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Ryan Wright, Acting Secretary

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Office of the Recovery
Julie Lorenz/Executive Director
Capitol Building
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Topeka, KS 66612
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Dear Secretary Lorenz,

I write in response to the letter recently submitted to your office by the Kansas Society for Human Resources Management (“SHRM”). The letter in question was submitted on behalf of several business groups and contained a discussion of the current solvency issues related to the unemployment insurance trust fund.

We greatly appreciate SHRM and associated businesses for their analysis and contribution to the discussion on how the SPARK Task Force can best utilize available resources to the benefit of all Kansans. Ensuring a solvent trust fund and equitable unemployment insurance contribution rates is a shared responsibility of the Kansas Department of Labor, the business community and the Kansas Legislature.

The letter makes different projections regarding the possible outcomes for the trust fund in the coming months and the corresponding impact on employer contribution rates. As a preliminary matter, we are in total agreement that the trust fund is being depleted at rates that are truly historic. The replenishment of the trust will be a multi-year effort that will require prudent and fiscally sound approaches to determining appropriate employer contribution rates.

The various projections offered within the SHRM letter are potentially feasible outcomes based off currently known data. However, we must caution that there are significant unknown variables that make any effort to accurately forecast trust fund solvency extremely difficult. For example, many individuals currently drawing unemployment insurance benefits will exhaust their regular state-funded claims within the next several weeks. These individuals will then transfer to federally-funded Pandemic Emergency Unemployment Compensation (“PEUC”), Extended Benefits and Pandemic Unemployment Assistance programs that will slow the draw on the trust fund. Our projections indicate

that up to 43 percent of claimants, roughly 31,000 Kansans who filed weekly claims for the week ending August 22, 2020, could potentially exhaust their regular claims within the next eight weeks.

Further, while there are definitive concerns regarding the economic outlook both in Kansas and nationally as a result of the ongoing COVID-19 pandemic, there exists a wide-range of possibilities economically that will impact this discussion. For example, improved economic conditions within the first quarter of calendar year 2021 could significantly impact projections. Historically, more than 50 percent of taxable payroll for unemployment purposes is recorded during this time.

Another unknown variable is the impact on the trust fund of the legislative freeze on contribution rates that was adopted during the 2020 Special Session. Under Senate Bill 154, which was passed in 2015, the trust fund tax calculations included solvency adjustments that would provide tax relief in periods of economic growth and revenue enhancements when the trust fund balance declined. All contributing Kansas employers received a 0.5 percent tax reduction for calendar years 2019 and 2020. As a result, over 26,000 Kansas employers were already paying a less than a one percent contribution rate for calendar year 2020. However, since the legislature removed the corresponding solvency surcharges, it is unknown what impact this will have on the trust fund and ultimately businesses moving forward.

Finally, the US Department of Labor (USDOL) serves as the emergency backstop to ensure state trust funds remain liquid once they reach insolvency. Therefore, we recommend utilizing existing USDOL trust fund stabilization mechanisms that are specifically designed to be used during economic downturns. Due to the health of Kansas' trust fund at the start of the pandemic, we have the added benefit of being able to borrow from USDOL at a zero percent interest rate.

The KDOL team is taking all necessary steps to ensure decisions on this issue are made with the best possible data. It is because of the existing data and the number of unknowns that we cannot support the SHRM request at this time. However, we are continually updating our trust fund modeling based on recent economic and claims data and will continue to work with our federal partners on all available options.

If you have any questions or would like to discuss this further, please do not hesitate to let us know. We look forward to working with the SPARK Task Force, SHRM and all interested groups to ensure Kansas is positioned for long-term growth and renewed prosperity.

Respectfully,



Ryan Wright
Acting Secretary of Labor