

HOUSE BILL REPORT

SHB 1278

As Passed Legislature

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

Brief Description: Modifying industry average unemployment contribution rates.

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

Brief History:

Committee Activity:

Commerce & Labor: 2/2/07, 2/8/07 [DPS].

Floor Activity:

Passed House: 3/7/07, 96-0.

Passed Senate: 4/4/07, 43-3.

Passed Legislature.

Brief Summary of Substitute Bill

- Makes unemployment insurance contribution rates for new employers 90 percent, 100 percent, or 115 percent of average industry rates, depending on benefits charged and contributions paid by new employers in a three-year period.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Conway, Chair; Wood, Vice Chair; Condotta, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Crouse, Green, Moeller and Williams.

Staff: Jill Reinmuth (786-7134).

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

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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:

- 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.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) The Governor has introduced several bills on economic development, especially on helping Washington businesses get off to a good start. This bill is among those, and will put \$9 million in the pockets of new businesses. In the past, the rate was set at 115 percent of the average industry rates because we presumed that new businesses had a higher failure rate, and a higher tax rate was needed to cover potential inactive accounts.

However, circumstances have changed. There are fewer inactive accounts. The unemployment insurance system is more experience rated. New employers paid \$96 million in taxes, and were charged \$25 million in benefits.

We can strike a balance between protecting the unemployment insurance system and protecting new businesses. The Governor, business, and labor agree on the amendment using a sliding scale to establish new employer tax rates. With the sliding scale, the Legislature will not have to revisit this issue.

(In support with amendment) With the amendment, our association can support this bill. It protects existing businesses and encourages new businesses.

(Opposed) We have not seen the substitute. It seems to solve the problem.

Persons Testifying: (In support) Marc Baldwin, Office of the Governor; and Jeff Johnson, Washington State Labor Council.

(In support with amendment) Mellani McAleenan, Association of Washington Business.

(Opposed) Larry Stevens, National Electrical Contractors Association and Mechanical Contractors Association.

Persons Signed In To Testify But Not Testifying: None.