THE COUNCIL OF STATE GOVERNMENTS

RESOLUTION SUPPORTING THE EXTENSION OF THE MORATORIUM ON STATE INTEREST PAYMENTS TO THE FEDERAL UNEMPLOYMENT ACCOUNT

Resolution Summary

From the start of the Great Recession and since, states have experienced prolonged and high rates of unemployment. The President's Council of Economic Advisors forecasts that the national unemployment rate will hover around 10 percent throughout this year, with moderate improvements over the next two years—around 9 percent in 2011 and 8 percent in 2012. In addition to elevated unemployment rates, people are now unemployed for longer. Based on U.S. Department of Labor reports, the average amount of time individuals received unemployment benefits was 34.9 weeks in October 2010—more than double the average duration of unemployment when the recession began in December 2007.

Sustained high rates of unemployment and long term unemployment have quickly exhausted state unemployment insurance trust funds. In addition, during prosperous economic times, many states lowered unemployment insurance tax rates and expanded unemployment benefits, thus creating an unsustainable model at high risk for insolvency when economic conditions deteriorated. In December 2007, states had $38.3 billion in unemployment trust fund reserves, which fell to $29.9 billion in December 2008 and to $14.2 billion by September 2009. According to the U.S. Government Accountability Office, by the end of 2009, no state had sufficient trust fund reserves to cover one year of unemployment benefits at their current tax revenue structure.

As states ran out of reserves to pay out unemployment benefits, they turned to the Federal Unemployment Account (FUA) for loans. At the end of January 2010, 26 states were borrowing money from the FUA to help pay increasing claims for unemployment insurance benefits, with outstanding loans then totaling more than $30 billion. By November 8, 2010, 31 states plus the Virgin Islands had borrowed $40.6 billion. The U.S. Department of Labor estimates that by the third quarter of 2013, up to 40 states may need to borrow more than $90 billion to fund their unemployment programs.

The American Recovery and Reinvestment Act included a provision that delays interest from accruing on FUA loans until Dec. 31, 2010. If this provision had not been included, the interest rate charged to states for borrowing from the Federal Unemployment Account would have been

4.64 percent in 2009. When the unemployment trust fund bill comes due in 2011, interest payments will be significant and will take a bite out of already strapped state budgets.

This policy resolution:

- Asserts that high and sustained unemployment rates have drained state resources, including state unemployment insurance trust funds, and that these trends will likely continue in the near future;
- Urges Congress to delay interest accruing on state loans from the Federal Unemployment Account Loans until states have recovered from the impact of the recent recession; and
- Encourages CSG members to call upon their congressional delegations and Congress to encourage an extension of the moratorium on state interest payments to the Federal Unemployment Account.

Additional Resources

- http://www.slcatlanta.org/Publications/FAGO/GovConf_Feb2010.pdf
- http://knowledgecenter.csg.org/drupal/content/state-unemployment-insurance-trust-funds-1
- http://knowledgecenter.csg.org/drupal/content/states-borrow-over-39-billion-feds-unemployment-tab

CSG Management Directives

- **Management Directive #1:** CSG will affirm on behalf of its member states the need for an extension of the moratorium on state interest payments to the Federal Unemployment Account, given the continued high levels of unemployment and the stressed condition of state budgets.

- **Management Directive #2:** CSG will transmit a copy of this resolution to the executive and legislative leaders in each state so that they may contact their states' Congressional Delegation to emphasize the need for the moratorium extension.

- **Management Directive #3:** CSG will transmit a copy of this resolution to the President of the United States, the President of the United States Senate, the Speaker and the Clerk of the United States House of Representatives and post a copy of this resolution on its website.

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RESOLUTION SUPPORTING THE EXTENSION OF THE MORATORIUM ON STATE INTEREST PAYMENTS TO THE FEDERAL UNEMPLOYMENT ACCOUNT

WHEREAS, the American Recovery and Reinvestment Act of 2009 included a moratorium on interest payments on state loans from the Federal Unemployment Account which expires on December 31, 2010;

WHEREAS, during the past three years**,** states have faced the longest recessionary period since the Great Depression;

WHEREAS, state fiscal health generally lags behind a national recovery, thus making it likely that it will be several years before state income and expenditure patterns normalize and the fiscal crisis subsides;

WHEREAS, the unemployment insurance system fiscal crisis is caused, in part, by high and sustained levels of unemployment, thus causing state expenditures on unemployment benefits to increase dramatically, outpacing tax receipts and leading to insolvency or an increased risk of insolvency in state unemployment insurance trust funds;

WHEREAS, when facing good economic conditions in the past, many states have lowered unemployment insurance tax rates and expanded unemployment benefits, thus creating an unsustainable model at high risk for insolvency when economic conditions deteriorated;

WHEREAS, 31 states have borrowed $40 billion from the Federal Unemployment Account to maintain solvency in their unemployment insurance trust funds and continue to administer unemployment benefits to their citizens, and over the next two years, the number of states borrowing from the fund and the total amount borrowed will likely increase significantly;

WHEREAS, instability and insolvency in state unemployment insurance programs have lead to tax increases on employers, decreased benefits to unemployment recipients, and has led or likely will lead to increased taxes or deeper cuts in other state programs;

WHEREAS, the primary purpose of the unemployment insurance system is to be an automatic economic stabilizer, providing the unemployed with funds to take care of essential expenditures to maintain household purchasing power and ensure continued economic activity during a downturn or recession; and

WHEREAS, the added burden of interest repayment at this time may encourage further increases to unemployment insurance tax rates and cuts to benefits or other state programs, which will have adverse economic effects, such as weak job growth and decreased demand, thus contributing to slower economic recovery.

NOW, THEREFORE BE IT RESOLVED, that The Council of State Governments urges that the United States Congress extend the moratorium in place under the American Recovery and Reinvestment Act of 2009 on the payment and accrual of interest on state loans from the Federal Unemployment Account; and

BE IT FURTHER RESOLVED, that a copy of this resolution shall be forwarded to each member of the United States Congress and to the President of the United States.

Adopted by the Governing Board this 6th Day of December, 2010 at CSG's 2010 National Conference in Providence, Rhode Island.