

HOUSE BILL REPORT

SB 6099

As Passed House:

June 11, 2003

Title: An act relating to making appropriations for the payment of expenses related to the implementation of 2ESB 6097.

Brief Description: Making an appropriation for the payment of expenses related to the implementation of 2ESB 6097.

Sponsors: By Senator Honeyford; by request of Governor Locke.

Brief History:

Second Special Session

Floor Activity:

Passed House: 6/11/03, 68-22.

Brief Summary of Bill

- Appropriates \$11.5 million from Reed Act funds to the Employment Security Department for administrative expenses related to the implementation of 2ESB 6097 relating to unemployment compensation.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority/Minority Report: None.

Staff: Jill Reinmuth (786-7134).

Background:

Reed Act

The Reed Act is a portion of the federal Employment Security Financing Act of 1954 that provides a mechanism for the return of excess federal unemployment insurance taxes to state employment security agencies. Federal unemployment insurance taxes flow into three federal funds: one for unemployment insurance administration; another for the federal portion of extended benefits; and a third for federal loans to state agencies. When these three funds reach their statutory caps, the excess amount is transferred to individual

state accounts in the federal Unemployment Insurance Trust Fund and the transfer is referred to as a Reed Act distribution.

The states have received traditional Reed Act distributions only three times in 1956, 1957, and 1958. Since then, when the three funds were close to reaching their statutory caps, Congress increased the caps and avoided making distributions.

A state may use its distribution to pay unemployment benefits, to cover administrative costs, and in some circumstances, as a revolving fund for infrastructure investments. The distribution also may be a cash infusion to an individual state's trust fund that impacts the state's effective tax schedule or helps the state avoid or limit borrowing from the federal loan fund.

Temporary Extended Unemployment Compensation Act

The federal Temporary Extended Unemployment Compensation Act of 2002 (TEUCA) authorized a special Reed Act transfer in fiscal year 2002. Altogether, the states received a total of \$8 billion. Washington received approximately \$167 million.

Although the TEUCA labeled this transfer a special Reed Act transfer, it differed from traditional Reed Act transfers in certain ways. Most notably, the amount of the special transfer was specified in the TEUCA, without regard to the statutory ceilings in the federal unemployment insurance accounts that are determinative of the amounts of traditional transfers. The uses of the special transfer also differed in some respects from traditional transfers.

The TEUCA provides that a state may use its share of the special transfer for: (1) the payment of cash benefits; or (2) the administration of its unemployment compensation law or its public employment offices. A state also may leave all or part of its share in its unemployment insurance account, thereby raising its trust fund balance and possibly reducing payroll taxes.

Second Engrossed Senate Bill 6097

Second Engrossed Senate Bill 6097 was enacted in 2003. Second Engrossed Senate Bill 6097 modified numerous provisions of the state Employment Security Act governing unemployment compensation benefits and contributions. For example, 2ESB 6097 reduced total and weekly benefit amounts, narrowed the reasons for "good cause" quits, and broadened the definitions of misconduct. Second Engrossed Senate Bill 6097 also created a new tax array to take effect in 2005 and shifted charging of certain benefits to the experience rating account of only the separating employer.

In addition to implementing the benefit and tax changes described above, 2ESB 6097 required the Employment Security Department (Department) to contract with employment

security agencies in other states to ensure that out-of-state claimants in those states are actively engaged in searching for work in accordance with Washington job search requirements. The Department also must conduct several studies dealing with programs funded with special administrative contributions, employer turnover in the unemployment compensation system, and year to year volatility in the rate classes to which employers are assigned.

Summary of Bill:

A sum of \$11.5 million from Reed Act funds is appropriated for the 2003-05 biennium to the Department for administrative expenses related to the implementation of 2ESB 6097.

Appropriation: A sum of \$11.5 million from Reed Act funds is appropriated to the Employment Security Department.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: None.

Testimony Against: None.

Testified: None.