

# SENATE BILL REPORT

## SB 5135

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As of January 31, 2011

**Title:** An act relating to responding to the current economic conditions by temporarily modifying the unemployment insurance program.

**Brief Description:** Responding to the current economic conditions by temporarily modifying the unemployment insurance program.

**Sponsors:** Senators Kohl-Welles, Holmquist Newbry, King, Honeyford, Schoesler, Becker, Hobbs, Rockefeller, Baumgartner, Hill, Litzow and Benton; by request of Governor Gregoire.

**Brief History:**

**Committee Activity:** Labor, Commerce & Consumer Protection: 1/17/11.

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### SENATE COMMITTEE ON LABOR, COMMERCE & CONSUMER PROTECTION

**Staff:** Mac Nicholson (786-7445)

**Background:** Unemployment Insurance Taxes. The total amount of unemployment insurance (UI) contributions or taxes paid by an employer includes an experience rated tax and a social tax. The experience rated tax is determined based on an employer's layoff experience and falls into one of 40 rate classes. The social tax component covers social costs, or costs resulting from the payment of benefits to an individual that are not charged to a specific employer. The social tax is calculated using the flat social cost factor, which is graduated for each employer based on the employer's rate class. Employers in rate class 1 have no layoff experience and only pay a social tax, which was 0.95 percent in 2010 and is 1.33 percent in 2011. The total tax rate is capped at 6 percent, and in 2010 employers in rate classes 35 through 40 capped out. In 2011 employers in rate classes 32 through 40 will cap out.

**Summary of Bill (Proposed Substitute):** Unemployment Insurance Taxes. For rate year 2011, the flat social cost factor is capped at 1.22 percent, and the graduated rate is lowered for employers in rate classes 1 through 20 (from 78 percent through 120 percent to 40 percent through 116 percent). Consequently, the total 2011 UI tax rate for employers in rate classes 1 through 34 will be lowered, and employers in rate classes 35 through 40 will cap out at 6 percent.

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*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.*

**EFFECT OF CHANGES MADE BY LABOR, COMMERCE & CONSUMER PROTECTION COMMITTEE (Proposed Substitute):** The substitute eliminates provisions in the original legislation that would have allowed the state to use a three-year look-back for determining whether extended benefits are paid.

The substitute also amends the title.

**Appropriation:** None.

**Fiscal Note:** Requested on January 11, 2011.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Staff Summary of Public Testimony:** PRO: This bill is a part of the Governor's job creation package. Job creation will pull the state out of the recession and help build a bright economic future for Washington. The state has a healthy UI trust fund which can be used to help businesses create jobs and help unemployed workers get retraining. The average UI rate increase for 2011 is 36 percent. Tax notices have been sent and first quarter taxes are due April 1. Enactment of this legislation by February 8 will save businesses about \$300 million in 2011. The legislation will allow Employment Security Department (ESD) to continue paying extended benefits through the end of the year. Extended benefits are expected to trigger off in the spring, and if legislation is passed after they trigger off, federal law bars trigger back on for a minimum of 13 weeks. Without this legislation, 35,000 individuals would lose benefits in the spring and another 34,000 would be unable to access benefits. Adjusting tax rates will help avoid significant tax increases. The business community didn't ask for this legislation but appreciates the Governor's effort. The adjustment in this legislation is something that should have been made even without the current economic environment. This legislation fine tunes the trust fund to 14 months of benefits. Business is concerned that the tax cut will come at a high cost. More than 75 percent of employers will see a benefit from this legislation. Employers are struggling, and businesses can hire more employees with the UI savings in this bill. New costs should not be added to the system.

CON: The extension of federally funded benefits in the legislation is a good idea, but a more balanced approach should be pursued. This tax cut should be coupled with real relief for unemployed individuals in the state. As an alternative, a child's benefit should be provided. The Governor's proposal isn't the best path. An increase in unemployment benefits would make a great difference for unemployed individuals. Families disrupted by unemployment can't provide children with basic needs and a dependent benefit would provide immediate help. Any discussion about tax relief must recognize that employees are also hurting.

**Persons Testifying:** PRO: Peter Bodgonoff, Governor's Office; Paul Trause, ESD; Nancy Hitshue, Washington Roundtable; Bruce Beckett, Washington Restaurant Association; Van Collins, Associated General Contractors; Donna Steward, Association of Washington Business; Judy Coover, Printcom; Lisa Harris, True Blue; Carolyn Logue, Washington Food Industry; Scott Dilley, Washington Farm Bureau; Patrick Connor, National Federation of

Independent Business; Craig Gresham, Bresham Drilling; George Madsen, Madsen Roofing; Gary Smith, Independent Business Association.

CON: Rebecca Johnson, Washington State Labor Council; Josh Fogt, Northwest Harvest; Deanna Potter; Randy Mhaerick; Wendy Rader-Konofalski, Washington Education Association; Tony Lee, Solid Ground; Dave Johnson, Washington State Building and Construction Trades Council; Sarah Cherin, UFCW Local 21; James Mahn, Laborers 242; Marsha Milroy; Toby Guerin, One America; Nicole Grant, Certified Electrical Workers of Washington; Larry Brown, IAM 751; Greg McClure, 612 Operating Engineers; Bob Guenther, IBEW; Sean O'Sullivan, AWPPW; Cody Arledge, Sheet Metal Workers Local 66; Don DeMulling, Ironworkers; Michael Swart, Chris Hanson, Eduardo Stoaks, Ironworkers Local 86.