

SENATE BILL REPORT

SB 5860

AS REPORTED BY COMMITTEE ON LABOR & COMMERCE, MARCH 3, 1993

Brief Description: Adjusting the financing of unemployment insurance.

SPONSORS: Senators Moore, Newhouse and Vognild

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: That Substitute Senate Bill No. 5860 be substituted therefor, and the substitute bill do pass.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Fraser, McAuliffe, Newhouse, Pelz, Prince, Sutherland, and Vognild.

Staff: Patrick Woods (786-7430)

Hearing Dates: February 26, 1993; March 3, 1993

BACKGROUND:

Currently unemployment insurance taxes are assessed on businesses based on two criteria:

I. Level of Monies in Unemployment Trust Fund: As the fund increases or decreases, a series of six tax schedules ranging from A to F go into effect. The lowest tax schedule A is in effect when the fund balance is in excess of 3.4 percent of total taxable payrolls (\$1.3 billion).

II. Employers Experience Rating: This rating is determined by the level of unemployment benefits paid out to their employees over a four-year period. There are 20 rate classes ranging from one at the lowest to 20 at the highest in each of the six tax schedules A through F outlined in Section I.

The current balance of the unemployment insurance trust fund is \$1.71 billion; the fund balance has been in excess of 3.4 percent of taxable payrolls (\$1.3 billion) since 1989 and is expected to be above this level through 1994. The employer community has recommended that an additional schedule be established that will maintain the integrity of the fund while providing some tax relief to businesses.

The Department of Employment Security due to funding cutbacks has reduced the level of assistance to unemployed workers. The number of employment centers has decreased from 40 in the early 1980s to 29 in 1993. In addition, direct assistance to claimants has been reduced. The majority of department's administrative costs are covered by federal funds; however, a tax of .02 percent of taxable wages is levied on employers to fund special projects to assist the unemployed. These funds

are deposited in the administrative contingency fund and amount to \$2 million per year.

SUMMARY:

The existing unemployment tax schedule is modified, and a new reduced rate of AA is added to the tax schedule. The reduced AA rate is in effect upon the balance in the unemployment trust fund reaching 3.9 percent and above of total taxable payroll (\$1.51 billion).

The department's existing .02 percent tax on total taxable wages is increased to .035 percent with the additional funds specifically dedicated to the processing and payment of unemployment claims.

A joint select committee on unemployment insurance is established. The committee is composed of eight members, two from each caucus of the House and Senate. The committee is directed to study the funding and administration of the unemployment insurance and other related issues, and report its findings to the Legislature by December 31, 1993.

EFFECT OF PROPOSED SUBSTITUTE:

The Joint Select Committee on Unemployment Insurance is changed to a Joint Task Force on Unemployment Insurance. The task force is directed to review: 1) unemployment insurance financing and administration; 2) social and administrative costs associated with unemployment insurance; and 3) tax rates and the experience rating system.

The task force is to report its findings to the Legislature by December 31, 1993.

Appropriation: none

Revenue: none

Fiscal Note: none requested

TESTIMONY FOR:

The establishment of a reduced AA tax rate will reduce the financial burden on employers while not compromising the integrity of the trust fund. The increase in employers special tax from .02 percent to .035 percent will assist in funding the department's administrative costs. A task force will provide an effective forum to review and make recommendations on unemployment insurance.

TESTIMONY AGAINST: None

TESTIFIED: Duke Schaub, AGC of Washington (pro); Graeme Sackrison, ESD (pro); Clif Finch, Association of Washington Business (pro); Kevin Caroff, Safeway (pro)