

1999-2001

LRC

**EMPLOYMENT
SECURITY &
UNEMPLOYMENT TAX
COMMITTEE**

MINUTES

**LRC EMPLOYMENT SECURITY AND
UNEMPLOYMENT TAX COMMITTEE**

1999-2001

Pro Tem's Appointments

Sen. John Kerr, III, Cochair
P. O. Box 1616
Goldsboro, N. C. 27533
(919) 734-1841

Ms. Tonola Brown
Lucent Technologies, Inc.
P. O. Box 20046
Greensboro, N. C. 27420-0046
(336) 279-4008

Sen. Virginia Foxx
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Banner Elk, N. C. 28604
(828) 963-5025

Sen. Oscar Harris
P. O. Box 578
Dunn, N. C. 28335
(910) 892-1021

Sen. David Hoyle
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Gastonia, N. C. 28053
(704) 867-0822

LRC Member

Sen. Linda Garrou
P. O. Box 11843
Winston-Salem, N. C. 27116
(336) 922-6142

Clerk

Peggy Anne Hogan
(919) 733-5850

Speaker's Appointments

Rep. E. David Redwine, Cochair
P. O. Box 283
Shallotte, N. C. 28459
(910) 754-4326

Rep. Pete Cunningham
3121 Valleywood Place
Charlotte, N. C. 28216
(704) 394-0919

Rep. Pryor Gibson
717 Mountford Ave.
Raleigh, N. C. 27603
(919) 838-1416

Rep. Alex Warner
212 S. Main St.
Hope Mills, N. C. 28348
(910) 424-5350

Rep. Connie Wilson
726 Lansdowne Rd.
Charlotte, N. C. 28270
(704) 364-2311

Staff

Bill Gilkeson
Research Division
(919) 733-2578

David Crotts
Jennifer Hoffman
Fiscal Research
(919) 733-4910

ATTENDANCE

Committee: Employment Security and Unemployment Tax Committee

[illegible]

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1999

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HOUSE BILL 324

Short Title: LRC Study Employment Security/AB.

(Public)

Sponsors: Representative C. Wilson.

Referred to: Rules, Calendar and Operations of the House.

March 4, 1999

1 A BILL TO BE ENTITLED
2 AN ACT TO AUTHORIZE THE LEGISLATIVE RESEARCH COMMISSION TO
3 STUDY THE UNEMPLOYMENT INSURANCE TAX AND OTHER
4 EMPLOYMENT SECURITY ISSUES.

5 The General Assembly of North Carolina enacts:

6 Section 1. The Legislative Research Commission is authorized to study
7 issues relating to the State's Employment Security Law, Chapter 96 of the General
8 Statutes, with an emphasis on the unemployment insurance tax. The Legislative
9 Research Commission is encouraged to appoint members of the public, including
10 representatives of employers and employees, as well as legislators to participate in the
11 study.

12 Section 2. The study shall include the following issues:

- 13 (1) The effect of past adjustments in the unemployment insurance tax
14 rate on current and future balances of the State Unemployment
15 Insurance Trust Fund.
16 (2) Changes in the North Carolina economy and job market, and their
17 effect on the balance of the State Unemployment Insurance Trust
18 Fund.
19 (3) What minimum and maximum balances would be most reasonable
20 for the Fund to assure that it will be adequate but not excessive.
21 (4) Whether the State should adopt a mechanism to adjust
22 unemployment insurance tax rates automatically when the
23 recommended minimum or maximum balances are reached.

- 1 (5) Whether to adjust reporting requirements with respect to
- 2 employment security laws.
- 3 (6) Other state's laws, including innovative reforms adopted by other
- 4 states that may serve as a model for North Carolina.
- 5 (7) Issues raised by the Employment Security Commission regarding
- 6 its activities under Chapter 96 of the General Statutes.
- 7 (8) Any other issues the Legislative Research Commission considers
- 8 relevant.
- 9 Section 3. The Commission may make a final report of its
- 10 recommendations regarding the Employment Security Law to the 2001 General
- 11 Assembly.

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1999**

**SESSION LAW 1999-395
HOUSE BILL 163**

AN ACT TO AUTHORIZE STUDIES BY THE LEGISLATIVE RESEARCH COMMISSION, TO CREATE VARIOUS STUDY COMMISSIONS, TO DIRECT STATE AGENCIES AND LEGISLATIVE OVERSIGHT COMMITTEES AND COMMISSIONS TO STUDY SPECIFIED ISSUES, AND TO AMEND OTHER LAWS.

The General Assembly of North Carolina enacts:

PART I.—TITLE

Section 1. This act shall be known as "The Studies Act of 1999".

PART II.—LEGISLATIVE RESEARCH COMMISSION

Section 2.1. The Legislative Research Commission may study the topics listed below. When applicable, the bill or resolution that originally proposed the issue or study and the name of the sponsor is listed. Unless otherwise specified, the listed bill or resolution refers to the measure introduced in the 1999 Regular Session of the 1999 General Assembly. The Commission may consider the original bill or resolution in determining the nature, scope, and aspects of the study. The following groupings are for reference only:

- (1) Governmental Agency and Personnel Issues:
 - a. Defined contribution pension plan for State employees and teachers (H.B. 39 - Baker).
 - b. State agencies' customer service quality assurance (H.B. 636 - Owens).
 - c. Administrative process for State employee grievances (H.B. 1014 - Miller).
 - d. State employee comprehensive compensation system (H.J.R. 1158 - Nesbitt, Sherrill; S.J.R. 1031 - Reeves).
 - e. Procurement card pilot program of the Department of Administration, including its effectiveness and efficiency, costs and benefits, impact on accounting, budgeting, and purchasing history records, how to identify realized savings, and the feasibility of statewide implementation of the program (Shaw of Cumberland; Wainwright).
 - f. Acquisition of additional parklands at Lake James State Park (S.B. 200 - Odom).
 - g. State government construction projects' review and approval process.
 - h. Digitization of public records by the Division of State Archives (Jeffus).
 - i. Regulation of nondepository trust companies and authorization of family trust companies (S.B. 94 - Warren).
 - j. State tort liability and immunity (Walend,

Nesbitt).

(2) Insurance and Managed Care Issues:

- a. Managed care issues, including any willing provider, patients' rights, managed care entity liability, office of consumer advocacy for insurance, prompt payment of health claims, and related issues (S.B. 1089 - Harris, H.J.R. 1461 - Mosley).
- b. Mental health and chemical dependency parity (H.B. 713 - Alexander; S.B. 836 - Martin of Pitt).
- c. Health reform recommendations of the Health Care Planning Commission and its advisory committees (established by Section 1.2 of Chapter 529 of the 1993 Session Laws) that have not been implemented but are still needed and other health reform issues (Insko).
- d. Pharmacy choice/competition (H.B. 1277 - Cole; S.B. 137 - Rand).

(3) Education Issues:

- a. Driver education programs; teen drivers (H.B. 1440 - Mosley).
- b. Seat belts on school buses (H.B. 355 - Mosley).
- c. Resolution of conflicts between boards of education and county commissioners.
- d. School boards review of applicable court orders (H.B. 790 - Gulley).
- e. Election, terms, and constitution of the Board of Governors of The University of North Carolina (H.B. 1242 - Haire).

(4) Human Resources and Health Issues:

- a. Long-term care facility licensure compliance (H.J.R. 909 - Mosley).
- b. Biannual inspection and grading of adult care homes by county social services departments, including areas and services to be inspected and graded, penalties for failure to meet minimal grade levels, fiscal impact on county social services departments, posting of grade in the adult care home, and related issues (Earle and Sherrill).
- c. Medicaid recovery (H.J.R. 102 - Clary; S.J.R. 39 - Purcell).
- d. Central registry for living wills and organ donations (H.B. 406 - Fox).
- e. Animal vaccination administration (H.B. 595 - Owens; H.B. 329 - Tucker).
- f. Marriage license laws (H.J.R. 1365 - Hill; H.B. 973 - Hill; S.B. 1018 - Dalton).
- g. Unvented gas heaters (S.B. 785 - Albertson).
- h. Hunger and nutrition (H.B. 1229 - Adams; S.B. 944 - Martin of Guilford).
- i. Spaying/neutering of dogs and cats, including funding (H.B. 819 - Hensley; S.B. 330 - Kinnaird).
- j. Causes and prevention of juvenile crime and delinquency (S.B. 914 - Rand).

k. Child care subsidy issues including but not limited to: state implementation of federally mandated biennial market-rate surveys for the child care subsidy program and provider reimbursement formula, under the new five-star rated license, for the child care subsidy program (Mosley).

l. Spinal manipulation treatment including comparison to spinal mobilization and similar treatments, utilization rates among health care professionals, complications and training.

m. Defibrillators; use and liability (H.B. 1118 - Wright).

n. Health professions scope of practice.

(5) Taxation and Economic Development Issues:

a. Consolidated income tax returns by affiliated corporations, including the legal, fiscal, and other effects of consolidated or combined reporting (H.J.R. 491 - McMahan).

b. Impact of military bases on public services and taxes (Hurley and Warner).

c. Capital incentive program for tourism (H.J.R. 1483 - Earle).

(6) Environmental/Agricultural Issues:

a. Wastewater system construction permits and related issues (H.B. 137 - Culp).

b. Red imported fire ants, including adverse impacts on health, environment, land use, and economy, and the feasibility of increasing control and eradication efforts (PLYLER, Warwick).

c. Apple industry, including marketing, production, effect of pesticide control, use of pesticides marketed in other countries, impact of imported apples and apple products, use of juice concentrate, and related issues (Justus).

d. Environmental impacts; sources of pollution (H.B. 1002 - Warwick).

e. Coastal beach movement; beach renourishment, and storm mitigation (H.B. 118 - Redwine; S.B. 54 - Ballantine).

(7) Labor/Employment Issues:

a. Protection of youth labor in entertainment industry (H.B. 942 - Goodwin).

b. **Employment security and unemployment insurance tax issues (H.B. 324 - C. Wilson; Hoyle, Kerr).**

(8) Government Regulatory Issues:

a. Magistrates authority (H.B. 1224 - Baddour).

b. Telephone solicitation (H.B. 1080 - Allen).

(9) Transportation Issues:

a. Trucking safety (H.B. 1249 - C. Wilson).

b. Toll roads.

c. Municipal participation in road funding.

d. Pedestrian ferry services (Basnight).

(10) Consumer protection issues:

a. Higher cost of credit including

(Clodfelter):

1. A review of the licensing and regulatory supervision of credit sources subject to statutory interest or fee limitations other than the usury act (G.S. 24) and retail installment sales act (G.S. 25);

2. The adequacy of consumer protections afforded to borrowers of these lenders both in state and federal law;

3. Whether legal differences in loan terms, regulation and consumer protections of similar credit products offered by federally chartered sources of credit and those lenders licensed by state agencies should be addressed in state law to create parity in the credit market;

4. Whether programs exist or should be initiated to educate the public to promote personal financial literacy;

5. Whether marketplace competition, state regulations or law are sufficient to ensure the availability of lower-cost credit for high-risk borrowers who have improved their credit worthiness;

6. Whether consumers who seek high-cost credit are subjected to abusive lending practices or suffer adverse economic consequences as a result of obtaining high-cost loans.

- b. Cash-out transactions used by some check-cashing businesses (S.B. 1137 - Martin of Guilford, Shaw of Guilford) and pawn shops.

- c. Sale of structured settlements and the effects of Senate Bill 746.

- d. Cash converter regulation (H.B. 1451 - Hurley).

- e. Credit insurance and mortgage credit, including the licensing, regulation, and examination of mortgage brokers and mortgage lenders, financing of credit insurance premiums, and other aspects of the mortgage market relating to the availability of mortgage credit. These issues may be studied in conjunction with issues required to be studied under Senate Bill 1149 (1999 Session).

(11) Criminal laws issues:

- a. Prohibiting death sentence for mentally retarded persons (S.B. 334 - Ballance).

- b. Prohibiting death sentence obtained on basis of race (S.B. 991 - Ballance).

- c. Bail bond laws (S.B. 994 - Odom, Ballantine; H.B. 1219 - BADDOUR).

(12) Real property issues:

- a. Development-rights transfer and the creation of development-rights banks (S.B. 1059 - Clodfelter).

- b. Ways to improve the quality of documents recorded in the office of the register of deeds (S.B. 873 - Dalton).

Section 2.2. Committee Membership. -- For each Legislative Research Commission committee created during the 1999-2001 biennium, the cochaIRS of the Legislative Research Commission shall appoint the committee membership.

Section 2.3. Reporting Date. -- For each of the topics the Legislative Research Commission decides to study under this Part or pursuant to G.S. 120-30.17(1), the Commission may report its findings, together with any recommended legislation, to the 1999 General Assembly, 2000 Regular Session, or the 2001 General Assembly.

Section 2.4. Funding. -- From the funds available to the General Assembly, the Legislative Services Commission may allocate additional monies to fund the work of the Legislative Research Commission.

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PART XXII.---BILL AND RESOLUTIONS REFERENCES

Section 22.1. The listing of the original bill or resolution in this act is for reference purposes only and shall not be deemed to have incorporated by reference any of the substantive provisions contained in the original bill or resolution.

PART XXIII.---EFFECTIVE DATE AND APPLICABILITY

Section 23.1. Except as otherwise specifically provided, this act becomes effective July 1, 1999. If a study is authorized both in this act and the Current Operations Appropriations Act of 1999, the study shall be implemented in accordance with the Current Operations Appropriations Act of 1999 as ratified.

In the General Assembly read three times and ratified this the 21st day of July, 1999.

s/ Dennis A. Wicker
President of the Senate

s/ James B. Black
Speaker of the House of Representatives

s/ James B. Hunt, Jr.
Governor

Approved 9:03 p.m. this 5th day of August, 1999

LRC EMPLOYMENT SECURITY AND UNEMPLOYMENT INSURANCE TAX
STUDY COMMITTEE BUDGET ESTIMATE

1.	Legislative Members Subsistence	<u>\$ 6,240.00</u>
	USUAL SITUATION - ONE DAY MEETINGS \$104 x 10 legislative members x 1 ½ (Half of members using two days subsistence) x four meetings	
2.	Non-Legislative Members Subsistence	<u>\$ 576.00</u>
	USUAL SITUATION - ONE DAY MEETINGS \$96 x one non-legislative member x 1 ½ (half of time the member using two days subsistence) x four meetings	
3.	Travel Expenses	<u>\$ 1,914.00</u>
	\$43.50 x 11 members x four meetings (Average 150 miles round trip x \$.29 = \$43.50)	
4.	Clerical Staff	<u>\$ 2,404.00</u>
	Average of \$601 x four meetings (\$601 = average salary with benefits for 5 day work week)	
5.	Professional Staff	<u>0.00</u>
	(To be used if other than legislative professional staff is employed)	
6.	Special Travel and Expenses	<u>0.00</u>
7.	Postage and Telephone	<u>\$ 250.00</u>
8.	Supplies	<u>\$ 250.00</u>
9.	Copying and Printing	<u>\$1,000.00</u>
10.	Reserve	<u>\$12,366.00</u>
	TOTAL	<u>\$25,000.00</u>

January 14, 2000

MEMORANDUM

TO: LRC Employment Security and Unemployment Tax Committee Members

FROM: Senator John Kerr
Representative David Redwine

SUBJECT: Committee Meeting – February 1, 2000

There will be a meeting of the LRC Employment Security and Unemployment Tax Committee on Tuesday, February 1, 2000, at 2:00 p.m. in room 544 of the Legislative Office Building.

Please advise Peggy Anne Hogan, Committee Clerk, at (919) 733-5850 or e-mail Wellonsla@ms.ncga.state.nc.us, if you will be unable to attend.

Cc: Press
Interested Parties

Agenda for First Meeting of the LRC Committee on Employment Security and Unemployment Insurance Tax

**2:00 p.m., Wednesday, February 9, 2000
Room 544, Legislative Office Building**

Welcome by LRC Member in Charge

- * *Senator Linda Garrou*

Opening Remarks by Co-Chairs

- * *Senator John Kerr and Representative David Redwine*

Adoption of Budget

Review of Authorizing Legislation

- * *William R. Gilkeson, Counsel to the Committee*

Background on Employment Security Financial Issues

- * *David Clegg, Director of Governmental Relations, ESC*
- * *J. Parker Chesson, Chairman, ESC*
 - Overview of ESC System
- * *Robert Cottrell, Director, Labor Market Information, ESC*
 - Preview of ESC Annual Report
 - Status of Unemployment Insurance Trust Fund
- * *David Canady, Unemployment Insurance Director, ESC*
 - Status of Hurricane Floyd Unemployment Insurance Claims, Disaster Unemployment Insurance, and Waiting Week Waiver Legislation
- * *David Crotts, Fiscal Analyst, Fiscal Research Division, N.C. General Assembly*
 - Fiscal Information on Recent Tax Cuts
 - Recent Labor Market Data Relating to Unemployment Insurance Tax

Committee Discussion

Directions to Staff

Adjournment

MINUTES

LRC EMPLOYMENT SECURITY AND UNEMPLOYMENT INSURANCE TAX COMMITTEE

FEBRUARY 9, 2000

The LRC Employment Security and Unemployment Insurance Tax Committee met on Wednesday, February 9, 2000, in room 544 of the Legislative Office Building.

Ms. Tonola Brown, Senator Virginia Foxx, Senator Oscar Harris, Senator David Hoyle; Representative David Redwine, Co-chairman, Representative Pete Cunningham, Representative Pryor Gibson, Representative Alex Warner, and Representative Connie Wilson were present. LRC member, Senator Linda Garrou, also attended.

Representative David Redwine presided. He began by asking members and staff to introduce themselves. He called on Senator Garrou for remarks, and she welcomed the members. The Chairman asked for adoption of the Budget, and Senator Hoyle moved its adoption. The motion passed unanimously.

Representative Redwine then called on Bill Gilkeson, Committee Counsel, who gave a brief overview of the Authorizing Legislation. Mr. Gilkeson said that House Bill 324 authorizes this Study and sets forth the eight issues to be studied. A copy of this Bill labeled Exhibit I is attached. He called attention to the fact that if the Committee wanted to make a report or recommend legislation to the 2000 Short Session it has to adopt a report and turn it in to the Co-chairmen of the Legislation Research Commission by Friday, April 28, 2000. In this event, a draft of the report would have to be mailed to the Committee Members at least seven days before the report is adopted.

The Chairman introduced David Clegg, Director of Governmental Relations with the Employment Security Commission. Mr. Clegg said that the Commission welcomed the opportunity to have a dialogue regarding the administration of the Unemployment Insurance Trust Fund and the larger context in which the Employment Security Commission functions. He called attention to the Report on the 1996-1998 Biennium which is attached as Exhibit II. Mr. Clegg then spoke of David Canady, Unemployment Insurance Director, Manfred Emory, Employment Services Director, Robert Cottrell, Director of Labor Market Information, Thomas Whitaker, Deputy Chairman for Programs who will be available with information and knowledge to aid in the Commission work.

Mr. Clegg then introduced Mr. Parker Chesson, Chairman of the Employment Security Commission.

Mr. Chesson said that he would like to touch on what the Employment Security Commission is about and how they are doing it. Mr. Chesson said that the unemployment rate never got above 3.3% last year. We were about a point below the national average last year. He said that since he had been Chairman he had tried to focus on three or four major goals. One is Customer Focus - trying to improve the service they give, not only to employers, but to job seekers. Building partnerships at the state level and the local level, particularly the Community Colleges, and Social Service Agencies was also a goal which the Governor emphasized when they were discussing this job. He said there are people who are talking with each other now on a weekly or daily basis who were not doing that several years ago. Another emphasis in the last few years has been enhancement of local offices. He said that the ESC offices are more customer friendly than they have been in the past. Emphasis has also been placed on technology and trying to get the agency prepared to do business in the twenty-first century.

Mr. Chesson also called attention to the fact that employers in the state had among the lowest unemployment insurance tax in the country. Our benefits are good, compared to the southeastern states. He said that short duration of unemployment was responsible for this. With the exception of Georgia and New Hampshire, we are the lowest in the country in this regard. This is possible because the Legislatures and Governors over the years have built a Commission where employment and employment services and labor market information are linked together, not only at the state level, but in local offices. We have the ability to get people who are on benefits back to work very quickly.

Mr. Chesson said that last session legislation was enacted reducing the tax rate, adding back a contribution called "Training and Re-employment" which will, over two years, give the Community College System about \$100 million which they will use for purposes defined by the state board. Basically, this will be for non-recurring expenses for equipment. The agency did support this legislation. This money is for two years only, and Mr. Chesson urged members to monitor this because he is already hearing proposals that this money continue for other purposes beyond 2001. If this happens it would have implications for the Trust Fund.

Representative Pryor Gibson asked to have some information regarding where we are headed on taxable wage growth as it relates to interest rates. He asked if we could have this information before the short session. Mr. Chesson said that Mr. Cottrell may touch on this in his presentation, but if not, they would be glad to furnish it.

Mr. Robert Cottrell, Director, Labor Market Information, began by saying that he hoped to give a view of where we are today, and where they hope to be in the coming year or two. Mr. Cottrell gave an overview of Unemployment Insurance in North Carolina. For this, he used Exhibit III which is attached. Page 5 of the handout gives information regarding the Trust Fund Balance for 1999 and the State Reserve. Page 6 gives

information on Unemployment Insurance System 2000 and Beyond. This data helps to address the concerns of Representative Pryor.

Mr. Cottrell then referred to a graph showing Projected Unemployment Insurance Trust Fund Balance and Benefits Paid by Year to 2004. This is found on page 4 of Exhibit IV which is attached.

Page 1 of Exhibit V shows a Comparison of January 1999 Trust Fund Forecast with Actual 1999 Data. Mr. Cottrell said that because we had lower unemployment and earned more interest than was anticipated, there is a Trust Fund Balance of \$23million more than was anticipated in the projection. He suggested that the members study this at their leisure, and they would be glad to answer any questions.

Senator Foxx asked if any of the federal money that is available to the ESC was ever not used and returned. Do we ever use Worker Training Trust Fund money where other Federal Funds could be used? Mr. Cottrell said that there are two separate taxes associated with the Unemployment Insurance System. The first one, which he has been discussing, is reserved solely for benefits. The second tax, which is Federal Unemployment Tax is used to finance budgeting operations. The answer is that we never return any of the money.

Representative Wilson expressed concern about the fact that once the \$800 million ceiling is broken, everyone's rates double. Mr. Cottrell said that was correct. Representative Wilson said that she felt that we were coming dangerously close to this figure, especially in light of the tax cuts and the fact that they are taking between \$50 and \$70 million for two years for the Community College System. Mr. Cottrell called attention to the third page of the Draft which shows the Projected Unemployment Insurance Trust Fund Balance Under Current Law and Economic Conditions. He said that the \$800 million triggers a tax change when that occurs at the computation date, which is earlier. The date is August 1 of the prior year.

Representative Wilson referred to page 5 of the Draft which shows Projected Unemployment Insurance Trust Fund Balance Under Alternative Scenarios. In the first table, it shows that in the year 2001 we are dangerously close to the \$800 million figure.

Representative Redwine asked what they should be on the lookout for that would alert them to the fact that they needed to adjust the rates. He said that barring a full blown recession, it would be better to do it gradually than to have the rates doubled suddenly. Mr. Cottrell said there were a number of things that could be done. One very important one, is to watch very closely any reduction in funds that would normally go to the Trust Fund. Representative Redwine asked if that included any enhancement of benefits. Mr. Cottrell reiterated that the Legislature should be very careful about any changes that would have a negative impact on the Trust Fund.

The Co-chairman asked Mr. Chesson if he would like to address this issue. Mr. Chesson referred to page 4 of Exhibit IV which shows the Projected Unemployment Insurance Trust Fund Balance and Benefits Paid by Year, 1999-2004. He also called attention to Page 9 of the Draft which shows the Projected Benefit Payments (in 000's) for Selected Insured Unemployment Rates. He said that this chart was the most telling chart in the handout. He said that you have to weigh needs versus risk. He said that, eventually, some changes in the tax structure would have to be made.

Representative Wilson asked David Crotts, Chief Fiscal Analyst, for his comments. Mr. Crotts said the long term forecast that had been presented was very reasonable. He said that if Chairman Greenspan takes action that could cause recessions like 1990-91 or 1981-82 the long term problem could become a short term problem.

Senator Hoyle asked if benefits have automatic increases built in. Mr. Cottrell said that the actual benefits in terms of the maximum benefit amount is determined as 66 2/3% of the average weekly wage in the State. If the average weekly wage rises, the maximum anyone can draw rises. There is a cap of \$356 a week on the amount paid. Senator Hoyle stated that he thought it was understood that if the funds fall certain things will be triggered to raise the tax. However, this is not an additional tax, it is simply returning to where things were before. Mr. Cottrell said that if the fund moves below the \$800 million, it will remove the 50% tax reduction that has been approved. He stated that this would seem like a tax increase.

Senator Hoyle said the North Carolina Citizens for Business and Industry should be made aware of this situation so they could articulate the facts to their members. He said the tax cuts were adopted to help business and industry in North Carolina, and it had been successful.

However, they need to be reminded that this is tied to the economy, and if the economy fails, the tax will have to return. He said that Phil Kirk, who is the chairman of the North Carolina Citizens for Business and Industry should come to a meeting so he could hear what is going on.

Mr. Cottrell said that the ESC would be happy to work with the Committee to look at ways to address this situation.

Representative Gibson asked why fixed thresholds are used when the other factors are fluid. Mr. Cottrell said that he thought this might be a good time to consider those types of alternatives. He said there was no way they could have anticipated the continuity of growth that has been seen over the past eight years. Representative Gibson asked how we stacked up with other states. Mr. Cottrell referred to page 10 of the Draft which showed a comparison with other states.

Representative Wilson referred to rate schedules and said that there are ways to manipulate these schedules which might help. She said that if the members were taught how to use these it might be of help.

Representative Redwine called on David Canady, Unemployment Insurance Director, to give the Status of Hurricane Floyd Unemployment Insurance Claims. His remarks are attached as Exhibit VI. Mr. Canady stated that Hurricane Floyd hit North Carolina on September 15, 1999 and 66 counties were include in a declaration signed by the President. A plan of service was developed, and it included an estimate of the number of individuals who would become unemployed and an estimate of benefits to be paid as part of the request for Federal funds to administer the Disaster Unemployment Assistance. The estimate of 3,000 disaster claims fell short of the actual claims. As of February of 2000, over 6,000 claims have been processed. The total payout was estimated to be \$4.4 million and they have exceeded \$5 million. They are projecting a payout of \$7 million by the end of the program period.

Representative Redwine asked if they could provide a month to month chart on what is happening with the claims from the hurricane. He would like to see when they would begin to see a decrease in the number of people seeking unemployment.

The Cochairman called on David Crotts, Fiscal Analyst for the Fiscal Research Division to give his insight into the economic forecast.

Mr. Crotts began by addressing a concern voiced by Representative Gibson for people in his district who were out of work for a week because of the snow. He said that this has happened before, and they have found that this works itself out within a month or two.

Mr. Crotts referred to his handout, Selected Fiscal Information For Unemployment Insurance Tax Discussions which is attached as Exhibit VII. Page 1 of the handout shows the tax cuts in recent years. It shows permanent cuts amounting to \$376.5 million from 1992 through 1995. A one time cut in 1996 amounted to \$187.2 million.

Mr. Crotts called attention to page 5 which addresses the concerns which Senator Hoyle expressed. This chart shows what happened in 1994 when Mr. Greenspan pushed interest rates up from 3% to 6% within a 12 month period. He said that he felt the Federal Reserve was testing the waters by using quarter point increments and that eventually they might go to half point increments. Mr. Crotts pointed out the fact that the lag time can be six months to a year, and many times you don't know the effect of the hike until it is too late. This is what happened in 1974-75 and 1981-82.

Page 6 of the handout shows the effect of Federal Reserve tightening on wage and salary payments in North Carolina. Mr. Crotts said that this had already been built into the revenue forecast for the Budget. He said he thought Mr. Greenspan is going back to the 1994-95 period and thinking that if we had a soft landing then, we can do it again. This time it will also involve the stock market and the bond market.

Representative Redwine called on the Committee for discussion on the path the committee will take. He said we should pursue the idea of inviting Phil Kirk of the North Carolina Citizens for Business and Industry to attend a meeting. He could be made aware

of what is going on and take this information back. Representative Wilson also said that the NFIB should be made aware because any big changes would impact small businesses. The Chairman asked staff to set this up.

Senator Harris called attention to the fact that on the average duration of unemployment weeks, the state to Georgia was at 8.8 and we are at 9.8. He said this contributed to our problem. This is in addition to our weekly benefit. Senator Harris said that in the last session funds were set aside to aid in getting people back to work more quickly. He wanted to know if this had been implemented. Tom Whitaker of the Employment Security Commission said that they would not receive the first proceeds from the diversion until tax collections about May 1. Therefore, the Claimant Re-employment Project cannot begin until that date. Senator Harris asked if they had a compilation of trends showing the duration of unemployment weeks. Mr. Whitaker said that as Mr. Chesson stated, the North Carolina model that produces the highest benefits and some of the lowest taxes in the nation comes from enhanced re-employment services, focusing on re-employment at the earliest possible time for the unemployed. This negates the impact on the Trust Fund. This is the theory which supports the diversion for the Community Colleges. If we can enhance by reducing the duration, we can reduce the impact on the Trust Fund. The plan is to put the resources to work in the local offices in entry level Professional Job Counselors who will identify the claimants the first week of their unemployment and provide a job search for them to help them develop better interview skills and develop a plan immediately rather than waiting. This new staff will work exclusively with the re-employment effort.

The Co-chairman said that he would like some input from the ESC on some ways to manage a "soft landing" rather than waiting for the \$800 million trigger. Mr. Cottrell said they would take a look at some of the variety of tools that could be used to bring this about.

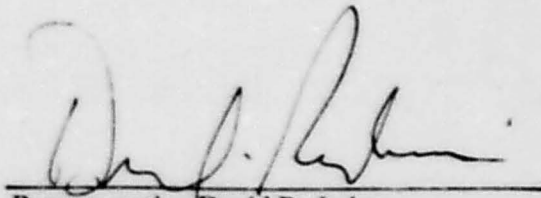
Senator Foxx questioned the hiring of new personnel with money that may not be available long term. Mr. Chesson said they would not be having a large increase in permanent staff. They would mainly use "intermittent" personnel. They see this as a two year program.

Senator Foxx asked what kind of a model was Employment Security as an employer of people who come to them for help. She wanted some data on this. Mr. Chesson said that he would furnish this information, but he did not know at this time.

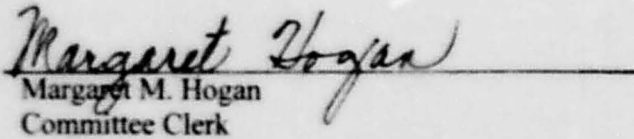
Senator Harris asked for some further information on the use of the money for Reemployment Enhancement.

The next meeting has been scheduled for March 29, 2000 at 2:00 p.m.

There being no further business, the meeting was adjourned.



Representative David Redwine
CoChairman



Margaret M. Hogan
Committee Clerk

Report on the Biennium



***Employment Security Commission
of North Carolina***

1996 ~ 1998

Employment Security
Commission Report
on the Biennium



1996-1998

*The Employment
Security Commission
of North Carolina*

*Commissioners
Serving
1996 - 1998*

*J. Parker Chesson, Jr.
Chairman*

Isaac A. Battle

John Ciller

Jack Cipriani

John Horne

Lisa A. Perry

Linda Sutton

Carolyn Grant

On behalf of the Employment Security Commission, it is with great pride that I present to you our Biennial Report for the period covering July 1, 1996, through June 30, 1998. As you will see, this was a period marked by accomplishment, key technological advances, and great progress toward our goal of delivering more efficient and higher quality services to the citizens of North Carolina.

After my appointment in October 1996, my first priority was to develop a mission statement that would establish a groundwork from which ESC programs and services would be administered. This mission continues to guide the work of the agency today.

This report will detail how we have worked to promote, as the mission spells out, "the economic well being of North Carolinians by providing high quality and accessible workforce-related services." This was accomplished by committing significant resources toward technological improvements, by expanding and improving our partnerships with other public and private entities, and through focusing our efforts on making our job banks, labor market data, and employment information more easily accessible and responsive to the modern economic climate. It was also accomplished by recognizing and communicating that ESC plays a vital role in economic development in recruiting business to our state. Recruitment is accomplished by providing information to employers about North Carolina's economic climate and introducing employers to our diverse workforce.

Through the provision of services relevant and critical to businesses and the workforce, the Employment Security Commission creates a forum through which the exchange of labor is accomplished efficiently and effectively. This report will highlight outcomes associated with the process of providing quality job-seeker and employer services, labor market information, and unemployment insurance benefits to a broad range of customers. It will also report on the success ESC has achieved through partnership with other state agencies to move welfare recipients into the mainstream of the state's labor market.

I believe our work over the past two years has laid the foundation for further progress toward building better job opportunities and a healthier job climate for North Carolina workers and industries.

Sincerely,

J. Parker Chesson, Jr.

Employment Security Commission

The biennial period of 1996-1998 marked an era of unprecedented progress and achievement for the Employment Security Commission of North Carolina, as the agency sought a course of action to strengthen its mission of delivering high quality services to the businesses and workers of the state.

Parker Chesson was appointed Chairman of the agency in October 1996, and one of his first priorities was to create a contemporary mission statement for ESC -- one that would succinctly state the primary purpose of the agency:

The mission of the Employment Security Commission is to promote the economic well being of North Carolinians by providing high quality and accessible workforce-related services.

These services promote economic stability and growth, development of a skilled workforce, and a world class economy for North Carolina.

The following goals were also adopted as a means of successfully realizing the Mission:

To enhance the Employment Security Commission's central role in the workforce development community by leading or supporting initiatives which lead to the more effective delivery of services to the citizens of North Carolina.

To ensure the Employment Security Commission is the place where workers come for job information, information on training opportunities, job referrals, and assistance with unemployment insurance, and where employers come to seek qualified job applicants.

To preserve the integrity of trust and reserve funds which are used to assist qualified unemployed workers and to secure a level of funding which will ensure high quality employment services for the citizens of North Carolina.

To make effective use of technology and information systems in the delivery of workforce services to North Carolina's workers and employers as our society moves into the information age.

The following sections of this report detail how ESC successfully acted upon its stated mission and goals, redefining its role as a vital component of North Carolina's workforce and economic development efforts.



ESC Online, a World Wide Web site developed and maintained by the Employment Security Commission, is the largest resource for job openings in North Carolina. It serves as an electronic information resource to ESC customers by delivering a comprehensive employment statistics program, and it is being continually expanded as a vehicle through which ESC core services of job listings, job information, job placement and unemployment insurance are electronically delivered. Cognizant of the enormous growth of the Internet as a communications and service delivery tool, ESC took steps over the biennium to significantly improve its Internet resources.

Under the direction of a new webmaster, ESC Online grew from a resource for locating job openings to a multi-faceted site where customers can look for jobs or career assistance; employers can locate new workers and file wage reports; and students, government officials, researchers, and others can access a broad range of labor market information. ESC news releases and announcements of interest to customers are also routinely delivered through the medium, as are staff and local office directories for ESC's statewide services.

On a given day through ESC Online, an individual user can search over 30,000 job openings with pay ranges varying from minimum wage to six-figure annual incomes. Employers can conveniently and efficiently file claims for unemployment for their workers, as well as file their quarterly reports with ESC. Government planners and researchers can access ESC's labor market information database to locate up-to-date information on job markets, employment and unemployment levels by industry, and historical data. Students and others entering the job market can find a wealth of resources to help them plan their career path, or simply find a job that suits their current needs.

Over the biennium, the agency also took advantage of the Internet to file mandated reports to the legislature, to communicate with customers and partners, and to establish an identity among the rapidly growing segment of the population using computers as career tools.

ESC Advisory Council

In 1996, Governor Hunt appointed the Employment Security Commission Advisory Council to study North Carolina's policies for administering unemployment insurance benefits and to look for ways to make the system more responsive to current labor market conditions. Among the panel's areas of study were general benefit eligibility, benefits for lower wage workers, the relationship between severance pay and unemployment benefits, and improved public education about the unemployment benefit system. The panel also studied domestic violence issues with respect to unemployment eligibility, and the issue of providing benefits for individuals who leave work to follow spouses to new jobs.

The Advisory Council adopted six recommendations. Five of the recommendations were enacted into law. The new provisions eliminated the one and one-half times test, broadening eligibility for unemployment insurance for certain workers; established a flexible base period used to determine eligibility, further expanding the pool of eligible claimants; provided unemployment insurance benefits to victims of domestic violence who left work because of abuse; and allowed workers to use part of their severance pay for education and training purposes while receiving unemployment benefits. With these law changes, North Carolina has become recognized as one of the leaders in adapting unemployment insurance to a dynamic and changing workforce.

Job Service Employer Committees



The latter half of 1996 also marked the starting point for a new initiative to strengthen ESC's traditional partnership with North Carolina businesses. Job Service Employer Committees (JSECs) have acted for many years as the agency's bridge into the employer community. JSECs were expanded to every ESC local office over the biennium, and Chairman Chesson further called upon ESC local office managers to actively recruit JSEC members who were dedicated and committed to partnership with ESC. By June 30, 1998, JSEC membership had expanded from fewer than 1,000 to over 1,400, and the number of active committees increased from 62 to 102, representing every county of the state. The 1997 legislature recognized the value of JSECs by giving them oversight responsibility for programs designed to move welfare recipients into jobs.

Workforce Consolidation Initiative

More effective service delivery was one of the key goals laid out in the ESC mission adopted in 1996. By completion of the biennium, ESC had increased and strengthened its partnerships with other public agencies for the purpose of improving the quality and availability of ESC services and providing access to agency resources through previously unexplored avenues.

LMI Information

Director Bob

Cutrell

demonstrates

ESC computer

technology.



The creation of JobLink Career Centers in North Carolina gave workforce development partners a new vehicle through which services could be delivered and resources accessed. ESC proactively sought the designation as "host" of these career centers,

and is now the host partner in 29 JobLink locations. As host, ESC spares partner agencies the task of budgeting costs for physical location, allowing their resources to be dedicated to other needs. Through its no-cost collocation policy, virtually every ESC office in the state serves as host to other governmental agencies.

ESC services are available on 54 community college campuses, providing access to job databanks and other career development resources. Historically, ESC has also referred significant numbers of individuals to community college programs such as Pathways to Employment, which provides basic job-seeking and job-keeping skills to that segment of the population which has traditionally faced barriers to employment.

ESC also partners with the Division of Employment and Training to carry out the provisions of the Job Training Partnership Act (JTPA). ESC administers funds for JTPA Title II programs for economically disadvantaged adults and youth, for JTPA Title III programs targeting dislocated workers, and for the Title III 40 percent program for dislocated workers. ESC has contracts with almost all of the 25 Service Delivery Areas in North Carolina to provide these services.

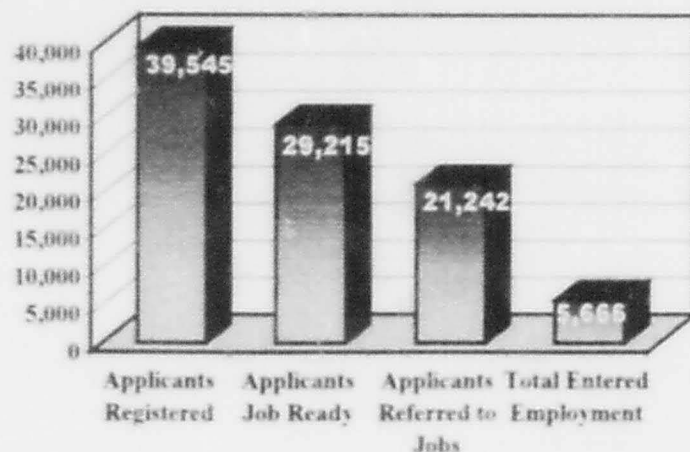
ESC plays prominently in North Carolina's effort to help welfare recipients find meaningful employment. Identified by state statute as the "presumptive primary deliverer of job placement services," the agency was designated by the General Assembly as the "first stop" for people seeking cash assistance. North Carolina's welfare reform initiative, Work First, is the state's Temporary Assistance to Needy Families (TANF) program. Work First represents a new way of providing public assistance and employment services by focusing on the importance of work. All participants in the "Work First" program are required to register for work at an ESC office. The legislation, passed in 1997, further required ESC's Labor



*Governor
James B. Hunt, Jr.
discusses his
Work First
goals with
ESC staff*

Market Information System to expand to include more statistical information on welfare recipients and track labor market trends at the county level. Over the biennium, ESC registered more than 40,000 welfare recipients for work under the program.

**North Carolina First Stop Activities
February 1998 - November 1998**



*Project year for the First Stop program began February 1998.

ESC's prominent role in the welfare reform arena extended beyond Work First initiatives. The Work Opportunity Tax Credit (WOTC) program was legislated in 1995 as an incentive for employers to hire individuals from one of several different targeted groups that historically have had difficulty obtaining and retaining employment. North Carolina's WOTC program, which offers employers a possible maximum tax credit of \$2,400 per qualified employee that they hire, issued 8,821 WOTC certifications during the last full program year.

In addition to the new welfare partnerships forged over the biennium, the Division of Social Services has historically contracted with ESC to provide job placement services to food stamp recipients who need assistance in finding employment and training services. At the end of the two-year period, these contracts were active in 51 counties across the state.

Technological Advances



The 1996-1998 biennium was marked by a continued emphasis on providing higher quality customer service through improved technology. The single most significant technological initiative in the agency's history began in 1996, when ESC embarked upon the installation of Local Area Networks (LANs) in all ESC offices. When complete, every ESC local office staff person will have a desktop computer

with Internet and e-mail capability, allowing far greater access to a wide range of electronic labor market services and resources. The agency's goal to have a LAN system in each local office by the end of 1999 is on schedule.

Outfitting each ESC office with up-to-date technology presented new challenges to local office managers, whose responsibilities include making technology work to benefit ESC customers. To maximize skills and performance with the new hardware and software, ESC began an aggressive training regimen for local office staff, and provided each local office with a laptop computer for field use. Local office staff are offered training options through ESC's in-house training unit, and are also encouraged to further their online skills through training offered at local community colleges.

Employment Service

While advances in electronics and Internet technology have created vast new opportunities for outreach and access to customers, ESC has traditionally favored an approach that balances high tech with "high touch." This means that regardless of the advances in technology, ESC places a high priority on human interaction to properly assist those who seek the full range of ESC services.

The bulk of ESC service delivery comes through the agency's network of 90 local offices, including 60 full service offices and 30 branch offices. Over the biennium, the local and branch offices served a yearly average of more than 783,265 individuals, or roughly one out of every five workers in the state.

Local office activity describes only a portion of the work done by ESC. During the biennium, ESC maintained an on-site presence at 54 community colleges, four universities, 132 vocational rehabilitation centers, six military bases and two public housing authorities. ESC services and information are now available anywhere a user has access to the Internet.

The environment and customer orientation of the ESC local offices was another priority for ESC management. In 1997, a Local Office Appearance Committee was empaneled to assess the atmosphere of the offices, to work to "brighten" the appearance of the offices, and to help make them more attractive and hospitable for customers. The refurbished local office environment more suitably reflected ESC's role as a comprehensive and technologically sophisticated labor exchange marketplace.

Over the biennium, ESC took significant steps to make the posting of job openings as convenient as possible for employers. A toll free "Job Line," which allows businesses to

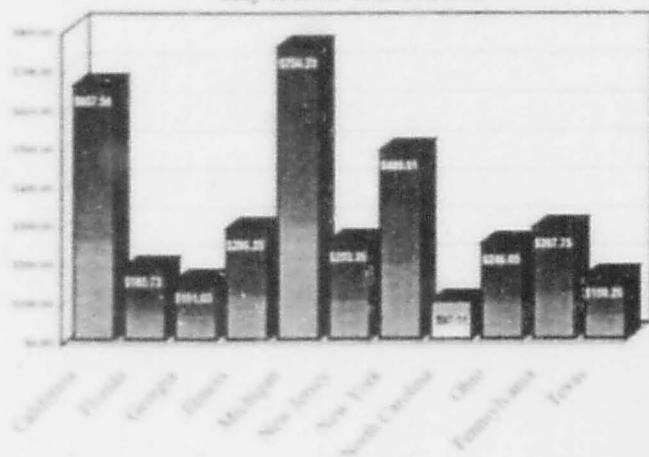
post job orders by phone at no cost from anywhere in the state or nation, was activated. Employers were also provided with the options of entering their job orders directly into North Carolina's electronic Job Bank, giving them immediate access to tens of thousands of job hunters over the Internet, or faxing orders to the local office in their area.

Further, the agency established Career Resource Centers in ESC local offices to allow customers to take advantage of

the rapid growth of the online job market in recent years. During the biennium, the agency acted to empower job seekers to perform self-directed, online work searches by offering free online access. This enables individuals to gather career information quickly and conveniently and to view job opportunities available in their communities, the state, and across the country.

ESC continued to meet performance expectations for job placement over the period. During each year of the biennium, ESC placed an average 153,175 individuals directly into jobs. An average of 169,619 individuals found work either directly through ESC or after receiving an employment service from the agency. ESC's cost per individual entering employment over the biennium was \$97.11, the lowest among the eleven largest states. Meanwhile, North Carolina helped a greater percentage of unemployment insurance claimants re-enter the job market than did our Southeastern counterparts.

**Expenditure Cost Per Individual Entering Employment
In the 11 Largest* States
July 1, 1996 - June 30, 1998**



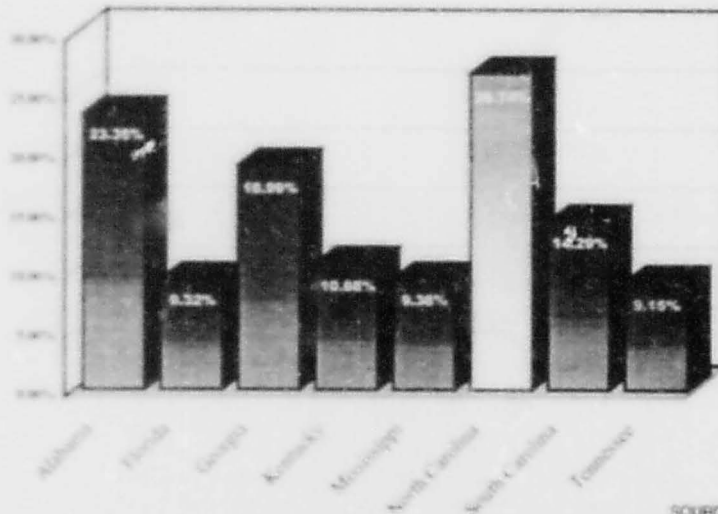
*Based on size of Civilian Labor Force in 1998
SOURCE: U.S. Department of Labor

ESC's Career
Resource Centers
provide job
seekers an
open door
to the electronic
labor market.



**Unemployment Insurance Claimants Entering Employment
As a Percentage of Available Claimants In the Southeastern States
July 1, 1996 - June 30, 1998**

9



SOURCE: U.S. Department of Labor

On average for the biennium, employers listed 324,511 job openings annually. Employment counseling services were provided to an average of 14,031 individuals each year. ESC provided services to roughly 16,000 dislocated workers yearly, participating in Rapid Response visits for those workplaces affected by sudden layoffs or unexpected shifts in operations that resulted in fewer work hours and reduced wages for workers.

ESC referred over 3,968 individuals each year to training programs where they could improve their skills or seek to gain experience and training for a new career. The agency placed more than 798 individuals annually into work experience where training for a particular job is provided by employers, on-the-job. Another 609 individuals were placed directly into On-the-Job training programs.

Additionally, the agency administered special unemployment insurance programs for workers whose jobs or work hours were negatively impacted by foreign competition. These programs are funded on a contingency basis by the federal government. On average for the biennium, the agency paid Trade Readjustment Allowances of \$899,341 to 2,112 individuals under the Trade Adjustment Assistance (TAA) Program.

Already established as a leader in providing quality services to veterans, ESC over the 1996-1998 biennium placed an average 30,141 veterans into jobs per year, including 2,633 veterans with disabilities. The Veterans' Unit successfully implemented the Transitional Assistance Program (TAP) in communities with a prominent military presence, assisting veterans in making the transition from military to civilian careers.

Beginning in 1997, ESC was designated by the General Assembly to serve as a point of registration for voters. The agency registered a total of 37,541 individuals to vote during the biennium.

The primary mission of ESC Labor Market Information (LMI) activity is the development, refinement and management of a comprehensive state and local labor market information system. The principal focus of this mission is the timely delivery of key labor market and economic information in formats that are both easy to use and readily accessible. Estimates have been prepared and distributed throughout the biennium for key economic indicators including the size of the labor force; employment, unemployment and wage levels; and unemployment rates. Layoff and plant closing data were calculated by location, industry, numbers of workers displaced and reasons for the displacement.

Occupational research was conducted during the biennium with special emphasis devoted to the development of estimates of occupational employment outlook, wages and licensure to assist in job search and career exploration. When combined with studies examining employer fringe benefits and business practices, these data have proven to be vital to career center operators and customers for planning, job search and career exploration purposes and equally useful to public and private sector analysts for economic, educational and manpower planning.

ESC also embarked on a number of new and expanded LMI activities during the biennium. Four of the most significant projects are highlighted below.

The North Carolina Navigator

North Carolina's Employment Resources Navigator

The North Carolina Navigator is an Internet product that was created to provide a comprehensive, self-service framework for job and career information. The Navigator is comprised of five components or modules. This modular design organizes information by category of use. The development of the North Carolina Navigator has received national recognition from the Interstate Conference of Employment Security Agencies.



- The **Job and Career Navigator** provides job seekers with the tools and data necessary to learn about jobs, careers and work opportunities. In addition to promoting quick, convenient access to ESC's entire online jobs database and electronic resume database, the Job and Career Navigator includes information on preparing for job interviews, career exploration and self-assessment. Outlook, licensure requirements and wage rates are provided for selected occupations, and a comprehensive listing of North Carolina education and training providers is included along with financial aid information.
- The **Employment Resources Navigator** contains information for key employment and training support resources such as child-care, transportation, and education.

- The **Consumer Guide Navigator** reports employment and wage information for completers of workforce programs and services by program and provider.
- The **North Carolina Governmental Navigator** contains electronic links to state and federal agency directories, while the **Research Navigator** module displays the results of specialized research regarding key factors influencing North Carolina's labor markets.

A Study of the Working Poor

ESC also received a national award for its extensive county level research project, *A Study of the Working Poor*. The study was included in the Research Navigator module of the North Carolina Navigator and represented the first Internet response to a legislatively mandated research study. The study examined the general economic and demographic information regarding the number and distribution of the working poor in North Carolina, the effectiveness of the unemployment insurance system, and the respective responsibilities of the public and private sectors in ensuring that working families and individuals have disposable income adequate to meet their basic needs. Individual county reports evaluated the extent to which current labor market participation contributes to the basic needs of families and individuals, as well as other topics. Funding for the project was continued into 1999 by the legislature under the name *NC WORKS*.

The Common Follow-up System and Consumer Guide

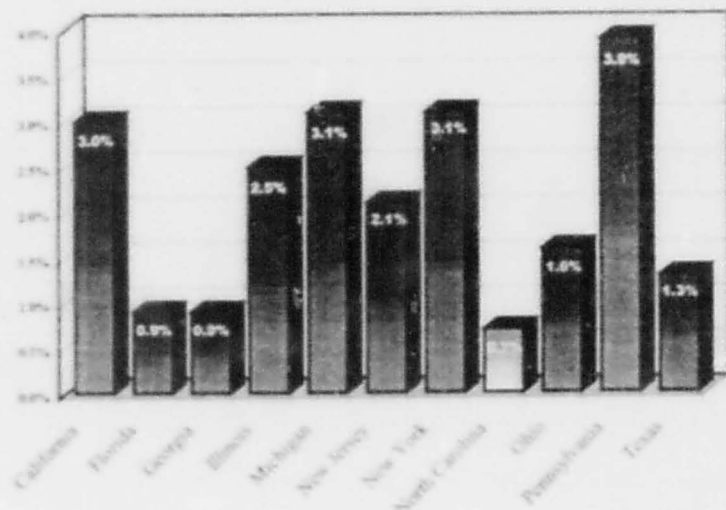
The ESC Common Follow-up System is a cooperative effort of ESC, the State Office of Budget and Management, and nine state agencies to provide information on the education and employment outcomes of participants in publicly supported employment, education, and training programs. Follow-up on selected completers of these programs was conducted through the use of administrative records matching and supplemented by targeted surveys. In order to make the information available to the general public, ESC implemented the Consumer Guide Navigator which provides employment and wage information for completers of programs and services offered through several state agencies. This Internet system allows agencies to review the outcomes for actual program completers before deciding how to invest staff, resources, time and training dollars, and provides benchmarks for evaluating overall program effectiveness. It also empowers individuals to make knowledgeable career training choices.



It has been suggested that a more appropriate acronym for the term "ESC" would be "Economic Stability in the Community." Helping maintain economic stability is the key goal of the unemployment insurance program. Benefits are paid to workers who lose their jobs through no fault of their own to help them pay basic expenses while looking for new jobs. ESC's Unemployment Insurance Division assesses and collects employer taxes, which are used to pay benefits to eligible unemployed workers across the state. During economic slowdowns, the funds also provide a source of cash flow to stimulate economic activity in the community.

The solvency of the Unemployment Insurance Trust Fund combined with the overall health of the North Carolina economy prompted ESC to propose a legislative initiative for a zero tax rate for positive rated employers in the first year of the biennium. The moratorium rewarded approximately 78 percent of the state's businesses, saving them an estimated \$140 million. In addition, the law lowered the initial tax rate for new businesses by one-third. At the end of the two-year period, North Carolina's average tax rate for employers was 0.74 percent, one of the lowest in the nation. North Carolina's low unemployment tax rate is among the attributes raised by industry recruiters who tout the state's attractiveness for business relocation.

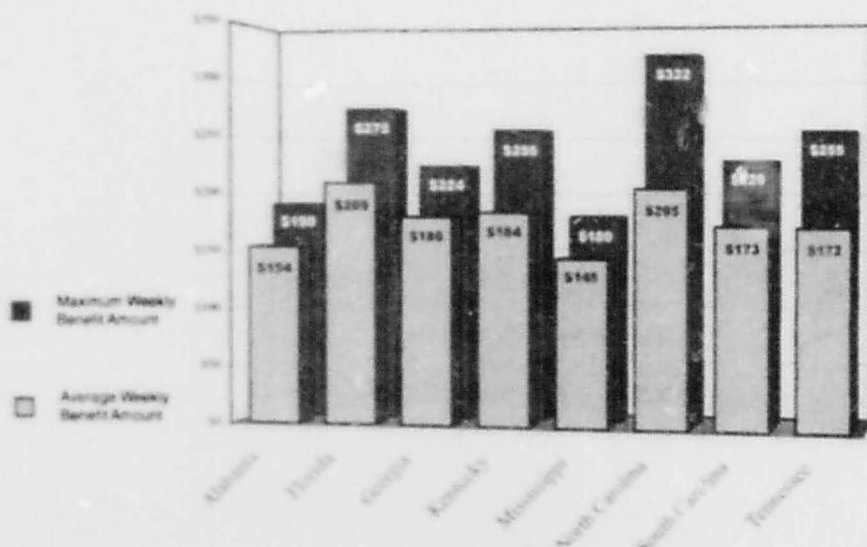
Average Unemployment Insurance Tax Rate
In the 11 Largest* States, 1998



*Based on size of Civilian Labor Force in 1996
SOURCE: U.S. Department of Labor

Reducing the trust fund balance did not impact ESC's ability to pay unemployment benefits to workers who lost their jobs through no fault of their own. Over the biennium, an average 208,359 workers per year received unemployment benefits through ESC. The average amount of benefits paid over that period was \$187.42 per week. By the end of the biennium, the average climbed to approximately \$205 per week. (chart next page)

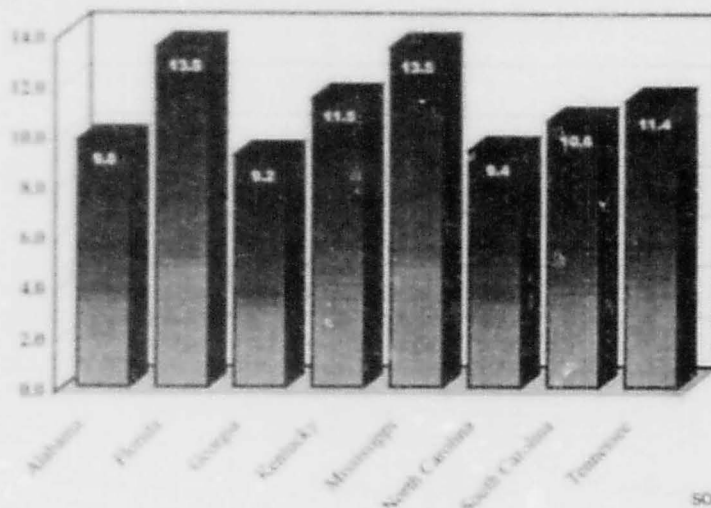
**Average and Maximum Weekly Benefit Amounts
In the Southeastern States, 1998**



SOURCE: U.S. Department of Labor

On average, workers who received unemployment benefits over the biennium collected payments for 9.7 weeks. That figure declined further to 9.4 weeks for the second year of the biennium. The average duration for claiming benefits in North Carolina is among the lowest in the nation, indicating North Carolina's labor force gets back to work faster than those in most other states.

**Average Duration of Unemployment, In Weeks
In the Southeastern States 1998**



SOURCE: U.S. Department of Labor

ESC also administered special unemployment insurance programs for workers whose jobs or work hours were negatively impacted by foreign competition. On average for the biennium, the agency paid Trade Readjustment Allowances of \$899,341 to 2,112 individuals a year under the Trade Adjustment Assistance (TAA) Program. ESC also provided assistance under the NAFTA program, specifically administered to assist workers whose jobs were affected by foreign competition from Mexico and Canada. Under NAFTA, the agency provided \$205,640 in benefits to 443 individuals, on average, for each year of the biennium.

Hurricanes Fran and Bertha struck the state in August and September 1996 respectively, causing more than \$2 billion in damages and affecting scores of homes, businesses and workers. Disaster Unemployment Assistance (DUA) payments totalling \$645,882 were made to 1,527 individuals to help them rebuild and find other employment in the wake of the disaster.

ESC's Unemployment Insurance Division took great strides over the biennium to make tax filing, wage reporting, and claims filing more user-friendly and convenient for the nearly 170,000 businesses in the state required to file with ESC. In 1997, ESC unveiled a new computer application that allows companies to file temporary layoff claims, or attached claims, for their workers over the Internet. Previously, attached claims were forwarded through the mail, either on paper forms or magnetic media. The new system was designed to make it easy and convenient for employers to file attached claims, to significantly speed up the process of getting benefit checks to workers facing temporary layoff, and to reduce paperwork for ESC staff.

In addition, ESC made its wage and tax reporting procedures accessible through the agency's web site, ESC Online. Over the biennium, ESC implemented provisions requiring businesses of 250 or more employees to file quarterly wage reports electronically. Encouraging electronic submission of data helps improve accuracy of reporting, eliminates paper handling and reduces postage and handling costs.

Epilogue

Through forward-thinking leadership, committed professional staff, the sharing of information and resources, and dedication to the needs and concerns of businesses and workers, ESC continues to help build a stronger workforce development system for North Carolina.

ESC's focus is on the customer and delivery of the highest quality service to a broad array of individuals, businesses, and partner agencies. The new mission adopted during the biennium helped redefine who the agency's customers are and served as a catalyst for a broader, more comprehensive approach to serving the needs of a dynamic, modern labor market. As this biennial report demonstrates, the agency has achieved a high degree of success in focusing its resources and carrying out this mission.

The period July 1, 1996, through June 30, 1998, marked an era of unparalleled achievement in the areas of customer service and enhanced effectiveness through partnerships with other state agencies, and the use of Internet technology as a tool for improved access, performance and efficiency.

ANALYSIS OF THE UNEMPLOYMENT INSURANCE TRUST FUND



FEBRUARY 19, 1999

EMPLOYMENT SECURITY COMMISSION OF NORTH CAROLINA

J. PARKER CHESSON, JR., CHAIRMAN

ANALYSIS OF THE UNEMPLOYMENT INSURANCE TRUST FUND



Prepared by the Labor Market Information Division
Employment Security Commission of North Carolina
February 19, 1999

Employment Security Commission of North Carolina

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THE UNEMPLOYMENT INSURANCE SYSTEM IN NORTH CAROLINA

February 19, 1999

The primary purpose of the unemployment insurance (UI) system is to provide temporary, partial compensation for lost wages to eligible individuals who are out of work due to no fault of their own. The system is paid for by employer taxes.

The Employment Security Commission is charged with the operation of the UI system in accordance with state and federal law and regulation. In order to accomplish this mission, it is necessary to maintain a balanced system of benefit payments and taxation through a fiscally solvent UI Trust Fund. The trust fund must be capable of supporting benefit payments under current economic circumstances and under likely alternative scenarios. The UI system draws from the fund reserves during an economic downturn and replenishes those reserves as the economy improves. This avoids the risk of initiating layoffs and business closings through immediate, massive tax increases for benefit payments and provides a stabilizing influence on the economy through the direct infusion of benefits.

UI system liability is based on the size of the workforce covered by the system and the total wages paid to that workforce. Quite simply, a large workforce and greater total wages result in higher potential liability.

The North Carolina model examines the Insured Unemployment Rate during recent periods of high unemployment, the current cost of benefits per one percent (1%) of Insured Unemployment and any factors projected to generate a change in that cost. The resultant total is multiplied by a factor of 1.5 to provide approximately 18 months of reserves in recognition of the lag time between the implementation of new tax rates and the actual collection of taxes under those rates. For example, North Carolina's 1998 insured unemployment rate was approximately 1.38 percent, and the total UI benefits paid were \$406,000,000. Therefore, each percentage point of insured unemployment cost the state approximately \$294,000,000. A minor dip in the economy, such as the 2.7 percent Insured Unemployment Rate that North Carolina experienced in 1991 would cost the system over \$793 million in one year. A more significant downturn, such as the 4.7 percent rate experienced in 1982 would cost over \$1.38 billion per year, and the cost of a return to the 1975 level of 7 percent would be over \$2.05 billion per year. Such experience would dictate a trust fund balance of between \$1.19 billion and \$3.08 billion.

While an economic upheaval of the magnitude of that experienced in 1975 is not anticipated, it would be short-sighted to rule out the reoccurrence of the economic conditions of 1982 and 1991. When anticipated additional liability factors such as growth in covered employment and wages are considered, total benefits for 1999 are expected to reach nearly \$466 million or approximately \$321 million per one percent (1%) of insured unemployment. This level of potential liability indicates a recommended trust fund balance of \$1.30 billion (for an 18 month recession similar to 1991) to \$2.26 billion (for an 18 month recession similar to 1982). North Carolina's current reserves totaling \$1.47 billion, including the \$1.27 billion UI Trust Fund and the \$200 million State Reserve Fund, fall in the lower half of the recommended range.

**ASSUMPTIONS USED IN THE ANALYSIS
OF THE UNEMPLOYMENT INSURANCE TRUST FUND BALANCE**

The following assumptions were used in the computation of unemployment insurance trust fund projections under the provisions of the current Employment Security Law. These assumptions were derived through an examination of economic trends in the past year and through analysis of economic forecasts for North Carolina by economists at universities and in state government.

1. The insured unemployment rate will average 1.45 percent per year throughout the projection period.
2. Covered employment will grow at the rate of 2.25 percent per year throughout the projection period.
3. Taxable wages will grow at the rate of 6.75 percent per year throughout the projection period.
4. The average weekly benefit amount will grow at the rate of 4.25 percent per year throughout the projection period.
5. The UI Trust Fund is estimated to earn interest at the rate of 6.875 percent per year throughout the projection period.

PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE
UNDER CURRENT LAW

Insured Unemployment Rate: 1.45 %

Year	Trust Fund Balance, 12/31 (000's)	Fund Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1997	\$1,279,276	-	-	-	-	-
1998	\$1,272,033	\$311,023	\$87,416	\$405,682	\$200,000	C
1999	\$1,231,454	\$341,951	\$83,197	\$465,728	\$200,000	C
2000	\$1,180,374	\$365,214	\$80,151	\$496,445	\$200,000	B
2001	\$1,142,829	\$414,438	\$77,206	\$529,189	\$200,000	B
2002	\$1,099,362	\$446,112	\$74,514	\$564,092	\$200,000	B
2003	\$1,045,537	\$476,192	\$71,281	\$601,298	\$200,000	B

Note 1: The insured unemployment rate of 1.45 percent approximates the economic conditions experienced in 1997 and 1998.

Note 2: The 50% contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

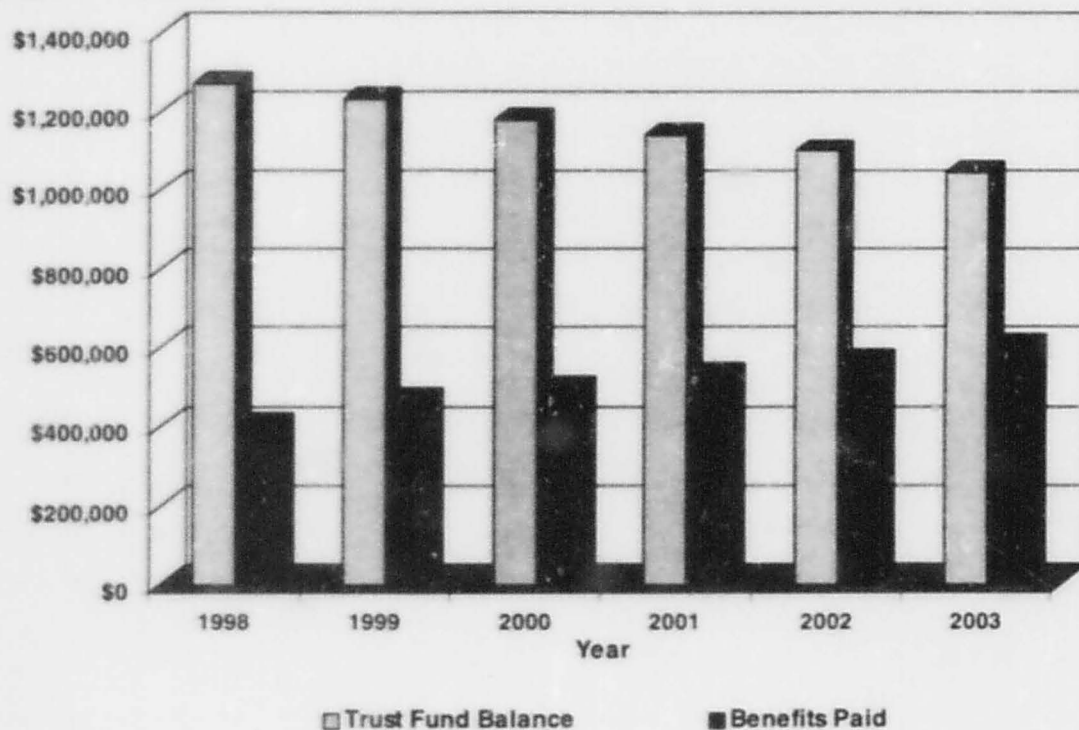
Note 3: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 4: The Schedule goes into effect the following year.

**PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE AND
BENEFITS PAID BY YEAR, 1998-2003**

Insured Unemployment Rate: 1.45 %

(Dollars in Thousands)



PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

SCENARIO 1: ECONOMIC CONDITIONS SIMILAR TO 1990-1992

2000 Insured Unemployment Rate of 1.88%

2001 Insured Unemployment Rate of 2.70%

2002 Insured Unemployment Rate of 2.00%

Reference Year	Projected Year	Trust Fund Balance 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
-	1997	\$1,279,276	-	-	-	-	-
-	1998	\$1,272,033	\$311,023	\$87,416	\$405,682	\$200,000	C
-	1999	\$1,231,454	\$341,951	\$83,197	\$465,728	\$200,000	C
1990	2000	\$1,035,639	\$361,397	\$75,341	\$632,553	\$200,000	B
1991	2001	\$544,791	\$404,813	\$52,522	\$948,183	\$200,000	A
1992	2002	\$495,181	\$702,265	\$34,561	\$786,436	\$200,000	A
-	2003	\$710,582	\$783,103	\$40,071	\$607,772	\$200,000	A

DESCRIPTION OF SCENARIO

This report assumes baseline economic conditions for 1999 and 2003. It assumes that economic conditions in 2000-2002 are similar to those experienced in 1990-1992, which are highlighted in the gray area. However, current interest rates are used because a substantial portion of the trust fund is invested in bonds at 6.875 percent until mid-2001 and mid-2002.

ASSUMPTIONS FOR SCENARIO

Reference Year	Insured Unemp. Rate	Projected Year	Covered Emp. Growth Rate	Taxable Wage Growth Rate	Avg Weekly Benefit Growth Rate	Interest Rate
-	1.45%	1999	2.25%	6.75%	4.25%	6.875%
1990	1.88%	2000	0.61%	3.64%	4.12%	6.875%
1991	2.70%	2001	-0.15%	2.46%	4.53%	6.875%
1992	2.00%	2002	2.35%	7.49%	9.40%	6.875%
-	1.45%	2003	2.25%	6.75%	4.25%	6.875%

Note 1: The 80% contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 2: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 3: The Schedule goes into effect the following year.

PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

SCENARIO 2: ECONOMIC CONDITIONS SIMILAR TO 1981-1983

2000 Insured Unemployment Rate of 2.96%

2001 Insured Unemployment Rate of 4.72%

2002 Insured Unemployment Rate of 2.97%

Reference Year	Projected Year	Trust Fund Balance 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
-	1997	\$1,279,276	-	-	-	-	-
-	1998	\$1,272,033	\$311,023	\$87,416	\$405,682	\$200,000	C
-	1999	\$1,231,454	\$341,951	\$83,197	\$465,728	\$200,000	C
1981	2000	\$658,686	\$374,588	\$62,814	\$1,010,170	\$200,000	B
1982	2001	(\$509,207)	\$417,657	(\$1,679)	\$1,783,871	\$0	A
1983	2002	(\$884,915)	\$871,040	(\$46,330)	\$1,200,418	\$0	A
-	2003	(\$584,305)	\$974,153	(\$48,826)	\$624,717	\$0	A

DESCRIPTION OF SCENARIO

This report assumes baseline economic conditions for 1999 and 2003. It assumes that economic conditions in 2000-2002 are similar to those experienced in 1981-1983, which are highlighted in the gray area. However, current interest rates are used because a substantial portion of the trust fund is invested in bonds at 6.875 percent until mid-2001 and mid-2002.

ASSUMPTIONS FOR SCENARIO

Reference Year	Insured Unemployment Rate	Projected Year	Covered Employment Growth Rate	Taxable Wage Growth Rate	Average Weekly Benefit Growth Rate	Interest Rate
-	1.45%	1999	2.25%	6.75%	4.25%	6.875%
1981	2.96%	2000	1.01%	3.37%	5.19%	6.875%
1982	4.72%	2001	-1.57%	-2.94%	12.51%	6.875%
1983	2.97%	2002	2.86%	18.54%	3.97%	6.875%
-	1.45%	2003	2.25%	6.75%	4.25%	6.875%

Note 1: The 80% contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 2: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

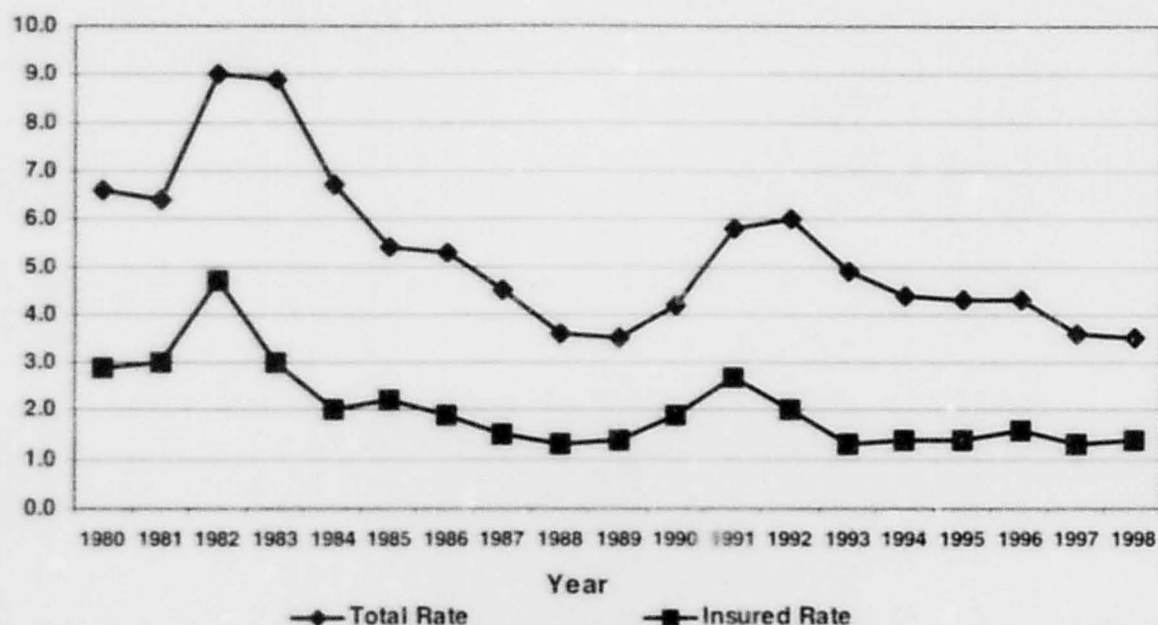
Note 3: The Schedule goes into effect the following year.

The level of covered employment is a key determinant of the liability of the unemployment insurance system. The following table provides a comparison of covered employment and trust fund balances for all States with a balance in excess of one billion dollars on September 30, 1998.

STATES WITH RESERVES OVER \$1 BILLION AS OF SEPTEMBER 30, 1998

State	Reserve Amount (000's)	Covered Employment (000's)	Covered Employment Ranking
California	\$4,556,044	13,411	1
New Jersey	\$2,702,131	3,565	10
Pennsylvania	\$2,538,840	5,187	7
Michigan	\$2,427,970	4,282	8
Florida	\$2,135,149	6,294	4
Ohio	\$2,018,158	5,226	6
Illinois	\$1,948,489	5,596	5
Georgia	\$1,937,803	3,496	11
Massachusetts	\$1,787,073	3,012	13
Wisconsin	\$1,696,549	2,585	15
Washington	\$1,601,963	2,467	18
Indiana	\$1,411,935	2,808	14
Louisiana	\$1,394,935	1,775	23
North Carolina	\$1,301,203	3,590	9
Oregon	\$1,197,530	1,501	28
New York	\$1,066,343	7,788	3
Virginia	\$1,006,228	3,030	12

TOTAL UNEMPLOYMENT RATE AND INSURED UNEMPLOYMENT RATE IN NORTH CAROLINA, 1980 - 1998



Year	Total Rate **	Insured Rate **
1980	6.6	2.9
1981	6.4	3.0
1982	9.0	4.7
1983	8.9	3.0
1984	6.7	2.0
1985	5.4	2.2
1986	5.3	1.9
1987	4.5	1.5
1988	3.6	1.3
1989	3.5	1.4
1990	4.2	1.9
1991	5.8	2.7
1992	6.0	2.0
1993	4.9	1.3
1994	4.4	1.4
1995	4.3	1.4
1996	4.3	1.6
1997	3.6	1.3
1998	3.5	1.4

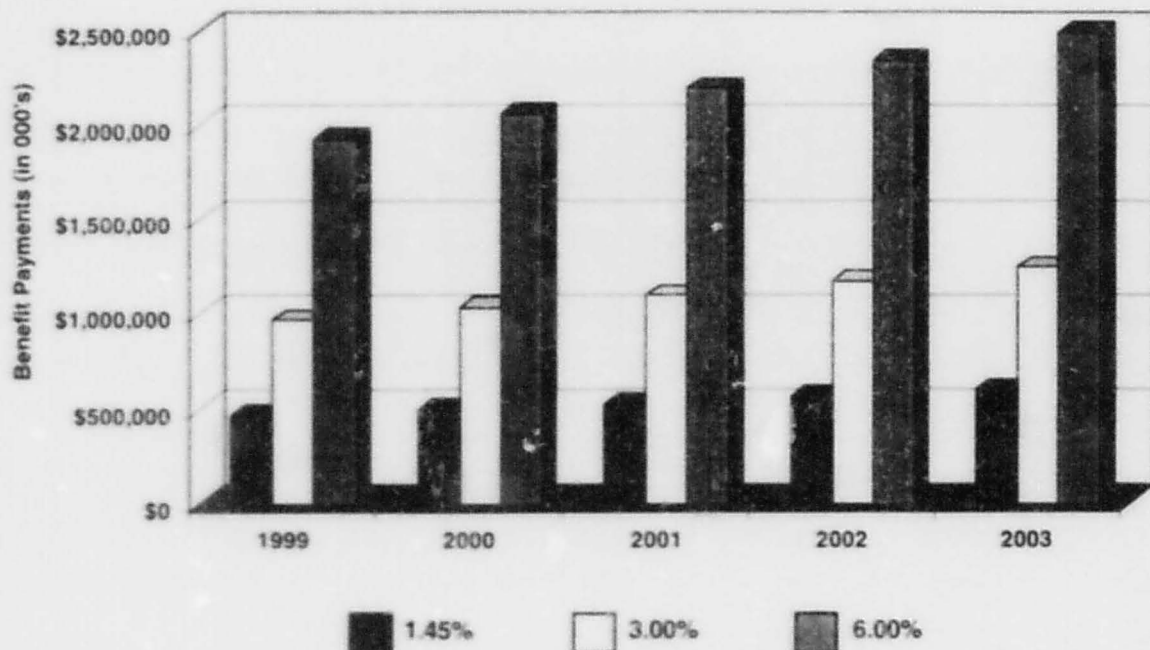
Note: The total rate and insured rate for 1998 are preliminary estimates.

PROJECTED BENEFIT PAYMENTS (IN 000's) **FOR SELECTED INSURED UNEMPLOYMENT RATES**

The following table and graph illustrate the impact of rising rates of insured unemployment on benefit payments.

Year	Insured Unemployment Rate						
	1.45%	2.00%	2.50%	3.00%	4.00%	5.00%	6.00%
1999	\$465,728	\$642,383	\$802,979	\$963,575	\$1,284,766	\$1,605,958	\$1,927,149
2000	\$496,445	\$684,752	\$855,940	\$1,027,128	\$1,369,504	\$1,711,880	\$2,054,257
2001	\$529,189	\$729,916	\$912,395	\$1,094,874	\$1,459,832	\$1,824,790	\$2,189,748
2002	\$564,092	\$778,058	\$972,573	\$1,167,087	\$1,556,117	\$1,945,146	\$2,334,175
2003	\$601,298	\$829,376	\$1,036,720	\$1,244,064	\$1,658,752	\$2,073,440	\$2,488,128

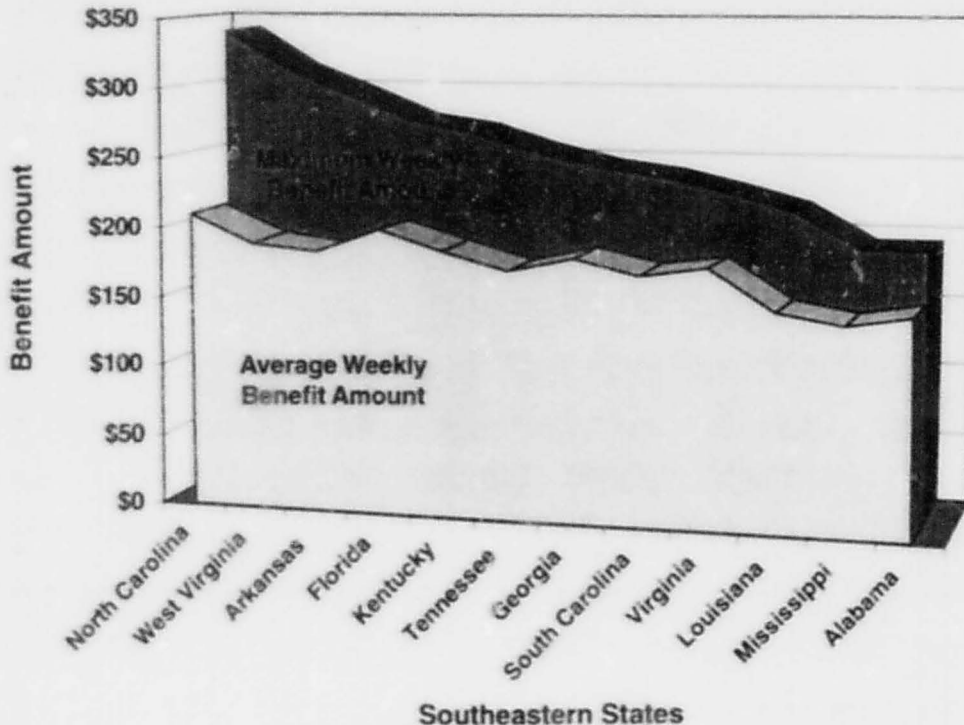
Benefit Payments by Insured Unemployment Rate



**BENEFITS FOR THE SOUTHEAST REGION RANKED BY MAXIMUM WEEKLY BENEFIT AMOUNT
FOR THE PERIOD ENDING SEPTEMBER 30, 1998**

State	Maximum Weekly Benefit	Average Weekly Benefit	Average Duration of Unemployment in Weeks	Average Tax Rate (1998 Annual)
North Carolina	\$339	\$211	9.4	0.7%
West Virginia	\$311	\$191	13.7	2.9%
Arkansas	\$294	\$186	12.2	2.0%
Florida	\$275	\$203	13.4	0.9%
Kentucky	\$268	\$190	11.6	1.7%
Tennessee	\$255	\$178	11.2	1.5%
Georgia	\$244	\$187	8.7	0.9%
South Carolina	\$238	\$177	10.1	1.5%
Virginia	\$228	\$184	10.1	0.6%
Louisiana	\$215	\$154	14.3	1.6%
Mississippi	\$190	\$146	12.9	1.4%
Alabama	\$190	\$153	9.7	1.2%

Average and Maximum Weekly Benefits for the Southeast Region by State



North Carolina's average weekly benefit was \$12 above the national average of \$199 and its unemployment duration was 4.6 weeks below the national average of 14.0 weeks.

COMPARATIVE LIABILITY IN NORTH CAROLINA, 1980 - 1998

Year	Insured Unemployment Rate (IUR) **	Total Unemployment Rate (TUR) **	Benefits Paid	Benefit Payments per 1.0% IUR	Average Weekly Claims per 1.0% IUR
1980	2.9	6.6	234,743,330	79,958,012	22,771
1981	3.0	6.4	255,631,353	86,276,093	23,000
1982	4.7	9.0	461,508,871	97,716,391	22,639
1983	3.0	8.9	310,772,492	104,506,079	23,286
1984	2.0	6.7	203,546,894	100,906,503	24,838
1985	2.2	5.4	248,939,685	111,816,639	25,778
1986	1.9	5.3	241,718,841	130,537,681	26,623
1987	1.5	4.5	202,330,718	133,493,083	27,676
1988	1.3	3.6	190,173,656	142,249,597	28,981
1989	1.4	3.5	223,396,524	160,725,518	29,663
1990	1.9	4.2	322,889,883	171,598,845	29,843
1991	2.7	5.8	509,860,241	188,834,857	29,798
1992	2.0	6.0	378,479,337	189,073,769	30,497
1993	1.3	4.9	270,327,000	204,506,771	31,561
1994	1.4	4.4	293,084,000	216,104,151	32,746
1995	1.4	4.3	337,934,000	239,361,832	33,779
1996	1.6	4.3	401,800,000	257,025,075	34,603
1997	1.3	3.6	365,846,420	273,408,247	35,758
1998	1.4	3.5	405,681,970	294,263,190	36,579

** Note: The IUR and TUR for 1998 are preliminary estimates.

NOTES

Unemployment Insurance in North Carolina

Prepared by:
Employment Security Commission
February 9, 2000

Unemployment Insurance in North Carolina: Background

- The unemployment insurance system is a true insurance system, not an entitlement program.
- Benefits are paid to workers for qualifying losses from "premiums" paid by participating employers.

Unemployment Insurance in North Carolina: Worker Qualifications

- Employment with a covered employer during the base period (i.e., the first four of the last five completed calendar quarters) or alternative base period (i.e., the last four completed calendar quarters).
- Base period wages equal to at least six times the state average weekly wage (\$ 3,211.92).
- Earnings in at least two calendar quarters of the base period.
- Be unemployed through no fault of their own.

**Unemployment Insurance in North Carolina:
Worker Qualifications**

- Workers seeking compensation must meet the requirements of the law, including being able to work, available for work and actively seeking work.
- Benefits are based upon the worker's wages and are proportionately commensurate with wages lost.

**Unemployment Insurance in North Carolina:
Benefits**

- Workers are compensated at a rate equal to 1/2 of their weekly wage up to a maximum of 2/3 of the state average weekly wage (\$356).
- Duration of benefits ranges from 13 to 26 weeks, depending on the consistency of employment during the base period.
- Actual duration can be extended by part time or pickup work during the period of unemployment (earnings allowance).

**Unemployment Insurance in North Carolina:
UI Taxes**

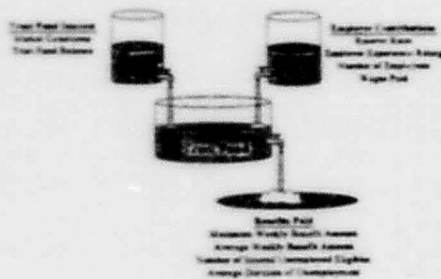
- The tax schedule (Fund Ratio Schedule) for all employers is determined by the relative solvency of trust fund.
- Individual employer rates are determined by their "experience" in the system.
- The amount of tax paid is calculated as taxable wages times the tax rate.
- Taxes are payable quarterly.

**Unemployment Insurance in North Carolina:
UI Taxes (continued)**

- The minimum tax rate is zero percent for employers with a credit reserve ratio of 4.0 percent or higher.
- The maximum tax rate is 5.4 percent.*
- The average tax rate is 0.8 percent.
- The new employer tax rate is 1.0 percent.*

* Note: These rates will be in effect from 1/1/2000 through 12/31/2001.

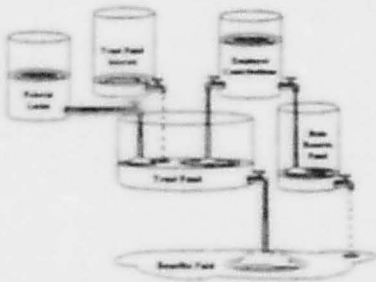
Unemployment Insurance Trust Fund Monetary Flow



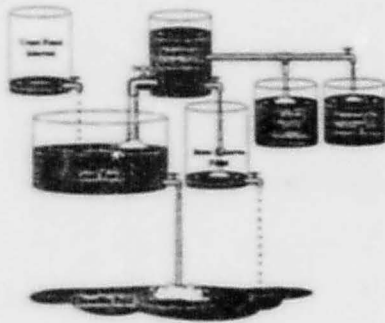
Unemployment Insurance Trust Fund Monetary Flow



Unemployment Insurance Trust Fund Monetary Flow



Unemployment Insurance Trust Fund Monetary Flow



Unemployment Tax
could rise

The Unemployment Insurance System Today

**Unemployment Insurance in North Carolina:
Overview**

- North Carolina pays the highest average and maximum weekly benefits in the Southeast;
- Charges one of the lowest average UI tax rates in the country; and
- Enjoys the third shortest average duration of unemployment in the nation, 9.8 weeks in comparison to 14.3 weeks for the U.S.

**Unemployment Insurance in North Carolina:
Trust Fund Balance**

- The UI Trust Fund balance is equal to current balance plus contributions plus interest minus benefits paid.
- 1999 beginning balance: \$1,272,033,000
- 1999 contributions: \$339,376,000
- 1999 interest: \$87,515,000
- 1999 benefits paid: \$444,054,000
- 1999 year-end balance: \$1,254,870,000

**Unemployment Insurance in North Carolina:
State Reserve Fund**

- In addition to the UI Trust Fund, North Carolina has a State Reserve Fund (SRF) of approximately \$200 million.
- The SRF is capped at its current level and the funds may be used only for the payment of unemployment insurance benefits.
- The interest from the SRF (\$12-14 million annually) is held in the Worker Training Trust Fund (WTF).

The Unemployment Insurance System 2000 and Beyond

Assumptions Used in the Analysis of the Unemployment Insurance Trust Fund Balance

- The insured unemployment rate will average 1.45 percent
- Covered employment will grow at the rate of 2.0 percent
- Taxable wages will grow at the rate of 6.75 percent
- The average weekly benefit amount will grow at the rate of 4.5 percent
- The UI Trust Fund is estimated to earn interest at the rate of 6.75 percent

Unemployment Insurance in North Carolina

North Carolina has built a balanced, responsive and fiscally responsible system through a joint cooperative effort of the Employment Security Commission, employers and the General Assembly.

ANALYSIS OF THE UNEMPLOYMENT INSURANCE TRUST FUND

DRAFT



MARCH 2000

EMPLOYMENT SECURITY COMMISSION OF NORTH CAROLINA

J. PARKER CHESSON, JR., CHAIRMAN

THE UNEMPLOYMENT INSURANCE SYSTEM IN NORTH CAROLINA

February 18, 2000

The primary purpose of the unemployment insurance (UI) system is to provide temporary, partial compensation for lost wages to eligible individuals who are out of work due to no fault of their own. The system is paid for by employer taxes.

The Employment Security Commission is charged with the operation of the UI system in accordance with state and federal law and regulation. In order to accomplish this mission, it is necessary to maintain a balanced system of benefit payments and taxation through a fiscally solvent UI Trust Fund. The trust fund must be capable of supporting benefit payments under current economic circumstances and under likely alternative scenarios. The UI system draws from the fund reserves during an economic downturn and replenishes those reserves as the economy improves. This avoids the risk of initiating layoffs and business closings through immediate, massive tax increases for benefit payments and provides a stabilizing influence on the economy through the direct infusion of benefits.

UI system liability is based on the size of the workforce covered by the system and the total wages paid to that workforce. Quite simply, a large workforce and greater total wages result in higher potential liability.

The North Carolina model examines the Insured Unemployment Rate during recent periods of high unemployment, the current cost of benefits per one percent (1%) of Insured Unemployment and any factors projected to generate a change in that cost. The resultant total is multiplied by a factor of 1.5 to provide approximately 18 months of reserves in recognition of the lag time between the implementation of new tax rates and the actual collection of taxes under those rates. For example, North Carolina's 1999 insured unemployment rate was approximately 1.37 percent, and the total UI benefits paid were \$444,000,000. Therefore, each percentage point of insured unemployment cost the state approximately \$324,000,000. A minor dip in the economy, such as the 2.7 percent Insured Unemployment Rate that North Carolina experienced in 1991 would cost the system over \$875 million in one year. A more significant downturn, such as the 4.7 percent rate experienced in 1982 would cost over \$1.52 billion per year, and the cost of a return to the 1975 level of 7 percent would be over \$2.27 billion per year. Such experience would dictate a trust fund balance of between \$1.31 billion and \$3.41 billion.

While an economic upheaval of the magnitude of that experienced in 1975 is not anticipated, it would be short-sighted to rule out the reoccurrence of the economic conditions of 1982 and 1991. When anticipated additional liability factors such as growth in covered employment and wages are considered, total benefits for 2000 are expected to reach \$497 million or approximately \$343 million per one percent (1%) of insured unemployment. This level of potential liability indicates a recommended trust fund balance of \$1.39 billion (for an 18 month recession similar to 1991) to \$2.42 billion (for an 18 month recession similar to 1982). North Carolina's current reserves totaling \$1.45 billion, including the \$1.25 billion UI Trust Fund and the \$200 million State Reserve Fund, fall in the lower half of the recommended range.

ASSUMPTIONS USED IN THE ANALYSIS OF THE UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

The following assumptions were used in the computation of unemployment insurance trust fund projections under the provisions of the current Employment Security Law. These assumptions were derived through an examination of economic trends in the past year and through analysis of economic forecasts for North Carolina by economists at universities and in state government.

1. The insured unemployment rate will average 1.45 percent per year throughout the projection period.
2. Covered employment will grow at the rate of 2.0 percent per year throughout the projection period.
3. Taxable wages will grow at the rate of 6.75 percent per year throughout the projection period.
4. The average weekly benefit amount will grow at the rate of 4.5 percent per year throughout the projection period.
5. The UI Trust Fund is estimated to earn interest at the rate of 6.75 percent per year throughout the projection period.

PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE UNDER CURRENT LAW AND ECONOMIC CONDITIONS

Insured Unemployment Rate: 1.45 %

Year	Trust Fund Balance, 12/31 (000's)	Fund Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1998	\$1,272,033					
1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
2001	\$1,008,409	\$332,782	\$70,426	\$529,966	\$200,000	B
2002	\$934,864	\$427,285	\$64,060	\$564,891	\$200,000	B
2003	\$857,587	\$465,568	\$59,273	\$602,117	\$200,000	B
2004	\$799,034	\$528,407	\$54,836	\$641,797	\$200,000	A

Note 1: The insured unemployment rate of 1.45 percent approximates the economic conditions experienced in 1998 and 1999.

Note 2: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 3: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

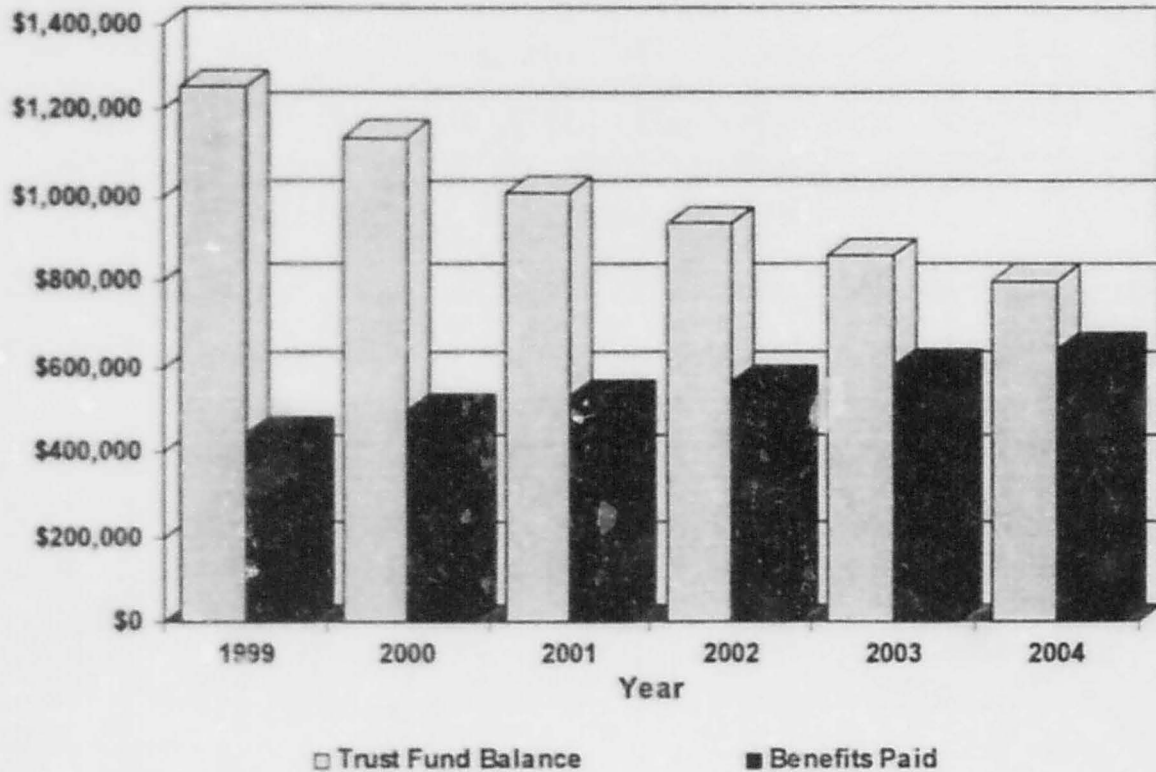
Note 4: This forecast incorporates the 20% reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

DRAFT

PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE AND BENEFITS PAID BY YEAR, 1999-2004

Insured Unemployment Rate: 1.45 %

(Dollars in Thousands)



PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

SCENARIO 1: ECONOMIC CONDITIONS SIMILAR TO 1990-1992

2001 Insured Unemployment Rate of 1.88%
2002 Insured Unemployment Rate of 2.70%
2003 Insured Unemployment Rate of 2.00%

Reference Year	Year	Trust Fund Balance, 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
-	1998	\$1,272,033					
-	1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
-	2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
1990	2001	\$853,141	\$329,106	\$64,168	\$675,300	\$200,000	B
1991	2002	\$289,756	\$414,903	\$33,971	\$1,012,259	\$200,000	B
1992	2003	\$205,402	\$739,880	\$15,348	\$839,582	\$200,000	A
-	2004	\$401,350	\$822,656	\$22,102	\$648,810	\$200,000	A

DESCRIPTION OF SCENARIO

This report assumes baseline economic conditions for 2000 and 2004. It assumes that economic conditions in 2001-2003 are similar to those experienced in 1990-1992. However, current interest rates are used because a substantial portion of the trust fund is invested in bonds at an average rate of 6.75 percent until mid-2002 and mid-2003.

ASSUMPTIONS FOR SCENARIO

Reference Year	Year	Insured Unemployment Rate	Covered Employment Growth Rate	Taxable Wage Growth Rate	Average Weekly Benefit Growth Rate	Interest Rate
-	2000	1.45%	2.00%	6.75%	4.50%	6.750%
1990	2001	1.88%	0.61%	3.64%	4.12%	6.750%
1991	2002	2.70%	-0.15%	2.46%	4.53%	6.750%
1992	2003	2.00%	2.35%	7.49%	9.40%	6.750%
-	2004	1.45%	2.00%	6.75%	4.50%	6.750%

Note 1: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 2: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 3: This forecast incorporates the 20% reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

SCENARIO 2: ECONOMIC CONDITIONS SIMILAR TO 1981-1983

2001 Insured Unemployment Rate of 2.96%
2002 Insured Unemployment Rate of 4.72%
2003 Insured Unemployment Rate of 2.97%

Reference Year	Year	Trust Fund Balance, 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
-	1998	\$1,272,033					
-	1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
-	2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
1981	2001	\$445,443	\$341,030	\$47,681	\$1,078,435	\$200,000	B
1982	2002	(\$590,597)	\$682,786	(\$14,405)	\$1,904,421	\$200,000	A
1983	2003	(\$973,599)	\$953,326	(\$54,789)	\$1,281,540	\$0	A
-	2004	(\$668,068)	\$1,024,082	(\$51,651)	\$666,899	\$0	A

DESCRIPTION OF SCENARIO

This report assumes baseline economic conditions for 2000 and 2004. It assumes that economic conditions in 2001-2003 are similar to those experienced in 1981-1983. However, current interest rates are used because a substantial portion of the trust fund is invested in bonds at an average rate of 6.75 percent until mid-2002 and mid-2003.

ASSUMPTIONS FOR SCENARIO

Reference Year	Year	Insured Unemployment Rate	Covered Employment Growth Rate	Taxable Wage Growth Rate	Average Weekly Benefit Growth Rate	Interest Rate
-	2000	1.45%	2.00%	6.75%	4.50%	6.750%
1981	2001	2.96%	1.01%	3.37%	5.19%	6.750%
1982	2002	4.72%	-1.57%	-2.94%	12.51%	6.750%
1983	2003	2.97%	2.86%	18.54%	3.97%	6.750%
-	2004	1.45%	2.00%	6.75%	4.50%	6.750%

Note 1: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 2: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

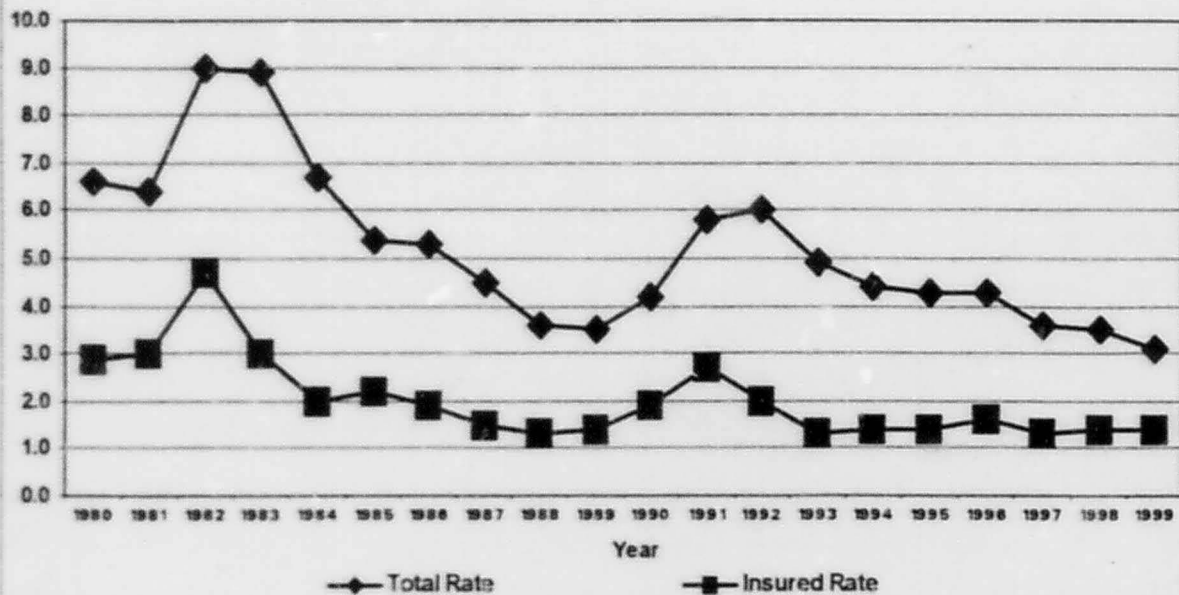
Note 3: This forecast incorporates the 20% reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

The level of covered employment is a key determinant of the liability of the unemployment insurance system. The following table provides a comparison of covered employment and trust fund balances for all States with a balance in excess of one billion dollars on September 30, 1999.

STATES WITH RESERVES OVER \$1 BILLION AS OF SEPTEMBER 30, 1999

State	Reserve Amount (000's)	Covered Employment (000's)	Covered Employment Ranking
California	\$4,984,708	13,823	1
Pennsylvania	\$2,713,573	5,290	7
New Jersey	\$2,709,247	3,594	11
Michigan	\$2,708,572	4,345	8
Florida	\$2,157,380	6,601	4
Ohio	\$2,150,642	5,321	6
Illinois	\$2,095,120	5,704	5
Georgia	\$1,982,088	3,618	10
Massachusetts	\$1,920,554	3,082	13
* Wisconsin	\$1,779,510	2,619	16
Washington	\$1,717,952	2,621	15
Indiana	\$1,507,925	2,825	14
Louisiana	\$1,473,176	1,809	23
Oregon	\$1,325,705	1,526	28
North Carolina	\$1,294,665	3,684	9
Virginia	\$1,035,713	3,112	12

TOTAL UNEMPLOYMENT RATE AND INSURED UNEMPLOYMENT RATE**
IN NORTH CAROLINA, 1980 - 1999



Year	Total Rate **	Insured Rate **
1980	6.6	2.9
1981	6.4	3.0
1982	9.0	4.7
1983	8.9	3.0
1984	6.7	2.0
1985	5.4	2.2
1986	5.3	1.9
1987	4.5	1.5
1988	3.6	1.3
1989	3.5	1.4
1990	4.2	1.9
1991	5.8	2.7
1992	6.0	2.0
1993	4.9	1.3
1994	4.4	1.4
1995	4.3	1.4
1996	4.3	1.6
1997	3.6	1.3
1998	3.5	1.4
1999	3.1	1.4

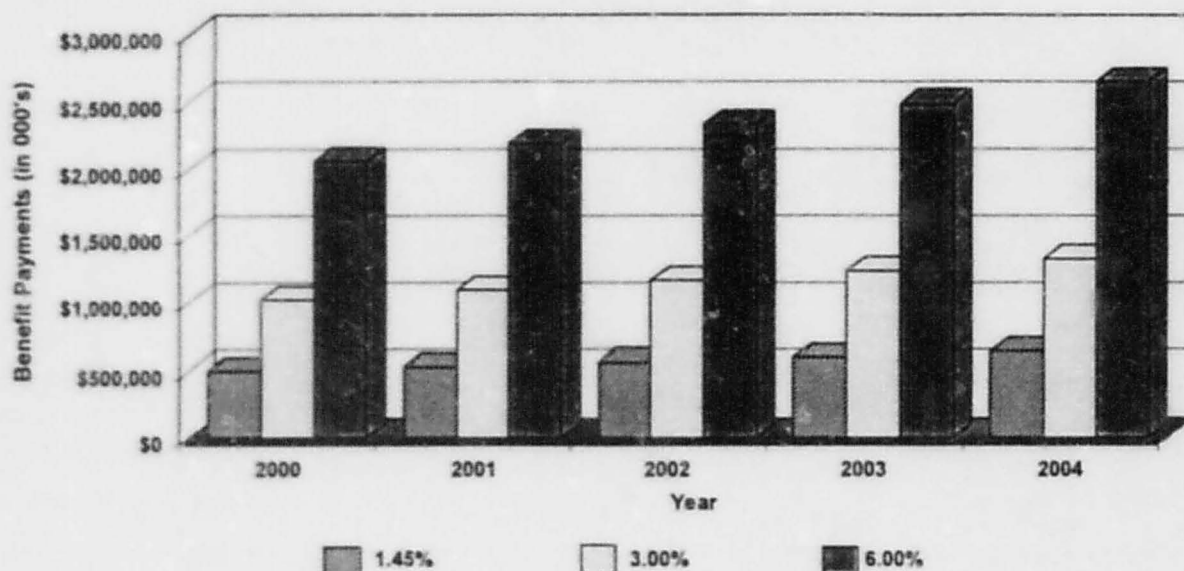
**The total rate and insured rate for 1999 are preliminary estimates.

**PROJECTED BENEFIT PAYMENTS (IN 000's)
FOR SELECTED INSURED UNEMPLOYMENT RATES**

The following table and graph illustrate the impact of rising rates of insured unemployment on benefit payments.

	Insured Unemployment Rate						
Year	1.45%	2.00%	2.50%	3.00%	4.00%	5.00%	6.00%
2000	\$497,200	\$685,794	\$857,242	\$1,028,691	\$1,371,588	\$1,714,484	\$2,057,381
2001	\$529,966	\$730,988	\$913,735	\$1,096,481	\$1,461,975	\$1,827,469	\$2,192,963
2002	\$564,891	\$779,160	\$973,950	\$1,168,740	\$1,558,319	\$1,947,899	\$2,337,479
2003	\$602,117	\$830,506	\$1,038,133	\$1,245,760	\$1,661,013	\$2,076,266	\$2,491,519
2004	\$641,797	\$885,237	\$1,106,546	\$1,327,855	\$1,770,474	\$2,213,092	\$2,655,710

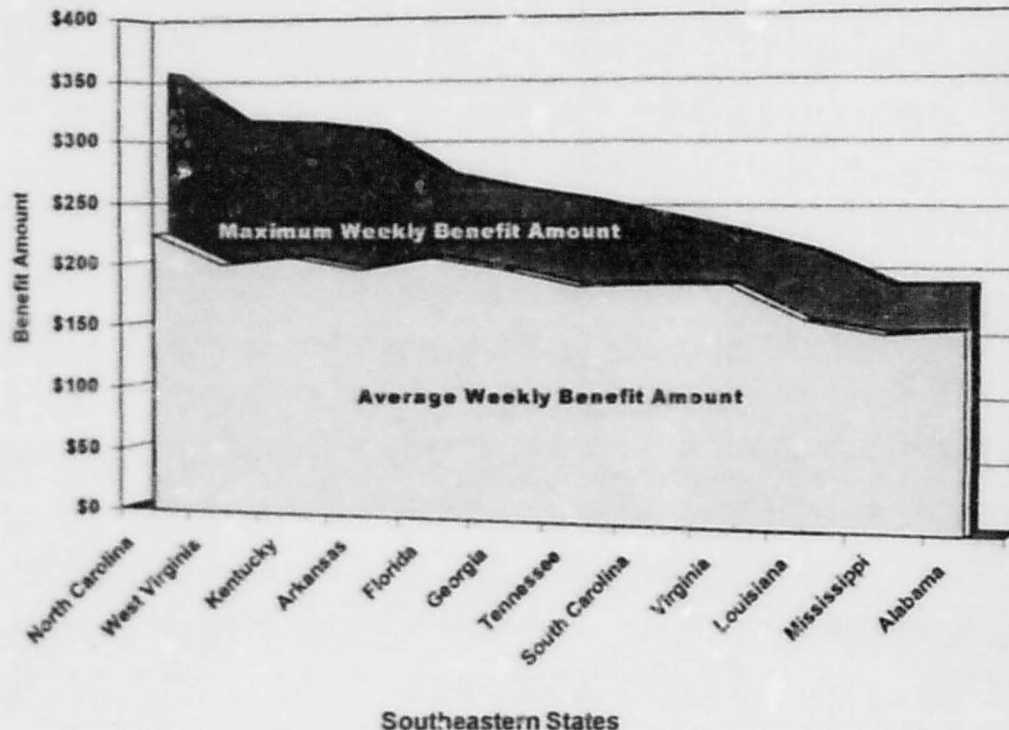
PROJECTED BENEFIT PAYMENTS FOR SELECTED INSURED UNEMPLOYMENT RATES



BENEFITS FOR THE SOUTHEAST REGION RANKED BY MAXIMUM WEEKLY BENEFIT AMOUNT FOR THE PERIOD ENDING SEPTEMBER 30, 1999

State	Maximum Weekly Benefit	Average Weekly Benefit	Average Duration of Unemployment in Weeks	Average Tax Rate** (1999 Annual)
North Carolina	\$356	\$225	9.8	0.8%
West Virginia	\$318	\$199	13.5	2.8%
Kentucky	\$316	\$207	11.9	2.1%
Arkansas	\$309	\$197	12.8	2.0%
Florida	\$275	\$208	13.8	1.3%
Georgia	\$264	\$198	8.8	0.3%
Tennessee	\$255	\$187	11.9	1.5%
South Carolina	\$242	\$189	11.0	1.4%
Virginia	\$230	\$189	9.9	0.5%
Louisiana	\$215	\$162	14.6	1.5%
Mississippi	\$190	\$153	13.5	1.7%
Alabama	\$190	\$157	9.9	1.0%

**The average tax rate is defined as total contributions due divided by taxable wages.



North Carolina's average weekly benefit was \$15 above the national average of \$210 and its unemployment duration was 4.5 weeks below the national average of 14.3 weeks.

COMPARATIVE LIABILITY IN NORTH CAROLINA, 1980 - 1999

Year	Insured Unemployment Rate (IUR) **	Total Unemployment Rate (TUR) **	Benefits Paid	Benefit Payments per 1.0% IUR	Average Weekly Claims per 1.0% IUR
1980	2.9	6.6	234,743,330	79,958,012	22,771
1981	3.0	6.4	255,631,353	86,276,093	23,000
1982	4.7	9.0	461,508,871	97,716,391	22,639
1983	3.0	8.9	310,772,492	104,506,079	23,286
1984	2.0	6.7	203,546,894	100,906,503	24,838
1985	2.2	5.4	248,939,685	111,816,639	25,778
1986	1.9	5.3	241,718,841	130,537,681	26,623
1987	1.5	4.5	202,330,718	133,493,083	27,676
1988	1.3	3.6	190,173,656	142,249,597	28,981
1989	1.4	3.5	223,396,524	160,725,518	29,663
1990	1.9	4.2	322,889,883	171,598,845	29,843
1991	2.7	5.8	509,860,241	188,834,857	29,798
1992	2.0	6.0	378,479,337	189,073,769	30,497
1993	1.3	4.9	270,327,000	204,506,771	31,561
1994	1.4	4.4	293,084,000	216,104,151	32,746
1995	1.4	4.3	337,934,000	239,361,832	33,779
1996	1.6	4.3	401,800,000	257,025,075	34,603
1997	1.3	3.6	365,846,419	273,408,247	35,758
1998	1.4	3.5	405,681,970	294,263,190	36,579
1999	1.4	3.1	444,053,847	324,126,896	37,424

** Note: The IUR and TUR for 1999 are preliminary estimates.

DRAFT

NOTES

Cottrell
Exhibit V

TO: Honorable John Kerr, Co-Chairman
Honorable David Redwine, Co-Chairman
Legislative Research Commission on Employment Security

DATE: February 8, 2000

RE: Comparison of January 1999 Trust Fund Forecast with Actual 1999 Data

The predicted and actual values for the Trust Fund Balance projection are shown in the table below. The predicted 1999 value is from the forecast in the February 1999 Analysis of the Unemployment Insurance Trust Fund publication.

Trust Fund Item	Predicted 1999 Value (000s)	Actual 1999 Value (000s)	Difference (Pred - Actual)
Balance as of 12/31	\$1,231,454	\$1,254,870	- \$23,416
Contributions	\$341,951	\$339,376	+ \$2,575
Interest	\$83,197	\$87,515	- \$4,318
Benefits Paid	\$465,728	\$444,054	+ \$21,674

The annual forecast of the Unemployment Insurance Trust Fund requires the forecast of values for several key economic parameters, which are shown in the Table below. The predicted values for these parameters from the February 1999 forecast are compared to preliminary estimates of these parameters (calculated using data available as of January 2000). Actual preliminary data is available for the IUR, average weekly benefit amount, and interest rate. However, estimates must be used for the covered employment and taxable wage growth rates. The taxable wage estimate for 1999 is more uncertain than usual because the full impact of Hurricane Floyd on taxable wages in the last two quarters of 1999 is unknown at this point.

Parameter	1999 Prediction	1999 Actual	Difference (Pred - Actual)	Effect on Fund Balance in 1999
Insured Unemployment Rate (IUR)	1.45 %	1.37 %	0.08 %	underestimate of \$26 million due to lower benefits than predicted
Covered Employment Growth Rate	2.25 %	1.9 %	0.35 %	underestimate of \$2 million due to less employment (thus less benefits) than predicted
Taxable Wage Growth Rate	6.75 %	7.4 %	- 0.65 %	underestimate of \$2 million due to more taxable wages (thus more contributions) than predicted
Average Weekly Benefit (AWBA) Growth Rate	4.25 %	6.36 %	- 2.11 %	overestimate of \$9 million due to higher AWBA (thus more benefits) than predicted
Interest Rate	6.875 %	6.67 %	0.205 %	overestimate of \$2 million due to lower interest earnings than predicted

The estimates of the effect on the trust fund prediction of differences between predicted and actual parameter values is done by running last year's forecast model one time for each parameter change. Only one change is made at a time to provide the best measure of the impact of that change. However, no model will predict perfectly even if the parameters are known. Hence the "sum" of the effects on the fund balance due to different parameters shown in the above table will not exactly match the actual discrepancy between the predicted and actual 12/31/1999 trust fund balance.

Virtually all of the difference in the trust fund balance forecast is due to the difference in the IUR forecast, which has a large impact on benefits paid. As the above table shows, the benefits forecast was higher than the actual value primarily because the actual IUR was lower than the projected IUR. The next biggest difference between forecasted and actual parameter values was the AWBA growth rate. If the actual IUR had been equal to the projected value of 1.45 percent and the AWBA growth was 6.36 percent, benefits would have been approximately \$9 million higher than the forecast value, and the fund balance would be \$9 million lower.

If covered employment growth had matched the forecast value of 2.2 percent, benefits paid would have been approximately \$2 million higher, and the fund balance would be \$2 million lower.

The \$2 million difference in contributions is primarily due to differences in taxable wage growth. Although the preliminary estimate of 1999 taxable wage growth may be revised substantially due to uncertainty concerning the impact of Hurricane Floyd on taxable wages at the end of 1999, it appears that the higher taxable wage growth caused contributions to be slightly higher than predicted.¹

The difference in the interest rate parameter resulted in an overestimate of the trust fund balance of about \$2 million.

Although Hurricane Floyd caused widespread problems to many North Carolinians, the statewide cash flow benefit figures do not show huge changes that can be attributed to the hurricane. Monthly benefits paid in September 1999 were approximately \$3 million more than in September 1998. Monthly benefits paid in October 1999 were approximately \$10 million more than in October 1998. Monthly benefits paid in November 1999 were approximately \$7 million more than in November 1998, and benefits in December 1999 were almost \$1 million less than in December 1998. Much of this additional \$19 million in benefits paid is probably attributable to Hurricane Floyd, but some portion of it is also due to labor force growth (which raises the total number of unemployed and thus benefits paid for any given IUR value) and average wage growth (which raises the AWBA) between 1998 and 1999.²

CC: David Crotts, Bill Gilkeson, Jennifer Hoffman

¹ Changes in taxable wages alone cannot fully explain differences in contributions received because the relationship between them is more complex than that. In addition to total taxable wage growth, the predicted value of contributions received is based on multiple factors, including the historical relation of contributions due to contributions received, the taxable wage shares of different employer groups, and predictions of average tax rates for different employer groups. The predicted value for contributions received will diverge from the actual value when the linkages among these multiple factors diverge from the relationships built in to the forecasting model.

² These benefit figures (from the monthly Cash Flow Reports) do not include federal DUA benefits because federal DUA benefits are not charged to the North Carolina Unemployment Insurance Trust Fund.

TO: Honorable John Kerr, Co-Chairman
Honorable David Redwine, Co-Chairman
Legislative Research Commission on Employment Security

DATE: February 8, 2000

RE: Rationale for choice of parameters in Forecast of the North Carolina
Unemployment Insurance Trust Fund

The annual forecast of the Unemployment Insurance Trust Fund requires a forecast of values for the following key economic parameters: covered employment growth rate, insured unemployment rate, taxable wage growth rate, average weekly benefit growth rate, and interest rate. This document provides the reasons for the choice of values for these parameters.

Covered Employment Growth Rate

Mike Kiltie (North Carolina Budget Office) predicts that total nonfarm employment growth in North Carolina will slow from 2.2 percent in 1999 to 2.0 percent in 2000. Gary Shoesmith (Wake Forest University, Winter 1999 Forecast) predicts job growth to increase slightly from 1.70 percent in 1999 to 1.89 percent in 2000. John Connaughton (UNC Charlotte, NC Economic Forecast, Fourth Quarter 1999 Forecast) predicts job growth of 0.8 percent in 1999 and 2.6 percent in 2000. Preliminary CES data indicate a 1.77 percent growth of covered employment in 1999, but this is often revised upward after benchmarking. Based on this information, the annual covered employment growth rate forecast will be reduced from 2.25 percent in last year's forecast to 2.00 percent.

Insured Unemployment Rate

The insured unemployment rate (IUR) is the most important parameter in the forecast. Relatively small changes in the IUR will have large changes on benefits paid and thereby on the fund balance. The IUR parameter estimate is derived by examining economic forecasts for total employment growth (discussed above) and the total unemployment rate (TUR). The preliminary IUR for 2000 is estimated to be 1.37 percent.¹

Mike Kiltie predicts a slight rise in the TUR from 3.1 percent in 1999 to 3.2 percent in 2000. Gary Shoesmith also predicts a slight rise in the TUR from 3.05 percent in 1999 to 3.18 percent in 2000. John Connaughton predicts that the year-end unemployment rate will be 3.2 percent in both 1999 and 2000. Given this information, it is reasonable to assume a slight rise in the IUR for 2000. Hence an IUR of 1.45 percent is chosen for the projection, which is the same as last year's forecast.

The determination of fund parameters was done before the large snowstorm that occurred in late January. This snowstorm may cause an increase in the January and/or February IUR, which could result in a slight increase in the average IUR for the entire year. However, given all of the data available at this time, the 1.45 percent IUR is still the most likely scenario.

Taxable Wage Growth Rate

The annual taxable wage growth rate from June 30, 1998 to June 30, 1999 was 6.3 percent. Mike Kiltie predicts a 5.9 percent growth rate for all nonfarm wages and salaries (not just taxable wages) in 1999 followed by a 5.8 percent growth rate in 2000. Gary Shoesmith predicts that real personal income growth will rise from 2.62 percent in 1999 to 2.94 percent in 2000. Given the current environment of relatively low inflation, real personal income trends should be similar to (nominal) wage and salary trends. The year/quarter to year/quarter trends in taxable wages for the first two quarters showed strong growth. Taxable wages in 1999-1 were 9.9 percent higher than in 1998-1 and preliminary ES-202 data for 1999-2 reveals a 7.2 percent growth rate. Hurricane Floyd probably reduced taxable wage growth in the last half of 1999, but recent economic indicators such as the TUR and IUR would not suggest large effects on statewide taxable wage growth. Given this information, an annual taxable wage growth rate of 6.75 percent is chosen, which is the same as last year's forecast.

Average Weekly Benefit (AWBA) Growth Rate

The AWBA forecast is based on recent trends in AWBA growth and the expected general trends in economic conditions, which have been discussed above. The 1997, 1998, and 1999 annual growth rates in the AWBA were 4.45 percent, 4.0 percent, and 6.36 percent respectively. It is uncertain whether the relatively large jump in the AWBA in 1999 is a one-time blip or the beginning of a trend. Based on this information, the annual AWBA growth rate will be increased from 4.25 percent in last year's forecast to 4.5 percent.

Interest Rate

This is based on current rates paid on the NC Trust Fund Balance by the US Treasury. The national UI Trust Fund Management team invests trust fund reserves for all States in US government securities. The interest rate earned is equal to the average rate of interest borne by all interest-bearing obligations of the United States then forming part of the public debt, rounded down 1/8 of a percent. At the current time, approximately 69 percent of the UI Trust Fund Portfolio is in bonds that earn 6.875 percent, and 31 percent is in bonds that yield 6.5 percent. A weighted average of the current investments at 6.875 and 6.5 percent is 6.75 percent. The maturity dates for these bonds varies from June 30, 2000 to June 30, 2003. The actual trust fund earnings rates used for the four quarters of 1999 were 6.58 percent, 6.81 percent, 6.67 percent, and 6.61 percent. Based on this information, the interest rate parameter will be reduced from 6.875 percent in last year's forecast to 6.75 percent.

Recession Scenarios

The above parameters represent the 'best guess' of economic conditions over the forecast period. However, due to the inherent uncertainty concerning future economic conditions and to the sensitivity of the trust fund balance to changes in economic conditions, forecasts are also run which simulate the key parameter values that prevailed in the three years surrounding the 1982 and 1991 recessions (1981-1983) and (1990-1992). The first scenario indicates the effects of a relatively severe recession while the second scenario indicates the effects of a relatively mild recession.

CC: David Crotts, Bill Gilkeson, Jennifer Hoffman

¹ The IUR is equal to average weeks claimed divided by covered employment. Data for 1999 average weeks claimed is available but data for 1999 ES-202 employment is not yet available. Hence the latter is estimated using trends in employment from the Current Employment Statistics program, which usually has data available for all of the previous year by mid-January. Trends in this data and forecasts of employment growth for 1999 are utilized to determine the best estimate for covered employment growth in 1999, which is 1.9 percent. This estimate is then used with the 1998 actual covered employment to determine the 1999 covered employment estimate (3,732,292). The IUR is then calculated by dividing the 1999 average weeks claimed (51,271) by the 1999 covered employment estimate.

Status of Hurricane Floyd/DUA

One of the responsibilities of the Unemployment Insurance Division is to pay unemployment insurance benefits to eligible individuals.

Individuals whose unemployment is caused by a major disaster that involved an area declared by the President is eligible to file for Disaster Unemployment Assistance. Hurricane Floyd met those conditions. Hurricane Floyd hit North Carolina on September 15, 1999 and 66 counties were included in a declaration signed by the President.

One of our first steps after a declaration has been declared is to develop a plan of service. Our plan includes an estimate of the number of individuals who will become unemployed and an estimate of benefits to be paid as part of our request for Federal funds to administer the DUA Program. Our estimates of Hurricane Floyd were our first that involved major flooding and our estimates fell far short of our actual experiences to date. We thought that our estimate of 3,000 disaster claims was high but reasonable. As of February of this year, we have processed over 6,000 disaster claims. We estimated that our total payout in Disaster Unemployment Benefits would be 4.4 million and today, we have exceeded 5 million and we are projecting a payout of 7 million by the end of the program period.

Hurricane Floyd caused extensive and widespread destruction in the eastern part of our State and we made an all out effort to serve customers as quickly as possible. The first payable week was September 25th and our first payment was made September 27, 1999. New applications for assistance exceeded our expectations very quickly and meeting the expectations of customers became a challenge.

Disaster Unemployment claims are filed and processed manually. Filing requires an application to be filed in one of our Local Offices and the claim is mailed to our Central Office for processing of payment. Offices in the eastern part of our State and our Central Office remained open 6 days per week for extended hours to meet the huge demand for service; also, staff from across the State were reassigned to assist offices in the east.

Employers were encouraged to file temporary claims for workers attached to their payroll. Temporary claims can be filed electronically or manually. Electronic filing reduces the chance of error and payment of benefits is much faster. Checks are in the mail the day after filing. Customers were served compassionately and

efficiently. Tax collections were suspended, late filings and late payments were forgiven.

Our Telephone Call Center was in the beginning stage of development and was designed to serve claimants filing against North Carolina from other states. We adapted our Call Center to become the Disaster Unemployment Assistance Unit. A Toll Free Telephone Number was activated to serve customers with questions and concerns about DUA assistance.

As claims for benefits were filed, clear distinctions between regular unemployment and disaster unemployment began to surface.

- Federal law requires a claimant to first determine eligibility for regular unemployment insurance before eligibility is determined for disaster unemployment assistance.
- State law requires a claimant to serve a "wait week" before a regular unemployment insurance check is issued.
- There is not a "wait week" for Disaster Unemployment Assistance.
- Disaster unemployment assistance claims can only be filed manually. Regular unemployment insurance can be filed electronically or manually.
- Processing electronic claims average 3 days and processing manual claims average over a week.
- Recent law changes amended the waiting period week provision of the Employment Security Law.
- This past Monday night, an enhancement was made to the Benefit Payment System allowing eligible claimants who experienced a waiting period week under disaster conditions to be paid. The enhancement went into production yesterday and payments are being processed today. We have 35,000 potential claimants who may be eligible to receive payments for a wait week.
- The counties with the most claims were Pitt, Edgecombe, and Lenoir.

- The number of new DUA claims have decreased to about 10 per week; however, we are processing approximately 2,000 claims each week for those who continue filing for DUA benefits.

**SELECTED FISCAL
INFORMATION FOR
UNEMPLOYMENT INSURANCE
TAX DISCUSSIONS**

**FISCAL RESEARCH DIVISION
FEBRUARY 9, 2000**

UNEMPLOYMENT INSURANCE TAX CUTS IN RECENT YEARS

Year	Legislative Action	Savings to Employers ⁽¹⁾
Permanent Cuts		
1992	Suspended the 20% surtax levied to create the ESC Reserve Funds	\$56.7 Million
1993	Cut the tax for positive-rated employers by an average of 30% for any calendar year in which the balance in the Unemployment Insurance Fund equals or exceeds \$800 million	\$141.7 Million
1994	Cut the taxes for positive-rated employers by an average 38.7% and for new employers by 20%	\$104.7 Million
1995	Cut the taxes for positive-rated employers by an average of 23%	<u>\$73.4 Million</u>
Subtotal - Permanent Reductions		\$376.5 Million
One-Time Cuts		
1996	Levied a zero rate in 1996 for employers with a positive balance in their unemployment insurance account, lowered rate on new employers from 1.8% to 1.2% of taxable base, and allowed overdrawn employers additional time to make sufficient contributions to earn a zero rate for 1996.	\$187.2 Million

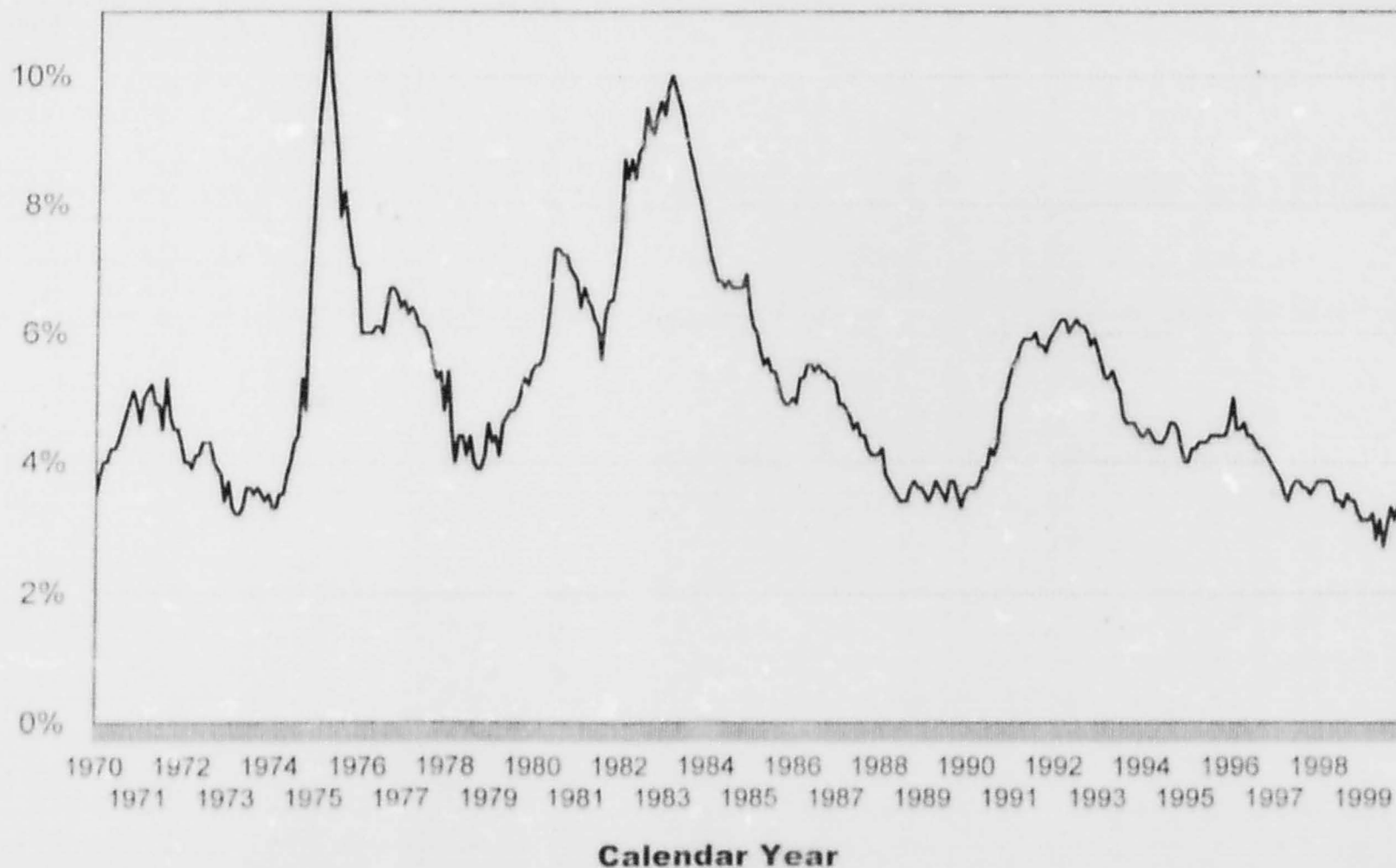
(1) Savings are expressed in year 2000 dollars. Adjustment based on increase in total wages and salaries for the State.

OTHER ACTIONS AFFECTING UI FUND BALANCES

Year	Legislative Action	Impact on System
1997	(1) Elimination of the 1.5 times high quarter wage test, (2) introduction of alternative base period and (3) allow benefits for victims of domestic violence	\$44.8 Million
1999	(1) Lowers the minimum credit ratio for employers who are granted a zero rate from 5% to 4%. (2) Temporarily reduces UI Taxes for most employers by 20% and levies a corresponding contribution to be used for worker training programs (community colleges) and reemployment services (ESC)	\$60.8 Million

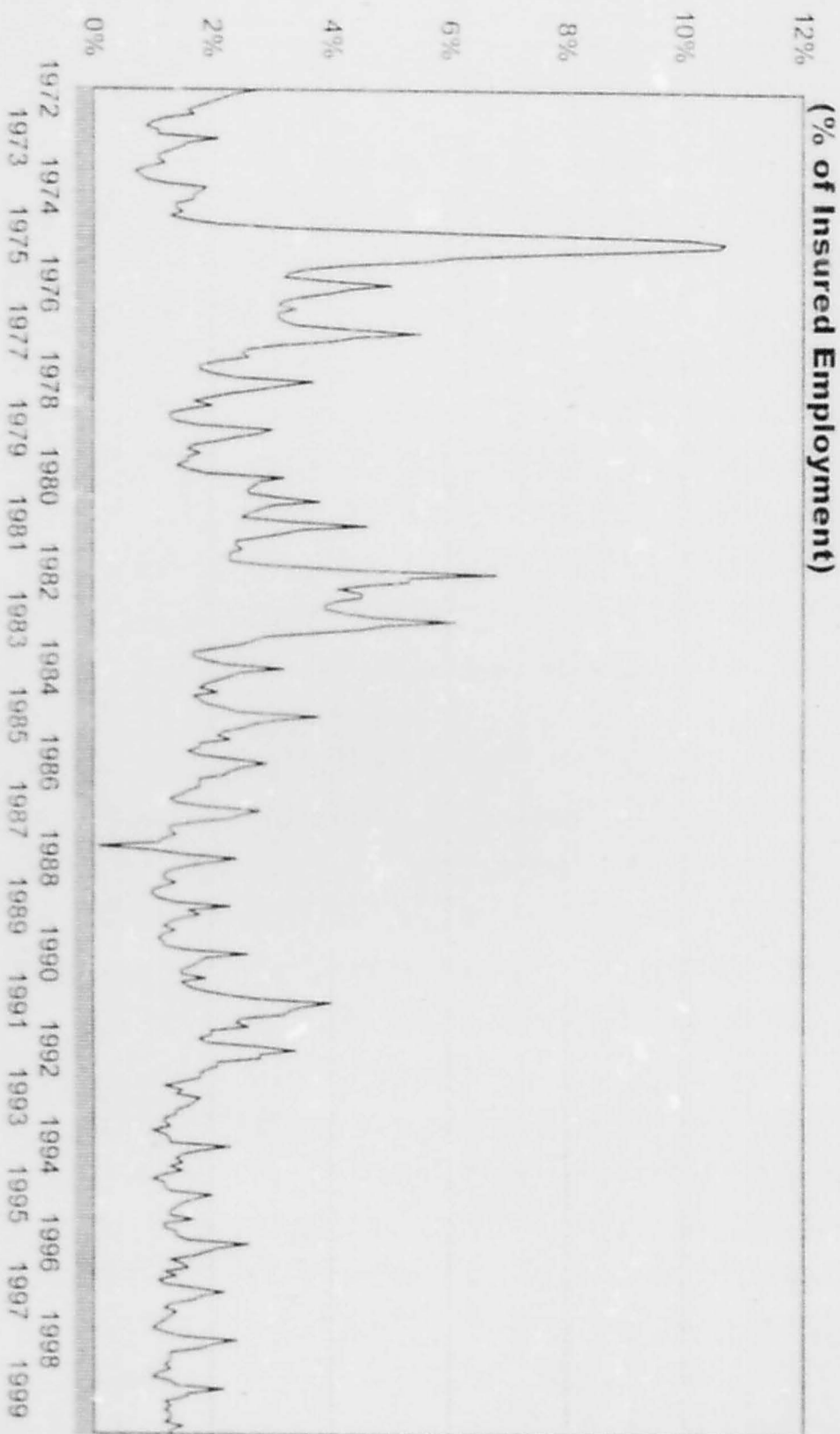
UNEMPLOYMENT RATE IN NORTH CAROLINA

SEASONALLY ADJUSTED RATE



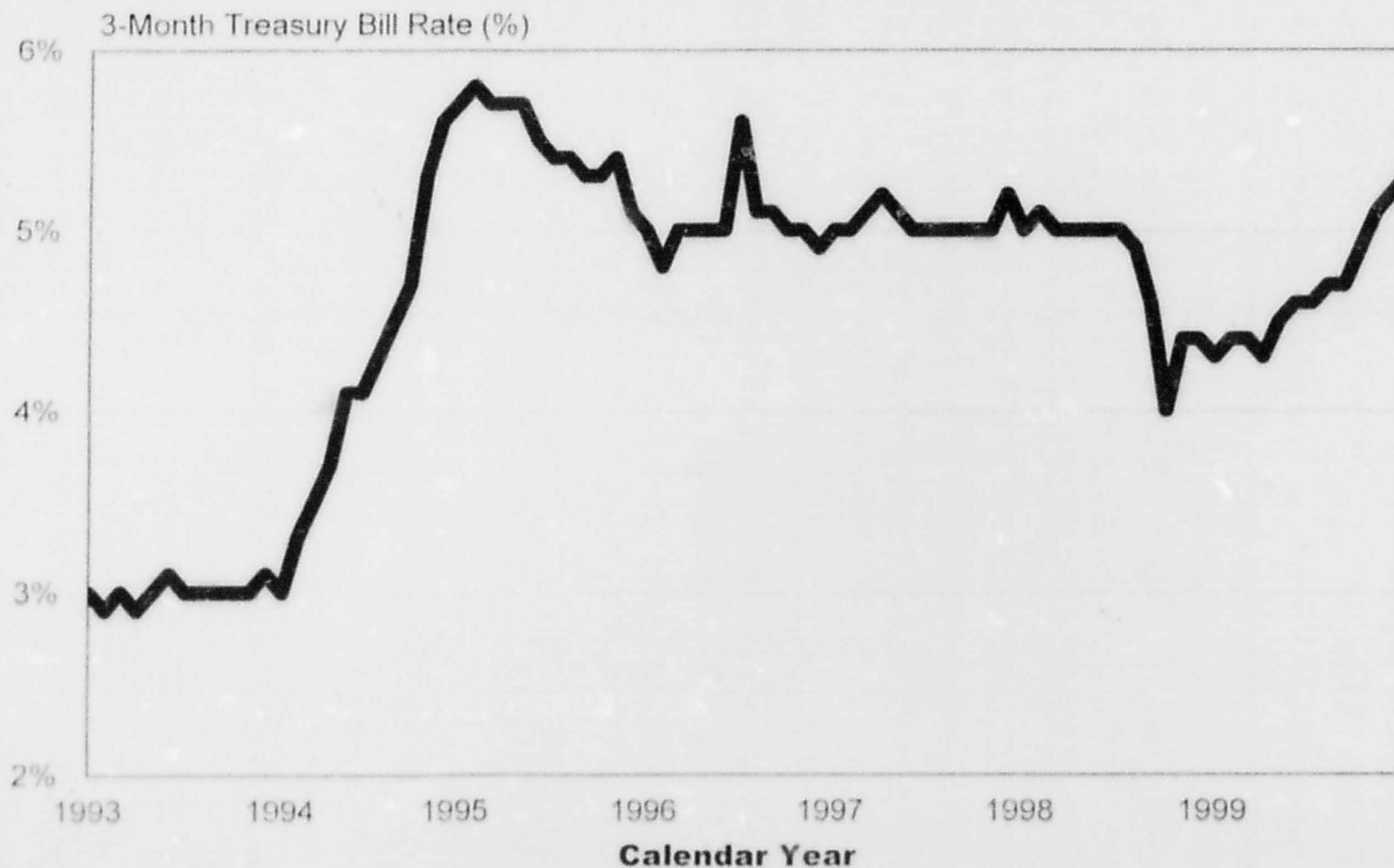
Source: Employment Security Commission

INSURED UNEMPLOYMENT RATE



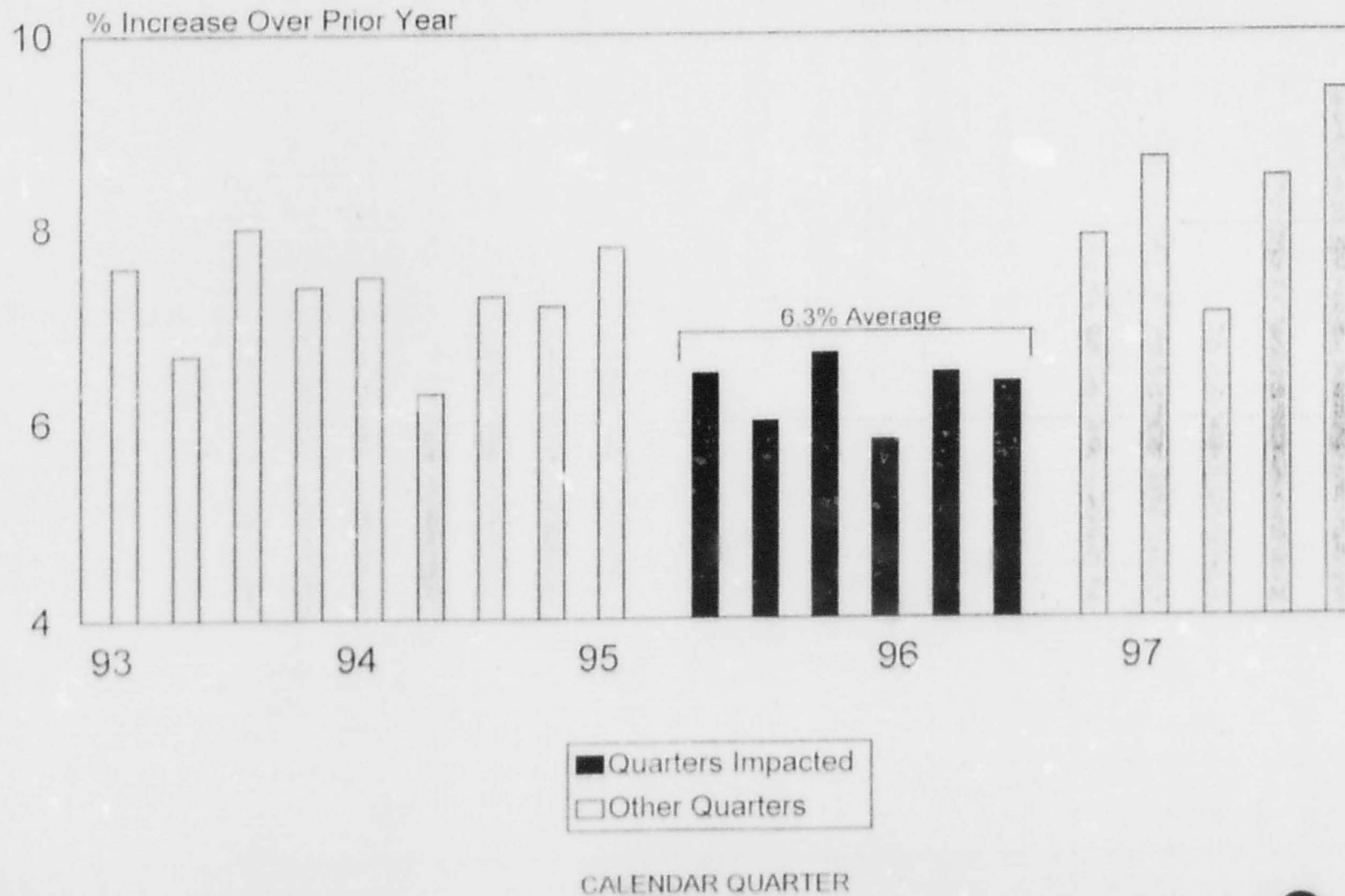
NOTE: The "spikes" in the data occur each year because the rates have not been adjusted for seasonal factors.

**THE FEDERAL RESERVE MOVED FROM A GRADUALIST
APPROACH TO AGGRESSIVE DURING LAST ROUND OF
MONETARY TIGHTENING***



*The 1994 actions included a .75% rate hike and two .50% adjustments after a number of .25% hikes.

FEDERAL RESERVE TIGHTENING IMPACT #2: WAGE AND SALARY PAYMENTS IN NORTH CAROLINA



VISITOR REGISTRATION SHEET

LRC EMPLOYMENT SECURITY & UNEMPLOYMENT TAX COMMITTEE

Name of Committee

Date FEBRUARY 9, 2000

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

David Canady	2nd Employment Security Committee Building
MANFRED ENNRICH	" " "
Tom Whitaker	" " "
Robert Co Heall	" " "
Mark Eagan	Capital Group
Dan Cheson	ESC
James P. Feggs	ESC
Terese Kilpatrick	ESC
Mike Dunn	NC Bank AFL CIO
Steven K. Schmidt	NC Justice Center
Colinda Brown	Laurent Technologies / NC Bank Association

March 3, 2000

MEMORANDUM

TO: LRC Employment Security and Unemployment Tax Committee Members

FROM: Senator John Kerr
Representative David Redwine

SUBJECT: Committee Meeting – March 21, 2000

The Employment Security and Unemployment Tax Committee meeting scheduled for March 29, 2000 has been cancelled.

The meeting has been rescheduled for Tuesday, March 21, 2000 at 9:30 a.m. in room 544 of the Legislative Office Building.

Please advise Peggy Anne Hogan, Committee Clerk, at (919) 733-5850 or e-mail Wellonsla@ms.ncga.state.nc.us, if you will be unable to attend.

Cc: Press
Interested Parties

AGENDA

Employment Security and Unemployment Tax Comm.

Tuesday, March 21, 2000

9:30 a.m.

Room 544 LOB

Representative David Redwine, Co-Chair

Senator John Kerr, Co-Chair

- 1. Approval of Minutes from February 9, 2000 Meeting**
- 2. Comments of NCCBI on unemployment tax**
- 3. Comments of NFIB on unemployment tax**
- 4. Response of ESC to February 9 discussions**
- 5. Committee discussion**
- 6. Discussion of future meetings.**

Adjourn

MINUTES

LRC EMPLOYMENT SECURITY AND UNEMPLOYMENT INSURANCE TAX COMMITTEE

MARCH 21, 2000

The LRC Employment Security and Unemployment Insurance Tax Committee met on Tuesday, March 21, 2000, in room 544 of the Legislative Office Building.

Sen. John Kerr, Co-chairman, Ms. Tonola Brown, Sen. Virginia Foxx, Sen. Oscar Harris, Sen. David Hoyle; Representative David Redwine, Co-chairman, Rep. Pete Cunningham, and Rep. Connie Wilson were present.

Senator John Kerr, Co-chairman, called for approval of the minutes of the February 9, 2000 meeting. Rep. Cunningham made the motion, and the minutes were approved.

Senator Kerr called on Mr. Phil Kirk who is President of the North Carolina Citizens for Business and Industry. Mr. Kirk called attention to the fact that NCCBI had supported the transfer of funds from the Unemployment Insurance Trust Fund to go to the Community Colleges during the 1999 session. He said they also supported the 2 year sunset and the trigger as two safeguards so that the fund would not get low enough to Cause taxes to have to be raised. He said they would recommend that there be no change in the fund at this time, and that it could be looked at in the long session. Mr. Kirk spoke in favor of an annual review by a legislative committee so that they could make a recommendation to the Legislature each year. He said that Mac Everett of First Union in Charlotte is the new chairman of NCCBI and that he had announced at their annual meeting that one of his goals during his term as chairman will be to secure the adoption, funding, and implementation of the Rural Prosperity Task Force. A part of this task force report is a recommendation having to do with this fund. Mr. Kirk did say, however, that just because this has been endorsed by Mr. Everett does not mean that NCCBI will endorse every aspect of the report.

Representative Wilson asked if NCCBI would be reviewing the details of the Rural Prosperity Task Force recommendations between now and the Short Session, and if a bill was introduced during the Short Session to extend the sunset for taking money from the Trust Fund, would they take a position. Mr. Kirk said that at this point, unless he is Directed otherwise, they will maintain their present position. He said they would review the Task Force Report but thought it would take several years for study and implementation.

Representative Wilson asked Mr. Kirk what he thought the reaction would be if they hit the trigger and the rates were to double. Mr. Kirk said that he did not think that was going to happen. He said that while some members would be unhappy, there is no such

thing as a free lunch. He said the business community could not express the need for more training, more equipment, and better training through the Community College System and not be willing to support the money for these things.

Senator Kerr made the point that the Unemployment Taxes had been cut two or three times in the past and, if necessary, alternative steps could be taken. Senator Kerr asked Dave Crotts, Chief Fiscal Analyst, for the figure. He said that the recurring cuts amount to about \$380 million each year in 2000 year dollars, in addition to \$140 million in 1996.

Senator Kerr asked Leslie Bevacqua of NCCBI what she understood the recommendation of the Task Force to be regarding the Community College money. She said that she was not a member of the Task Force but, as she understands it, they recommend that the sunset on the Fund be extended for two years, and that some of the uses of the funds be changed. However, they would be directed towards rural counties and rural community colleges. They would not receive any money before 2003.

Perry Morgan who is with the National Federation of Independent Businesses said they would like to encourage periodic adjusting as a means of not getting into a situation where the trigger kicks in.

Senator Kerr said there was no reason to worry about the taxes doubling unless something catastrophic happened.

Ms. Morgan said they had balloted their membership extensively on the issue of using Unemployment Taxes for other purposes, and they have shown, overwhelmingly, that they do not want this money used for any other purpose. She would also discourage any extension of the sunset past 1999.

Senator Kerr called on David Clegg of the Employment Security Commission to begin their presentation. Mr. Clegg began by introducing four members of the North Carolina State Job Service Employer Committee who were attending the meeting. They are Robert R. Scruggs, John Wishart, Joseph Szakasits, and Mel Preslar.

Mr. Bob Cottrell, Director of the Labor Marketing Information Division began by explaining a Comparison of Alternative Tax Rate Reduction Triggers. This is attached as Exhibit III. In explaining the form, Mr. Cottrell said that current law represents exactly what the employers pay today. There are two scenarios; scenario 2 takes the tax increases a little slower than scenario 1.

Senator Hoyle reminded the members that what was done 4 years ago was not a tax cut. It was a tax holiday. Employers were told that they did not have to make a contribution if they had a favorable balance. Therefore, the increases being discussed are not tax increases, but a return to what was in place before the rescission in the reduction. Senator Hoyle said that this needs to be made clear to employers in the state.

Representative Wilson asked if other states had triggers. Mr. Cottrell said that he would have to check on this and find out.

Mr. Cottrell referred to page 4 of the Analysis of the Unemployment Insurance Trust Fund which is attached as Exhibit IV. This shows the Projected Unemployment Insurance Trust Fund Balance and Benefits Paid By Year, 1999-2004. Senator Kerr made the point that we were right on target with what was planned. This was put in place to keep the money from going to Washington, and there is not way to know exactly what will happen in the future.

Senator Kerr asked if it would be possible to count the state \$200 million fund and merge it with the \$1 billion and thereby delay this trigger. Mr. Cottrell reiterated what Mr. Crotts had said. You can not literally merge the two funds, but they could be counted together with an appropriate provision of law. This could keep the trigger from kicking in.

Representative Redwine asked if any other commissions were studying issues which would affect the things that this commission is studying. Dr. Parker Chesson, Chairman of the Employment Security Commission, said that the Rural Prosperity Task Force would have an impact on the Trust Fund. He also said that the Job Training Study Commission is studying the Workforce Development in the state. One of his concerns about some of this commission's discussions is the proper balance between the Employment Security Commission, its local offices, and the role of the twenty-five local Workforce Development boards and the job linking issue. He said they are working very hard to deliver their services better at the local level, and developing partnerships with the Community Colleges. He urged that nothing be done which will weaken the strong linkage between re-employment services and the unemployment insurance system. As a result of the way this system has been put together, the employers in this state have about the lowest taxes in the country. Benefits are about the highest in the southeast. The reason for this is that people are being re-employed faster than any place in the country except Georgia. He is afraid that some of the discussions he has heard would take funding and authority from the Employment Security Commission and place it at the local level with the Workforce Development boards. If this happens, he believes the efficiency and strong focus for re-employment would be lost. In response to a question from Senator Kerr, Mr. Chesson said that the local Workforce Development boards are under the Department of Commerce, but they are relatively autonomous.

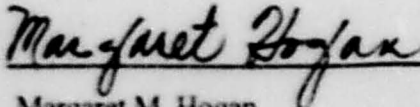
Senator Hoyle asked if the fact that our benefits are as high as they are is a disincentive for people looking for jobs. Mr. Chesson said that he did not believe it was a disincentive. He said the average benefit is about 50% less than what they were earning when they became unemployed. He said that in order to receive benefits in North Carolina you had to be actively looking for a job.

Senator Hoyle made the comment that he thought we should be very careful with this money. There is ample money coming into the state to train people for work, and before this Trust Fund money is used for other things, it needs to be scrutinized carefully.

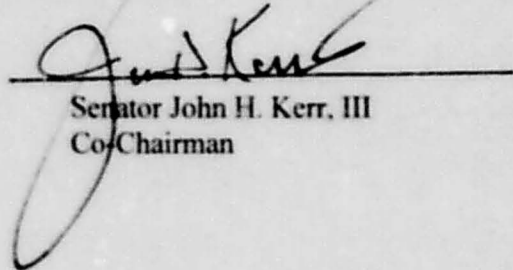
Senator Kerr said that he felt that anything that affects this Trust Fund should be brought before some committee for an annual review. Representative Wilson suggested that perhaps this committee could meet from time to time to give some continuity.

Representative Redwine said that he did not feel that we needed to make any substantive recommendations to the short session. He suggested that we meet in the fall once or twice in case we wanted to make recommendations for the 2001 session. Some of the issues which could be looked at are, oversight in terms of the Employment Security Commission issues, and how the short session may impact on the ESC. We might have a better idea of where the economy is headed in the fall, and at that time we would have an opportunity to react to any soft landings or any changes that had been made. He also said that he thought the community colleges were supposed to report in May as to the money they are getting from the Trust Fund and how they are using it. At that time we might have a better idea of how the job training is working.

There being no further business, the meeting was adjourned at 11:15 a.m.



Margaret M. Hogan
Committee Clerk



Senator John H. Kerr, III
Co-Chairman

UNEMPLOYMENT INSURANCE TAX CUTS IN RECENT YEARS

Year	Legislative Action	Savings to Employers ⁽¹⁾
Permanent Cuts		
1992	Suspended the 20% surtax levied to create the ESC Reserve Funds	\$56.7 Million
1993	Cut the tax for positive-rated employers by an average of 30% for any calendar year in which the balance in the Unemployment Insurance Fund equals or exceeds \$800 million	\$141.7 Million
1994	Cut the taxes for positive-rated employers by an average 38.7% and for new employers by 20%	\$104.7 Million
1995	Cut the taxes for positive-rated employers by an average of 23%	\$73.4 Million
Subtotal - Permanent Reductions		\$376.5 Million
One-Time Cuts		
1996	Levied a zero rate in 1996 for employers with a positive balance in their unemployment insurance account, lowered rate on new employers from 1.8% to 1.2% of taxable base, and allowed overdrawn employers additional time to make sufficient contributions to earn a zero rate for 1996	\$187.2 Million

(1) Savings are expressed in year 2000 dollars. Adjustment based on increase in total wages and salaries for the State.

DRAFT

Grat's Exhibit II

Projected Unemployment Insurance Trust Fund Balance Under Current Law and Economic Conditions

Insured Unemployment Rate of 1.45%

Year	Trust Fund Balance 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1998	\$1,272,033					
1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
2001	\$1,008,409	\$332,782	\$70,426	\$529,966	\$200,000	B
2002	\$934,864	\$427,285	\$64,060	\$564,891	\$200,000	B
2003	\$857,587	\$465,568	\$59,273	\$602,117	\$200,000	B
2004	\$799,034	\$528,407	\$54,836	\$641,797	\$200,000	A

Note 1: The insured unemployment rate of 1.45 percent approximates the economic conditions experienced in 1998 and 1999.

Note 2: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 3: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 4: This forecast incorporates the 20% reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

DRAFT

Projected Unemployment Insurance Trust Fund Balance Under Alternative Scenarios

Scenario 1: Economic Conditions Similar to 1990-1992

Year	Trust Fund Balance 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1998	\$1,272,033					
1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
2001	\$853,141	\$329,106	\$64,168	\$675,300	\$200,000	B
2002	\$289,756	\$414,903	\$33,971	\$1,012,259	\$200,000	B
2003	\$205,402	\$739,880	\$15,348	\$839,582	\$200,000	A
2004	\$401,350	\$822,656	\$22,102	\$648,810	\$200,000	A

Description of Scenario

This report assumes baseline economic conditions for 2000 and 2004. It assumes that economic conditions in 2001-2003 are similar to those experienced in 1990-1992. However, current interest rates are used because a substantial portion of the trust fund is invested in bonds at an average rate of 6.75 percent until mid-2002 and mid-2003.

Assumptions for Scenario

Year	Insured Unemp. Rate	Covered Emp. Growth Rate	Taxable Wage Growth Rate	Avg Weekly Benefit Growth Rate	Interest Rate
2000	1.45%	2.00%	6.75%	4.50%	6.750%
2001	1.88%	0.61%	3.64%	4.12%	6.750%
2002	2.70%	-0.15%	2.46%	4.53%	6.750%
2003	2.00%	2.35%	7.49%	9.40%	6.750%
2004	1.45%	2.00%	6.75%	4.50%	6.750%

Note 1: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 2: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 3: This forecast incorporates the 20% reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

Exhibit III
COTRELL

Comparison of Alternative Tax Rate Reduction Triggers March 20, 2000

Current Law	Alternative Scenario 1	Alternative Scenario 2
	50 %	50 %
50 %	50% TAT INCREASE 25%	\$1 Billion 35% 30% TAT INCREASE
		\$900 Million 25% 20% TAT INCREASE
		\$800 Million
0% Reduction 100% INCREASE IN TAT	0% Reduction ANOTHER 50% TAT INCREASE	0% Reduction ANOTHER 50% TAT INCREASE

Comparison of Alternative Tax Rate Reduction Triggers
March 20, 2000

<u>Current Law</u>	<u>Alternative Scenario 1</u>	<u>Alternative Scenario 2</u>
	50 %	50 %
	_____	_____ \$1 Billion
50 %		35%
	25%	_____ \$900 Million
		25%
_____	_____	_____ \$800 Million
0% Reduction	0% Reduction	0% Reduction

Prepared by: Labor Market Information Division
Employment Security Commission
March 20, 2000

Senator Kerr said that he felt that anything that affects this Trust Fund should be brought before some committee for an annual review. Representative Wilson suggested that perhaps this committee could meet from time to time to give some continuity.

Representative Redwine said that he did not feel that we needed to make any substantive recommendations to the short session. He suggested that we meet in the fall once or twice in case we wanted to make recommendations for the 2001 session. Some of the issues which could be looked at are, oversight in terms of the Employment Security Commission issues, and how the short session may impact on the ESC. We might have a better idea of where the economy is headed in the fall, and at that time we would have an opportunity to react to any soft landings or any changes that had been made. He also said that he thought the community colleges were supposed to report in May as to the money they are getting from the Trust Fund and how they are using it. At that time we might have a better idea of how the job training is working.

There being no further business, the meeting was adjourned at 11:15 a.m.

Cathell 2
Exhibit IV

ANALYSIS OF THE UNEMPLOYMENT INSURANCE TRUST FUND



MARCH 6, 2000

EMPLOYMENT SECURITY COMMISSION OF NORTH CAROLINA

J. PARKER CHESSON, JR., CHAIRMAN

ANALYSIS OF THE UNEMPLOYMENT INSURANCE TRUST FUND



Prepared by the Labor Market Information Division
Employment Security Commission of North Carolina
March 6, 2000

Employment Security Commission of North Carolina

Post Office Box 25903

Raleigh, North Carolina 27611

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THE UNEMPLOYMENT INSURANCE SYSTEM IN NORTH CAROLINA

March 6, 2000

The primary purpose of the unemployment insurance (UI) system is to provide temporary, partial compensation for lost wages to eligible individuals who are out of work due to no fault of their own. The system is paid for by employer taxes.

The Employment Security Commission is charged with the operation of the UI system in accordance with state and federal law and regulation. In order to accomplish this mission, it is necessary to maintain a balanced system of benefit payments and taxation through a fiscally solvent UI Trust Fund. The trust fund must be capable of supporting benefit payments under current economic circumstances and under likely alternative scenarios. The UI system draws from the fund reserves during an economic downturn and replenishes those reserves as the economy improves. This avoids the risk of initiating layoffs and business closings through immediate, massive tax increases for benefit payments and provides a stabilizing influence on the economy through the direct infusion of benefits.

UI system liability is based on the size of the workforce covered by the system and the total wages paid to that workforce. Quite simply, a large workforce and greater total wages result in higher potential liability.

The North Carolina model examines the Insured Unemployment Rate during recent periods of high unemployment, the current cost of benefits per one percent (1%) of Insured Unemployment and any factors projected to generate a change in that cost. The resultant total is multiplied by a factor of 1.5 to provide approximately 18 months of reserves in recognition of the lag time between the implementation of new tax rates and the actual collection of taxes under those rates. For example, North Carolina's 1999 insured unemployment rate was approximately 1.37 percent, and the total UI benefits paid were \$444,000,000. Therefore, each percentage point of insured unemployment cost the state approximately \$324,000,000. A minor dip in the economy, such as the 2.7 percent Insured Unemployment Rate that North Carolina experienced in 1991 would cost the system over \$875 million in one year. A more significant downturn, such as the 4.7 percent rate experienced in 1982 would cost over \$1.52 billion per year, and the cost of a return to the 1975 level of 7 percent would be approximately \$2.27 billion per year. Such experience would dictate a trust fund balance of between \$1.31 billion and \$3.41 billion.

While an economic upheaval of the magnitude of that experienced in 1975 is not anticipated, it would be short-sighted to rule out the reoccurrence of the economic conditions of 1982 and 1991. When anticipated additional liability factors such as growth in covered employment and wages are considered, total benefits for 2000 are expected to reach \$497 million or approximately \$343 million per one percent (1%) of insured unemployment. This level of potential liability indicates a recommended trust fund balance of \$1.39 billion (for an 18 month recession similar to 1991) to \$2.42 billion (for an 18 month recession similar to 1982). North Carolina's current reserves totaling \$1.45 billion, including the \$1.25 billion UI Trust Fund and the \$200 million State Reserve Fund, fall in the lower half of the recommended range.

**ASSUMPTIONS USED IN THE ANALYSIS
OF THE UNEMPLOYMENT INSURANCE TRUST FUND BALANCE**

The following assumptions were used in the computation of unemployment insurance trust fund projections under the provisions of the current Employment Security Law. These assumptions were derived through an examination of economic trends in the past year and through analysis of economic forecasts for North Carolina by economists at universities and in state government.

1. The insured unemployment rate will average 1.45 percent per year throughout the projection period.
2. Covered employment will grow at the rate of 2.0 percent per year throughout the projection period.
3. Taxable wages will grow at the rate of 6.75 percent per year throughout the projection period.
4. The average weekly benefit amount will grow at the rate of 4.5 percent per year throughout the projection period.
5. The UI Trust Fund is estimated to earn interest at the rate of 6.75 percent per year throughout the projection period.

**PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE
UNDER CURRENT LAW AND ECONOMIC CONDITIONS**

Insured Unemployment Rate: 1.45 %

Year	Trust Fund Balance, 12/31 (000's)	Fund Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1998	\$1,272,033					
1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
2001	\$1,008,409	\$332,782	\$70,426	\$529,966	\$200,000	B
2002	\$934,864	\$427,285	\$64,060	\$564,891	\$200,000	B
2003	\$857,587	\$465,568	\$59,273	\$602,117	\$200,000	B
2004	\$799,034	\$528,407	\$54,836	\$641,797	\$200,000	A

Note 1: The insured unemployment rate of 1.45 percent approximates the economic conditions experienced in 1998 and 1999.

Note 2: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

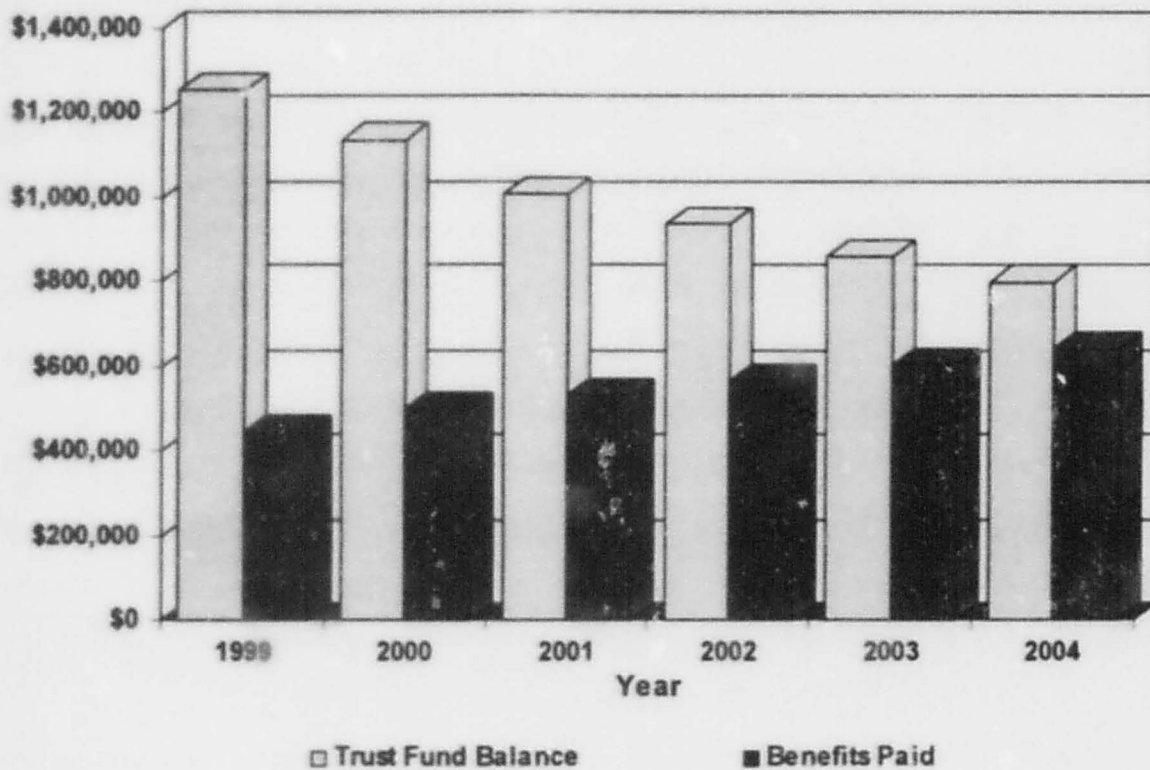
Note 3: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 4: This forecast incorporates the 20 percent reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE AND BENEFITS PAID BY YEAR, 1999-2004

Insured Unemployment Rate: 1.45 %

(Dollars in Thousands)



PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

SCENARIO 1: ECONOMIC CONDITIONS SIMILAR TO 1990-1992

2001 Insured Unemployment Rate of 1.88%
2002 Insured Unemployment Rate of 2.70%
2003 Insured Unemployment Rate of 2.00%

Reference Year	Year	Trust Fund Balance, 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
-	1998	\$1,272,033					
-	1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
-	2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
1990	2001	\$853,141	\$329,106	\$64,168	\$675,300	\$200,000	B
1991	2002	\$289,756	\$414,903	\$33,971	\$1,012,259	\$200,000	B
1992	2003	\$270,943	\$737,845	\$17,998	\$774,656	\$200,000	A
-	2004	\$522,077	\$821,083	\$28,688	\$598,637	\$200,000	A

DESCRIPTION OF SCENARIO

This report assumes baseline economic conditions for 2000 and 2004. It assumes that economic conditions in 2001-2003 are similar to those experienced in 1990-1992. However, current interest rates are used because a substantial portion of the trust fund is invested in bonds at an average rate of 6.75 percent until mid-2002 and mid-2003.

ASSUMPTIONS FOR SCENARIO

Reference Year	Year	Insured Unemployment Rate	Covered Employment Growth Rate	Taxable Wage Growth Rate	Average Weekly Benefit Growth Rate	Interest Rate
-	2000	1.45%	2.00%	6.75%	4.50%	6.750%
1990	2001	1.88%	0.61%	3.64%	4.12%	6.750%
1991	2002	2.70%	-0.15%	2.46%	4.53%	6.750%
1992	2003	2.00%	2.35%	7.49%	0.94%	6.750%
-	2004	1.45%	2.00%	6.75%	4.50%	6.750%

Note 1: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 2: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 3: This forecast incorporates the 20 percent reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

PROJECTED UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

SCENARIO 2: ECONOMIC CONDITIONS SIMILAR TO 1981-1983

2001 Insured Unemployment Rate of 2.96%
2002 Insured Unemployment Rate of 4.72%
2003 Insured Unemployment Rate of 2.97%

Reference Year	Year	Trust Fund Balance, 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
-	1998	\$1,272,033					
-	1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
-	2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
1981	2001	\$445,443	\$341,030	\$47,681	\$1,078,435	\$200,000	B
1982	2002	(\$590,597)	\$682,786	(\$14,405)	\$1,904,421	\$200,000	A
1983	2003	(\$973,599)	\$953,326	(\$54,789)	\$1,281,540	\$0	A
-	2004	(\$668,068)	\$1,024,082	(\$51,651)	\$666,899	\$0	A

DESCRIPTION OF SCENARIO

This report assumes baseline economic conditions for 2000 and 2004. It assumes that economic conditions in 2001-2003 are similar to those experienced in 1981-1983. However, current interest rates are used because a substantial portion of the trust fund is invested in bonds at an average rate of 6.75 percent until mid-2002 and mid-2003.

ASSUMPTIONS FOR SCENARIO

Reference Year	Year	Insured Unemployment Rate	Covered Employment Growth Rate	Taxable Wage Growth Rate	Average Weekly Benefit Growth Rate	Interest Rate
-	2000	1.45%	2.00%	6.75%	4.50%	6.750%
1981	2001	2.96%	1.01%	3.37%	5.19%	6.750%
1982	2002	4.72%	-1.57%	-2.94%	12.51%	6.750%
1983	2003	2.97%	2.86%	18.54%	3.97%	6.750%
-	2004	1.45%	2.00%	6.75%	4.50%	6.750%

Note 1: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 2: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

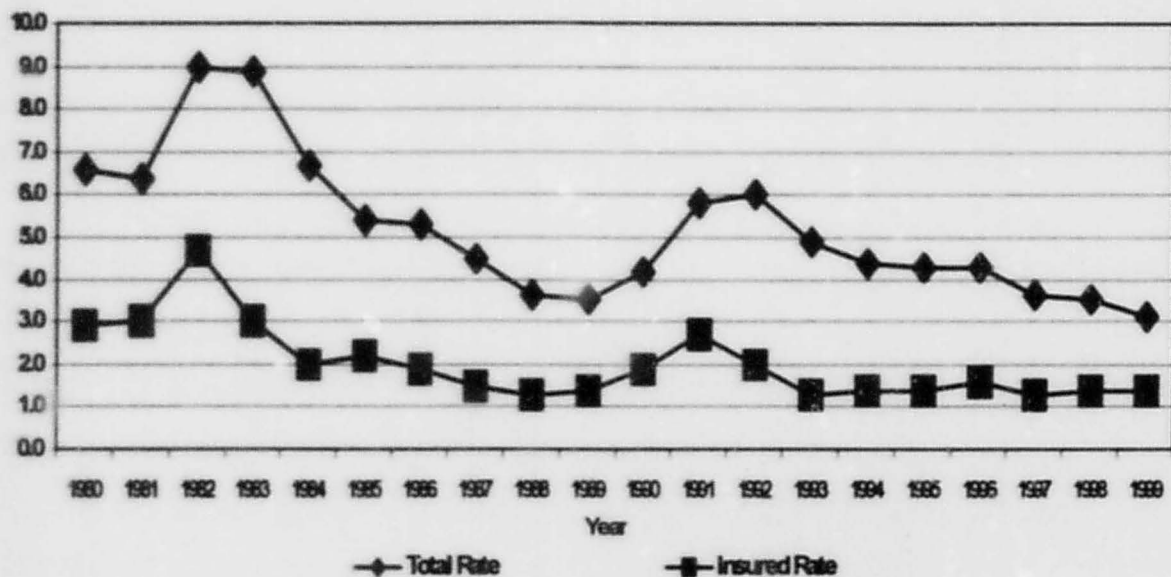
Note 3: This forecast incorporates the 20 percent reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

STATES WITH RESERVES OVER \$1 BILLION AS OF SEPTEMBER 30, 1999

The level of covered employment is a key determinant of the liability of the unemployment insurance system. The following table provides a comparison of covered employment and trust fund balances for all States with a balance in excess of one billion dollars on September 30, 1999.

State	Reserve Amount (000's)	Covered Employment (000's)	Covered Employment Ranking
California	\$4,984,708	13,823	1
Pennsylvania	\$2,713,573	5,290	7
New Jersey	\$2,709,247	3,594	11
Michigan	\$2,708,572	4,345	8
Florida	\$2,157,380	6,601	4
Ohio	\$2,150,642	5,321	6
Illinois	\$2,095,120	5,704	5
Georgia	\$1,982,088	3,618	10
Massachusetts	\$1,920,554	3,082	13
Wisconsin	\$1,779,510	2,619	16
Washington	\$1,717,952	2,621	15
Indiana	\$1,507,925	2,825	14
Louisiana	\$1,473,176	1,809	23
Oregon	\$1,325,705	1,526	28
North Carolina	\$1,294,665	3,684	9
Virginia	\$1,035,713	3,112	12

TOTAL UNEMPLOYMENT RATE AND INSURED UNEMPLOYMENT RATE**
IN NORTH CAROLINA, 1980 - 1999



Year	Total Rate **	Insured Rate **
1980	6.6	2.9
1981	6.4	3.0
1982	9.0	4.7
1983	8.9	3.0
1984	6.7	2.0
1985	5.4	2.2
1986	5.3	1.9
1987	4.5	1.5
1988	3.6	1.3
1989	3.5	1.4
1990	4.2	1.9
1991	5.8	2.7
1992	6.0	2.0
1993	4.9	1.3
1994	4.4	1.4
1995	4.3	1.4
1996	4.3	1.6
1997	3.6	1.3
1998	3.5	1.4
1999	3.1	1.4

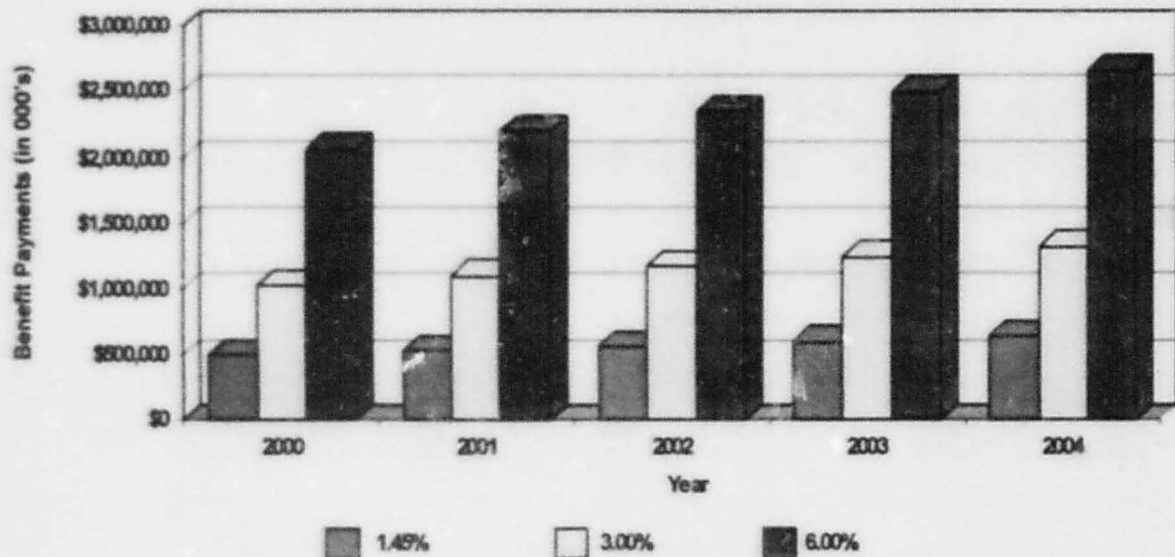
**The total rate and insured rate for 1999 are preliminary estimates.

PROJECTED BENEFIT PAYMENTS (IN 000's) **FOR SELECTED INSURED UNEMPLOYMENT RATES**

The following table and graph illustrate the impact of rising rates of insured unemployment on benefit payments.

	Insured Unemployment Rate						
Year	1.45%	2.00%	2.50%	3.00%	4.00%	5.00%	6.00%
2000	\$497,200	\$685,794	\$857,242	\$1,028,091	\$1,371,588	\$1,714,484	\$2,057,381
2001	\$529,966	\$730,988	\$913,735	\$1,096,481	\$1,461,975	\$1,827,469	\$2,192,963
2002	\$564,891	\$779,160	\$973,950	\$1,168,740	\$1,558,319	\$1,947,899	\$2,337,479
2003	\$602,117	\$830,506	\$1,038,133	\$1,245,760	\$1,661,013	\$2,076,266	\$2,491,519
2004	\$641,787	\$885,237	\$1,106,546	\$1,327,855	\$1,770,474	\$2,213,092	\$2,655,710

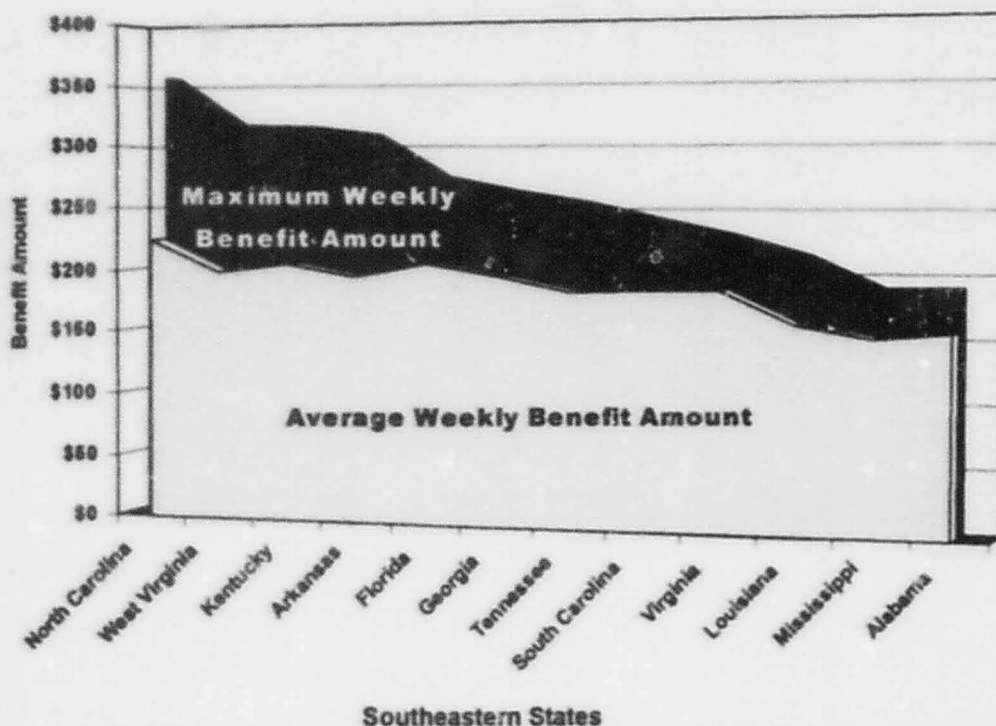
PROJECTED BENEFIT PAYMENTS FOR SELECTED INSURED UNEMPLOYMENT RATES



**BENEFITS FOR THE SOUTHEAST REGION RANKED BY MAXIMUM WEEKLY BENEFIT AMOUNT
FOR THE PERIOD ENDING SEPTEMBER 30, 1999**

State	Maximum Weekly Benefit	Average Weekly Benefit	Average Duration of Unemployment in Weeks	Average Tax Rate** (1999 Annual)
North Carolina	\$356	\$225	9.8	0.8%
West Virginia	\$318	\$199	13.5	2.8%
Kentucky	\$316	\$207	11.9	2.1%
Arkansas	\$309	\$197	12.8	2.0%
Florida	\$275	\$208	13.8	1.3%
Georgia	\$264	\$198	8.8	0.3%
Tennessee	\$255	\$187	11.9	1.5%
South Carolina	\$242	\$189	11.0	1.4%
Virginia	\$230	\$189	9.9	0.5%
Louisiana	\$215	\$162	14.8	1.5%
Mississippi	\$190	\$153	13.5	1.7%
Alabama	\$190	\$157	9.9	1.0%

**The average tax rate is defined as total contributions due divided by taxable wages.



North Carolina's average weekly benefit was \$15 above the national average of \$210 and its unemployment duration was 4.5 weeks below the national average of 14.3 weeks.

COMPARATIVE LIABILITY IN NORTH CAROLINA, 1980 - 1999

Year	Insured Unemployment Rate (IUR) **	Total Unemployment Rate (TUR) **	Benefits Paid	Benefit Payments per 1.0% IUR	Average Weekly Claims per 1.0% IUR
1980	2.9	6.6	234,743,330	79,958,012	22,771
1981	3.0	6.4	255,631,353	86,276,093	23,000
1982	4.7	9.0	461,508,871	97,716,391	22,639
1983	3.0	8.9	310,772,492	104,506,079	23,286
1984	2.0	6.7	203,546,894	100,906,503	24,838
1985	2.2	5.4	248,939,685	111,816,639	25,778
1986	1.9	5.3	241,718,841	130,537,681	26,623
1987	1.5	4.5	202,330,718	133,493,083	27,676
1988	1.3	3.6	190,173,656	142,249,597	28,981
1989	1.4	3.5	223,396,524	160,725,518	29,663
1990	1.9	4.2	322,889,883	171,598,845	29,843
1991	2.7	5.8	509,860,241	188,834,857	29,798
1992	2.0	6.0	378,479,337	189,073,769	30,497
1993	1.3	4.9	270,327,000	204,506,771	31,561
1994	1.4	4.4	293,084,000	216,104,151	32,746
1995	1.4	4.3	337,934,000	239,361,832	33,779
1996	1.6	4.3	401,800,000	257,025,075	34,603
1997	1.3	3.6	365,846,419	273,408,247	35,758
1998	1.4	3.5	405,681,970	294,263,190	36,579
1999	1.4	3.1	444,053,847	324,126,896	37,424

** Note: The IUR and TUR for 1999 are preliminary estimates

NOTES

**NORTH CAROLINA'S
EMPLOYMENT SECURITY
COMMISSION**

**RANKS IN THE
TOP 5 NATIONALLY**

IN

- > Individual Applicants Registered**
- > Individuals Provided Reportable Services**
- > Applicants Referred to Jobs**
- > Individuals Placed**
- > Job Openings Received**
- > Placement Transactions**
- > Individuals Entering Employment**

TOTAL APPLICANTS
JULY 1, 1998 - JUNE 30, 1999

<u>STATE</u>	<u>NUMBER</u>	<u>WAGNER-PEYSER EXPENDITURES</u>
Texas	1,393,007	\$ 49,181,773
Florida	1,304,286	\$ 41,546,348
California	918,731	\$ 93,157,877
New York	798,006	\$ 36,419,389
North Carolina	761,612	\$ 18,029,021

REPORTABLE SERVICES
JULY 1, 1998 - JUNE 30, 1999

<u>STATE</u>	<u>NUMBER</u>	<u>WAGNER PEYSER EXPENDITURES</u>
Texas	1,101,921	\$ 49,181,773
Florida	639,560	\$ 41,546,348
North Carolina	629,505	\$ 18,029,021
Ohio	523,470	\$ 27,977,493
Georgia	446,680	\$ 19,563,404

APPLICANTS REFERRED TO JOBS

JULY 1, 1998 - JUNE 30, 1999

<u>STATE</u>	<u>NUMBER</u>	<u>WAGNER-PEYSER EXPENDITURES</u>
Texas	586,106	\$ 49,181,773
North Carolina	503,920	\$ 18,029,021
Florida	449,186	\$ 41,546,348
Georgia	320,434	\$ 19,563,404
Ohio	281,113	\$ 27,977,493

INDIVIDUALS PLACED

JULY 1, 1998 - JUNE 30, 1999

<u>STATE</u>	<u>NUMBER</u>	<u>WAGNER-PEYSER EXPENDITURES</u>
North Carolina	142,021	\$ 18,029,021
Texas	141,347	\$ 49,181,773
Florida	126,408	\$ 41,546,348
Ohio	89,158	\$ 27,977,493
Georgia	85,598	\$ 19,563,404

OPENINGS RECEIVED
JULY 1, 1998 - JUNE 30, 1999

<u>STATE</u>	<u>NUMBER</u>	<u>WAGNER-PEYSER EXPENDITURES</u>
California	1,410,943	\$ 93,157,877
Texas	446,155	\$ 49,181,773
New York	362,319	\$ 36,419,389
North Carolina	340,908	\$ 18,029,021
Florida	302,630	\$ 41,546,348

PLACEMENT TRANSACTIONS
JULY 1, 1998 - JUNE 30, 1999

<u>STATE</u>	<u>NUMBER</u>	<u>WAGNER-PEYSER EXPENDITURES</u>
North Carolina	170,324	\$ 18,029,021
Texas	170,272	\$ 49,181,773
Florida	145,670	\$ 41,546,348
Ohio	100,744	\$ 27,977,493
Georgia	97,015	\$ 19,563,404

ENTERED EMPLOYMENT

JULY 1, 1998 - JUNE 30, 1999

<u>STATE</u>	<u>ENTERED EMPLOYMENT</u>	<u>COST PER ENTERED EMPLOYMENT</u>	<u>WAGNER-PEYSER EXPENDITURES</u>
Texas	294,642	\$ 167.00	\$ 49,181,773
North Carolina	218,223	\$ 83.00	\$ 18,029,021
Florida	159,282	\$ 261.00	\$ 41,546,348
Wisconsin	152,212	\$ 54.00	\$ 8,226,296
Illinois	144,356	\$ 215.00	\$ 31,051,253

COMMENTS:

The national average for percentage of applicants placed in jobs is 5.7%. North Carolina ranks 6th nationally with 18.6% of applicants placed.

The national average for applicants entering employment is 15%. North Carolina ranks 7th nationally with 28.7% of applicants entering employment

Impact Analysis of Alternative Tax Triggers on the Unemployment Insurance System

March 20, 2000

The attached report provides a high-level analysis of the impact of introducing alternative tax rate triggers on the solvency of the Unemployment Insurance Trust Fund (UITF). Current law provides for a 50 percent reduction¹ in the tax rate for positive-rated accounts in the following calendar year for any year in which the fund balance is greater than or equal to \$800 million on the computation date.

Scenario One

Description

Alternative Scenario One uses one additional fund balance trigger. This scenario generates a tax rate reduction of 50 percent when the UITF balance is greater than or equal to \$1 billion and a 25 percent reduction when the UITF balance is greater than or equal to \$800 million and less than \$1 billion.

Under this scenario, if the computation year fund balance is greater than or equal to \$800 million but less than \$1 billion, then the multiplier used for positive-rated accounts in the following calendar year is 0.75 (rather than the 0.5 in current law). If the computation year fund balance is greater than or equal to \$1 billion, then the multiplier used for positive-rated accounts in the following calendar year is 0.5 (which would also occur under current law).

Impact

This forecast generates the same results as the baseline (i.e., current law) for all trust fund components for the years 2000 through 2002 because the computation year fund balance is at or above \$1 billion in those years. However, the computation year fund balance in 2002 falls to \$992 million, which triggers a 25 percent reduction for positive-rated accounts in calendar year 2003 (rather than a 50 percent reduction in the baseline scenario). This raises contributions received in 2003 by approximately \$128 million over the baseline scenario, which also raises interest earned and the overall trust fund balance. Benefits paid are assumed to be the same under both this scenario and current law.²

The computation year fund balance in 2003 is \$994 million, which continues a 25 percent reduction for positive-rated accounts for calendar year 2004. This raises contributions received in 2004 by approximately \$169 million over the baseline scenario and again raises interest earned and the overall trust fund balance.

Although this forecast ends on December 31, 2004, the computation fund balance in 2004 is over \$1 billion so a 50 percent reduction would take effect in calendar year 2005 for positive-rated accounts.

The computation year fund balance in both years is very close to the trigger value; the differential between the projected computation year fund balance and the trigger could easily be within the range of forecasting error for the model.

See attached the attached table entitled "Projected Unemployment Insurance Trust Fund Balance Under Alternative Scenario 1" for details.

Scenario Two

Description

Alternative Scenario Two uses two additional fund balance triggers. This scenario generates a tax rate reduction of 50 percent when the UITF balance is greater than or equal to \$1 billion; a rate reduction of 35 percent when the UITF balance is greater than or equal to \$900 million and less than \$1 billion; and a rate reduction of 25 percent when the UITF balance is greater than or equal to \$800 million and less than \$900 million on the computation date.

Under this scenario, if the computation year fund balance is greater than or equal to \$800 million but less than \$900 million, then the multiplier used for positive-rated accounts in the following calendar year is 0.75 (rather than the 0.5 in current law). If the computation year fund balance is greater than or equal to \$900 million but less than \$1 billion, then the multiplier used for positive-rated accounts in the following calendar year is 0.65. If the computation year fund balance is greater than or equal to \$1 billion, then the multiplier used for positive-rated accounts in the following calendar year is 0.5 (the same as would occur under current law).

Impact

This forecast yields the same results as the baseline for all trust fund components for the years 2000 through 2002 because the computation year fund balance is at or above \$1 billion in 2000 and 2001. Hence the same 0.5 multiplier is used in those years as in the baseline (current law) scenario. However, the computation year fund balance in 2002 falls to \$992 million, which triggers a 35 percent reduction for positive-rated accounts (rather than a 50 percent reduction in the baseline scenario). This raises contributions received in 2003 by approximately \$77 million over the baseline scenario, which also raises interest earned and the overall trust fund balance.³ Benefits paid are assumed to be the same under both this scenario and current law.

The computation year fund balance in 2003 is \$965 million, which continues a 35 percent reduction for positive-rated accounts. This raises contributions received in 2004 by approximately \$102 million over the baseline scenario, which also raises interest earned and the overall trust fund balance. Although this forecast ends on December 31, 2004, the computation fund balance of \$1,000,938,558 in 2004 is just over \$1 billion so a 50 percent reduction would take effect in calendar year 2005 for positive-rated accounts.

See attached the attached table entitled "Projected Unemployment Insurance Trust Fund Balance Under Alternative Scenario 2" for details.

Comparison of Alternative Scenarios

Scenario One has two triggers: a 25 percent reduction in following calendar year when the computation year fund balance is between \$800 million and \$1 billion and a 50 percent reduction when the balance is \$1 billion or more.

Scenario Two has three triggers: a 25 percent reduction in following calendar year when the computation year fund balance is between \$800 million and \$900 million, a 35 percent reduction when the balance is between \$900 million and \$1 billion and a 50% reduction when the balance is \$1 billion or more.

Contributions are higher under Scenario One in 2003 and 2004 because the rate reduction was 25% compared to a 35% reduction when the trust fund balance remains above \$900 million.

A copy of "Projected Unemployment insurance Trust Fund Balance Under Current Law and Economic Conditions" is attached for comparison.

End notes

¹ Current law also provides for a 60 percent reduction in tax rates whenever the trust fund ratio equals 5 percent or higher and the trust fund balance is equal to or greater than \$800 million. The ratio has been trending downward with the most recent level at 3.2 percent. This provision is unlikely to be activated under current circumstances.

² Due to the lag between contributions due and contributions received, the effects on contributions received of the change in the multiplier in 2003 occur in 2003 and 2004. The same comment applies to the multiplier in effect in 2004.

³ *ibid.*

Prepared by: Labor Market Information Division
Employment Security Commission
March 20, 2000

Projected Unemployment Insurance Trust Fund Balance Under Alternative Scenario 1

Sliding Scale of Two Computation Fund Balance Triggers

Year	Trust Fund Balance 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1998	\$1,272,033					
1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
2001	\$1,008,409	\$332,782	\$70,426	\$529,966	\$200,000	B
2002	\$934,864	\$427,285	\$64,060	\$564,891	\$200,000	B
2003	\$990,233	\$593,178	\$64,309	\$602,117	\$200,000	B
2004	\$1,117,433	\$697,775	\$71,221	\$641,797	\$200,000	A

Description of Scenario

This report assumes baseline economic conditions throughout. It assumes that positive-rated accounts receive a 50% rate reduction in the following calendar year if the computation year fund balance is \$1 billion or more. It assumes a 25% reduction if the computation year balance is between \$800 million and \$1 billion.

Assumptions for Scenario

Year	Insured Unemp. Rate	Covered Emp. Growth Rate	Taxable Wage Growth Rate	Avg Weekly Benefit Growth Rate	Interest Rate
2000	1.45%	2.00%	6.75%	4.50%	6.750%
2001	1.45%	2.00%	6.75%	4.50%	6.750%
2002	1.45%	2.00%	6.75%	4.50%	6.750%
2003	1.45%	2.00%	6.75%	4.50%	6.750%
2004	1.45%	2.00%	6.75%	4.50%	6.750%

Note 1: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 2: This forecast incorporates the 20 percent reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

Projected Unemployment Insurance Trust Fund Balance Under Alternative Scenario 2

Sliding Scale of Three Computation Fund Balance Triggers

Year	Trust Fund Balance 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1998	\$1,272,033					
1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
2001	\$1,008,409	\$332,782	\$70,426	\$529,966	\$200,000	B
2002	\$934,864	\$427,285	\$64,060	\$564,891	\$200,000	B
2003	\$937,175	\$542,134	\$62,294	\$602,117	\$200,000	B
2004	\$990,073	\$630,028	\$64,667	\$641,797	\$200,000	A

Description of Scenario

This report assumes baseline economic conditions throughout. It assumes that positive-rated accounts receive a 50% rate reduction in the following calendar year if the computation year fund balance is \$1 billion or more. It assumes a 35% reduction if the computation year balance is between \$900 million and \$1 billion and a 25% reduction if the computation year balance is between \$800 million and \$900 million.

Assumptions for Scenario

Year	Insured Unemp. Rate	Covered Emp. Growth Rate	Taxable Wage Growth Rate	Avg Weekly Benefit Growth Rate	Interest Rate
2000	1.45%	2.00%	6.75%	4.50%	6.750%
2001	1.45%	2.00%	6.75%	4.50%	6.750%
2002	1.45%	2.00%	6.75%	4.50%	6.750%
2003	1.45%	2.00%	6.75%	4.50%	6.750%
2004	1.45%	2.00%	6.75%	4.50%	6.750%

Note 1: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 2: This forecast incorporates the 20 percent reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.

Projected Unemployment Insurance Trust Fund Balance Under Current Law and Economic Conditions

Insured Unemployment Rate of 1.45 %

Year	Trust Fund Balance 12/31 (000's)	Contributions (000's)	Interest (000's)	Benefits Paid (000's)	Reserve Fund (000's)	Schedule
1998	\$1,272,033					
1999	\$1,254,870	\$339,376	\$87,515	\$444,054	\$200,000	C
2000	\$1,135,167	\$298,654	\$78,844	\$497,200	\$200,000	C
2001	\$1,008,409	\$332,782	\$70,426	\$529,966	\$200,000	B
2002	\$934,864	\$427,285	\$64,060	\$564,891	\$200,000	B
2003	\$857,587	\$465,568	\$59,273	\$602,117	\$200,000	B
2004	\$799,034	\$528,407	\$54,836	\$641,797	\$200,000	A

Note 1: The insured unemployment rate of 1.45 percent approximates the economic conditions experienced in 1998 and 1999.

Note 2: The 50 percent contribution rate reduction for positively rated employers does not apply if the Trust Fund Balance falls below \$800,000,000 on the computation date.

Note 3: A 20 percent tax on contributions due for all employers takes effect if the State Reserve Fund falls below \$163,349,000 on the computation date.

Note 4: This forecast incorporates the 20 percent reduction in unemployment insurance contribution rates that is effective in the years 2000 and 2001.