

SENATE BILL REPORT

SHB 1278

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, March 29, 2007

Title: An act relating to revising the industry average unemployment contribution rates.

Brief Description: Modifying industry average unemployment contribution rates.

Sponsors: House Committee on Commerce & Labor (originally sponsored by Representatives Conway, Simpson and Kenney; by request of Governor Gregoire).

Brief History: Passed House: 3/07/07, 96-0.

Committee Activity: Labor, Commerce, Research & Development: 3/22/07, 3/29/07 [DP].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: Do pass.

Signed by Senators Kohl-Welles, Chair; Keiser, Vice Chair; Clements, Ranking Minority Member; Franklin, Hewitt, Murray and Prentice.

Staff: Jennifer Strus (786-7316)

Background: Washington's unemployment insurance system requires covered employers to pay contributions on a percentage of taxable payroll. The contributions of covered employers are held in trust to pay benefits to unemployed workers. The contribution rates are the sum of an array calculation factor rate, a graduated social cost factor rate, and, in some circumstances, a solvency surcharge. For qualified employers, the array calculation factor rate depends on the employer's layoff experience. Employers are placed in one of 40 rate classes, with the array calculation factor rate ranging from 0 percent to 5.4 percent.

A flat social cost factor rate is calculated as the difference between benefits paid and taxes paid, divided by total taxable payroll. The amount is then adjusted for the months of benefits in the trust fund. Employers pay a graduated social cost factor rate, ranging from 78 percent to 120 percent of the flat rate, depending on the employer's rate class.

Nonqualified employers include those who have had employees for two years or less as of April 1 of the previous year. For new employers, the array calculation factor rate is 115 percent of the average industry rate, but not less than 1 percent or more than 5.4 percent (the rate in rate class 40); and the social cost factor rate is 115 percent of the average industry rate, but not more than the rate assigned to rate class 40.

Summary of Substitute Bill: Unemployment insurance contribution rates for new employers are:

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- 90 percent of average industry rates if, in the three fiscal years prior to the computation date, benefits charged to new employers are less than 95 percent of contributions paid by new employers;
- 100 percent of average industry rates if benefits charged are at least 95 percent but less than 105 percent of contributions paid; and
- 115 percent of average industry rates if benefits charged are at least 105 percent of contributions paid.

The rates are subject to the following limitations:

- the array calculation factor rate may not be less than 1 percent or more than 5.4 percent (the rate in rate class 40); and
- the social cost factor rate may not be more than the rate assigned to rate class 40.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: The business community was concerned that with the change in the tax rate paid by new businesses that the costs not be socialized. The tiered approach in the bill is designed to address business's concerns. The three year look-back provides cover in the event of a recession.

Persons Testifying: PRO: Jill Will, Employment Security Department.