

Failure to address Arizona's inadequate Unemployment Insurance System has cost the state up to \$2 billion in lost economic activity

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Key Findings

- Due to the state's low unemployment benefit cap and low earnings allowance, 40,000 to 110,000 Arizonans each week did not receive the federal supplement they would have received in all other southwestern states.
- These workers have seen their hours drop by nearly half from about 38 to 21 hours per week.
- \$80 million to \$230 million in added state unemployment or Pandemic Unemployment Assistance payments would have leveraged an additional \$490 to \$900 million in federal supplemental dollars.
- Using a fiscal multiplier of 1.7, Arizona's economy lost between \$1 billion and \$1.9 billion in economic activity since April as a result of the state's UI system.
- This has cost the state between \$30 million and \$60 million in tax revenue and local governments \$35 million to \$70 million in tax revenue.

Summary

As Congress debates a federal replacement for the \$600 unemployment supplement, Governor Ducey insists that "Arizona is doing its part."² Yet, there are more than 40,000 Arizonans each week who are falling through the gaps of Arizona's inadequate

¹ In the July 22nd release Current Population Survey participants with missing usual wage were accidentally included in the Texas formulation—that error has been corrected in this revision which slightly lowered Texas formula estimates and increased avg. lost weekly benefits. GCI has in this revision added information on avg. lost earnings for those cut out of the Arizona UI system and lost tax revenue due to failure to reform the system.

² Gov. Ducey press conference July 30, 2020.

unemployment system as their hours have been cut by half making them ineligible for unemployment assistance. It's up to Arizona to fix this—not Congress.

Arizona's unemployment benefit is capped at \$240 per week, about half the cap of most states. Arizona also provides little flexibility for people when their earnings are reduced. This combination of a low benefit cap and low to no earned income allowance³ has led to the complete loss of benefits for 40,000 to 110,000 Arizonans each week, which would not be the case if they lived in any other state in the southwest. Working Arizonans who have either returned to work at reduced hours or remain employed but had their hours cut, but who earn more from work than their state unemployment benefit, do not qualify for any state unemployment or pandemic unemployment insurance.⁴ Consequently, they also have not received the more meaningful \$600 federal weekly supplement that expired on July 25.

These working Arizonans have typically seen their weekly hours dramatically reduced from 38 hours to 21 hours and have been forced to get by on barely half of their former income.

As unemployment soared due to the COVID-19 pandemic, the Grand Canyon Institute (GCI) put forward two options to Governor Ducey and Arizona lawmakers to fix this problem.

1. **Texas formula**—Adopt unemployment parameters similar to Texas:

- Benefits capped at half of the average weekly wage of covered workers, which for Arizona would mean raising the cap to \$490 per week from \$240. In Texas, the cap is \$521.
- Increase the income disregard fixed to $\frac{1}{4}$ of a person's weekly benefit amount, e.g. a person could earn \$100 if her weekly benefit amount was \$400 before benefits are reduced. This is typical of most other states. Arizona's current income disregard is zero for anyone earning as much as their potential benefit amount and only \$30 for those with earnings less than their potential weekly benefit amount, (e.g., a person earning \$100, loses \$70 in benefits).

OR

2. **Georgia formula**—Increase the income disregard to \$300 before benefits are reduced. Georgia's Governor Kemp did this in response to the COVID-19 pandemic.

³ Technically called an **Income Disregard** is akin to an earnings allowance. It represents the amount of money a person can earn before having their unemployment assistance reduced. This is relevant for people who return to work at a reduced number of hours than their prior employment or for those who have had their hours reduced to the point that they qualify for unemployment assistance.

⁴ Technically Arizona has a \$30 income disregard, where the first \$30 of earnings does not diminish your benefits. However, anytime your earnings equals or exceeds your benefit amount, for example if your benefit amount is \$240 and you are earning \$240 or higher—then by statute you are defined as not unemployed and the income disregard does not apply. See A.R.S. 23-621 (A)..

Unfortunately, Arizona’s lawmakers chose to adjourn in May rather than deal with the shortcomings of the state’s unemployment insurance (UI) system and Gov. Ducey has failed to call a special session to deal with these issues.

As a result, 40,000 to 110,000 Arizonans have been denied all benefits—both state and federal. On average, 90 percent of these denied unemployment benefits in Arizona would have been funded with federal dollars (the remainder of benefits are paid from Arizona’s UI Trust Fund). The assistance denied translates into \$1 to \$2 billion in lost economic activity in Arizona.

Meet Ashley

Ashley earned \$17.50 an hour working five days a week. When COVID struck, her hours were reduced to three days, leading to a 40% drop in pay. She received no unemployment assistance from Arizona’s UI system because she still earned \$420 a week.



Ashley’s usual pay is \$700 per week.



Ashley’s hours are reduced, resulting in her only making \$420 per week.



Ashley’s usual pay enabled her to be eligible for \$240 per week in unemployment benefits.



Because \$420 is greater than \$240, she does not receive any unemployment benefits from the state.



Since she does not receive unemployment benefits from the state, Ashley was not eligible for the \$600 per week unemployment supplement from the CARES Act.

Table 1—Ashley’s Unemployment Compensation Under the Three Formulas

	Arizona Current Formula	Arizona (Texas formula)	Arizona (Georgia formula)
(1) Ashley’s usual weekly pay (\$17.50 x 40 hours)	\$700	\$700	\$700
(2) Ashley’s reduced pay (\$17.50 x 24)	\$420	\$420	\$420
(3) Unemployment weekly benefit amount (half usual pay up to cap)	\$240	\$350	\$240

(4) Amount of earnings allowed before benefits reduced	\$0 (\$30 only applies if earnings < benefits)	\$88 (1/4 Weekly Benefit Amount)	\$300 (fixed)
Calculated benefit (3) – ((2) - (4))	$\$240 - (\$420 - \$0) = < \0	$\$350 - (\$420 - \$88) = \18	$\$240 - (\$420 - \$300) = \120
Received under CARES Act	\$0	$\$18 + \$600 = \$618$	$\$120 + \$600 = \$720$

Three Programs for the Unemployed and Underemployed

Workers in Arizona who are unemployed or underemployed can receive help under three programs as a result of the COVID-19 pandemic.

State Unemployment Compensation

For those whose prior income met or exceeded \$4,680 in a calendar quarter⁵ and \$7,020 over four calendar quarters qualify for state UI. State UI benefits are paid from the state UI Trust Fund, which is funded based on assessment on employers, which have ranged from \$116 to \$168 a year on the first \$7,000 of an employee's earnings. The maximum benefit is \$240 a week and the minimum benefit is \$180 a week due to the high calendar quarter threshold. For those with reduced hours or returning to reduced hours, Arizona's state UI allows \$30 in earnings before benefits are reduced dollar for dollar, but the \$30 does not apply if your earnings equal or exceed benefits (see Ashley illustration above).

Pandemic Unemployment Assistance

People who worked but did not meet those thresholds in a calendar quarter or over the year as well as people who are self-employed can receive help under Pandemic Unemployment Assistance (PUA). The CARES Act provides PUA through Dec. 31, 2020 and is completely funded by the federal government. It uses the same benefit formula as state UI, but the minimum benefit is \$117 a week instead of \$180 a week. Arizona did not start processing PUA claims until mid-May—and while most people eligible for PUA are now receiving PUA there are still many people who have yet to receive anything under PUA. Claims are retroactive to their point of eligibility, however, when delayed.

Federal Pandemic Unemployment Compensation

Federal Pandemic Unemployment Compensation (FPUC) was implemented by Congress through the CARES Act and provides a federally-funded supplement of \$600 a week to anyone receiving UI or PUA. It expired on July 25th in Arizona.

⁵ A **calendar quarter** is Jan-March, April-June, July-September, and October-December.

Methodology

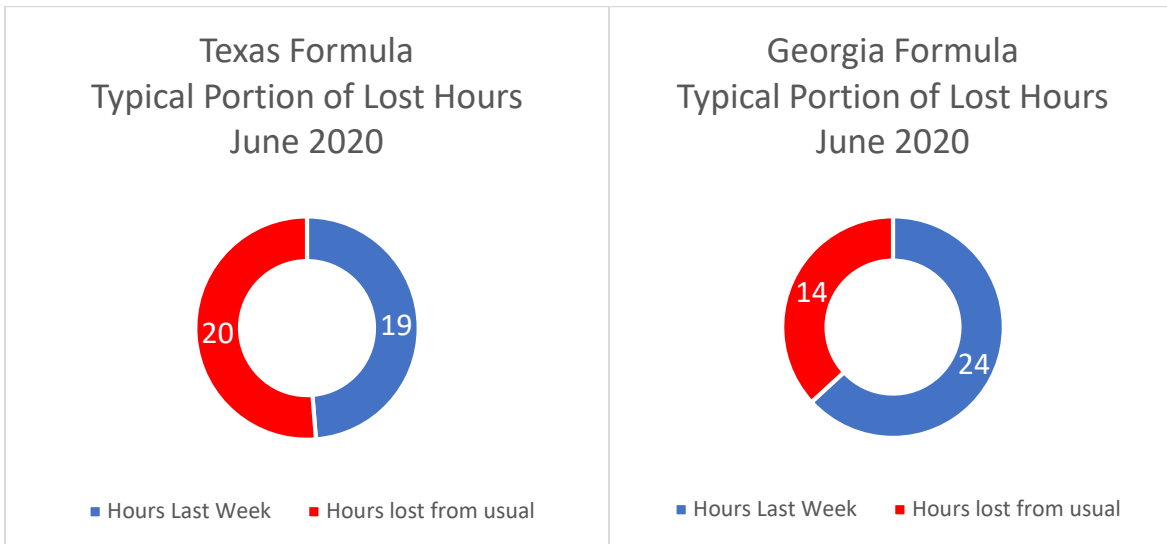
GCI analyzed microdata (i.e., individual responses) to the Census Bureau's Current Population Survey (CPS) which is used to measure state and national unemployment rates. Specifically, GCI focused on the Outgoing Rotation Group where additional questions on earnings are asked to identify people whose actual hours the week prior to the survey were less than their usual hours. GCI analyzed each individual's reported or calculated hourly wage, including tips or commissions, to identify the portion of employed people who, like Ashley, did not qualify for benefits in Arizona but would have qualified under either the Texas or Georgia formulas. Methodological details in the technical appendix.⁶ As Arizona's UI claims for July have risen modestly from June, GCI repeats June numbers as its July projection.

Findings

Disqualified Person Weeks of unemployment assistance

GCI analyzed how the typical person from the June Outgoing Rotation Group of the Current Population Survey was impacted by Arizona, Texas and Georgia's unemployment formulas, as shown in Figure 1 below. In Texas, on average hours fell by half from 39 to 19 per week. In Georgia, which includes a larger portion of people whose hours were cut, the typical cut was from 38 hours to 24 hours per week, a loss of more than one-third of income. In April and May hour declines were slightly higher than June.

Figure 1—Typical Portion of Lost Compared to Usual Hours



⁶ Note due to a limited Arizona sample in the CPS that fit these parameters, the full national sample was used with adjustments to calculated hourly earnings due to Arizona's minimum wage. Part-time for economic reasons also strongly correlates with the overall unemployment rate, so the ratio of Arizona to national unemployment rates were also applied. Full details in the technical appendix.

The final column in Table 2 below takes the number of people impacted each week multiplied by the number of payment weeks that month (four in each month except five in May) to create disqualified person weeks. The other columns show the estimated number of people who did not receive benefits each week of the month compared to those who would have qualified under the Texas or Georgia formulas. Numbers are rounded to the nearest thousandth. GCI finds that between 800,000 and 1.5 million person weeks of unemployment assistance were disqualified in Arizona when compared to the Texas and Georgia formulas.

Table 2 —People Disqualified from the Arizona Formula Compared to Texas and Georgia

	Apr 2020	May 2020	June 2020	July 2020	Total Disqualified Person Weeks
Total People Disqualified Compared to Texas Formula (each week)	68,000	44,000	41,000	41,000	820,000
Total People Disqualified Compared to Georgia Formula (each week)	109,000	75,000	87,000	87,000	1,507,000

Benefits lost due to disqualified unemployment

These denials of unemployment assistance translate into lost income for the impacted households—90% of which would come from the federal government with the remaining 10% coming from Arizona's UI Trust Fund. **The average lost weekly benefit was \$700 and \$760 relative to the Texas and Georgia formulas, respectively.** Table 3 below shows the estimated average payment that those who were denied benefits based on Arizona's UI system would have received under the Texas or Georgia formulas.

Table 3—Average Benefits Under the Texas and Georgia Formulas if not Denied

	Apr 2020	May 2020	June 2020	July 2020	Overall Avg. Lost Benefit
Average Benefit if not denied (Texas formula)	\$107+\$600	\$94+\$600	\$99+\$600	\$99+\$600	\$700
Average Benefit if not denied (Georgia Formula)	\$162+\$600	\$162+\$600	\$155+\$600	\$155+\$600	\$760

Total benefits lost in Arizona due to disqualified unemployment

The direct losses in UI/PUA are between \$80 million and \$230 million. UI benefits are paid for by the state’s UI Trust Fund, while PUA is completely funded by the federal government. GCI’s methodology did not allow differentiating between the programs, though most people would come from the state UI program most likely, so these funds would primarily be paid from the state UI Trust Fund. While adopting the Texas or Georgia formulas would have cost Arizona more in UI payments—the UI Trust Fund had \$643 million as of July 25, 2020—that loss would have been more than compensated for by the significant amount of FPUC dollars it would leverage.⁷

Due to not adopting a formula similar to Texas or Georgia, Arizona’s total losses of the \$600 per week FUPC supplemental income were between \$490 million to \$900 million from April to July.

Table 4—Lost Dollars Due to Failure to Adopt Texas or Georgia Formulas

	Apr 2020	May 2020	June 2020	July 2020	Total Lost Economic Infusion
Lost UI/PUA (Texas formula)	\$29,200,000	\$16,500,000	\$16,300,000	\$16,300,000	\$78,300,000
Lost FPUC (\$600 supplement) with Texas formula	\$163,200,000	\$132,000,000	\$98,400,000	\$98,400,000	\$492,000,000
Total					\$570,300,000
Lost UI/PUA (Georgia formula)	\$70,600,000	\$48,700,000	\$54,600,000	\$54,600,000	\$228,500,000
Lost FPUC (\$600 supplement) with Georgia formula	\$261,600,000	\$225,000,000	\$208,800,000	\$208,800,000	\$904,200,000
Total					\$1,132,700,000

⁷ \$643 million as noted at DES UI dashboard. Note, nine states and the Virgin Islands have had their UI trust funds reach zero, so are currently receiving an infusion from the federal unemployment assistance funds that those states will pay back through slightly higher Federal Unemployment Tax Act (FUTA) assessments on employers.

Total lost economic activity applying the Multiplier Effect

Finally, these dollar amounts multiply in the economy. So when someone with reduced hours receives supplemental income, it is spent on various nondurables, primarily in the state economy. Reviewing studies and various multiplier analyses, the most likely multiplier is about 1.7, given that these households are generally cash-constrained—they need the income to make ends meet—and are less likely to deposit large chunks of it into savings (see more details on multiplier studies in technical appendix). That means each dollar in supplemental income leads to a total state economic impact of \$1.70.

Applying this multiplier impact, which will generally play itself out in the state's economy over the next year, the state has foregone between \$1 billion and \$1.9 billion by not adopting unemployment formulas similar to Texas or Georgia.

Table 5—Economic Activity Lost

Multiplier Impact	Apr 2020	May 2020	June 2020	July 2020	Total Lost Economic Activity
Total Lost Economic Activity (Texas Formula)	\$327,100,000	\$252,500,000	\$195,000,000	\$195,000,000	\$969,600,000
Total Lost Economic Activity (Georgia Formula)	\$564,700,000	\$465,300,000	\$447,800,000	\$447,800,000	\$1,925,600,000

Lost State and Local Tax Revenue

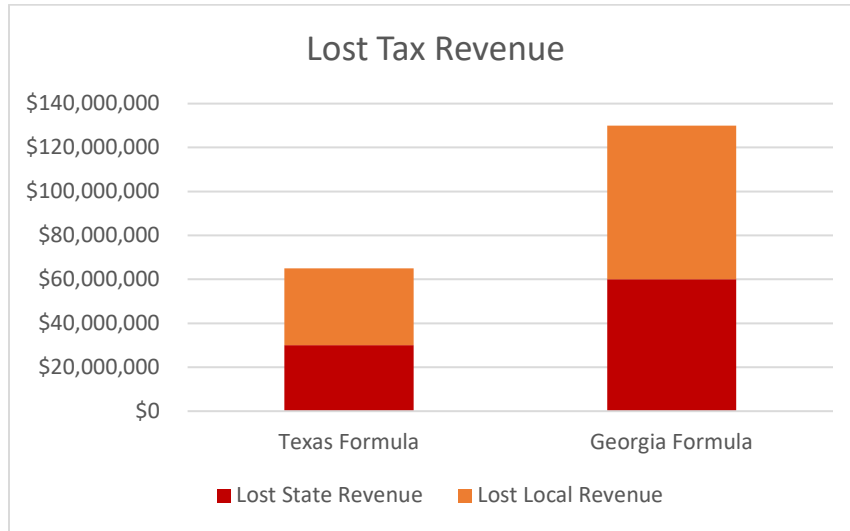
Lost tax revenues were estimated using an input-output IMPLAN proprietary model for Arizona.

Texas formula — \$1 billion in lost economic activity leads to an estimated loss of \$30 million in state tax revenue and a loss of \$35 million in local tax revenues.

Georgia formula — The losses are doubled compared to Texas, with \$60 million and \$70 million in lost state and local revenues, respectively.

These are shown in Figure 2.

Figure 2—Tax Revenue Lost



Conclusion

Arizona’s UI system is one of the worst in the nation, a fact which became abundantly clear due to the COVID-19 pandemic. The impact is personal to those individuals and families who have been denied much-needed assistance. This analysis clearly details what is less tangible—that the consequences of Arizona’s inadequate UI system have significant repercussions for the state’s economy and its recovery from the COVID-19 pandemic. It’s unlikely that new legislation that will emerge from Congress will address people with reduced hours, so it’s imperative that Arizona Governor Doug Ducey either act unilaterally and increase the income allowance to \$300 as was done in Georgia or that he call a special session of the legislature to remedy the numerous deficiencies in Arizona’s unemployment system. Otherwise, the harm to the families and the economy will unnecessarily continue to mount.

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Technical Appendix

This section contains the step-by-step data analysis process used by this research team. Data for this project was collected from the Economic Policy Institute's (EPI) microdata extracts.⁸ CPS outgoing rotation groups (ORGs), of which EPI's data is based, only comprise of around 22,000 observations, with Arizona only accounting for about 350 of those observations. Because of this, our analysis uses national data to estimate employment trends in Arizona. Steps were taken to adjust national data to more closely resemble Arizona.

I. Analysis of wage distribution in AZ vs. US

The first step was to determine the wage distribution in AZ compared to the United States in order to find the adjustment needed for the national data. To do this, hourly wages for the CPS ORGs from September 2019 to February 2020 were analyzed at the decile level.

Table 1A—AZ vs. US Decile Comparison

Decile	AZ Hourly Wage	US Hourly Wage
10	11	10
20	12	11.59
30	13	13
40	14.5	14.5
50	16	15.91
60	17.77	18
70	20	20
80	24	24.5
90	32	32

Because the wages crossed over between the 20 and 30 deciles, we looked at the 20–25th percentiles to see where the crossover occurred.

Table 2A—AZ vs. US Percentile Comparison, 20-25

Percentile	AZ Hourly Wage	US Hourly Wage
20	12	11.59
21	12	12

⁸ <https://microdata.epi.org/>

22	12	12
23	12	12
24	12.5	12
25	12.5	12.5

The wages converge at the 21st percentile at \$12, and cross over at the 24th percentile. The wage variable of analysis used in the EPI data was wageotc⁹, which includes an adjustment for overtime, tips, and commissions. To adjust this variable to more closely resemble Arizona's wage distribution, wages that were less than \$11 were increased by one dollar, which at low percentiles was the approximate difference (note the min. wage for tipped workers in Arizona is \$3 less than the current min. wage of \$12), while any wages between \$11–\$12 were increased to \$12 to match Arizona's minimum wage.

II. Calculate expected UI benefits

The next step was to create two new variables for weekly earnings. One for the actual earnings for "last week" prior to the survey, found by multiplying the AZ hourly wage estimate by the actual hours worked last week. The second variable is "usual wages earned last week", found by doing the same but for usual hours. Next, expected UI benefits were calculated for Arizona and for models similar to those in TX and GA. Expected benefits for AZ and GA are half of the usual weekly earnings divided by two, with a max of \$240. TX UI benefits are the same, but with a max of \$490.

III. Calculate working allowances

The working allowances were calculated as follows:

- AZ UI working allowance: expected AZ UI benefits
- TX UI working allowance: expected TX UI benefits multiplied by 1.25
- GA UI working allowance: expected AZ UI benefits + 300

IV. Determine whether hours were reduced

For the Georgia UI, it was necessary to determine whether each person faced a loss in hours, as this would allow them to become eligible for unemployment insurance. A 85% threshold was used to capture those who are working around one less day per week, or working a few fewer hours each day. So, in order to fall into this group, a person's actual hours would have to be 85% or less of their usual hours. e.g., 34 hours instead of 40.

V. Calculate the actual UI received

To determine the actual UI received, the actual weekly wages were subtracted from the working allowance. For GA, this was only done for those who fell into the hour reduction group.

⁹ "wageotc" refers to Hourly wage (adjusted) -OTC consistent where OTC stands for adjustments to include overtime, tips and commissions. <https://microdata.epi.org/variables/income/wageotc/>.

VI. Determining if benefits are greater than AZ and estimating populations

New variables were created to flag those who would receive a benefit from the TX UI and the GA UI programs but not the AZ UI program. A population estimate for this group was derived by summing the p-weight, orgwgt.¹⁰ The population estimate for the amount of UI dollars received by this group for the TX UI and GA UI was determined by multiplying the dollars received by the p-weight.

VII. Projecting July statistics

The timeliest data is new filings for unemployment claims which are reported at the end of each week. For July 5 to 11 nationwide, new filings were only down very modestly from the prior week, continuing a trend of slightly decreasing but essentially stable filings since the beginning of June.¹¹ In Arizona, however, from July 4, 11, and 18, new claims have averaged 26,480 per week, which is higher than the June 6, 13, 20, and 27 average of 24,750—and all three weeks in July have exceeded that number.¹²

Collectively, this suggests Arizona's economy, if anything, may be weakening relative to June. Thus, using June numbers as an estimate of July's numbers (which for the CPS ORG won't be available until mid-August) seems to be reasonable.

VIII. Calculating the adjustment ratio

People working part-time for economic reasons (such as slack work) fairly consistently tracks as 45% of the overall unemployment rate. Arizona's unemployment rate has been lower than the national one, so consequently the number of people working part-time for economic reasons should be proportionately lower. The national estimates of workers impacted were adjusted proportionally to match the Arizona to National unemployment rate and then relative to Arizona's labor force size.

IX. Determining lost UI for the Texas and Georgia models

The adjustment ratio was multiplied by the proportions of the labor force disqualified compared to the TX and GA formulas to obtain adjusted proportions. This was then multiplied by the AZ labor force to find the total disqualified persons. Multiplying this number by the per-person federal UI supplements for that month results in the total lost supplement for each model. Separately, multiplying the average UI state benefit lost for each model by the total disqualified persons results in the lost state UI. The sum of this number with the federal number provides the total UI lost for the state.

¹⁰ "Orgwgt" refers to Earnings weight. It is how much individual people in a survey are weighted so that you can total them relative to the total population. In GCI's analysis this weight leads to a national total—and that total was then adjusted relative to the size of Arizona's labor force.
<https://microdata.epi.org/variables/weights/orgwgt/>.

¹¹ Rosenberg, Eli (2020), "1.3 million more workers file new unemployment claims last week," Washington Post, July 16, <https://www.washingtonpost.com/business/2020/07/16/july-unemployment-insurance-payments/>.

¹² Department of Economic Security, UI Dashboard, Data through 7/18,2020, https://des.az.gov/sites/default/files/media/Unemployment_Insurance_Dashboard.pdf?time=1595393614847.

X. Multiplier

From a multiplier perspective, federal dollars are new dollars into Arizona's economy that would not have otherwise impacted it. During recessions, multiplier impacts are larger. The Congressional Budget Office suggests fiscal multipliers for transfer payments like UI as high as 2.1 during a recession and as low as 0.4 during an expansion. National multipliers can sometimes be less than local multipliers since models at the national level need to take into account financing mechanisms. From Arizona's perspective, those financing impacts would be spread throughout the economy regardless of whether a particular infusion reaches Arizona. So the infusions are only positive.

The following studies support a multiplier of 1.7 or possibly higher. Because UI benefits are higher than usual, lower-end estimates are used.

1. Whalen and Reichling, Congressional Budget Office (2015) Transfer Payments to Individuals During Recession Multiplier 2.1¹³
2. Vromus and Bemus (2010) National and State UI Multipliers 1.9 to 2.0 based on Great Recession¹⁴
3. DiMaggio and Kermani (2015) Local Fiscal Multiplier of UI 1.9¹⁵
4. Arizona Public University Enterprise (U of A, ASU and NAU) for FY2017 Payroll Multiplier 1.7¹⁶

¹³ Whalen, Charles J. and Felix Reichling (2015), "The Fiscal Multiplier and Economic Policy Analysis in the United States," Congressional Budget Office, February, Working Paper 2015-02, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/workingpaper/49925-FiscalMultiplier_1.pdf.

¹⁴ Vroman, Wayne and Jacob M. Bemus (2010), "The Role of Unemployment Insurance as an Automatic Stabilizer," Urban Institute and IMPAQ International, July, https://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf.

¹⁵ DiMaggio, Marco and Amir Kermani (2016), "The Importance of Unemployment Insurance as an Automatic Stabilizer," National Bureau of Economic Research Work Paper 22625, September, <https://www.nber.org/papers/w22625.pdf>.

¹⁶ Elliot D. Pollack and Company (2019), "Economic and Fiscal Impact of Arizona Public University Enterprise," Prepared for Arizona Board of Regents, <https://www.azregents.edu/sites/default/files/reports/Economic-Impact-Report-FY17.pdf>. Calculation based on Ratio of Economic Output to Labor Income for University Payroll & Employment on p. iii for fiscal year 2017.