

# SENATE BILL REPORT

## SB 6335

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As Reported By Senate Committee On:  
Labor & Workforce Development, January 18, 2000

**Title:** An act relating to unemployment insurance.

**Brief Description:** Modifying unemployment insurance.

**Sponsors:** Senators Shin, Kohl-Welles, Patterson, Costa, Prentice, Eide, Thibaudeau, B. Sheldon, Bauer, Gardner and McAuliffe.

**Brief History:**

**Committee Activity:** Labor & Workforce Development: 1/17/2000, 1/18/2000 [DP, DNP].

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### SENATE COMMITTEE ON LABOR & WORKFORCE DEVELOPMENT

**Majority Report:** Do pass.

Signed by Senators Fairley, Chair; Franklin, Vice Chair; Kline and Wojahn.

**Minority Report:** Do not pass.

Signed by Senator Hochstatter.

**Staff:** Joanne Conrad (786-7472); Jill Reinmuth (786-7452)

**Background:** Employee Benefits: The unemployment insurance system provides benefits to qualified workers, in order to help stabilize them financially, while they seek re-employment. In the case of some workers, however, re-employment in the same industry may be difficult to achieve due to extrinsic factors beyond the workers' control, such as economic dislocation, market cycles, or external stress on natural resources within their industry. Recent examples in Washington State include timber and fisheries.

Concerns exist that dislocated workers may need additional weeks of unemployment insurance benefits to give them time to retrain in another type of work. Until June 30, 1999, workers in timber and fishing qualified for extended benefits for 18 months. In addition, some limited federal retraining benefits were made available in 1999 for some displaced aerospace workers. However, extended benefits were not broadly available, and did not appear to cover workers' apparent and projected needs.

Employer Taxes: Unemployment taxes are determined, in part, by the effective tax schedule and the taxable wage base.

The effective tax schedule is based on the fund balance ratio, which compares the unemployment insurance trust fund balance to the total payroll in covered employment. In general, when the unemployment insurance trust fund balance is lower, the effective tax schedule is higher. For example, when the fund balance ratio is 2.50 to 2.89, Schedule A

is effective. When the fund balance ratio is 2.10 to 2.49, Schedule B is effective. In 1999, the effective tax schedule was Schedule A. In 2000, it shifted to Schedule B. The fund balance ratio is based on the trust fund balance as of June 30.

The taxable wage base is the amount of an employee's wages subject to tax. The taxable wage base increases 15 percent each year, subject to a cap of 80 percent of the average annual wage for contribution purposes— in the second preceding calendar year. In 1999, the taxable wage base was \$24,300. In 2000, it increased to \$26,500.

Concerns exist that unemployment taxes in 1999 were already too high, and that the automatic shift from Schedule A to Schedule B and the automatic increase in the taxable wage base in 2000 were unnecessary.

**Summary of Bill:** Both the payment of unemployment insurance benefits and the unemployment tax structure are affected. Dislocated worker benefits are broadened and extended, and the tax structure is substantially modified.

Employee Benefits: Dislocated workers— may qualify for extended benefits and training if they are unemployed, have exhausted unemployment benefits and are unlikely to return to work in their previous industry, due to diminished demand. They must have worked in their occupation for at least three of the last five years, with some exceptions, and they must need retraining in order to find new employment.

Dislocated workers who qualify may receive up to 52 weeks of training benefits, offset by any regular or extended benefits. Until July 1, 2002, dislocated aerospace, timber and finfish workers may receive up to 74 weeks of training benefits. An individual's weekly benefit amount for extended/retraining benefits is equivalent to the individual's regular weekly unemployment benefit amount.

Training must be for occupations with high labor market demand, and must enhance the displaced worker's marketable skills. Training benefits are not charged against an employer's experience rating account.

Program costs are capped in each fiscal year, and the Workforce Training and Education Coordinating Board, in cooperation with the State Board for Community and Technical Colleges and the Employment Security Department, reviews the program and reports to the Legislature by December 1, 2002.

Employer Taxes: Unemployment taxes are reduced as follows. In 2000, the effective tax schedule and the taxable wage base are restored to 1999 levels. In subsequent years, the effective tax schedule is determined based on lower fund balance ratios and the taxable wage base is based on a three-year average wage.

The fund balance ratios that trigger particular tax schedules are reduced. A lower fund balance ratio does not necessarily trigger a higher tax schedule. For example, when the fund balance ratio is 2.10 to 2.89, Schedule A is effective. Thus, in 2000, the effective tax schedule continues to be Schedule A. The fund balance ratio is based on the trust fund balance as of September 30.

The taxable wage base is modified. In 2000, the taxable wage base continues to be \$24,300. In subsequent years, the taxable wage base is based on an average of total wages paid in the three previous calendar years.

Other technical changes are made. For example, the time in which employers may pay voluntary contributions for 2000 is extended from February 15 to March 31.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect immediately. Certain sections of the bill have varied effectiveness or implementation dates; please refer to the bill.

**Testimony For:** Employee Benefits: Dislocated workers are not sharing in Washington's current economic prosperity. They deserve income support and approved retraining for demand-driven jobs. Their families need income support.

Washington has one of the healthiest unemployment compensation systems in the country. Benefits are not too high; for low-wage and seasonal workers, benefits are too low. Extended benefits for dislocated workers and tax cuts are affordable.

Washington has a skills gap, not a labor shortage. Jobs currently go unfilled because of the skills gap. They could be filled with dislocated workers who get retraining. The employer community can help identify which jobs are available and which training is needed.

Dislocated aerospace workers need retraining because their skills are not transferrable. Their federal retraining benefits will run out at the end of March. Hundreds of aerospace workers are already enrolled in retraining programs, and must stay in these programs to succeed. Dislocated timber workers also need retraining.

Plant closures are widespread. The dislocation rate in rural areas is much greater than in urban areas.

Employer Taxes: This bill is an acceptable solution to the unemployment tax problem. While it may need refinement, this bill is a good start on a complex and controversial problem. Growers are not in a condition to take the scheduled tax increase. By freezing taxes at 1999 levels, this bill offers a compromise that serves growers well in the short-term.

**Testimony Against:** Employee Benefits: Retraining benefits are not affordable. Benefits are already too high, and should not be increased.

Retraining for dislocated workers may be a good idea, but not at increased benefit costs. A benefit increase today is a tax increase tomorrow. Any increase in retraining benefits should be offset by a decrease in other socialized benefits (e.g., voluntary quits). There should be no net increase in socialized benefits.

The definition of declining occupation should be modified to reflect information from local workforce boards on declining occupations.

Employer Taxes: This bill is only a tax band-aid. It is a short-term solution to a long-term problem. Initially taxes will go down, expenditures will go up, and reserves will be spent down. Subsequently, there will be a big increase in taxes. By socializing benefit costs this bill creates more tax inequity.

The unemployment insurance system is broken. It requires tax increases in a time of historic low unemployment. Comprehensive reform is needed. A tax freeze is needed until the problem is solved.

**Testified:** PRO: Senator Paull Shin, Prime Sponsor; Rich Nafziger, Office of the Governor; Rick Bender, Washington State Labor Council; Jeff Johnson; Washington State Labor Council; Linda Lanham, International Association of Machinists District 751; Kimberley Smith, Ken Nilsen, Kenneth Yates, Washington Food Processors Council; Mike Gempler, Washington Growers League; Ed Owens, Coalition of Coastal Fisheries; David Antillon, former Boeing worker; Bill Little, Lumber and Sawmill Workers' Union Local 2633; Don Reese, Association of Western Pulp and Paper Workers; Harold Abbe, Association of Western Pulp and Paper Workers; Elmer Laulainen, Central Labor Council.

CON: Jan Gee, Washington Retail Association and Washington Food Industry; Dick Ducharme, Yakima Growers and Shippers; Enid Layes, Washington State Horticultural Association; Rick Slunaker, Associated General Contractors; Ken Johnson, Association of Washington Business; Gary Smith, Independent Business Association.