

SENATE BILL REPORT

SB 5230

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, February 8, 2007
Ways & Means, February 27, 2007

Title: Funding the administration of Title 50 RCW, unemployment compensation

Brief Description: Funding the administration of Title 50 RCW, unemployment compensation.

Sponsors: Senators Kohl-Welles, Keiser Franklin, Kline and Prentice; by request of Employment Security Department.

Brief History:

Committee Activity: Labor, Commerce, Research & Development: 1/15/07, 2/08/07[DPS-WM].

Ways & Means: 2/20/07, 2/27/07 [DP2S].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5230 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

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

Staff: Sherry McNamara (786-7402)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5230 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Paula Moore (786-7449)

Background: The Employment Security Department (ESD) programs are largely supported by federal funding. However, federal funds are not available for some of the specialized job-placement programs offered in Washington, and the rate of federal funding for even the basic services is declining.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In the last five years, ESD's federal revenues have declined 29 percent. ESD has implemented a number of cost-cutting and efficiency steps by closing a telecenter and reducing staff. The 2007-2009 state employees' collective bargaining agreement, if approved by the Legislature, will cost ESD an additional \$16 million dollars in federal funds. Federal funds do not increase to cover such costs. Without state funding to pay for the employee raises, ESD will need to eliminate at least 93 staff positions.

Funds for ESD's Penalties & Interest Account (P&I) are derived from penalties imposed on employers and claimants for violations of Unemployment Insurance (UI) laws and the interest collected on those penalties.

The claimant portion of the P&I fund is financed through a one percent interest penalty on UI benefit overpayments to claimants. Funds derived from claimant penalties are limited by statute to fraud detection, benefit overpayment collection and social security cross-match. The 2005-07 biennial budget provides that for the current biennium, P&I funds may also be used to fund the Job Skills program administered by the State Board for Community and Technical Colleges (SBCTC).

The employer portion of the fund is financed through penalties and interest imposed on employers for late UI taxes and reports. This portion of the fund is used to pay costs that cannot be funded out of more restricted federal fund sources, such as required federal matching funds for AmeriCorps; or state labor market information. In the past, the Legislature appropriated some of the P&I funds to the Department of Community Trade and Economic Development (CTED) and to the SBCTC for work-related training.

ESD's Training-Benefits Fund: Employers currently pay a fee of 0.01 percent of the taxable wage base for administering the training-benefits program. Of this fee, 40 percent is used for services to the unemployed; the remaining 60 percent is returned to the unemployment-insurance trust fund to be held for benefit claims.

Summary of Bill: Changes are made to the distribution of ESD funding to allow more flexibility in spending. In the training-benefits fund, instead of 60 percent of the 0.01 percent being returned to the unemployment-insurance trust fund, the state will now retain this portion to maintain employment services.

The requirement that all penalties and interest monies collected from overpayments from claimants be spent entirely on prevention, detection, and collection activities is removed. As a result, ESD will use the P&I funds to support state-approved expenditures for which federal funding is not available.

As requested by the Code Reviser's Office, technical clean-up removes obsolete provisions.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Labor, Commerce, Research & Development): The original bill added language specifying the moneys in specific accounts referenced in the bill should be "expended solely for the purposes of this title and no other purposes;" or "the moneys should be used for administrative purposes." Current law requires the moneys to be spent for administrative purposes. In the proposed substitute, this additional language is removed because it is redundant.

EFFECT OF CHANGES MADE BY RECOMMENDED SECOND SUBSTITUTE AS PASSED COMMITTEE (Ways & Means): An effective date of July 1, 2007, is added for the bill to become effective on the first day of the 2007-2009 biennium. An emergency clause is also added to allow the bill to go into effect on July 1, 2007.

Language is added requiring ESD to continue engaging in activities to prevent overpayments and evasion of successorship provisions. Technical changes are made to simplify language, correct internal references, and remove redundant language describing permissible uses of various existing monies.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2007.

Staff Summary of Public Testimony (Labor, Commerce, Research & Development):

PRO: Eighty-five percent of ESD funds are federal. Federal funding has declined 29 percent over the past five years. The salary increases are important for ESD staff. This bill is necessary to implement the Governor's budget. There are two sources of funding that ESD would like to change to allow more flexibility in spending. The first source is the penalties and interest account and the second is the employer's training benefit fund. The federal formula funding issues are well documented. The federal government does a disservice against states like Washington which do a good job of providing unemployment services. CTED and SBCTC programs should be funded by General Fund-State dollars.

OTHER: This is a short-term fix and there is a need to find predictable and stable funding for administration of ESD in future biennia.

Persons Testifying (Labor, Commerce, Research & Development): PRO: Karen Lee, ESD, Commissioner; Dan Fazio, Farm Bureau; Jeff Johnson, Washington State Labor Council.

OTHER: Mellani McAleenan, Association of Washington Business; Gary Smith, Independent Business Association.

Staff Summary of Public Testimony (Ways & Means): PRO: We need to work with our congressional delegation on a long-term solution to funding unemployment insurance administration. However, this is a short-term solution until that long-term solution is derived. ESD has been hammered by layoffs and budget cuts. Previously, ESD has reduced their FTEs by 500, downsized facilities, and done a cost evaluation of all programs. This is an attempt to maintain ESD's current level of funding. The collective bargaining salary increases will cost ESD approximately \$8 million a year. These salary increases are not covered by the federal funding formula.

Persons Testifying (Ways & Means): PRO: Senator Kohl-Wells, prime sponsor; Joel Sacks, ESD; Dennis Eagle, Washington Federation of State Employees.