

HOUSE BILL REPORT

HB 3077

As Reported By House Committee On:

Commerce & Labor

Title: An act relating to unemployment insurance.

Brief Description: Modifying unemployment insurance.

Revised for 1st Substitute: Modifying provisions on unemployment insurance.

Sponsors: Representatives Conway, Clements, Thomas, Wensman, Reardon, Radcliff, Cairnes, Morris, Constantine, Stensen, Wood, Schual-Berke, Cooper, Anderson, Santos, Lovick, Kenney, Regala, Keiser, Rockefeller, Dunn, Mulliken, Carlson, O'Brien, Gombosky, Grant, Eickmeyer, Kessler, Edwards, Edmonds, Miloscia, Fisher, Linville, Koster, Ballasiotes, Pflug, D. Sommers, Campbell, D. Schmidt, Murray, Hatfield, Ogden, Hurst, Dunshee, Haigh, Tokuda, Woods, Barlean, G. Chandler, Fortunato, Boldt, Mielke, McDonald, Cody, Voloria, Scott, McIntire, Esser, Alexander, Bush, Sullivan, Lantz, Ericksen, Talcott, Buck, Dickerson, Ruderman, Wolfe, Schoesler and Kagi.

Brief History:

Committee Activity:

Commerce & Labor: 1/27/00 [DPS].

Brief Summary of Substitute Bill

- Modifies unemployment insurance taxes by reducing tax rates, by applying a three-year average to the determination of the taxable wage base, and by changing the calculation date and reducing the triggers for determining the tax rate schedule.
- Establishes a training benefits program for qualified dislocated workers to receive additional unemployment insurance benefits for up to 52 weeks, including their regular unemployment insurance benefits, while they are in retraining and making satisfactory progress toward completion of their training plan. Through June 30, 2002, qualified dislocated aerospace, timber and fin fish workers are eligible for up to 74 weeks of benefits, including their regular benefits.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Clements, Republican Co-Chair; Conway, Democratic Co-Chair; B. Chandler, Republican Vice Chair; Wood, Democratic Vice Chair; Hurst; Lisk; McIntire and McMorris.

Staff: Chris Cordes (786-7103) and Pam Madson (786-7166).

Background:

UNEMPLOYMENT INSURANCE TAXES

Washington’s unemployment insurance system requires each covered employer to pay contributions on a percentage of his or her taxable payroll, except for certain employers that reimburse the benefits paid. These contributions are held in trust to pay benefits to unemployed workers.

Tax schedule and rates. For qualified employers, contribution rates are determined by two factors: the employer’s position in the tax array and the statutory tax schedule in effect. The employer’s position in the tax array depends on the employer’s layoff experience relative to other employers’ experience. Based on this relationship, employers may be placed in any one of 20 tax rate classes.

The rates in these classes are determined by the tax schedule in effect. The statute establishes seven different tax schedules, AA through F. The tax schedule that will be in effect for any given calendar year depends on the fund balance ratio, which compares the unemployment insurance trust fund balance on June 30 of the previous year to the total payroll in covered employment in the state for the completed calendar year prior to that June 30.

When the reported fund balance ratio is greater than 2.9 percent, the lowest tax schedule, AA, will be in effect. If the fund balance ratio is less than 1 percent, the highest tax schedule, F, will be in effect. Tax schedules A through E will be in effect as specified by the following fund balance ratio intervals:

Tax schedule	Fund balance ratio interval
AA	2.9 and above
A	2.5 to 2.89
B	2.1 to 2.49
C	1.7 to 2.09
D	1.4 to 1.69
E	1.0 to 1.39
F	below 1.0

Under this statute, the tax schedule in effect for 2000 is schedule B. In 1999, schedule A was in effect.

In 1985, an offset tax of 0.02 percent of the taxable wage base was established to fund employment services for claimants. This tax was offset by reducing the rates in all the tax schedules, except for rate class 20, by the amount of the offset tax.

Taxable wage base. The amount of tax that an employer pays is determined by multiplying the employer's tax rate times the employer's taxable wage base. The taxable wage base is the amount of each employee's wages subject to tax. This amount increases by 15 percent each year from the previous year's taxable wage base, with a cap of 80 percent of the state "average annual wage for contribution purposes." The taxable wage base for 2000 is \$26,500. In 1999, the taxable wage base was \$24,300.

UNEMPLOYMENT INSURANCE BENEFITS

Regular unemployment insurance benefits. To qualify for unemployment insurance benefits, a claimant must have worked at least 680 hours in his or her base year. (Generally, the base year is the first four of the last five calendar quarters completed before applying for benefits.) Once this work threshold is met, a weekly benefit amount is calculated for that individual using wage information provided by the person's employer. From that information, the individual's weekly benefit amount and the maximum number of weeks for which that individual may receive the benefit are determined.

To continue to receive regular benefits, a claimant must be able to work and must be actively searching for work. The requirement that the individual actively search for work may be excused if the commissioner of the Employment Security Department determines that the individual's long-term employment prospects will improve if the individual completes a training plan. The individual may enroll in training and continue to receive his or her regular weekly benefit amount as long as the individual is making satisfactory progress toward completing the training plan.

Each June 30, the Employment Security Department determines the new maximum and minimum weekly benefit amounts for new claims filed in the following fiscal year. The maximum and minimum weekly benefit amounts for the period from July 1, 1999, to June 30, 2000, are \$441 and \$94 per week, respectively. The maximum number of weeks that any individual may receive benefits is set in statute at 30 weeks. Not all individuals qualify for the 30 week maximum.

Under both state and federal law, only those individuals who are legally eligible to work in the United States may receive unemployment insurance benefits.

Additional benefits programs. A dislocated worker is one who is unemployed, has exhausted his or her regular unemployment insurance benefits and is unlikely to return to previous employment because of a diminishing demand for his or her skills.

Since 1991, there have been additional benefits programs for dislocated workers in the timber industry who are in retraining. In 1995, the program was extended to dislocated fin fish workers. The eligibility requirements varied over the years. The most recent program was subject to termination under a sunset review. The program sunset and no new applications for claims have been accepted since July 1, 1999.

Under the additional benefits program, if a person was in training and was making satisfactory progress toward completion of his or her training plan, the person was eligible to receive unemployment insurance benefits in addition to their regular benefits. Under the various programs over the past 10 years, the maximum weeks of training benefits ranged from 52 weeks to 122 weeks including up to 30 weeks of regular unemployment insurance benefits.

Federal National Reserve Grant. A federal National Reserve Grant may be awarded through the U.S. Department of Labor when there is a large industry or company layoff. The aerospace industry in this state has experienced layoffs in sufficient numbers to qualify for a National Reserve Grant. One of the benefits for which workers may qualify is income support or "needs-related payments." These payments are available to those who qualify within a particular time period, have exhausted their regular unemployment insurance benefits, and who need this income support to participate in necessary retraining. Under the current grant, eligibility for these needs-related payments will end April 1, 2000. There were a number of aerospace workers who otherwise qualify but for whom funding is not available under the grant.

Local Workforce Investment Councils. In August 1998, Congress enacted the Workforce Investment Act (WIA). The federal act repeals the Joint Training Partnership Act (JTPA) effective July 1, 2000, and amends other federal workforce development programs.

The act requires appointment of local workforce investment boards by local elected officials based on criteria set by the Governor and the state board. The local board is responsible for developing local plans and overseeing the local programs. The board recommends local providers of training services who must meet minimum criteria established by the Governor to be placed on an approved list of service providers. Training providers must meet certain performance criteria to maintain their eligibility as training providers. Local workforce investment boards must also assist in developing employment statistics.

Requalification for UI benefits. An applicant for unemployment insurance benefits may be disqualified to receive benefits if the individual:

- voluntarily quit his or her employment without good cause;
- is discharged or suspended for work-related misconduct; or
- refuses to accept suitable work.

The disqualified individual may requalify for unemployment insurance benefits by allowing five weeks to elapse and earning five times the individual's weekly benefit amount.

If an individual can establish that he or she left employment for good cause, unemployment benefits are not denied. One of the circumstances considered good cause is leaving employment to relocate with a spouse whose change in employment is outside the existing labor market area.

Summary of Substitute Bill:

UNEMPLOYMENT INSURANCE TAXES

Tax schedule determination. Effective beginning with 2000, the date for calculating the unemployment trust fund balance for determining the unemployment insurance tax schedule in the following rate year is changed from June 30 to September 30. In addition, the fund balance ratio intervals that will determine the tax schedule are changed as follows:

Tax schedule	<u>Fund balance ratio intervals</u>	
	<u>from</u>	<u>to</u>
AA	2.9 and above	(no change)
A	2.5 to 2.89	2.1 to 2.89
B	2.1 to 2.49	1.7 to 2.09
C	1.7 to 2.09	1.4 to 1.69
D	1.3 to 1.69	1.0 to 1.39
E	1.1 to 1.29	0.7 to 0.99
F	under 1.0	0.7

Using this new method of calculation, schedule A remains in effect for 2000. (NOTE: The tax rates in the schedules are revised. See below.)

Tax rates. Effective beginning with 2000, the average tax rate in the various tax rate schedules is reduced by reducing the rates in classes four through 16. (For example: The rates in schedule A are reduced by approximately 5 percent. This change in the rates reduces the average tax rate for schedule A from 2.28 percent to 2.19 percent.) The rates in classes one through three and 17 through 20 are not changed.

The rates are further reduced to account for an offset tax established to fund the costs of administering a training benefits program. This tax is set at 0.01 percent of the taxable wage base, and is offset by reducing the rates in all the unemployment tax schedules, except for rate class 20, by the amount of the offset tax. This offset tax does not apply to employers in rate class 20 or to new employers not qualified to be in the tax array. The amount of the offset tax that exceeds the amount that would have been collected at a rate of 0.004 percent must be returned to the unemployment insurance trust fund.

Taxable wage base. For 2000, employers will pay unemployment taxes on the first \$24,300 of each employee's wages (the same as the wage base in 1999). For 2001 and beyond, the taxable wage base will be capped using an "average annual wage for contribution purposes" based on the average of the three previous years' wages.

Technical changes in the tax provisions. For 2000, the period of time for employers to file voluntary contributions is extended from February 15 to March 31. Other technical changes are made, including clarifying references to delinquent contributions and deleting obsolete provisions.

UNEMPLOYMENT INSURANCE BENEFITS

Training Benefits Program

A training benefits program is established for dislocated workers who need retraining to reenter the job market. The program allows a qualified unemployed dislocated worker to receive additional unemployment insurance benefits while he or she is in retraining and making satisfactory progress toward completion of a training plan.

Eligibility requirements.

Dislocated worker. To qualify, an unemployed individual must be a dislocated worker. A dislocated worker is someone who is unlikely to return to his or her previous employment because of a diminishing demand for his or her skills.

Work history. The individual must have worked in an occupation or with a particular set of skills for at least three of the last five years. This requirement does not apply to dislocated aerospace, timber, or fin fish workers until July 1, 2002.

Retraining necessary. The individual, through an assessment of his or her skills, must need job-related training to find suitable employment in his or her labor market. The assessment includes a determination that the individual's skills are not in demand in his or her labor market. Beginning July 1, 2001, this assessment must be substantially based on occupations and skills identified in local labor market areas by

local workforce development councils, in cooperation with the Employment Security Department.

Ineligibility. Individuals who are not eligible for training benefits include individuals on standby status who expect recall to their regular employer, individuals who have a definite recall date within six months of the date of layoff, and individuals unemployed due to regular seasonal layoffs.

Training plan. The individual must develop a training plan that is approved through the Employment Security Department and is submitted within 60 days of the individual's notification of the requirements of the training benefits program. The individual must be enrolled in training on a full-time basis and must continue to make satisfactory progress toward completion of the training plan. The training must target skills in a high demand occupation and must include vocational training or courses needed as a prerequisite to that training. The training may not include courses primarily intended for completion of a baccalaureate degree.

Benefits.

Duration of benefits. A qualified individual may receive up to 52 weeks of benefits that include any regular benefits to which he or she is entitled. Until July 1, 2002, aerospace, timber and fin fish workers may receive up to 74 weeks of benefits including their regular UI benefits. Any aerospace worker receiving needs-related payments under a National Reserve Grant may not receive training benefits until the needs-related payments terminate. The weekly benefit amount is the same as the amount the individual receives as regular UI benefits. An individual may qualify for this program only once every five years.

The Employment Security Department must verify that claimants for training benefits are eligible to work in the United States. By July 1, 2002, the department must develop and implement a method to determine eligibility to work in the United States for individuals seeking unemployment insurance benefits.

Limited to available funds. This program is subject to available funding. Funding is limited to \$60 million for the two fiscal years ending June 30, 2002, and the remainder of fiscal year 2000. Thereafter, the total amount that may be obligated from the Unemployment Insurance Trust Fund is \$20 million annually. Any unobligated amounts available in any given fiscal year may be carried over to the subsequent fiscal year and added to that year's \$20 million maximum. The Employment Security Department must develop a process to ensure that expenditures do not exceed available funds.

Study. The Workforce Training and Education Coordinating Board, in cooperation with the State Board for Community and Technical Colleges and the Employment

Security Department, is directed to review the program and report to the Legislature by December 1, 2002. The review must include a demographic analysis of the participants, the duration of training benefits actually claimed per claimant, the type of training provided, each participant's subsequent employment and wage history, the impact of the program on employers' unemployment insurance contributions, and identification of administrative costs. The Employment Security Department must collect data on individuals who are disqualified and those who requalify for UI benefits. All demographic data is subject to the department's provisions regarding confidentiality.

Local Workforce Development Councils. By July 1, 2001, local workforce development councils, in cooperation with the Employment Security Department, must identify occupations and skill that are declining and those that are in high demand and update this identification regularly.

Requalification for Unemployment Benefits

Individuals who are disqualified from receiving unemployment insurance benefits for voluntarily quitting work without good cause, for being discharged for misconduct, or for refusing to accept suitable work may purge their disqualification by allowing a lapse of seven weeks, rather than five weeks, and by earning seven times his or her weekly benefit amount, rather than five times the weekly benefit amount.

Individuals who quit work to follow a spouse who changes employment to a different labor market area due to an employer-initiated mandatory transfer may establish this as a voluntary quit for good cause and may receive unemployment insurance benefits. If an individual quits work because of marital status or domestic responsibility, including quitting work to follow a spouse who voluntarily changes employment to a different labor market area, the individual is disqualified but may requalify by allowing a lapse of seven weeks, rather than five weeks, and by earning seven times his or her weekly benefit amount, rather than five times, or may report in person to a local job service office for 10 weeks that he or she is able to work and is seeking work.

Legislative Task Force

A Legislative Task Force of 15 members is established to review and recommend changes to the unemployment insurance system to the Legislature by December 1, 2000.

Substitute Bill Compared to Original Bill: The substitute bill deletes the provisions of the original bill, which stated the Legislature's intent to modify the unemployment insurance system, and adds the new provisions summarized above.

Appropriation: None.

Fiscal Note: Requested on January 27, 2000.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: None.

Testimony Against: None.

Testified: None.