



THE VOICE OF MONTGOMERY COUNTY BUSINESS

**SB 107 LABOR AND EMPLOYMENT-UNEMPLOYMENT INSURANCE-MODERNIZATION AND TAX RELIEF ACT
(ADMINISTRATION) EMERGENCY BILL**

**SENATE FINANCE COMMITTEE
JANUARY 26, 2010**

OPPOSE

SB 107 expands eligibility for unemployment insurance (UI) benefits (alternate base period to determine eligibility, makes technical changes to part-time workers provisions, provides 26-weeks of training benefits for unemployed individuals who have exhausted their UI benefits) as a condition of receiving \$126.8 million in federal funds for the Unemployment Insurance Trust Fund; provides a one year deferral in UI tax rates by forestalling the move from Table F to Table E; and reduces the monthly interest charges on late payment of UI taxes from 1.5% to 1%.

On balance, there is risk of long-term costs that outweigh the benefit of immediate, but temporary rate relief, making it difficult to support the legislation as drafted. However, we commend Governor O'Malley and DLLR for their efforts in developing a payment installment plan for employers to assist in meeting 2010 UI tax obligations.

Administrative Relief Through a Tax Payment Installment Plan. A payment installment plan is beneficial to those employers struggling to afford the dramatic UI tax rate increase (367% increase for minimum-rated employers and 150% increase for maximum-rated employers) which took effect January 1, 2010, by alleviating the requirement that taxes be paid in the first quarter. This is an administrative change that DLLR can institute without legislation and without negatively impacting the health of the UI Trust Fund. The payment plan is welcomed by businesses.

Federal Funds and Benefit Expansion. We would support the modernization provisions and accompanying federal funds, if agreement can be reached to include further changes to the benefit structure that will offset the \$20 million in annual costs associated with alternative base period changes and the 26-weeks of training benefits. The legislation proposes a one-time infusion of \$126.8 million in federal funds into the UI Trust Fund in exchange for permanent benefit cost increases (\$20 million annually). We should resist the reaction to accept a short-term benefit with long-term cost implications, unless those additional costs can be offset by benefit changes (eliminate dependents allowance, require a waiting week, eliminate sick claims, etc.) which are not offered by most states. Federal funds should be resisted when they obligate employers to higher long-term costs. It is possible, however, to qualify for the federal funds and, at the same time, effectively neutralize the long-term cost impact as suggested by the business representatives on the UI Oversight Committee.

Temporary Rate Relief (Table F to Table E). It is understandable that individual employers may be anxious to be relieved, even temporarily, of paying the most expensive UI tax rates (Table F). For one year, the legislation reduces tax liability by \$34 per employee for minimum-rated employers and \$51 per employee for maximum-rated employers. However, the consequences of artificially reducing tax rates: (i) exacerbate the current situation whereby benefit payouts exceed UI revenues, requiring higher levels of borrowing from the Federal UI Trust Fund; and (ii) require employers to stay in the more costly Table F for a longer period of

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time until the UI Trust Fund balance is stabilized. The Administration's tax payment installment plan will provide needed help to businesses without unnecessarily depleting the UI Trust Fund.

Stabilizing the UI Trust Fund and Long-Term Costs of Borrowing. It is important for the UI Trust Fund to be solvent, with more consideration given to the long-term hidden costs to employers of borrowing from the Federal UI Trust Fund.

With taxes, even at the highest rate, being unable to sustain benefit payouts, the State must borrow from the Federal UI Trust Fund. If repayment is not made in a timely fashion, interest on the loan will have to be paid from a source other than regular UI taxes. We are concerned that an additional flat-rated surtax on all employers will be imposed to finance borrowing charges.

An additional cost risk is the penalty imposed on Maryland employers for the State being out of conformity, if timely repayment is not made to the Federal UI Trust Fund. For each year the federal loan has not been repaid timely, employers' federal UI tax liability will increase by 0.3% (\$7,500 federal taxable wage base X 0.3% = \$21 per employee) as a result of the state being out of conformity. Losing part of the 5.4% credit that employees receive on the 6.2% FUTA tax for the state being in conformity. All employers, regardless of whether they have experienced layoffs, will be assessed the same amount.

The General Assembly needs to focus on the out year forecasting regarding the ongoing solvency of the UI Trust Fund and the added cost burden to employers for federal borrowing.

For these reasons, we request an unfavorable report on SB 107.

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