Alternative Financing for UI Solvency

Texas Workforce Commission

Clay Cole

Division Director, Unemployment Insurance

- Clay has helped meet TWC's Unemployment Insurance (UI) customer needs for 29+ years.

- He has served as Deputy Director of UI, Director of UI Customer Service, Manager of UI Business Support, and project manager, providing oversight for many automation projects implemented at TWC.

- He helped lead the UI response to major disasters such as Hurricane Katrina, Rita, Ike, and Harvey.

FUTA Offset Credit

- When UI trust funds are depleted, states may obtain advances from the Federal Unemployment Account (FUA) under mechanisms in Title XII of the Social Security Act of 1935 and the Federal Unemployment Tax Act of 1939 (FUTA) ("Title XII loans").

Municipal bonds

- A municipal bond is a debt instrument financed by investors and issued by state and local governments to fund a capital project or an obligation.

Repay Options

Bonds as Alternative Financing Option

Bonds allow state agencies to continue unemployment compensation program at the lowest possible cost to the state and employers by:

- Reducing costs of providing unemployment benefits
- Lowering employers' cost of doing business
- Achieving interest rate stability for future years
- Avoiding the need to obtain Title XII federal advances
- More equitable taxing structure

For Example:
2001 Recession – Where We Started

2001

Texas entered the 2001 recession with one of the lowest reserve ratio multiples of all states.

Texas was about $280 million in debt from federal advances under Title XII of the Social Security Act to continue paying UI.

Sep. 2003

For Example: 2001 Recession – What We Did

- Texas authorized $2 billion in state bonds and issued $1.4 billion in state debt instruments in four separate series, each with varying tax statuses and call features.
- Over half the bonds were callable, so they could be retired before maturity (between July 2004 and January 2009).
- The bond proceeds were used to repay all outstanding Title XII advances. The rest was deposited into the Texas UI trust fund.

For Example: 2001 Recession – The Result

Texas was able to avoid:

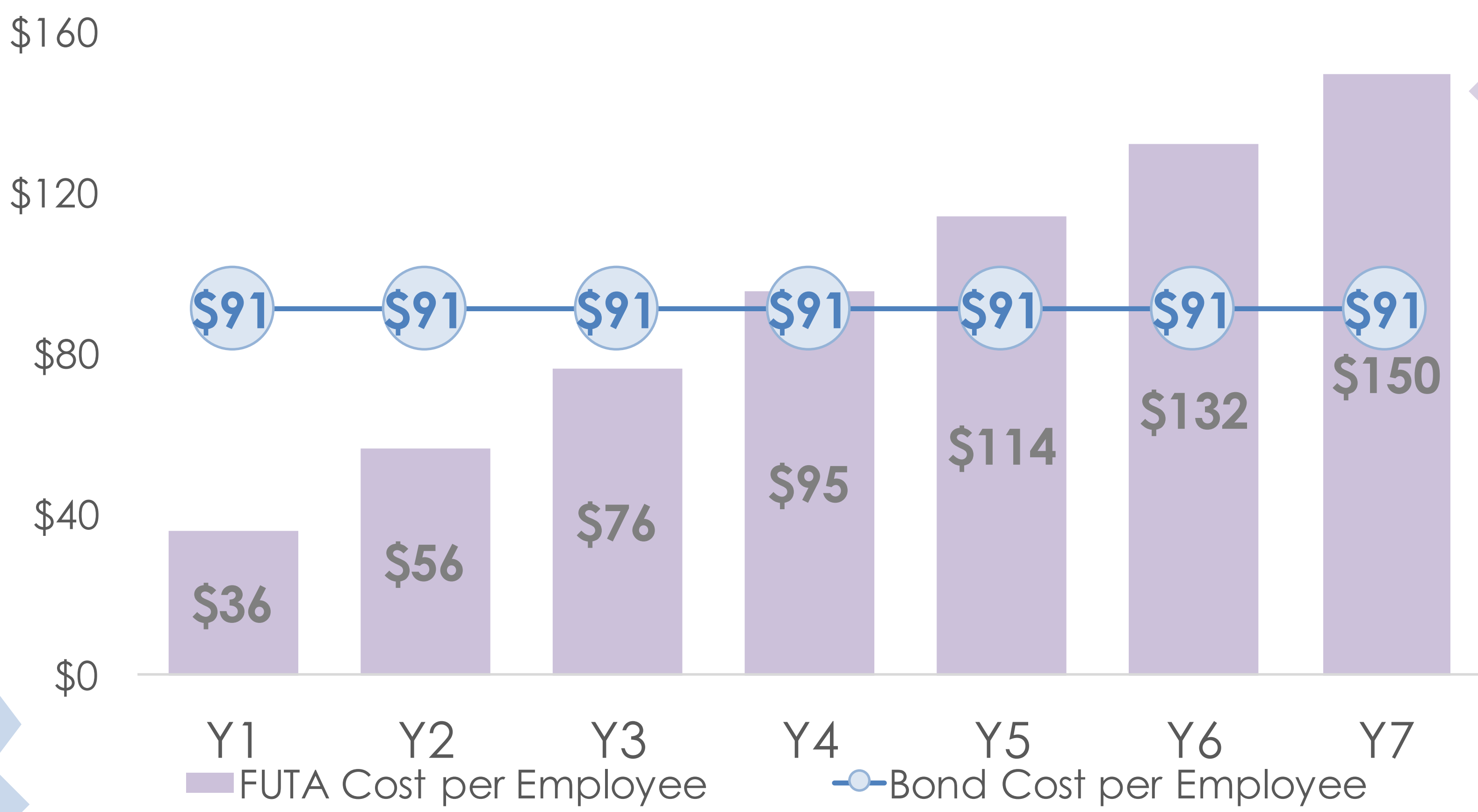
- ~$300 million in Title XII loan interest charges

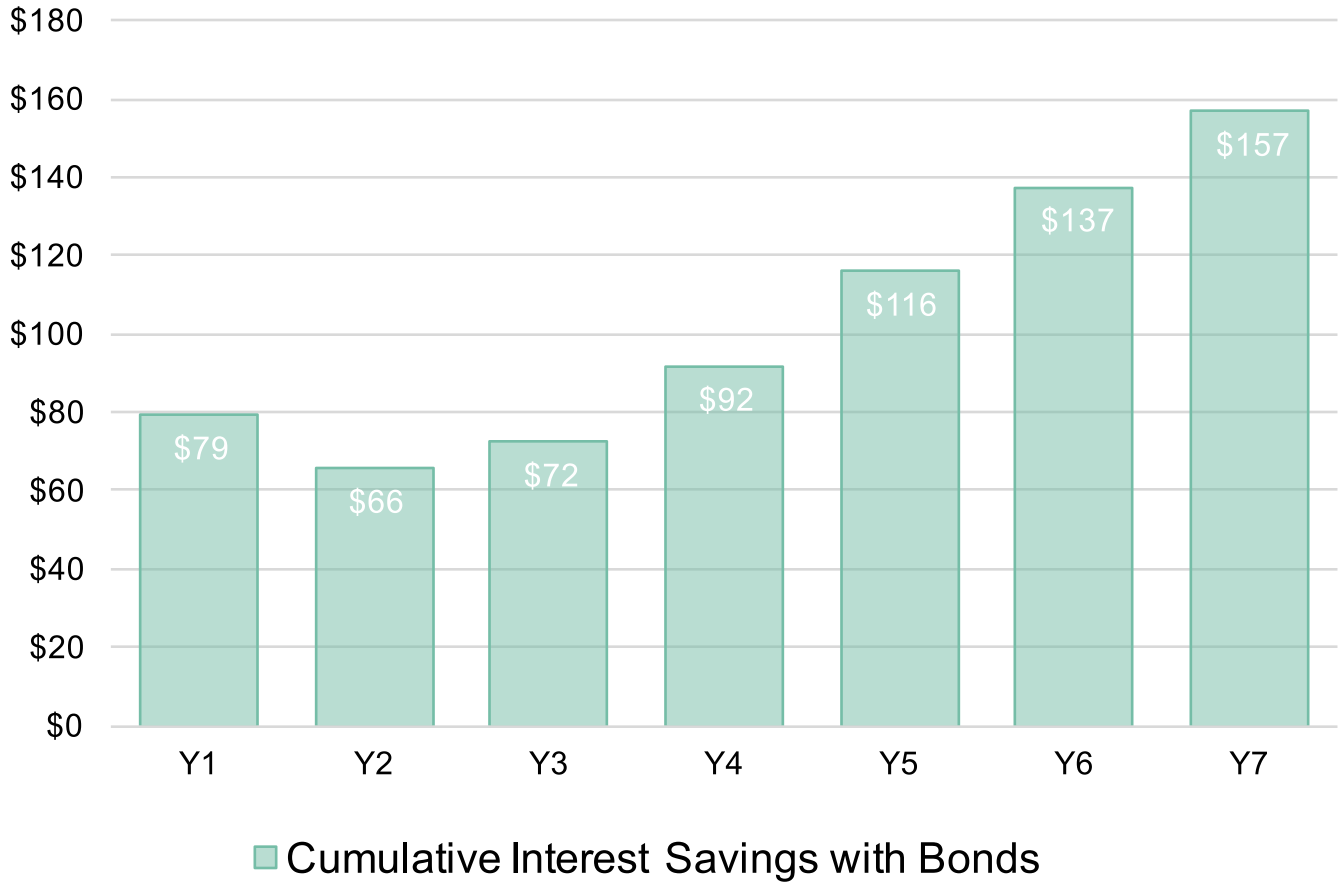
    Texas borrowed at a lower interest rate than charged on Title XII advances, which saved an estimated $300 million in interest – wide margin in interest rates.

- ~$750 million UI tax surcharge to employers that would have been levied on top of other UI taxes for 2004

    With more time to repay debt, Texas could minimize the impact to employers and still have zero state debt created by bonds. Deficit assessment avoided.

Compare FUTA Credit Offset with Bond Cost per Employee





Compare Cumulative Interest Savings with Bonds as Compared to FUTA Credit Offset 1% difference

Key Considerations for Issuing Bonds

Statutory authority to issue unemployment bonds

Statute requiring assistance from State Agencies with bond issuance expertise is helpful

- State Treasurer, State Comptroller, or State Public Finance Authority

Agency staff with financial expertise and strong analytical skills is crucial

Assistance from external financial advisors

Executive level management point of contact

Outreach	Outreach to employer community
Engaging	Engaging outside experts with bond experience • Financial Adviser, underwriter, and bond counsel to help design bond issue and ensure compliance with state and federal law
Deciding	Deciding on method of sale (i.e., typically negotiated sales for UI bonds) and bond features, such as size, duration or maturity, security pledge, “coupon” or interest rate, prepayment or “call” features

Bond Issuance Activities

Bond Issuance Activities (Continued)

Determining	Determining the size and maturity of bond • Based primarily on projections of UI trust fund shortfall and state's anticipated future economic performance
Securing	Securing the debt, which is typically an employer payroll tax or "obligation assessment" levied in addition to regular UI taxes
Establishing	Establishing an apparatus to administer the special tax securing the bonds and to pay debt service

Issuing bonds in 2003 and 2010 helped minimize taxes and keep money in the pockets of employers while promoting the Texas economy.

- It resulted in millions of savings to the state and to Texas employers compared to the cost of borrowing Title XII advances.

- It allowed the unemployment compensation program to continue operating at the lowest possible cost to the state and employers in the state.

Keeping Texas STRONG

TEXAS WORKFORCE COMMISSION

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Thank you