California LABOR Federation

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jr/tng39521/cwa/afl-cio

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Senator María Elena Durazo
Chair, Senate Budget & Fiscal Review Subcommittee No. 5 on Corrections, Public Safety, Judiciary, Labor and Transportation
1020 N Street, Room 502
Sacramento, CA 95814

RE: **$3 Billion Employer UI Bailout – OPPOSE**

Dear Senator Durazo:

The California Labor Federation writes in strong opposition to the proposed $3 billion unemployment insurance (UI) Trust Fund bailout, as this incredibly irresponsible giveaway would directly reward the employer community for their chronic refusal to adequately fund the UI system.

The foundation for California's UI system insolvency was built in the 1980s, when legislation was enacted to limit the amount of reserves our UI Fund could accumulate. Benefits were last raised in 2004, leaving workers with wildly inadequate weekly payments while California's cost of living has skyrocketed. As a result, employers have now for decades enjoyed some of the lowest UI taxes in the country while workers suffer under ever lower UI benefits and wage replacement rates.

Our neighbors to the north, Washington and Oregon, currently offer average weekly UI benefits of $547 and $416, respectively. California, with significantly higher costs of living than either of those states, languishes at $320[i]—not enough to cover housing costs for most, to say nothing of other expenses. This $320 represents about 24% of our State Average Weekly Wage (SAWW), which means workers must usually somehow live on less than a quarter of what they were previously earning while working. And every year that California fails to raise benefits, inflation further reduces workers' already meager payments. Clearly, our UI system is not suffering due to generous benefits.

Our ranking in terms of the maximum and minimum UI benefits paid to claimants hardly befits our status as one of the richest and most costly states. 27 states, including our neighbors Nevada, Oregon, and Washington, pay higher maximum benefits. 28 states pay higher minimum benefits. Unlike California, 13 states provide dependent allowances. Almost half the states index their benefits to keep up with inflation. We do not.

Meanwhile, employers in California benefit from the lowest UI taxable wage base ($7,000) of any state. California stands with only Arizona in not only leaving this amount at the lowest level allowed by federal law, and we—unlike Arizona—also do not adjust it if the Federal Unemployment Tax Act (FUTA) is amended to apply to a higher amount than allowed under state law. The bottom line is that California employers pay taxes on a lower wage base than employers anywhere else in the country, including Puerto Rico.

Going back to our West Coast counterpart, Washington State, their indexed taxable wage base of $62,500 rose from $56,500 in 2021. Thanks to this, as well as their reasonable set of tax rates, which its legislature was able to cut in 2021, Washington also increased their minimum weekly UI benefit from $201 to $270. California's minimum weekly benefit stands at $40.

Employers in California also benefit from a funding structure that draws from the state General Fund when insolvency occurs, an outcome that happens as a matter of course during virtually any recession of any severity. Other states require adequate solvency surcharges to ensure that taxpayers are not on the hook when corporations fail to fund UI; California does not. While we do have a solvency surcharge, it utterly fails to address the problem.

When California's UI Fund requires federal loans to cover benefit needs, the federal government charges interest that is not allowed to be paid out of a state's UI Fund. In California, we do not ask employers to shoulder this burden, instead, we pay the interest out of the General Fund. (For years, we even covered this need by pulling hundreds of millions from the 100% worker-funded DI Fund, though the money was eventually paid back.) During the Great Recession, California taxpayers paid out $1.4 billion to cover this interest, while taxpayers in many other states paid nothing.

This chronic insolvency has not only harmed workers, as well as our state's finances, but our ability to improve the system, as well. In 2019, the labor movement prioritized legislation (AB 1066, Gonzalez) to extend UI benefits to locked out and striking workers, but this bill died primarily because of concerns related to its effect on the UI Fund. Despite Appropriations Committee estimates that AB 1066 would have only increased costs to the Fund by 0.01% to 0.1%, even this potential increase was enough to kill the bill.

It should also be noted that many states have not needed to borrow any money from the federal government during the COVID pandemic. Further, of the $35 billion paid out in state UI benefits in California during the pandemic, only about $100 million was the result of fraud—0.3% of the total. (Almost all of the reported UI fraud took place against federally funded programs and, as a result, did not affect the state UI Fund.) Thus, this $3 billion bailout has little to do with COVID and even far less to do with fraud—it is about rewarding corporations for reckless behavior and should not happen.

Rather than encouraging irresponsible conduct, the state should focus on fixing our UI system so that workers can survive on regular benefits and our General Fund will not be depleted in times of recession. Any taxpayer money to the insolvent UI Fund must be a part of a package to reform our dysfunctional system into one that both pays adequate benefits in a timely manner and is properly funded to withstand the next recession, without having to borrow from the federal government. California's taxpayers should never again have to pay over a billion dollars of interest because of our collective failure to fix a broken system.

We urge you to reject the proposed $3 billion employer bailout.

Sincerely,

Mitch Steiger
Legislative Advocate
ms/tng39521/afl-cio
SM: OPEIU 29 AFL CIO

Cc: Committee Members

[i] https://oui.doleta.gov/unemploy/claimssum.asp