

HOUSE BILL REPORT

SJM 8008

As Reported by House Committee On:
Labor & Workforce Development

Brief Description: Requesting that the United States Department of Labor provide Washington with unemployment tax relief equal to any benefit provided to other states.

Sponsors: Senators Brown, Hewitt, Kohl-Welles, Holmquist Newbry, Conway, Parlette, Fraser, Kilmer, White and Hatfield.

Brief History:

Committee Activity:

Labor & Workforce Development: 3/30/11 [DP].

Brief Summary of Bill

- Requests that the U.S. Department of Labor provide Washington and taxpaying employers with federal unemployment tax relief or a financial benefit equal to any benefit provided to employers in states that borrowed from the federal Unemployment Account.

HOUSE COMMITTEE ON LABOR & WORKFORCE DEVELOPMENT

Majority Report: Do pass. Signed by 7 members: Representatives Sells, Chair; Reykdal, Vice Chair; Green, Kenney, Miloscia, Ormsby and Roberts.

Minority Report: Do not pass. Signed by 4 members: Representatives Condotta, Ranking Minority Member; Shea, Assistant Ranking Minority Member; Fagan and Taylor.

Staff: Jill Reinmuth (786-7134).

Background:

The unemployment insurance system is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under state unemployment tax acts. If a state maintains an unemployment insurance system in conformity with federal law, the state's employers receive certain FUTA tax credits. In

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addition, the state receives a share of FUTA revenues for administration of its unemployment insurance system.

When a state depletes its unemployment trust fund and has insufficient revenue to pay benefits, the state may receive a loan (also known as an "advance") from the federal Unemployment Account. The loan may be used only to pay benefits.

Certain conditions are placed on the loan and its repayment. The state must repay the loan, with interest, within two years. (There are a few exceptions, such as one for a "cash flow" loan received and repaid within the same year.) The state may not pay interest from existing unemployment taxes.

Certain sanctions may be imposed if the loan is not repaid within two years, or if interest due on a loan is not paid in a timely manner. Taxpaying employers may be required to pay increased FUTA taxes due to reduced FUTA tax credits. (There are a few ways in which a state may avoid the credit reduction.) The state also may not receive FUTA revenues for its administrative costs.

Washington had a balance in its unemployment trust fund of \$2.34 billion as of February 11, 2011, and has not received a loan. Other states, however, are projected to continue borrowing over the next few years. According to the U.S. Department of Labor, the aggregate loan balance is projected to increase to more than \$65 billion in 2013. Up to 40 states are projected to borrow. (Thirty states and one territory had outstanding loan balances totaling over \$42 billion as of February 14, 2011.)

The federal American Recovery and Reinvestment Act of 2009 provided a waiver of interest due from states on new or existing loans from February 17, 2009, through December 31, 2010. Various proposals would extend interest-free borrowing for two years, or delay imposition of the credit reduction for one year.

Summary of Bill:

The Legislature represents that:

- throughout the current economic downturn, Washington has provided benefits to unemployed workers without sacrificing the solvency of the state's unemployment trust fund;
- Washington has managed the trust fund in a prudent and responsible manner, allowing the state to pay benefits without seeking a federal loan;
- 30 other states and one territory have outstanding federal loans totaling over \$42 billion;
- federal and state unemployment taxes in states with outstanding loans must be raised significantly to pay federal loans and interest due on the loans;

- current proposals seek changes to repayment provisions, including allowing states with outstanding federal loans to forego or delay interest payments; and
- providing relief in states that failed to fund their trust funds and borrowed from the federal Unemployment Account penalizes Washington and taxpaying employers.

The Legislature requests that the U.S. Department of Labor provide Washington and taxpaying employers with federal unemployment tax relief or a financial benefit equal to any benefit provided to employers in states that borrowed from the federal Unemployment Account.

Appropriation: None.

Fiscal Note: Not requested.

Staff Summary of Public Testimony:

(In support) Washington's unemployment insurance trust fund and system has been a stand-out throughout this recession, and it did not happen by accident. It happened because of the Legislature's forward thinking and that of labor and business partners. It required recognition that Washington must build its trust fund before a recession happens or it is too late. This required higher taxes on Washington employers than in many other states.

When the inevitable recession occurred, those other states were placed in a very difficult position, and they were forced to borrow. Many of those other states are now being forced to decrease benefits and increase taxes at a time when they are still dealing with high unemployment and limited job growth.

If Congress gives those other states a helping hand right now, states like Washington that made responsible choices should not be forgotten. Otherwise, it creates a perverse incentive for states to act irresponsibly, and places Washington's employers and employees at a competitive disadvantage.

This memorial takes the right approach by requesting that Washington and Washington's employers receive tax relief or a financial benefit that equals the amount of benefit provided to those other states. This is a message to the congressional delegation and the administration. This memorial makes a difference in working with others to make sure Washington is treated fairly.

(Opposed) None.

Persons Testifying: Paul Trause, Employment Security Department.

Persons Signed In To Testify But Not Testifying: None.