

SENATE BILL REPORT

SJM 8027

AS PASSED SENATE, FEBRUARY 8, 1994

Brief Description: Requesting that Congress help states with employment security system funding.

SPONSORS: Senators Vognild, Newhouse, Moore, Amondson, Prentice, Sutherland, McAuliffe and Fraser

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: Do pass.

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

Staff: Patrick Woods (786-7430)

Hearing Dates: January 18, 1994; January 24, 1994

BACKGROUND:

The 1993 Legislature established the Joint Task Force on Unemployment Insurance to undertake an in-depth review of Washington's Unemployment Insurance Program. The task force is composed of four members of the House of Representatives, four senators and four representatives of labor and business, respectively.

A key area of deliberation for the task force was the funding of the state's unemployment insurance (UI) program. Currently the state's UI program has two main funding sources:

1. **The state's UI employer tax.** These taxes are paid by all covered employers on each employee. The tax ranges from .4 percent to 5.4 percent of taxable payroll (\$19.9 K-1994) and based on an employer's experience rating and the level of the UI trust fund. Currently the trust fund is at an historically high level of approximately \$1.7 billion resulting in a reduced tax schedule.
2. **Federal Unemployment Tax Act (FUTA).** These taxes are levied on employers through the U.S. Internal Revenue Service. The tax is .8 percent of the first \$7,000 paid to each employee. These funds are also deposited in a FUTA fund controlled by the Department of Labor for the following purposes: (a) administration account for the administration of all employment security departments nationwide; (b) extended benefits account for the payment of the federal share (50 percent) of extended benefits and 100 percent of some federal benefit programs like emergency unemployment compensation; (c) loan fund

account available to states who have depleted their UI trust fund.

The task force made the following finding regarding this issue: Federal Retention of FUTA Funds: It is generally held by the majority of employment security departments throughout the United States that the distribution of FUTA funds to the states by the federal Department of Labor has undergone a dramatic policy change in the last decade. The levels of funding provided to the states have gradually declined in real terms and the rate of payment between 1985 and 1993 for certain nonmonetary determinations has been reduced. This reduction in funding is considered to be a direct result of the federal Budget Reconciliation Act whereby FUTA funds are kept in the federal funds to help balance the federal budget.

In order to address this issue, the task force recommended a memorial be sent to Congress requesting the release of funds in the FUTA administrative account in order to fully fund the cost of administering the state's UI program. In addition, the memorial should request the prescriptive requirements on federal programs and funds be removed in order to run performance-driven programs that better serve claimants, unemployed individuals and businesses.

SUMMARY:

The state of Washington recognizes the following: numerous challenges and opportunities face the nation and its work force; a vital need for states to have flexibility and authority to design and implement responsive economic development programs; a need for modifications in the manner in which state employment security programs are funded by the federal government; and the federal government should fully fund the state's activities regarding unemployment insurance.

The Legislature therefore requests Congress: (1) remove the dedicated FUTA trust fund money from the federal unified budget; (2) exclude from the calculation of the federal budget deficit balances the unemployment insurance trust fund; (3) make decisions concerning spending for extended unemployment benefits and general program administration not related to the federal budget deficit; and (4) provide states with the flexibility to meet the needs of unemployed Americans.

Appropriation: none

Revenue: none

Fiscal Note: requested January 14, 1994

TESTIMONY FOR:

The memorial is needed to inform Congress of Washington's desire to promote program flexibility and fully fund the unemployment insurance system.

TESTIMONY AGAINST: None

TESTIFIED: Graeme Sackrison, Employment Security Department (pro)