



From the office of Texas Workforce Commission

# Chairman Tom Pauken

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## **April 26, 2010 – House Appropriations – Article 7 Subcommittee Hearing Written Testimony Submitted by Tom Pauken Chairman of the Texas Workforce Commission**

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

We are all aware of the tough economic times facing Texas and the nation today. The good news is the Texas unemployment rate has stabilized over the past several months. For March, Texas' unemployment rate remained at 8.2 percent. Our unemployment numbers in Texas remain well below the national rate of 9.7 percent. Texas continues to have the lowest overall unemployment rate of all of the large labor market states. For comparative purposes, California's seasonally adjusted rate in March 2010 was 12.6 percent, 4.4 points higher than Texas for the same period. Texas continues to maintain a favorable business climate which attracts new businesses and encourages economic growth of the private sector. While the nation had ZERO private sector job growth from 1999 to 2009, Texas had a 9.3 percent increase in net private sector employment during that decade, representing an increase of 724,300 in private sector employment. That was the largest private sector job gain of the 10 largest labor market states in the nation. The only other state that saw a positive gain in the private sector during the decade was Florida at 4.3 percent. The eight remaining large labor major states had a net loss of private sector jobs during that period, with Michigan losing nearly 20 percent of its private sector base.

You may have seen recent reports indicating that Texas has started to climb out of the recession. A March analysis showed that the Texas Civilian Labor Force grew by 32,500 over the past 6 months. The Leisure and Hospitality sector added a little over 10,000 jobs during that period which represented the largest gain among all major industries. We also are seeing positive gains in Manufacturing, Mining and Logging. Manufacturing gained 2,100 jobs, with Mining and Logging increasing by little over 6,000 jobs. Finally, Education and Health Services also continued a strong growth pattern. Increases in the civilian labor force are

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positive signs of economic recovery; however, employers remain cautious in making significant investments in hiring given the uncertainty of the national economic climate and concern over public policies at the federal level.

The strain on the economy has impacted our state's unemployment insurance system. The Commission faced difficult decisions with the unemployment insurance system, especially in establishing the 2010 employer tax rates. We consulted with leading business organizations on tax rates and utilized the authority as set in statute that allows the Commission some flexibility in adjusting certain components of the tax rate (Replenishment Rate and Deficit Assessment). Final decisions on employer tax rates emphasized the importance of keeping the overall tax burden as low as possible under the circumstances, allowing businesses time to adjust accordingly, and giving employers the ability to retain capital for continued investment.

The components of the tax rate are:

- The **general tax** rate – based on claims against an employer's account.
- The **replenishment tax** rate – charged to all employers to cover unemployment claims not charged to a specific employer. The Commission has the flexibility to adjust this tax rate either up or down in response to economic changes.
- The **deficit tax** rate – applies only to those employers who were experience-rated in the previous year and is assessed to address the solvency of the unemployment insurance trust fund. Again, the statute allows the Commission to adjust this rate; and when setting the Claim Year (CY) 2010 rates, the Commission took action to reduce the deficit tax by 50 percent for the new year from what it would have been in 2010 without Commission intervention. Instead, we spread out the collection over more years.
- The **employment training assessment** – charged to all employers who are eligible for a computed tax. It supports the Skills Development Fund and the Texas Enterprise Fund.

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 percent for 2010 is up from 0.99 percent from 2009, while the average experience tax rate of 1.74 percent for 2010 is up from 0.78 percent from the previous year.

Recently, TWC has seen a slight decrease in the average weekly payout of benefits, initial claims, and continued claims. For the last six completed weeks ending March 27, 2010, total net benefits paid averaged

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\$63.7 million per week; down 2.9 percent from the one year ago six-week average of \$65.6 million. Initial claims averaged 17,932 for the six weeks ending March 27, 2010, 31.6 percent below the one year ago six-week average of 26,199. Continued claims averaged 221,934 for the six weeks ending March 27, 2010, 3.3 percent below the one year ago six-week average of 229,565. However, for the week ending April 10, 2010, initial claims rose 4,700 from the previous week, an indication that Texas is still not out of the woods.

Eligible claimants who have exhausted Texas regular benefits are able to receive federally-supported benefits such as the emergency unemployment compensation benefits (EUC), an additional \$25 per week which is known as the federal additional compensation (FAC), and state extended benefits. All these benefits are 100% federally-funded. These provisions expired on April 5th, however, on April 15th, Congress passed HR 4851 which extended these benefits for two months through June 2nd. While Congress was working on the extension, TWC informed claimants to continue filing payment requests to prevent any delay in the payment of benefits.

A key element to the unemployment insurance system is the unemployment insurance trust fund. As of April 7, 2010, the UI Trust Fund balance was zero with an outstanding Title XII advance amount of nearly \$1.7 billion on October 1, 2010. This projection will be \$2.5 billion below the floor (floor = \$814.6 mil). Federal law allows for interest-free borrowing of Title XII advances through December 2010. The majority of states are utilizing the interest-free borrowing, and as of April 9th, 35 states have taken advantage of the Title XII advances. There is no movement at this time by Congress to extend this provision. Nonetheless, there is a possibility that this interest-free borrowing provision will be extended beyond this year when it expires.

The Commission continues to examine all options available to Texas ranging from federal borrowing, private bonds, or a hybrid of options to maintain solvency of the trust fund and to ensure eligible recipients continue to receive benefits. TWC is waiting until later this year to make any final decisions since there are a number of options that can be utilized, keeping in mind but that actions at the federal level could affect these decisions, such as a possible extension of interest-free borrowing.

This concludes my remarks, but I will be happy to answer any questions you may have. Thank you.

*Tom Pauken is the Chairman of the Texas Workforce Commission*

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*The Texas Workforce Commission is a state agency dedicated to helping Texas employers, workers and communities prosper economically. For details on TWC and the programs it offers in coordination with its network of local workforce development boards, call (512) 463-8556 or visit [www.texasworkforce.org](http://www.texasworkforce.org).*