on this last slide.

24 I'm happy to answer any questions that
25 you have.

1 CO-CHAIRMAN RUCHO: Ladies and gentlemen
2 of the Committee, we had a preliminary meeting
3 yesterday with Secretary Crisco and Assistant
4 Secretary Holmes, described to them the agenda that
5 we'd move forward to. We will be going into the
6 question-and-answer period. And under that
7 circumstance, we are going to have the court
8 reporter swear in Ms. Holmes, and then we'll open
9 up the questions to the Committee.

10 COURT REPORTER: Ms. Holmes, would you
11 please place your left hand on the Bible and raise
12 your right hand.

13 CO-CHAIRMAN RUCHO: Oh, you might want to
14 have that microphone on.

15 ASSISTANT SECRETARY HOLMES: You said
16 left hand on the Bible?

17 COURT REPORTER: Yes, ma'am, left hand on
18 the Bible and raise your right hand.

1

2

Whereupon,

3

Lynn R. Holmes

4

was duly sworn.

5

6

7

CO-CHAIRMAN RUCHO: Thank you. All
right. Very comprehensive report. I know there

1 are a number of questions that we--that we have
2 regarding the report and also some of the history.
3 All right.

4 Okay. Ladies and gentlemen of the
5 Committee, is there someone who would like to ask
6 questions first? Representative Lewis.

7 REPRESENTATIVE LEWIS: Thank you, Mr.
8 Chairman. I'd like to start--and I'm sorry; we
9 kind of skipped around with the slides, so I'm--but
10 I'd like to start a little bit on the \$549 million
11 in overpayments, or whatever the correct
12 terminology I should use there is.

13 The first question that I had, towards
14 the end of your remarks, Assistant Secretary, you
15 referenced that there was a considerable amount of
16 effort put forth to recover funds that were paid in
17 error. And I wonder if you could elaborate on that
18 some, please.

19 ASSISTANT SECRETARY HOLMES: When we--
20 when we find out or discover, as a general matter,
21 payments that have--that are--have been paid to
22 people who are not eligible for the payments, we
23 contact those people. We go through a process.
24 There is a process in place to recover the money in
25 the next payments. We don't have garnishment

1 authority, but we do have authority, if they are
2 federal funds, federal refunds, that we can recover
3 moneys that way if there are no eligible funds
4 later.

5 REPRESENTATIVE LEWIS: Mr. Chairman?

6 CO-CHAIRMAN RUCHO: Follow-up?

7 REPRESENTATIVE LEWIS: Assistant
8 Secretary, you just said that you did not have
9 garnishment authority. Is that something that
10 perhaps you would suggest that the General Assembly
11 review, or is there some kind of federal
12 restriction on that?

13 ASSISTANT SECRETARY HOLMES: I don't
14 know, Representative Lewis, that there's a federal
15 restriction, but certainly that's something we
16 ought to look into. There might be a federal
17 restriction; I don't know. But that is the process
18 in place that we have today.

19 REPRESENTATIVE LEWIS: Pass the witness.

20 CO-CHAIRMAN RUCHO: Okay. So, you pass
21 to Senator McKissick.

22 SENATOR MCKISSICK: Yeah, a couple of
23 questions. First, Ms. Holmes, I was just curious:
24 Have you or anyone from your staff met with
25 employers to discuss this insolvency issue and its

1 ramifications, and discuss perhaps strategies for
2 addressing it? I know we're going to issue a
3 contract to a consultant who's going to provide us
4 with their opinions, but I think sometimes we can
5 seek opinions through more-traditional sources that
6 can also be insightful. So, if--have those efforts
7 been done? Because I've heard about this contract
8 for, I'd say, a good six months now.

9 ASSISTANT SECRETARY HOLMES: Yes, that
10 is--Senator McKissick, that's a good question. We
11 have had conversations with--some of our people
12 have met with the North Carolina Chamber. We have
13 a very active tax group that goes out and meets
14 with employers fairly regularly to interact with
15 them. We're all part of major groups of people
16 like us who also meet with employers to get
17 feedback and to get insight about what kinds of
18 things we might do.

19 You know, Secretary Crisco and I have
20 talked extensively about some sort of group that we
21 could put together, including employers and
22 representatives from the worker community, to begin
23 talking about this.

24 I know the states who have--who are
25 little farther down the path in coming up with

1 recommendations have done that. I was just reading
2 an article the other day about Illinois, and they
3 put together a working group of employers and
4 workers and people representing U.S. DOL to begin
5 to come up with recommendations, which ultimately
6 led to their passing legislation for them to let
7 bonds, in addition to some other changes.

8 SENATOR MCKISSICK: Follow-up?

9 CO-CHAIRMAN RUCHO: Follow-up--follow-up?
10 Yes, sir.

11 SENATOR MCKISSICK: Yeah. I'm just
12 curious: Last year, when this whole process was
13 evolving and Senate Bill, I guess, 532 was coming
14 through, were you--did you participate in that
15 process or have any input or--I mean, at what point
16 in time were you--did you become involved in this
17 or did the Department become involved with this?

18 ASSISTANT SECRETARY HOLMES: With respect
19 to 532, we were not as involved as, I think, we
20 wanted to be. I think I came to one committee
21 meeting, but the bill was taken off the agenda.
22 And I think Commerce was really taking the lead on
23 532, so to the extent that we could give input to
24 them, we were part of that process, but we were not
25 as actively involved in the 532 process as it moved

1 through the General Assembly.

2 SENATOR MCKISSICK: Follow-up?

3 CO-CHAIRMAN RUCHO: Follow-up.

4 SENATOR MCKISSICK: With the Board of
5 Review issue, which I asked Secretary Cisco--Crisco
6 about, can you provide any further insight in terms
7 of where that's headed? I know you mentioned, when
8 you first came to the podium, that you thought the
9 federal government would cover the cost and expense
10 of that. But to what extent has the failure of us
11 to have a Board of Review impacted the way that we
12 review and handle claims and other matters that
13 will become before the group that previously
14 existed?

15 ASSISTANT SECRETARY HOLMES: It has--I
16 think, as a general matter, it has not negatively
17 impacted the work that we do, certainly, with
18 claims-taking.

19 As we were getting toward the November
20 1st time frame, Secretary Crisco and I worked with
21 the Governor's Office, governor's lawyers, the
22 attorney general's lawyers, U.S. DOL to make sure
23 that we had a process in place in the interim until
24 we could get the Board of Review issues worked out.
25 So, we believe we have not missed a step, as it

1 were. But clearly, we want to be in compliance
2 with the law that was passed here. And so, I
3 think, when the General Assembly has an opportunity
4 to make some of those changes, they will be helpful
5 changes.

6 SENATOR MCKISSICK: Follow-up?

7 CO-CHAIRMAN RUCHO: Follow-up.

8 SENATOR MCKISSICK: Yeah. And I'm just
9 curious: With the bill that was passed, the
10 direction that we're moving in, we're working with
11 the U.S. Department of Labor, I assume, in terms of
12 resolving issues. But has there been any things
13 that have come to light that have become
14 particularly problematic in this transition period?

15 ASSISTANT SECRETARY HOLMES: Well,
16 clearly, the Board of Review is one that you--that
17 you mention. I also think as--I mean, it's only
18 been about 30 to 45 days in the process, and I
19 think all of us are still trying to work through
20 some of the operational issues.

21 Clearly, we're funded differently than
22 many of the Commerce agencies, and so working
23 through the financial-allocation issues, working
24 through some of the operational issues, I think, is
25 something that we continue to try to deal with. We

1 have not had U.S. DOL as involved as I think I--
2 they need to be, given that they are the principal
3 funder for some of the grants and programs. But I
4 think we're headed in the right direction to make
5 sure that this goes as seamlessly as possible.

6 SENATOR MCKISSICK: Follow-up?

7 CO-CHAIRMAN RUCHO: Follow-up?

8 SENATOR MCKISSICK: Once this contract is
9 let--and maybe you can give us some idea of when
10 you anticipate the contract will be let--what is
11 the anticipated time frame for the study to be
12 conducted and for, I guess, preliminary findings,
13 at least, to come back to you, and at what point
14 will we as members of the General Assembly be
15 provided with the benefit of their analysis?

16 ASSISTANT SECRETARY HOLMES: And I'm
17 looking at Secretary Crisco because he is the lead
18 person on the--on the study. So, perhaps--Mr.
19 Chairman, is he permitted to answer?

20 CO-CHAIRMAN RUCHO: Yes, sir, you can--
21 have you an answer to the question? We've been
22 holding our breath patiently to get the result of
23 the study.

24 SECRETARY CRISCO: We have. And it's
25 taken too long, but we--again, I'm in a bit of an

1 awkward position because of the purchasing process.
2 I'm told I can't tell you exactly what--give you an
3 exact date of when that's done.

4 But let's assume for a moment that the
5 purchasing process is done today. The guidelines
6 that we gave is to have 45 to 60 days. We'll
7 have--we'll have an interim report in about that
8 time, and then two to three months, we'll have the
9 final report.

10 Again, but I'm not saying it'll be in
11 that time, because of that state purchasing process
12 that we're going through right now. But if it were
13 today, that's the timing we're talking about.

14 SENATOR MCKISSICK: Let me--quick follow-
15 up--

16 CO-CHAIRMAN RUCHO: Quick follow-up?

17 SENATOR MCKISSICK: --just so that I
18 understand. So, if we were to let that contract
19 the next 30 days--

20 SECRETARY CRISCO: Within 90 days, you'll
21 have the final report.

22 SENATOR MCKISSICK: We'd have the final
23 report.

24 SECRETARY CRISCO: Under the way this RFP
25 and the scope that we defined in this RFP.

1 SENATOR MCKISSICK: And are you
2 comfortable, Mr. Secretary, that that's sufficient
3 time for the work to be performed and--

4 SECRETARY CRISCO: Again, there was a--
5 this scope was defined looking at the debt
6 obligation and if it did not have organizational or
7 other issues in this scope. But within the scope
8 of this RFP, again, if we were starting today, that
9 would be the expected timing.

10 SENATOR MCKISSICK: Okay. Quick follow-
11 up.

12 CO-CHAIRMAN RUCHO: Follow-up?

13 SENATOR MCKISSICK: Would this 2.4
14 billion in debt that we're addressing--

15 SECRETARY CRISCO: I think it's 2.6 now.

16 SENATOR MCKISSICK: --six--excuse me--2.6
17 billion. I think I've heard it commented at some
18 point that it would take seven years if we were
19 somehow getting in an extra 700 million a year?
20 Now--

21 SECRETARY CRISCO: I think I've seen
22 that.

23 SENATOR MCKISSICK: Okay. And that's
24 just addressing the debt. What does it do in terms
25 of our capacity to have an adequate trust fund in

1 the interim that would be capable of addressing the
2 routine claims plus any exceptional claims that
3 might come if the euro goes--

4 SECRETARY CRISCO: I guess--

5 SENATOR MCKISSICK: --south and we end up
6 in another crisis here in America?

7 SECRETARY CRISCO: Well, this, of course,
8 is the meat of the study. And I can give you a
9 hypothetical answer, but that's what it would be.
10 We would be a--clearly, it would be--under your
11 assumption, under that example, it would be
12 additional time to get to that point.

13 SENATOR MCKISSICK: Okay.

14 CO-CHAIRMAN RUCHO: All set?

15 SENATOR MCKISSICK: Yeah. I just--

16 CO-CHAIRMAN RUCHO: Excuse me, Assistant
17 Secretary, would you like to comment?

18 SECRETARY CRISCO: I'll sit--yeah, excuse
19 me.

20 ASSISTANT SECRETARY HOLMES: I would like
21 to comment. In addition to that--and that's why we
22 gave a whole range of--range of options, because I
23 think if we do nothing, that was pretty much what I
24 was saying, if we just made some changes around the
25 edges of our taxes, but we would have to have a

1 range of things to look at to get us back to
2 solvency.

3 And there have been a--quite a few
4 proposals in Washington just to get at this--at
5 this very issue, because it--in fact, one of the--
6 one of the proposals is to make sure that states
7 have enough in their--in their fund, going forward,
8 or they may not be eligible for Title XII funds,
9 going forward. And that's way down the road, but
10 that's just the kind of example, to give you that
11 people are talking about in Washington.

12 SENATOR MCKISSICK: Okay. One quick
13 follow-up, and--

14 CO-CHAIRMAN RUCHO: Last follow-up, here.

15 SENATOR MCKISSICK: Sure. I guess my
16 greatest concern is that we not only address that
17 debt but that we do craft a system that is capable
18 of handling the level of claims that would not only
19 be routinely filed but those that might be filed in
20 a--perhaps not as severe a recession like we just
21 experienced, but certainly one that was a moderate-
22 type recession, because otherwise, I think, we're
23 doing ourselves and this system an injustice.

24 And then the last question was this: I
25 know that you were not here at the last meeting.

1 And I know there was a subpoena issued. And I just
2 observed today they put you under oath. Would you
3 like to comment about why you were not here, or
4 what the--or the circumstances? I mean, I want to
5 thank you for providing a very thorough and a very
6 complete report that was quite insightful. But I
7 can't recall seeing people sworn in before they
8 testified before us in the past, unless it was some
9 exceptional circumstance.

10 ASSISTANT SECRETARY HOLMES: Right. And
11 thank you for the opportunity to talk about that.
12 We talked about it a little bit yesterday.

13 I think we just had a miscommunication.
14 When you're consolidating agencies, you have
15 different people, different moving parts, and as I
16 understood the request from the Committee, I was
17 not on to present; I was not asked to present; I
18 was not on the agenda until I had a personal matter
19 that the Secretary knew about and--as well as the
20 Deputy Secretary. The Deputy Secretary always was
21 going to make the presentation at the last meeting.

22 At the very last--maybe a couple of days
23 before the actual hearing was when I did hear from
24 staff directly about us coming with the Deputy
25 Secretary. But at that point, I could not resolve

1 my personal conflict. So, it was unfortunate. I
2 regret it. But I have spent a lot of time sitting
3 in the back, and so I regret that it was that kind
4 of thing, that we had to have a subpoena.

5 I think when we talked to staff
6 yesterday, I think there has--there has never been
7 any other person who's been sworn in in this kind
8 of situation. But in any event, I'm happy that I'm
9 here today and able to answer any questions that
10 could be asked of me.

11 SENATOR MCKISSICK: Thank you very much.

12 CO-CHAIRMAN RUCHO: Senator McKissick,
13 just for your edification, approximately two to
14 three weeks prior to this, as we do normally when
15 we ask, we asked for the head of the Division to
16 come here to give us that information. And
17 Assistant Secretary was appointed and therefore
18 should have been the person delivering this
19 information to us, to answer your question. Okay.
20 I've got Senator Stevens.

21 SENATOR STEVENS: Thank you, Mr.
22 Chairman. I've got a series of questions, if
23 that's okay.

24 CO-CHAIRMAN RUCHO: Yes, sir.

25 SENATOR STEVENS: Let's start with the

1 \$2.6 billion loan. The state has made one loan
2 payment, interest payment, already.

3 ASSISTANT SECRETARY HOLMES: Yes.

4 SENATOR STEVENS: When is the next
5 interest payment due, and what is the source of
6 funds for these interest payments?

7 ASSISTANT SECRETARY HOLMES: The next
8 interest payment--I'm looking back at my financial
9 person--is at the end of the fiscal year 2012,
10 which would be September 30th, would be the due
11 date.

12 And the funds is what we--one of the
13 funds that I think I showed in the bucket of
14 funds--we have a state reserve fund, which--I can't
15 recall the year that it was implemented by the
16 General Assembly. But it's--it has a--it's a 20-
17 percent surcharge on employers. It's that state
18 reserve fund from which the interest payment is
19 paid every year.

20 SENATOR STEVENS: And what is the amount
21 of the next payment?

22 ASSISTANT SECRETARY HOLMES: It's
23 calculated--I think we just saw the rate at about
24 two--somewhere in the range of 2.9 percent. What
25 we paid in September 30th, 2011, was approximately

1 \$70 million.

2 SENATOR STEVENS: Going forward, Mr.
3 Chairman?

4 CO-CHAIRMAN RUCHO: Yes, sir. Follow-up?

5 SENATOR STEVENS: On your Slide 32, which
6 was labeled "Experience Rated Accounts"--

7 ASSISTANT SECRETARY HOLMES: Uh-huh.

8 SENATOR STEVENS: --you showed that in
9 2012--well, I'm sorry--they anticipate in 2012 that
10 25 percent of employers will have a higher cost, 36
11 percent will have a lower, and--

12 ASSISTANT SECRETARY HOLMES: Rate--

13 SENATOR STEVENS: --38 percent--

14 ASSISTANT SECRETARY HOLMES: A rate--

15 SENATOR STEVENS: --will have no change.

16 ASSISTANT SECRETARY HOLMES: Correct.

17 SENATOR STEVENS: What's the dollar
18 amount of those that will have higher? How much
19 more will those higher ones pay? How much will the
20 lower ones? So, what's the net of all that?

21 ASSISTANT SECRETARY HOLMES: Senator, I
22 don't--I don't have that off the top of my head,
23 but I'm certainly happy to get that for you.

24 SENATOR STEVENS: Just kind of--that's
25 important. There's a lot said publicly--not by

1 your office but by the Governor's Office and
2 others--about how much more employers are going to
3 have to pay if we do certain things through the
4 General Assembly. But it looks like maybe a lot of
5 folks paying the same or less.

6 CO-CHAIRMAN RUCHO: Senator Stevens,
7 also--and you might want to talk with the
8 Secretary--is there's going to be a federally
9 mandated increase because of the debt that we have.
10 Maybe the Assistant Secretary might help you with
11 that one.

12 SENATOR STEVENS: Could you address that?

13 ASSISTANT SECRETARY HOLMES: Yes. And
14 this is part of the--and I probably should have had
15 it in a slide.

16 As part of the process for Title XII
17 loans, if the--if the debt is not paid back by, I
18 think, November after the first two Januarys of
19 having the loan, if the--if the principal is not
20 paid, then, the following January, employers will
21 see a .3 percent--.3-percent increase in their--in
22 their taxes. And this is something that has been--
23 when we first started to--as--in 2009, I'm sure,
24 was communicated to employers. But that's the--
25 that's the effect of the debt.

1 SENATOR STEVENS: Going forward, Mr.
2 Chairman?

3 CO-CHAIRMAN RUCHO: Yes, sir. Follow-up?

4 SENATOR STEVENS: You have Slide Number
5 64 on "Improper Payment Causes"?

6 ASSISTANT SECRETARY HOLMES: Uh-huh.

7 SENATOR STEVENS: Were those federal or,
8 you know, countrywide, or was that North Carolina's
9 causes?

10 ASSISTANT SECRETARY HOLMES: Country-
11 wide--

12 SENATOR STEVENS: Do you--

13 ASSISTANT SECRETARY HOLMES: --generally.

14 SENATOR STEVENS: Do you have similar
15 information for North Carolina's causes?

16 ASSISTANT SECRETARY HOLMES: Oh, the
17 three causes are the countrywide course--causes.
18 The percentages are the North Carolina percentages.

19 SENATOR STEVENS: Just a detail question:
20 On Slide 60, you talked about appeals?

21 ASSISTANT SECRETARY HOLMES: Yes.

22 SENATOR STEVENS: There were 53,000
23 appeals?

24 ASSISTANT SECRETARY HOLMES: Uh-huh.

25 SENATOR STEVENS: 37,000--I mean, I

1 didn't understand the percentages. It says 49.3
2 ruled in favor of the claimant; 54.6 ruled in favor
3 of the employer?

4 ASSISTANT SECRETARY HOLMES: Correct.

5 SENATOR STEVENS: That adds up to 103.9
6 percent.

7 ASSISTANT SECRETARY HOLMES: I guess we
8 probably need to check those--

9 SENATOR STEVENS: And likewise--

10 ASSISTANT SECRETARY HOLMES: --percent-
11 ages.

12 SENATOR STEVENS: --in the second-level
13 appeals--

14 ASSISTANT SECRETARY HOLMES: The 19.3
15 percent is the percentage of claims that are
16 affirmed in the second level, so those weren't
17 probably going to add up.

18 SENATOR STEVENS: Those will not add up.

19 ASSISTANT SECRETARY HOLMES: Right.

20 SENATOR STEVENS: Okay. Could you check
21 on the 103 percent--

22 ASSISTANT SECRETARY HOLMES: I will.

23 SENATOR STEVENS: --and have that done?
24 And lastly, I don't know anything other than what
25 I've read in the media about this, but I understand

1 there's some allegation of early release of
2 unemployment data. Can you enlighten us on that
3 issue and tell us what's going on with that and
4 what you can share with us?

5 ASSISTANT SECRETARY HOLMES: Right. What
6 I can share with you is, I guess, in the media
7 there's been some discussion about our office
8 sharing embargoed data with the Governor's Office.
9 It is our practice, and has been the practice even
10 before I came, and probably with previous
11 administrations, to share embargoed data--
12 "embargoed" is the key word--with the Governor's
13 Office.

14 What you saw in the press was that--and
15 in that--what you saw in the press was that there
16 was--there was concern that the governor talked
17 about the embargoed data and--in the August time
18 frame.

19 So, that is what I know about it. When
20 we found out about it in the press, we contacted
21 the Bureau of Labor Statistics. The person who was
22 over Labor Market Information at the time, Dr.
23 Betty McGrath, called the Bureau of Labor
24 Statistics. And so that's the general context of
25 the story.

1 SENATOR STEVENS: I don't have any
2 questions at this time, Mr. Chairman.

3 CO-CHAIRMAN RUCHO: Okay. I have
4 Representative Blust.

5 REPRESENTATIVE BLUST: Thank you, Mr.
6 Chairman. Ms. Holmes, you said something earlier,
7 and I'd heard that same assertion before, so I
8 thought I'd ask you about it.

9 You said--and cited some authority, I
10 thought--that for every one dollar of unemployment
11 insurance paid, we generate two dollars of economic
12 activity. And when I hear that, I wonder why the
13 policy isn't being advocated that we should have
14 even more unemployment, pay more benefits, and
15 create an economic boom in that capacity.

16 ASSISTANT SECRETARY HOLMES: The source
17 was a U.S. DOL report--and I got this right off of
18 the U.S. DOL Web site. And the reference was it
19 was a study during the Bush Administration.
20 Other--I can--I'm not--is that a question that
21 you're asking me?

22 REPRESENTATIVE BLUST: Yeah. I'm--it's
23 really just trying, I guess, to point out the
24 absurdity of the argument. I mean, obviously,
25 the--unemployment insurance is not an economic

1 stimulus. If it were, we'd see a lot different
2 results in the economy now that we've had several
3 extensions of the payment of the unemployment
4 insurance, so that I don't think that assertion can
5 be borne by what we see in the actual world.

6 CO-CHAIRMAN RUCHO: I'm sorry. Okay.
7 That was a statement. It's too many questions,
8 there. Okay. Sorry. All set with your answers,
9 Representative Blust? Okay. Representative
10 Howard--Chairman Howard?

11 CO-CHAIRMAN HOWARD: Thank you, Ms.
12 Holmes. I want to go back to Senate Bill 532. And
13 I know there was some--I'm wanting--I don't know if
14 I want to use the word "misinformation," but maybe
15 that's the only word I can come up with--that was
16 presented to us after the bill passed regarding the
17 impact of Senate Bill 532 on the tax rates for
18 North Carolina employers. But also, there were
19 four provisions in that bill that were deemed of
20 concern from--I don't know if it was from your
21 office or U.S.--

22 ASSISTANT SECRETARY HOLMES: U.S. DOL.

23 CO-CHAIRMAN HOWARD: Would you be able
24 to--we want to get this right when we go back into
25 this with the Review Committee and--et cetera.

1 Would you be amenable to provide us, the Committee,
2 this Committee, with all of the written
3 correspondence that your office had with the
4 Department of Labor regarding their concerns and
5 how we might be able to rectify those concerns in--

6 ASSISTANT SECRETARY HOLMES: Sure.

7 CO-CHAIRMAN HOWARD: --in the bill? If
8 you would do that, I would--

9 ASSISTANT SECRETARY HOLMES: We--

10 CO-CHAIRMAN HOWARD: --appreciate that.

11 ASSISTANT SECRETARY HOLMES: We will do
12 that. U.S. DOL has already given letters, but we
13 can provide more information for you.

14 CO-CHAIRMAN HOWARD: Purposefully, we
15 would like to have the--how to fix this--

16 ASSISTANT SECRETARY HOLMES: Okay.

17 CO-CHAIRMAN HOWARD: --and how to address
18 those concerns. And another--

19 CO-CHAIRMAN RUCHO: Follow-up?

20 CO-CHAIRMAN HOWARD: --question, Mr.
21 Chairman?

22 CO-CHAIRMAN RUCHO: Yes, ma'am.

23 CO-CHAIRMAN HOWARD: On the overpayments
24 or the inappropriate payments that were made--and
25 you gave us a list, a good list, of the--of changes

1 that you were making. Could you tell us, these
2 changes, these--on these improper payments, are
3 they changes that have been made since the findings
4 of the--in, I believe you said, 2011?

5 ASSISTANT SECRETARY HOLMES: 2008 to
6 2011.

7 CO-CHAIRMAN HOWARD: '11?

8 ASSISTANT SECRETARY HOLMES: Yes.

9 CO-CHAIRMAN HOWARD: So, I'm assuming
10 that the audit was done and you determined this
11 sometime in 2011, 2011?

12 ASSISTANT SECRETARY HOLMES: The report
13 came out in two--in 2011, but we had already begun
14 some of the processes before that. Many of them
15 did happen in 2011. The collaborative--the federal
16 collaborative that we're a part of with 10 other
17 large states did take place in 2011.

18 CO-CHAIRMAN RUCHO: You might need to
19 speak a little--I'm sorry--into that microphone,
20 because they couldn't hear you back--

21 ASSISTANT SECRETARY HOLMES: I will.

22 Some of the changes--

23 CO-CHAIRMAN HOWARD: You don't have to
24 look at me. Just--

25 ASSISTANT SECRETARY HOLMES: --okay; all

1 right--did take place in 2011. And--but we had
2 begun looking at some of the UI integrity issues
3 even before then.

4 CO-CHAIRMAN HOWARD: Okay. And is there
5 a mechanism in place--and I'm--I guess I'm
6 following up on Representative Lewis's question--to
7 recoup those funds that were--that were paid out in
8 error? Is there a process, or do you need
9 legislation in order to recoup those funds?

10 ASSISTANT SECRETARY HOLMES: No. There
11 is a process in place that we use every day.

12 CO-CHAIRMAN HOWARD: And it's in place
13 now and--

14 ASSISTANT SECRETARY HOLMES: Yes.

15 CO-CHAIRMAN HOWARD: I guess, just to
16 clarify my question: You're in the process now of
17 trying to recapture the funds that were paid out
18 inappropriately.

19 ASSISTANT SECRETARY HOLMES: Yes. And we
20 had already begun to do that.

21 CO-CHAIRMAN HOWARD: Okay. Thank you.

22 CO-CHAIRMAN RUCHO: All set? Senator
23 Hartsell.

24 SENATOR HARTSELL: Thank you, Mr.
25 Chairman. I've got a couple of statements and sort

1 of a series of questions, just--

2 CO-CHAIRMAN RUCHO: Okay, Senator
3 Hartsell.

4 SENATOR HARTSELL: But to go back into
5 that last question asked by Chair Howard, in going
6 back and actually following up on Representative
7 Lewis's question, in North Carolina, my
8 understanding is that the only thing that we can
9 garnish wages for is child support and tax
10 collection.

11 So, my question is: In going back to try
12 to collect these overpayments, are--is there any
13 effort being made to utilize garnishment in that
14 context or to re--to collect these overpayments--

15 ASSISTANT SECRETARY HOLMES: I don't--

16 SENATOR HARTSELL: --just as a--

17 ASSISTANT SECRETARY HOLMES: I believe,
18 yes.

19 SENATOR HARTSELL: Okay. Okay.
20 Secondly, I have a vague recollection that sometime
21 in the late '90s--and this is long before your term
22 of service with Employment Security--there was an
23 oversight commission named either by the governor,
24 by the General Assembly, or something, to look at--
25 and it had to do with some legislation that was

1 utilized to cut some of these unemployment tax
2 rates. But there was an oversight commission for
3 Employment Security named in the late '90s that
4 included legislators and some other folks.

5 CO-CHAIRMAN RUCHO: Okay.

6 SENATOR HARTSELL: My question is, are
7 you aware of that commission, and has anybody
8 ever--does it still exist? It obviously hasn't
9 met, but I--do you have any idea about that?

10 ASSISTANT SECRETARY HOLMES: That--I'm
11 not aware--I'm not aware, but I do know that it
12 does not still exist.

13 SENATOR HARTSELL: Okay. If we could
14 have somebody check back into that, Mr. Chair.
15 I'm--

16 CO-CHAIRMAN RUCHO: You may have--you may
17 have stumped the panel, but we're going to get you
18 some info--

19 SENATOR HARTSELL: The only reason I know
20 something about it: I think I was a member of it.
21 But there was some--but I'm getting old, and I
22 forget, too.

23 CO-CHAIRMAN RUCHO: We will get that
24 information for you, sir.

25 SENATOR HARTSELL: Next, one thing I want

1 to mention is, in looking at your presentation--you
2 mentioned Opportunity North Carolina. Without
3 getting into any of those things and being
4 critical, I want to just simply say thank you again
5 for finally initiating this project or this
6 initiative, which, as Ms. Pickett over there knows,
7 we've been trying to get implemented by a series of
8 legislation and others for at least now--we're
9 going into the eighth year and we finally have it.

10 And I want to simply say thanks, because
11 I'm fully convinced that the best way to get people
12 back to work is to provide them the experience
13 necessary and to help the employers who coordinate
14 this. And I'm glad we've started it, and I think
15 it's well overdue, as I think some of these others
16 are.

17 But let me go back--and I want to thank
18 you again--and also the appointment of Roger
19 Shackleford on the workforce piece. And I have to
20 go back and--to the circumstances surrounding the
21 closure of Pillowtex. And the efforts that were
22 undertaken by, actually, Employment Security and
23 Department of Commerce in dealing with that very,
24 very significant issue were herculean and done very
25 well. And I'm glad to see that this coordination

1 may be able to utilize again only however--eight
2 years later. But thank you again.

3 There is in--as I understand it, in the
4 Employment Security Strategic Plan for '11 through
5 '15, there's a provision to provide high-quality--
6 one of the goals is to provide high-quality
7 services that meet federal standards and exceed
8 customer expectations. But--and I know that
9 there's this major interplay between employment--
10 former Employment Security and the Department of
11 Labor, a fact which I've had to deal with--there
12 are others of us who've had to deal with it with
13 some substitute teachers and some of these
14 qualifications and whether they apply or not. And
15 it's been a rather frustrating experience in having
16 to go through a couple of pieces of legislation on
17 something, anyway.

18 But my question is: I assume, when the
19 Department of Labor adopts these standards or you
20 have to--you're looking to do that, could you
21 provide us with the performance-level evaluations
22 over time, over the last, say, eight to 10 years,
23 of the Department of Labor--what their evaluations
24 were of local Employment Security with information
25 regarding the claims process, appeals,

1 overpayments, tax-fraud recovery? Are there--are
2 there such evaluations? And if so, can you provide
3 them?

4 ASSISTANT SECRETARY HOLMES: Yes, there
5 are evaluations, and we can provide them.

6 SENATOR HARTSELL: And in so doing, if
7 you would advise us also of Department of Labor's
8 analysis of what the standard is for the various
9 states, as applied, I mean, because--so that we can
10 compare ourselves apples and--apples and oranges
11 and oranges and that sort of thing if we might.

12 And this is switching subjects a little
13 bit, Mr. Chairman.

14 CO-CHAIRMAN RUCHO: Follow-up?

15 SENATOR HARTSELL: And Secretary Crisco
16 mentioned a moment ago that the merger was going to
17 result in the target of roughly 300,000 a year in
18 savings. Can you provide us with a detailed
19 breakdown--or can the Secretary--with a breakdown
20 of positions and items that constitute those
21 savings?

22 SECRETARY CRISCO: We can.

23 SENATOR HARTSELL: Okay.

24 SECRETARY CRISCO: We will.

25 SENATOR HARTSELL: Okay. And I'm not

1 sure whether this is appropriate for you, Ms.
2 Holmes, or the Secretary, but in December, the
3 Secretary advised new leadership appointments for
4 local Employment Security offices and other Labor
5 Market Information. Can you tell us of what--of
6 that roughly 300,000, what cost savings or
7 improvements come from these modifications, if you
8 know? Or do you--could you provide us with a--with
9 that information?

10 SECRETARY CRISCO: I think the best
11 approach is to give you a detailed response--

12 CO-CHAIRMAN RUCHO: Can you press the
13 button and identify yourself, Mr. Secretary?

14 SECRETARY CRISCO: All right. Keith
15 Crisco, Secretary. I think the best approach is to
16 let us give you a complete report on that,
17 including local--how's this?

18 CO-CHAIRMAN HOWARD: That's good.

19 SECRETARY CRISCO: Thank you. I just got
20 a course. I think the best approach is to let us
21 do a complete--give you a complete report on the
22 savings in detail, including the local--if you need
23 local--

24 SENATOR HARTSELL: Okay.

25 SECRETARY CRISCO: --and statewide.

1 SENATOR HARTSELL: Follow-up--

2 CO-CHAIRMAN RUCHO: Follow-up?

3 SENATOR HARTSELL: --relating to that.

4 CO-CHAIRMAN RUCHO: Yes, sir.

5 SENATOR HARTSELL: Is Commerce, Mr.

6 Secretary, Madam Assistant Secretary, looking at
7 ways to merge finance and personnel functions of
8 the two agencies for cost savings?

9 SECRETARY CRISCO: Both effectiveness and
10 cost savings.

11 SENATOR HARTSELL: Okay.

12 CO-CHAIRMAN RUCHO: All set, Senator
13 Hartsell?

14 SENATOR HARTSELL: Yeah, I got--

15 CO-CHAIRMAN RUCHO: Okay.

16 SENATOR HARTSELL: --just a couple more.

17 CO-CHAIRMAN RUCHO: Oh, I'm sorry. Okay.

18 SENATOR HARTSELL: You've--Madam
19 Secretary, you've spoken about the reserve fund
20 which has been used to pay that interest payment
21 was done recently. That fund, as I understand it,
22 has been used in the past to supplement local
23 Employment Security office expenses. I--that's my
24 understanding from some other indications. With
25 the money in that fund now being used to--for

1 interest on the debt, will the local Employment
2 Security offices be impacted?

3 ASSISTANT SECRETARY HOLMES: Senator, no,
4 it's my understanding that they won't be impacted.

5 SENATOR HARTSELL: Okay. And so I assume
6 that means there'll be no request--or will there be
7 a request for a general fund--from the general fund
8 for the agency relating to the local offices? Do
9 we have any?

10 ASSISTANT SECRETARY HOLMES: We don't
11 anticipate--

12 SENATOR HARTSELL: That--

13 ASSISTANT SECRETARY HOLMES: We don't
14 anticipate that.

15 SENATOR HARTSELL: Okay. I think that
16 it's for me.

17 CO-CHAIRMAN RUCHO: Briefly. Thank you.
18 Representative Starnes?

19 REPRESENTATIVE STARNES: Thank you, Mr.
20 Chairman. Let me ask you a couple of questions,
21 but I'll follow up on what Senator Hartsell said on
22 the reserve fund.

23 You anticipate using the money from the
24 reserve fund to make the interest payments, which
25 will be due in September.

1 ASSISTANT SECRETARY HOLMES: Correct.

2 REPRESENTATIVE STARNES: How much money
3 is in your reserve fund currently?

4 ASSISTANT SECRETARY HOLMES: About 70--
5 it's at 70 million? I'm looking back at Kevin
6 Carlson. About \$70 million today.

7 REPRESENTATIVE STARNES: And the--and the
8 interest payment that's due in September is about
9 70 million?

10 ASSISTANT SECRETARY HOLMES: It will be
11 determined closer to the time. We can't say today
12 what the interest payment's going to be, but we
13 believe that we--that the--what's in the reserve
14 fund will be adequate to pay the interest.

15 REPRESENTATIVE STARNES: And the reserve
16 fund is set up so that--so that it will continue to
17 accumulate from now till that payment is made in
18 September, or is that fund static?

19 ASSISTANT SECRETARY HOLMES: No, it's set
20 up to continue to pay.

21 REPRESENTATIVE STARNES: So, you don't
22 know how much money comes into the fund every
23 month?

24 ASSISTANT SECRETARY HOLMES: I don't
25 know, but I'm looking at someone back there who

1 does know.

2 CO-CHAIRMAN RUCHO: Yes.

3 ASSISTANT SECRETARY HOLMES: Senator?

4 CO-CHAIRMAN RUCHO: Would you come to the
5 microphone and identify yourself, if you have an
6 answer to that question, please.

7 MR. CARLSON: My name is Kevin Carlson,
8 and I'm the chief financial officer for Division of
9 Employment Security.

10 The state reserve fund is--the taxes on
11 the state reserve fund are collected on a quarterly
12 basis, and last year, it generated roughly \$180
13 million. And so that will continue to generate
14 roughly \$180 million, given our current tax
15 structures.

16 REPRESENTATIVE STARNES: So--

17 CO-CHAIRMAN RUCHO: Senator--okay.

18 REPRESENTATIVE STARNES: So, the balance
19 in the fund currently, after the payment in
20 September, is about a hundred million, or 180
21 million?

22 MR. CARLSON: No, sir. After the
23 September payment of \$78 million, we began to
24 continue to accrue, and we currently have roughly
25 \$70 million in the fund, and we will continue to

1 accrue between now and September of 2012. Excuse
2 me.

3 CO-CHAIRMAN RUCHO: Follow-up?

4 REPRESENTATIVE STARNES: I want to go in
5 a different direction.

6 CO-CHAIRMAN RUCHO: Okay. Thank you,
7 sir.

8 REPRESENTATIVE STARNES: Thank you for
9 that.

10 CO-CHAIRMAN RUCHO: Appreciate you
11 coming.

12 REPRESENTATIVE STARNES: Now, when we're
13 talking about the trust-fund balance--and of
14 course, we're in negative reserves right now--does
15 the federal government set a target that we need to
16 maintain for our trust fund, or is this a target
17 that we set in North Carolina?

18 ASSISTANT SECRETARY HOLMES: As I
19 understand, U.S. DOL works with us. And I think I
20 mentioned when we--when I was talking to Senator
21 McKissick about some of the policy discussions that
22 are going on right now. I think, going forward,
23 U.S. DOL is looking more toward making more-
24 prescriptive recommendations about what we ought to
25 have in our fund. But I think currently it's left

1 to the states to put--to pass laws to make sure
2 that our fund remains solvent.

3 REPRESENTATIVE STARNES: So, just looking
4 at the charts that you had provided on the trust-
5 fund balance, I guess historically we're, what, at
6 one and a half billion dollars in our trust fund?
7 Or does the Department have a target level that--
8 under--in--under normal employment that they set?

9 CO-CHAIRMAN RUCHO: Yes. Again, please,
10 identify yourself when you come to the podium.

11 MR. CARLSON: Kevin Carlson, chief
12 financial officer for Division of Employment
13 Security.

14 To answer your question, there is not a
15 target. However, the U.S. DOL has issued a--
16 federal regulations. They are not coded into law
17 yet. But the federal regulations are stipulating
18 that states--in order to borrow from--Title XII of
19 the Social Security Act--in order to borrow from
20 the federal government, going forward, if these
21 regulations are implemented, and allow a state to
22 borrow interest-free, then you will have to have a
23 certain targeted-figure balance in your trust fund.

24 So, yes, there is a suggested targeted
25 balance that you should get to in order to be able

1 to borrow from the federal government interest-
2 free.

3 ASSISTANT SECRETARY HOLMES: And I think
4 I had mentioned that. Going forward, there--I
5 think they call it a average high-cost multiple.

6 MR. CARLSON: That's correct.

7 ASSISTANT SECRETARY HOLMES: And it has
8 to be at a certain level going forward.

9 MR. CARLSON: It takes into your three
10 highest year--the average of your three highest
11 years over a period of time.

12 REPRESENTATIVE STARNES: And what do you
13 anticipate the target level to be for North
14 Carolina?

15 MR. CARLSON: Based upon our last three
16 years, I would recommend roughly 2.5 billion.

17 REPRESENTATIVE STARNES: Okay. That'll
18 be more than we historically budgeted, then.

19 And you talked about the employers' rate
20 will increase--or there'll be a forced rate
21 increase to the employers by the federal
22 government. It was two years after this targeted--
23 when--

24 ASSISTANT SECRETARY HOLMES: Correct.

25 REPRESENTATIVE STARNES: When did--has

1 that kicked in now, or when will it--

2 ASSISTANT SECRETARY HOLMES: Started in--

3 REPRESENTATIVE STARNES: --kick in?

4 ASSISTANT SECRETARY HOLMES: Started this
5 January.

6 REPRESENTATIVE STARNES: The higher rate
7 is in effect now.

8 ASSISTANT SECRETARY HOLMES: Yes.

9 REPRESENTATIVE STARNES: Will that rate
10 gradually go up until the loan is repaid?

11 ASSISTANT SECRETARY HOLMES: Yes.

12 REPRESENTATIVE STARNES: And will the
13 rate remain high until we reach the two-and-a-half-
14 billion-dollar target?

15 CO-CHAIRMAN RUCHO: Yes, sir, you can
16 answer that question.

17 MR. CARLSON: The rate will go back down
18 as soon as the loan is repaid.

19 REPRESENTATIVE STARNES: Okay. So, the
20 federal government will require us to maintain a
21 target, but they will not require us to maintain a
22 higher rate until the target is reached?

23 MR. CARLSON: That is correct. On the
24 FUTA tax increase, the FUTA tax increase is only as
25 long as you borrow. Once the borrowing goes down,

1 then that .3-percent increase will go back down to
2 the normal FUTA tax rate of .6 percent.

3 REPRESENTATIVE STARNES: And under the
4 current scenario, how long will it take us to pay
5 off the loans that we have?

6 MR. CARLSON: We have not looked at or
7 estimated that at this point in time.

8 REPRESENTATIVE STARNES: Okay. I'd like
9 to change directions one other time.

10 CO-CHAIRMAN RUCHO: Follow-up question?

11 REPRESENTATIVE STARNES: Well, I was a
12 little bit curious about some of the things that we
13 read about the early release or the misuse of the
14 unemployment data that comes from the Bureau of
15 Labor Statistics. How does your office receive
16 this? Does it come by e-mail, or fax, or do you
17 get a overnight package the day before it's
18 released? How do you receive the information?

19 ASSISTANT SECRETARY HOLMES: No, it--
20 Representative Starnes, I'm really not sure. I
21 suspect it's principally by e-mail, by some sort of
22 secure e-mail. I can certainly find that out. I
23 hadn't thought about that question, but I suspect
24 that it comes by e-mail from BLS.

25 As I mentioned in my comments, there's a

1 Web-based application that our--that the people who
2 do this work that--it's a model that they're
3 involved in. So, I'm assuming some of that is Web-
4 based.

5 REPRESENTATIVE STARNES: But you receive
6 the information. It comes to you as the head of
7 the Employment Security Commission, the
8 unemployment rate, when it comes down from the--

9 ASSISTANT SECRETARY HOLMES: The--

10 REPRESENTATIVE STARNES: --Bureau of
11 Labor Statistics?

12 ASSISTANT SECRETARY HOLMES: Not
13 immediately. Not immediately. It does not come to
14 the head of the agency. Immediately, it goes to
15 those people within the Labor Market Information
16 Unit who do the actual work with BLS.

17 REPRESENTATIVE STARNES: Well, what would
18 be the flow chart? When the--when the statistics
19 come out of Washington, who gets it first?

20 ASSISTANT SECRETARY HOLMES: The unit
21 that gets it first--and then of course, we're
22 moving the boxes around, but it would be the Labor
23 Market Information Unit. Each state has what's
24 called an employment-statistics director. That
25 person is currently Dr. Betty McGrath, at the

1 Division of Employment Security, or now in the new
2 policy group. She and her team work with that data
3 with BLS. So, that's the initial flow.

4 Once the estimates are done, once the
5 final estimates are done, then I do get a copy of
6 it as the head of the--head of the Division. But
7 before that, I do not.

8 REPRESENTATIVE STARNES: So, when--by the
9 time you get the statistics, it's not coming
10 directly to you from Washington; it's coming from
11 someone that's under you?

12 ASSISTANT SECRETARY HOLMES: Yes.

13 REPRESENTATIVE STARNES: So, the
14 information flows up rather than down.

15 ASSISTANT SECRETARY HOLMES: Correct.

16 CO-CHAIRMAN RUCHO: Representative--
17 excuse me; I'm sorry. No, I've got Representative
18 Folwell had a question.

19 REPRESENTATIVE FOLWELL: Thank you, Mr.
20 Chairman and members of the Committee. Just a
21 brief, quick question: Do you recognize this
22 unemployment credit card that people--

23 ASSISTANT SECRETARY HOLMES: Debit card?

24 REPRESENTATIVE FOLWELL: --people
25 receive?

1 ASSISTANT SECRETARY HOLMES: The debit
2 card?

3 REPRESENTATIVE FOLWELL: Yes.

4 ASSISTANT SECRETARY HOLMES: Yes.

5 REPRESENTATIVE FOLWELL: Okay. And
6 follow-up?

7 CO-CHAIRMAN RUCHO: Follow-up?

8 REPRESENTATIVE FOLWELL: And this gets
9 reloaded every week, based on your ability to
10 answer four questions either by telephone or on a
11 computer. Would that be correct?

12 ASSISTANT SECRETARY HOLMES: I'm really
13 not sure about that, but I assume so.

14 REPRESENTATIVE FOLWELL: Okay. So, my
15 question really goes to Slide Number 16, where you
16 talk about--excuse me--Page 9. In order for people
17 to continue to get this card loaded, that they have
18 to prove that every--"sometime"--the word
19 "sometime"--"during the 4-week period" that they
20 have to show that they looked for employment. That
21 was on the slide.

22 ASSISTANT SECRETARY HOLMES: Yes.

23 REPRESENTATIVE FOLWELL: So, my follow-up
24 question would be: If someone walks into the
25 Midtown Cafe and asks for an employment application

1 and runs out before the person can ever offer them
2 a job, would that satisfy the requirement to get
3 this reloaded every week?

4 ASSISTANT SECRETARY HOLMES: Senator, I
5 don't know.

6 REPRESENTATIVE FOLWELL: Okay.

7 ASSISTANT SECRETARY HOLMES: Based on
8 that scenario, I don't know.

9 REPRESENTATIVE FOLWELL: And one last
10 question, Mr. Chairman.

11 CO-CHAIRMAN RUCHO: Last question.

12 REPRESENTATIVE FOLWELL: Thank you.

13 CO-CHAIRMAN RUCHO: Follow-up.

14 REPRESENTATIVE FOLWELL: On Slide 9, you
15 talk about that--the inference of Slide 9 is that
16 everyone who employs people in North Carolina is
17 not equally paying into the unemployment-insurance
18 system. What percentage of people who employ
19 people in this state are not paying into the system
20 because of the option they have to opt out of it?
21 And if everybody was paying who employed people,
22 wouldn't we be in a lot better shape right now?

23 ASSISTANT SECRETARY HOLMES: I think the
24 answer to the second part of your question is, yes,
25 we'd be in better shape. But I'll have to get back

1 to you to find out those exact numbers, the exact
2 data that you requested.

3 REPRESENTATIVE FOLWELL: And one small
4 follow-up, Mr. Chairman.

5 CO-CHAIRMAN RUCHO: Last follow-up.

6 REPRESENTATIVE FOLWELL: Thank you.
7 Secretary Crisco, if a company was thinking about
8 coming to North Carolina and they saw this huge
9 burden that we have of \$2.6 billion, and knowing
10 these taxes are going to go up, how does that bring
11 any level of certainty or comfort to anyone who is
12 thinking about coming to this state to relocate if
13 they knew they were going to have to pay into this
14 system?

15 SECRETARY CRISCO: Uncertainty is not
16 attractive to anybody looking at any state. But I
17 think states are--we need to address it, and if we
18 can give certainty, I think we can overcome the
19 issue of having to pay into it. Certainty is more
20 discouraging than having to pay.

21 REPRESENTATIVE FOLWELL: Thank you, Mr.
22 Chairman.

23 CO-CHAIRMAN RUCHO: Yeah, thank you.
24 Representative Howard.

25 CO-CHAIRMAN HOWARD: Ms. Holmes, if we

1 could look at--go back to Slide 6. I just want to
2 be sure that I, for one, understand this process.
3 We start with "State Benefits." And that's normal
4 26 weeks.

5 ASSISTANT SECRETARY HOLMES: Correct.

6 CO-CHAIRMAN HOWARD: Now, under the next
7 category, all the "Federal Benefits," which were
8 enacted in 2008, is it my understanding that those
9 are--there's no state dollars that go into these?

10 ASSISTANT SECRETARY HOLMES: Yes, that's
11 correct. And it's the federal part? Correct. The
12 Tier I through--Tiers I through IV, as well as the
13 100-percent federally funded extended benefits.

14 CO-CHAIRMAN HOWARD: Okay.

15 CO-CHAIRMAN RUCHO: Follow-up?

16 CO-CHAIRMAN HOWARD: There was just--
17 yeah--yes, thank you, for follow-up. There was
18 just a number that didn't match. And I'll have to
19 go through my sheet, here, and--

20 ASSISTANT SECRETARY HOLMES: A number--

21 CO-CHAIRMAN HOWARD: --and find it. But

22 they--

23 ASSISTANT SECRETARY HOLMES: Are you
24 saying a number on this page?

25 CO-CHAIRMAN HOWARD: No, ma'am. And I'm

1 going to have to find it. Don't worry about that.
2 That if we had paid out--and I'll find it, Mr.
3 Chairman, and go back to it. But if we had paid
4 out--yes, it's--maybe I just don't understand it.
5 Obviously not. Slide 3: We paid 1.4 billion in
6 regular unemployment. That's my understanding.
7 Those are state benefits.

8 ASSISTANT SECRETARY HOLMES: Correct.

9 CO-CHAIRMAN HOWARD: And then we paid
10 3.8, which is a difference of \$2.4 billion, which
11 is about what we owe. Explain to me--maybe
12 privately if it's too complicated--if all of the
13 extended benefits are federal, then how are we in--
14 that number just doesn't jibe with me, so perhaps
15 you could have one of your finance people explain
16 that to me. I--just doesn't--even later, if you'd
17 just get back with me.

18 ASSISTANT SECRETARY HOLMES: We can do
19 that, because it relates to the tax--how much taxes
20 we'd taken out, how much benefits go out--

21 CO-CHAIRMAN HOWARD: I understand.

22 ASSISTANT SECRETARY HOLMES: --on a basic
23 ratio.

24 CO-CHAIRMAN HOWARD: And then another
25 follow-up, Mr. Chairman?

1 CO-CHAIRMAN RUCHO: Follow-up?

2 CO-CHAIRMAN HOWARD: On Slide 43, Ms.

3 Holmes, you gave us four examples of how to
4 stabilize the fund. But I don't see anything--any
5 suggestions in regards to benefit adjustments.
6 Have you looked at those benefit adjustments and
7 perhaps in comparison with other states, or are we
8 online with those, or are we out of kilter?

9 ASSISTANT SECRETARY HOLMES: Well,
10 Representative Howard, I think I said as we went
11 through these slides that our internal committee,
12 the focus really was just on taxes at the time. In
13 the meantime, as you know, Senate Bill 99 was
14 passed, and we didn't think we needed to duplicate
15 efforts.

16 I also mention in here some Tax
17 Foundation recommendations, as well as we pulled
18 options from other states. And I think I said, at
19 the time, that we just looked at taxes, but
20 obviously, they are--there's a whole range of
21 options that can be looked at to get at this issue.

22 CO-CHAIRMAN HOWARD: Okay. Thank you,
23 ma'am. I look forward to working with you on
24 getting some numbers from your office that will
25 perhaps jibe with some things that we need to look

1 at in regards to adjustment of benefits.

2 ASSISTANT SECRETARY HOLMES: Okay.

3 CO-CHAIRMAN HOWARD: Thank you.

4 CO-CHAIRMAN RUCHO: I had Senator Blue.

5 He's not here right now. We'll skip him, and we'll
6 get him coming back. I've got Senator Hartsell.

7 SENATOR HARTSELL: Thank you, Mr.
8 Chairman. Just fairly quickly. It may be
9 tangential, but I'm not sure. The Workforce
10 Investment Act funds are--are they block-granted to
11 the state Department of Commerce for the Workforce
12 Development boards? Is that the way that works?
13 I'm not--

14 ASSISTANT SECRETARY HOLMES: I think so,
15 yes. It's a pass-through, in essence--

16 SENATOR HARTSELL: Okay.

17 ASSISTANT SECRETARY HOLMES: --to the--

18 SENATOR HARTSELL: Are they integrated in
19 any fashion with unemployment compensation?

20 ASSISTANT SECRETARY HOLMES: I don't
21 think so.

22 SENATOR HARTSELL: Okay. Can we get from
23 Commerce an explanation or a detailed--I don't
24 know--outline of how we expend those funds and
25 where they are expended?

1 ASSISTANT SECRETARY HOLMES: The WIA, the
2 Workforce--

3 SENATOR HARTSELL: The WIA funds.

4 ASSISTANT SECRETARY HOLMES: Workforce
5 Investment Act funds?

6 SENATOR HARTSELL: Okay.

7 SECRETARY CRISCO: (Nods affirmatively.)

8 SENATOR HARTSELL: And final question, I
9 hope: Is there any way in which they're--for these
10 funding mechanisms, is there any kind of waiver
11 process that exists, for instance, in other areas
12 of federal funding where we can go and essentially
13 create a managed operation that we put together as
14 opposed to the detailed strings associated with the
15 federal strings, as it were?

16 ASSISTANT SECRETARY HOLMES: I don't
17 know, Senator. But as you mentioned, I've had a
18 couple of people in my agency who have raised that
19 same question and really want us to take a look at
20 that. But we--

21 SENATOR HARTSELL: Because I have some
22 vague recollection that the State of Michigan may
23 have initiated something of that sort. And I think
24 I read that some--but I'm not sure. And I think
25 that it may--if we can, that kind of--what in

1 effect becomes a managed operation might be
2 something useful to look into.

3 CO-CHAIRMAN RUCHO: All set? Okay.
4 Representative Lewis?

5 REPRESENTATIVE LEWIS: Thank you, Mr.
6 Chairman. I've got a few areas I'd like to
7 explore. And I'll just throw this out there for
8 the Assistant Secretary or the gentleman in the
9 back, or whomever can reply to this. I'm very
10 curious about this 3-percent surcharge, or whatever
11 the correct terminology is, that you're--that I
12 understood you to say has now been assessed on
13 North Carolina employers.

14 ASSISTANT SECRETARY HOLMES: .3 percent,
15 yes, sir.

16 REPRESENTATIVE LEWIS: .3?

17 ASSISTANT SECRETARY HOLMES: Yes.

18 REPRESENTATIVE LEWIS: Where does that
19 money go?

20 ASSISTANT SECRETARY HOLMES: Let you
21 answer that.

22 CO-CHAIRMAN RUCHO: Please identify
23 yourself again.

24 MR. CARLSON: Kevin Carlson, chief
25 financial officer for Division of Employment

1 Security.

2 The FUTA tax itself goes to the federal
3 government to fund the UI administration grants
4 themselves, as well as some of the extended federal
5 programs that we're currently implementing, such as
6 the UC. The .3-percent increase that we're talking
7 about is on top of the regular FUTA tax, and it
8 goes directly to payment of the debt. So, whatever
9 taxes is collected on that .3 percent will go
10 directly to pay off whatever portion of the debt we
11 currently have.

12 CO-CHAIRMAN RUCHO: Follow-up?

13 REPRESENTATIVE LEWIS: Yes. So do we
14 have an idea what that .3 percent should be this
15 year?

16 MR. CARLSON: The estimate is about \$84
17 million.

18 REPRESENTATIVE LEWIS: If I could, Mr.
19 Chairman, just to go forward, trying to understand
20 the state reserve fund: We seemed to have talked
21 around this a couple of times. I believe I've come
22 to the understanding that a certain percentage--and
23 I believe it's 20 percent of unemployment insurance
24 that our employers pay into the state goes into the
25 state reserve fund. Is that right? Did I say that

1 correctly?

2 MR. CARLSON: It's in addition. It's a
3 20-percent addition.

4 REPRESENTATIVE LEWIS: Okay. Thank you.
5 And just to go forward with that, I understood you
6 to say that that 20--that that fund, that reserve
7 fund, accumulates about 180 million a year?

8 MR. CARLSON: That is correct.

9 REPRESENTATIVE LEWIS: Okay. Mr.
10 Chairman, if I may?

11 CO-CHAIRMAN RUCHO: Follow-up?

12 REPRESENTATIVE LEWIS: If we're going
13 to--and I believe it was Senator Hartsell who
14 asked--currently, part of that money is being used
15 to run services through ESC, or DES, but we're now
16 going to use 70 million to pay interest.

17 I don't understand if--if we've--if this
18 money has been sitting there growing, if you will,
19 at whatever rate per year--and we've obviously used
20 it for something; it's going somewhere--if we're
21 now using it--and I believe you said the figure was
22 76 million that we were going to use to pay
23 interest--where is that money--where is that--what
24 hole or pot is that 76 million going to come from?

25 MR. CARLSON: Sir, the--you are correct.

1 In the \$180 million that we collected this year,
2 \$78 million was used for the interest payment.
3 There was \$20 million used for the appropriation to
4 the--19.5 million to the Employment Security
5 Commission for the operation of the local offices.
6 The remainder amount of money that is in the state
7 reserve fund is used to pay benefits, which reduces
8 the amount of money that we have to borrow from the
9 federal government.

10 REPRESENTATIVE LEWIS: So, Mr. Chairman--
11 and I apologize for not being able to recall the
12 gentleman's name, but just to be sure, the--it is--
13 it is the intent of DES to continue to use the 19.5
14 million, or 19 whatever it was, out of the state
15 reserve fund to operate the DES field offices.

16 MR. CARLSON: The consolidation with
17 Division of Workforce Development and the
18 Employment Service Division in that consolidation
19 effort--it will be discussed whether we will need
20 to have that \$19.5 million appropriation again this
21 year.

22 CO-CHAIRMAN RUCHO: Follow-up?

23 REPRESENTATIVE LEWIS: Thank you, Mr.
24 Chairman. Just a--actually, just a real quick
25 inquiry, because the curiosity has gotten the best

1 of me.

2 Several of us have asked about--and
3 you've done a very good job of trying to explain
4 the--that we have identified how we mispaid--or the
5 three main reasons that we may have mispaid the 549
6 million. We've also said that we're going--that
7 we've begun steps to try to reclaim some of that.
8 Do you know how much we have reclaimed? And where
9 does that money go?

10 ASSISTANT SECRETARY HOLMES: I can get
11 the actual figure for you, Representative Lewis.
12 But it goes back into our trust fund when we
13 recover it. And you're looking for how much we
14 reclaimed over that same three-year period? Is
15 that your question?

16 REPRESENTATIVE LEWIS: Yes.

17 ASSISTANT SECRETARY HOLMES: We can get
18 that for you.

19 REPRESENTATIVE LEWIS: Well, just--and
20 also, Mr. Chairman, we began to discuss this last
21 time, but we've got the folks here who can answer
22 this. The very first slide, Slide 2, indicates
23 that DES has 1900 employees as of November 30th,
24 2011. I was just curious if we knew what that
25 figure was for November 30th, 2010.

1 ASSISTANT SECRETARY HOLMES: I can get
2 that. I don't know the exact number. It was--it
3 was likely a little higher a year ago, but the
4 exact number I can get.

5 REPRESENTATIVE LEWIS: Thank you. And,
6 Mr. Chair, if I could?

7 CO-CHAIRMAN RUCHO: Follow-up?

8 REPRESENTATIVE LEWIS: To the Secretary--
9 and I'll preface this by apologizing if I--if it's
10 just somehow not gotten through my head. I
11 understood--and wrote down--you to say that there
12 was \$251,216 worth of savings in the 2011-2012
13 budget, that you had certified that. I was curious
14 who you had--or how you had certified that.

15 SECRETARY CRISCO: It's dealing with the
16 state Budget Office and our allocations. It's
17 paying out--I don't know if my public person's
18 here--about when it was done, but it--I've been
19 told it was certified, which means that we
20 identified it and it is--it will be saved in this
21 budget. I don't have the details here today.

22 REPRESENTATIVE LEWIS: So, Mr. Chairman,
23 if I could.

24 CO-CHAIRMAN RUCHO: Follow-up? Yes, sir.

25 REPRESENTATIVE LEWIS: Just to be clear--

1 and I--please, this is not intended to be
2 confrontational, but I--it appears to me that what
3 you're saying is a lot like the same certification
4 that I've made with Charles Barkley and Weight
5 Watchers that I'm going to--that I'm going to lose
6 weight at some point this year.

7 SECRETARY CRISCO: I made the same
8 certification, sir.

9 REPRESENTATIVE LEWIS: But I've not--but
10 I've not lost the weight yet.

11 SECRETARY CRISCO: Well--

12 REPRESENTATIVE LEWIS: Is that right?

13 SECRETARY CRISCO: To be fair, you're
14 right, but the year is not over. So, again, it's
15 for the year ending June 30th, '12. So, we've
16 got--it's in a--the complete Commerce budget has
17 many items that--in our certified budget will get
18 enact--we'll--we've got to balance; that's the law.
19 When we get down to the end, we'll--I can tell you
20 an actual number by account. Sitting here, I can
21 tell you projected items by account.

22 CO-CHAIRMAN RUCHO: You all set? Okay.
23 Let's see. Senator McKissick.

24 SENATOR MCKISSICK: Two points of
25 concern, and the first is this: I know earlier I

1 raised this question about the \$700 million that
2 would have to be paid in over seven years to get
3 the debt paid down. And if my math's correct, we
4 would end up paying back 4.9 billion on the 2.6
5 billion debt. I mean, is that a correct assumption
6 to reach? Because if that's true on a \$2.6 billion
7 debt, we're paying 2.3 billion in interest. And
8 I'm trying to make sure my math is right, or maybe
9 there's some way that--

10 ASSISTANT SECRETARY HOLMES: We could
11 probably--

12 SENATOR MCKISSICK: --somebody could--

13 ASSISTANT SECRETARY HOLMES: --get that
14 for you.

15 SENATOR MCKISSICK: Can you reconcile
16 that for me?

17 ASSISTANT SECRETARY HOLMES: We can.

18 SENATOR MCKISSICK: All right. Secondly,
19 I know there's a lot of concern I've heard
20 articulated here about mistakenly paid claims. I
21 hope that when you bring back data to us, that it's
22 broken into at least two categories, one where
23 there might have been some active fraud on behalf
24 of the claimant who is seeking compensation for
25 benefits they were not entitled to, and a separate

1 category for those who were mistakenly paid claims
2 due to no fault of their own but just due to a
3 misinterpretation of their eligibility.

4 Because for those who have committed a
5 fraud, I want to go through the--I want to go after
6 them with due diligence and with speed, but for
7 poor folks who really didn't know that they were
8 getting overpaid and it was some sort of
9 interpretation that led to them being paid
10 mistakenly, I've got concerns about going after
11 those folks.

12 And those are not people that I think
13 necessarily we need to zealously pursue, because
14 that's something that we should be able to accept
15 responsibility for and to move on. And I think
16 that's just a matter of being respectful and
17 compassionate.

18 CO-CHAIRMAN RUCHO: Thank you. All
19 right. I had Representative McComas had a
20 question. Mr. Chairman?

21 CO-CHAIRMAN MCCOMAS: Thank you, Mr.
22 Chairman. Ms. Holmes, do you maintain a database,
23 or do you know or do you--or perhaps maybe classify
24 the claimants according to their background,
25 whether they come from a labor pool that's

1 construed to be a labor shortage?

2 ASSISTANT SECRETARY HOLMES: I'm not--I
3 don't know, Representative McComas. I can find
4 that out. I--could you help me understand--

5 CO-CHAIRMAN MCCOMAS: Would anybody on
6 your staff here know?

7 ASSISTANT SECRETARY HOLMES: I'm looking
8 back over there. No. But that's something we can
9 certainly find out.

10 CO-CHAIRMAN MCCOMAS: If you would, I'd
11 very much appreciate it. Thank you.

12 CO-CHAIRMAN RUCHO: All right. We're--

13 I--okay. Representative Lewis.

14 REPRESENTATIVE LEWIS: Thank you, Mr.
15 Chairman. I'd like to start out by saying a word
16 of thanks to the Assistant Secretary for trying to
17 explain how the BLS information comes about.

18 I'll make a brief comment, in that it
19 still seems archaic and absurd to me that we make
20 some--that somehow this entity makes 60,000 phone
21 calls or contacts to--all across the nation of 114
22 million households and that that produces some kind
23 of extrapolation of really accurate data. I can't
24 help but believe there's not a more efficient way.

25 But I--be that as it may, as that is our

1 system, as that is the accepted way that things are
2 done, I think it has got to be asked--and we've
3 kind of danced around and around it a bit. We
4 talked about--well, just to get to the point: Do
5 you know if anyone in your department, be it when
6 it was the ESC or now that it's the DES, provided
7 information to the executive branch prior to the
8 agreed-to release date of the BLS information?

9 ASSISTANT SECRETARY HOLMES:

10 Representative, I think we've said earlier that,
11 yes, the information was provided to the executive
12 branch, but with the proper restrictions around it;
13 the data was embargoed. So, it was--it was before
14 the release date, but it was not published before
15 the release date.

16 REPRESENTATIVE LEWIS: Okay. This--if I
17 may, Mr. Chairman.

18 CO-CHAIRMAN RUCHO: Yes. Follow-up
19 question?

20 REPRESENTATIVE LEWIS: And I'm not
21 familiar with this. I actually came across it
22 online, like so much of the stuff that we have to
23 find out. This investigation, if you will, that is
24 being conducted by the U.S. House of
25 Representatives has--to what extent are you or your

1 board--or are you or your--the staff that you
2 supervise involved with that, or have you been
3 asked to be involved with that?

4 ASSISTANT SECRETARY HOLMES: We have been
5 involved to the extent that we have--that it--if
6 you've seen the letter, you probably saw it online,
7 from the U.S. Congress. They're looking for any
8 e-mails, any dealings of--to the extent they're
9 data requests, we are--we are participating and
10 cooperating with that.

11 REPRESENTATIVE LEWIS: Thank you.

12 CO-CHAIRMAN RUCHO: Okay. All right. No
13 other questions? I want to finish. I've got just
14 two quick ones myself, if I may.

15 Madam Secretary, I think some of the
16 concerns that many of us have had--and that's with
17 the--beginning with Senate Bill 99--was to get the
18 study going to try to get a problem resolved. And
19 as you've alluded to earlier, in 2009, you called
20 that a period of insolvency. And I know you say
21 you came here in August of 2010. Is that correct?

22 ASSISTANT SECRETARY HOLMES: March of
23 2010.

24 CO-CHAIRMAN RUCHO: March of 2010. Okay.
25 During that period of time--and recognizing the

1 insolvency--you have a list of visits that were
2 made to the General Assembly. It's not you, but
3 the--your Department. And some of it is under your
4 time period and some of it is prior to that, where
5 Chairman Carey was there.

6 At what point--and I--and I did request
7 this information along with Senator Berger when we
8 first found that this \$2.5 billion was--there was a
9 big hole in the ESC that no one seemed to be
10 totally aware of. At what point did the ESC
11 through any of its representatives, Mr. Clegg and
12 other ones that came to visit here, actually make
13 recommendations and throw the red flag up that we
14 have a problem here, and why--and we need to have
15 these things done to help us not get into the \$2.6
16 billion hole?

17 ASSISTANT SECRETARY HOLMES: Senator
18 Rucho, it's my understanding certainly since I've
19 been here we've attempted to come in and appear
20 before committees and raise the flag. And as a
21 matter of fact, I think I mentioned that just a
22 year ago, as part of this process, Kevin Carlson
23 came before this Committee.

24 I also understand that even prior to 2009
25 there were visits, both formal visits and informal

1 visits, to talk about the--raising the red flag
2 that insolvency was certainly on the--on the
3 horizon. We did put together that document, that
4 big stack of information, that we went back to show
5 many of the times--pretty much formal times--where
6 we came over.

7 CO-CHAIRMAN RUCHO: Follow-up question to
8 you, then: Under that circumstance, you surely may
9 have said, "Hey, there's a problem here," but do
10 you not think that as the leader of ESC that you
11 would have come forward either to the Governor's
12 Office or to the General Assembly leadership or
13 the--or any of the committees and say, "Folks,
14 we're in the hole. We need to increase taxes, or
15 we need to do benefit reductions"? Don't you think
16 that should have been part of the responsibility of
17 the ESC, since y'all manage it and therefore the
18 leader of that should have taken the responsibility
19 there?

20 ASSISTANT SECRETARY HOLMES: Oh,
21 absolutely, I agree. And in fact, I think we did
22 do that, and had been doing that. We had talked to
23 the Governor's Office. I think I mentioned our
24 internal study that we launched shortly after I got
25 there.

1 We've made some recommendations. We've
2 talked to the Governor's Office. We've come over
3 here. Maybe the situation as far as you're
4 concerned is not--has not been as coordinated. But
5 I think we have at least made some attempts to not
6 only raise the flag but to talk about the issues
7 that we think we ought to deal with going forward.

8 CO-CHAIRMAN RUCHO: The--I guess some of
9 the concern that many of us had when Senate Bill 99
10 was put forward was, there really wasn't a
11 concerted effort to solve this problem once it was
12 identified, and it only seemed to get worse, month
13 to month, as we were bleeding.

14 But, you know, you talk about
15 communicating with the Governor's Office and maybe
16 some legislators. You know, in the future, don't
17 you think it'd be a good idea to be a little bit
18 forceful in saying, "Hey, folks, we got a problem
19 here that we need to fix now"?

20 ASSISTANT SECRETARY HOLMES: I don't
21 disagree, Senator.

22 CO-CHAIRMAN RUCHO: Okay. Question.
23 It's a follow-up question now. In discussion with
24 the issues dealing with the embargoed information,
25 there was an article that I read in the paper

1 regarding a press conference or event in Asheville,
2 Buncombe County, where the information was shared
3 prior to the embargo date in a report by the
4 governor. Is--are you aware of any of that--excuse
5 me. Are you aware of any of that activity, and
6 were you provided any information to that effort?

7 ASSISTANT SECRETARY HOLMES: Yes, I was
8 aware. I think Senator Stevens asked that question
9 earlier. I had--I was aware of that.

10 CO-CHAIRMAN RUCHO: Okay. Well, seeing
11 no additional questions--oops. Senator--
12 Representative Starnes.

13 REPRESENTATIVE STARNES: I apologize.
14 Just quickly. Has the bleeding stopped, or are we
15 still borrowing money to pay unemployment
16 insurance?

17 ASSISTANT SECRETARY HOLMES: We're still
18 borrowing.

19 REPRESENTATIVE STARNES: And at what
20 rate? How much per month?

21 ASSISTANT SECRETARY HOLMES: I think
22 quarterly it's--I'm looking back at Mr. Carlson.

23 MR. CARLSON: Kevin Carlson, Division of
24 Employment Security.

25 Currently, the last fiscal year that just

1 ended was about \$260 million worth of borrowing.
2 So, our benefit payments are decreasing, and our
3 taxes have increased, but we are still borrowing at
4 roughly 260, 250 million dollars right now.

5 REPRESENTATIVE STARNES: Per quarter?

6 MR. CARLSON: Per year.

7 REPRESENTATIVE STARNES: Per year.

8 MR. CARLSON: Yes.

9 CO-CHAIRMAN RUCHO: Okay. I see no
10 additional questions. Anything else you'd like to
11 say, Ms. Holmes?

12 ASSISTANT SECRETARY HOLMES: Senator,
13 thank you for the opportunity to come. And I look
14 forward to working with you all.

15 CO-CHAIRMAN RUCHO: Yes, ma'am. Thank
16 you for being here.

17 And, ladies and gentlemen, we hope that
18 we recognize the problem with ESC, and we look
19 forward to working with the Secretary and Assistant
20 Secretary to resolve it.

21 That concludes the meeting. And the next
22 meeting is scheduled for February 1st, 2012. This
23 meeting is adjourned.

24 (WHEREUPON, THE MEETING WAS ADJOURNED AT 12:34 P.M.)

25