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CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES

March 9, 2004

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4TH DISTRICT, INDIANA

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The Hon. Joseph Kernan
Governor
State of Indiana
100 State Office Building
Indianapolis, IN 46201

Dear Governor Kernan:

I appreciate your letter in response to concerns raised by members of the Congressional delegation regarding the State's use of unemployment compensation funds. However, I do not accept it as a response to my letter to you dated February 27, 2004.

In my previous letter, I raised concerns regarding the representation of the Indiana Department of Workforce Development's (DWD) website which clearly stated Indiana will: "Extend unemployment benefits to Hoosiers who cannot find work within the normal benefit period. Just as the federal government included money to extend unemployment benefits in its stimulus package, the O'Bannon-Kernan administration believes this measure provides a financial bridge to Hoosiers who need help now, *during* the recession." (Emphasis in original)

I continue to remain troubled that your administration takes no responsibility in addressing your lack of accountability for claiming to use the funds for specific purposes outlined on your website and then failing to follow through. Upon reading your website unemployed workers were led to believe you were going to extend \$60 million of the \$175 million in benefits. All the legal explanations you included in your response do not explain why your selected path was not followed, nor does it explain why Hoosiers were misled upon reading the website.

Furthermore, in a recent Memorandum to the U.S. House of Representatives Appropriations Subcommittee on Labor, Health and Human Services and Education, Assistant Secretary of Labor Kristine Iverson outlines programs funded by Reed Act distributions and implemented by nine States, which enhanced benefits to families in need. States have increased its weekly benefit amount, used monies for alternative base periods, and provided 8-13 additional weeks to individuals who exhausted UI and TEUC benefits. These are just a few examples of States that saw a need and looked to the disbursement from the federal government Reed Acts funds for help. While adhering to the law, they sought ways to help their families in need.

March 9, 2004

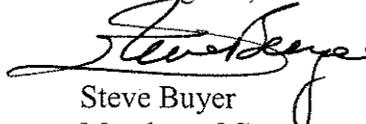
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In your letter you state: "While Indiana and other states could have used a portion of their Reed Act monies for additional compensation for individuals who both qualified for and exhausted TEUC benefits, they could not use the funds for workers ineligible for TEUC payments." This is simply untrue. In the attached Memorandum from Assistant Secretary of Labor Kristine Iverson, the State of Vermont has provided leadership to those in need and provided 13 more weeks to those who did not qualify for TEUC.

It is clear Indiana has not shown this same leadership to help unemployed Hoosiers and their families affected by the downturn in the economy post September 11th.

Your letter is wrong on the facts and the law. You continue to mislead Hoosiers, which is unfortunate and disappointing. I anticipate your immediate response.

Best Regards,



Steve Buyer
Member of Congress

Attachments

Cc: The Honorable Dan Burton
The Honorable Chris Chocola
The Honorable Mark Souder
The Honorable Mike Pence
The Honorable John Hostettler
The Honorable Peter Visclosky
The Honorable Julia Carson
The Honorable Baron Hill
The Honorable Evan Bayh
The Honorable Richard Lugar

Reed Act:

Investment in Indiana's workers

Energize Indiana invests \$1.25 billion over 10 years to help Indiana emerge from the national recession and to create 200,000 new high-wage, high-skill jobs, enroll 200,000 more Hoosiers in college and credential programs and increase Hoosiers' per capita income.

EI authorizes Indiana's Department of Workforce Development to help Hoosiers stung by the national recession by extending their unemployment benefits *and* helping them to find jobs, is an integral part of Energize Indiana. If Indiana is to build the highly skilled, highly trained workforce needed to meet the increasing demands of 21st century employers, Hoosier workers in need must be offered a hand up.

Reed Act

Allocation of Reed Act funds (IC 22-4-26-5)

The U.S. Congress in March passed an economic-stimulus package that extends unemployment insurance payments for workers by 13 weeks. It also provides up to \$8 billion to the states to help employers find skilled workers for high-wage jobs and to administer unemployment and employment services. Indiana received \$175 million, and will invest **\$160 million** to:

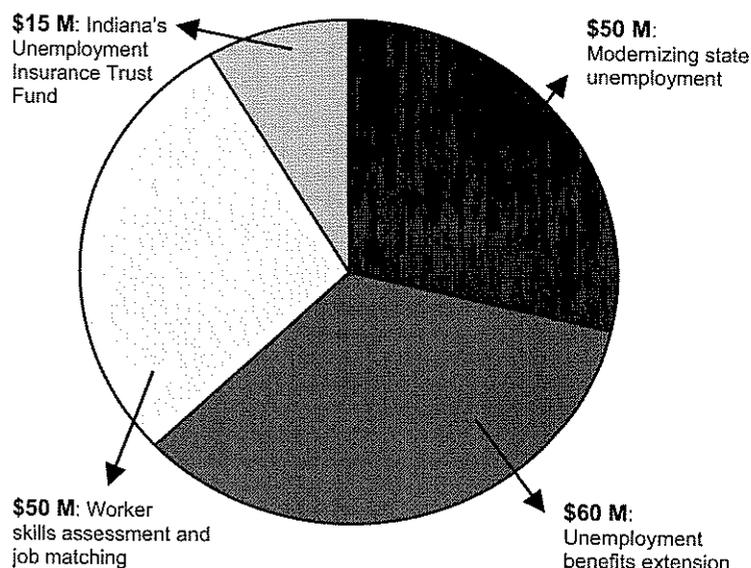
- Assess the skills of 30,000 Hoosier workers; determine the skills required for 1,800 selected job categories; match workers with the jobs; and recruit workers. **\$50 million.**
- Extend unemployment benefits to Hoosiers who cannot find work within the normal benefit period. Just as the federal government included money to extend unemployment benefits in its stimulus package, the O'Bannon-Kernan administration believes this measure provides a financial bridge to Hoosiers who need help now, *during* the recession. **\$60 million.**
- Modernize and simplify the state's unemployment insurance system, allowing recipients to receive their checks more quickly and enabling businesses to pay unemployment taxes online. **\$50 million.**

The remaining \$15 million in economic stimulus funds will remain in the state's Unemployment Insurance Trust Fund. This will help to keep employers' unemployment taxes down. The more financially solvent the fund, the lower taxes are for employers who must pay into the fund.

In this way, employees and employers both see some fiscal relief from this measure.

Reed Act Allocations

\$175 million of relief for Indiana workers



What is Reed Act money?

Reed Act money is interest earned on the unemployment taxes that employers pay into the Unemployment Insurance Trust Fund. By federal law (known as the Reed Act), once the interest has built up to a certain amount it must be distributed back to the states.

How was each state's share determined and what is Indiana's share?

The Job Creation and Workers' Assistance Act of 2002 provided \$8 billion in relief. Each state's share was based on its Federal Unemployment Tax Act taxable wages for calendar year 2000. Based on taxes paid by Indiana employers in 2000, Indiana's share of the \$8 billion was calculated to be \$175 million.

U.S. Department of Labor

Assistant Secretary for
Congressional and Intergovernmental Affairs
Washington, D.C. 20210

MEMORANDUM FOR: MEMBERS OF THE SUBCOMMITTEE
Subcommittee on Labor, Health and Human Services
and Education
Committee on Appropriations
U. S. House of Representatives

FROM: KRISTINE A. IVERSON
Assistant Secretary

A handwritten signature in cursive script, appearing to read "Kristine Iverson".

SUBJECT: USE OF 2002 REED ACT DISTRIBUTIONS

As you requested, we are pleased to provide the following information.

On March 14, 2002, \$8 billion was transferred to state Unemployment Insurance trust funds from excess funds in the federal unemployment accounts. The distribution of funds was authorized by an amendment to the Reed Act that was contained in section 209 of the Temporary Extended Unemployment Compensation (TEUC) Act of 2002 (Title II of the Job Creation and Worker Assistance Act of 2002, Public Law 107-147). The provision included special requirements relating to these funds that superseded certain requirements generally applicable under the Reed Act.

Specifically, the special \$8 billion Reed Act distribution may be used as follows:

- ❖ To administer the state's unemployment compensation law and "public employment offices," if appropriated by the state legislature.
- ❖ For the payment of unemployment insurance benefits. However, benefit use is limited to payment of "regular compensation" (the basic state benefit, including expansions of eligibility and increases in benefit levels) and "additional compensation, upon exhaustion of any temporary extended unemployment compensation." The use of the funds for benefit expansions or increases in benefit levels would require changes in the governing state laws.
- ❖ To improve the solvency of unemployment insurance trust funds.
- ❖ To reduce payroll taxes.

However, even if these Reed Act moneys are not *directly* used for certain benefit expansions, their availability for payment of "regular compensation" allows states to use other moneys for benefit expansions, including extensions of benefits for individuals who have exhausted regular compensation. Some states have already benefited from using their funds in this way.

According to a March 2003, GAO Report, nine states enhanced benefits due to the distribution:

- ❖ Vermont increased its weekly benefit amount.
- ❖ Connecticut, the District of Columbia, and Georgia used the monies for alternative base periods.
- ❖ Alabama, Maryland, Minnesota, Oklahoma, and Oregon reported that the Reed Act "had at least some effect in enabling their state to make UI benefit enhancements using funds from other sources."

In addition, the Department's records show the following states established special programs for individuals who exhausted unemployment insurance:

- ❖ New Hampshire provided 13 additional weeks to individuals who exhausted UI and TEUC benefits.
- ❖ Oregon provided 13 additional weeks.
- ❖ Utah provided 5 additional weeks to individuals who exhausted UI and TEUC (if TEUC was available).
- ❖ Vermont provided 13 additional weeks to individuals who did not qualify for TEUC.
- ❖ Wisconsin provided 8 additional weeks.

Finally, roughly 35 states have appropriated just over \$1 billion in Reed Act funds for a wide variety of UI administrative activities and employment services.

Please contact the Department of Labor at (202) 693-4600 if you need additional information on uses of Reed Act funds.