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Testimony for Chairman Tom Pauken
Joint Hearing of the House Technology, Economic Development and Workforce Committee & House Business and Industry Committee
May 17, 2010

Good morning Chairman Strama, Chairman Deshotel and committee members. My name is Tom Pauken, and I serve as the Chairman of the Texas Workforce Commission (TWC). Thank you for inviting me here today. I want to share with you an update on the current economic climate in Texas, recent unemployment and labor market figures, unemployment insurance claims data, and the status of our unemployment insurance trust fund.

Two years ago, when I became the chairman of the Texas Workforce Commission (TWC), I warned that Texas was not immune from the national recessionary trends. Today, even though Texas is doing better than any other large labor market state in the nation, our unemployment rate is 8.2 percent. That compares with a 9.9 percent national unemployment rate. Unfortunately, no matter how well we do in Texas, we continue to be dragged down by what has become the most serious national recession since the time of the Great Depression. And, unfortunately the economic situation has gotten worse, not better. Neither the Bush nor the Obama administration's so-called economic stimulus packages have had any effect on lowering national unemployment. In fact, the opposite is the case. Obama administration officials assured us that, as a result of its stimulus plan, national unemployment would peak last year at 8 percent and start coming down. Instead, it has settled in the 10 percent range with no signs of it going down significantly any time in the near future.

That is why we have to plan for the potential of a jobless recovery as we address the problems facing our Unemployment Insurance (UI) trust fund.

Let me bring you up to date on the status of the unemployment insurance picture. As of April 7, 2010, TWC estimates that by October 1st of this year, Texas' unemployment insurance trust fund balance will be zero and \$2.5 billion below the floor (floor = \$814.6 mil). You may recall that federal law allows for interest-free borrowing of Title XII advances through December 2010. (I call it getting a portion of the money we send to Washington back.) Texas is expected to have an outstanding balance on that loan of \$1.7 billion as of

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October 1, 2010. Thirty-five states have taken advantage of the Title XII advances. There is no movement at this time by Congress to extend this provision. Nonetheless, there remains a possibility that this interest-free loan provision will be extended beyond the calendar year. Thus, we need to prepare for that in our planning process just in case there is an extension.

Looking ahead, the Commission will be considering a number of options to address the trust fund's solvency. The Texas Unemployment Compensation Act (TUCA) provides the framework for the trust fund, and is "self-correcting" in that the system is designed to bring the trust fund back into balance. More likely than not the TWC is looking at the issuance of long term bonds – primarily tax exempt, to keep interest rates as low as possible – in order to spread the economic pain over an extended period of time, rather than hit Texas businesses all at once with hefty increases in UI taxes.

Unemployment benefits in Texas are funded by employer taxes pursuant to state statute. Employer tax rates are set annually and paid on the first $9,000 that an employee earns each year. As a recap for you, the components of the tax rate are:

- **General Tax** rate is "experience rated," meaning that the tax is directly related to benefits paid on behalf of the employer to employees laid off during the previous three years and this tax is capped by statute at 6 percent.
- **Replenishment Tax** rate is charged to all employers to cover unemployment claims not charged to a specific employer.
- **Employment Training Investment Assessment** (ETIA) is also charged to all employers and is $1/10^{th}$ of 1 percent of total taxable wages. ETIA collections are deposited in the ETIA holding fund.
- **Deficit Tax** rate applies only to those experience-rated employers in the previous year and is assessed to address the solvency of the UI trust fund. The deficit tax is capped at a rate of 2 percent.

Employer tax rates are set annually and paid on the first $9,000 that an employee earns each year. In December, the minimum tax rate was raised from 0.26 percent in 2009 to 0.72 percent in 2010, pursuant to statutory requirements. For example, an employer paying the minimum tax will pay $64.80 in tax per employee in 2010 compared with $23.40 in tax per employee in 2009. The maximum tax rate, paid by 3.3 percent of Texas' experience-rated employers, is 8.60 percent, up from 6.26 percent in 2009. The average tax rate of 1.83

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percent for 2010 is up from 0.99 percent in 2009, while the average experience tax rate of 1.74 percent for 2010 is up from 0.78 percent from the previous year. The increases are a little higher than we experienced earlier in the decade when Texas was in a less-severe recession.

The Commission faced difficult decisions in establishing the 2010 employer tax rates. We consulted with leading business organizations on tax rates and utilized the authority under TUCA to adjust certain components of the tax rate, specifically the Replenishment Rate and Deficit Assessment.

In December, TWC notified employers of the new calendar year rates. We have a handout with us today to assist you, which shows employer tax rates along with other information we thought might be helpful to you. I would like to take a moment to walk you through the handout.

When setting the 2010 tax rates, the Commission took action to reduce the deficit assessment by 50 percent. The Commission's decision on the new calendar year's tax rates emphasized the importance of keeping money flowing in the Texas economy; keeping the overall tax burden as low as possible under the circumstances; spreading the burden over a longer time frame to allow businesses time to adjust accordingly; and giving employers the ability to retain capital for continued investment.

Texas unemployment rate has stabilized over the past few months, remaining at 8.2 percent for March with new figures for April coming out later this month. However, I am very concerned that we are not doing anything substantively at the national level to encourage savings and capital investment in the United States in order to encourage private sector job creation – the only effective long-term solution to high unemployment. While Texas leads the nation in private sector job growth among the largest labor market states, we need sound economic policies in Washington D.C. in order to get that growth again here in Texas and across the country – policies that will put Americans back to work.

Again thank you for inviting me here to speak to you today. This concludes my remarks and I will be happy to answer any questions that you may have.

Tom Pauken is the Chairman of the Texas Workforce Commission

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