



LOS ANGELES AREA  
CHAMBER OF COMMERCE



CALIFORNIA  
GROCERS  
ASSOCIATION



December 22, 2021

The Honorable Gavin Newsom  
Governor, State of California  
State Capitol  
Sacramento, CA 95814

**RE: Small Business Budget Request: \$10 Billion to Address Unemployment Insurance Fund Deficit and Looming \$40 Billion Business Tax Increase**

**Delivered via electronic mail**

Governor Newsom:

The Unemployment Insurance Fund is the state’s and workers’ most important safety net program, as was clearly demonstrated during the Pandemic Recession. When countless businesses were forced to close down and employees were unable to work, millions turned to the UI Fund for assistance putting food on the table and paying for essential services. The state relied on this employer-funded benefit as the primary means to mitigate the economic impact from its shutdown actions.

There is an urgent need to begin paying this debt off now. Not only will continued delay leave the fund insolvent for the foreseeable future, but failure for the state to act will result in the largest tax increase on California businesses in our state's history.

While the entire nation dealt with the Pandemic Recession, many states have already begun to repay—or have fully repaid—their UI Fund debt. A full 23 states have used CARES Act money and 19 have used ARPA money to pay off their debt. These states include Texas, which recently just allocated \$7.2 billion of its ARPA funds to pay off their federal debt, rebuilt their state fund, and made additional improvements to their state program in order to better position this critical social assistance program for the next economic downturn.

As California has chosen to allocate none of its federal dollars to this critical program, our state now accounts for a *full half of the outstanding federal UI Fund debt*. This is no longer a national problem, but in most respects a uniquely California one. There will be no additional federal bailout.

California businesses already pay the highest state unemployment insurance tax rate, plus a 15 percent surcharge. Businesses already pay the highest rate among states as measured by taxable wages (4.01 percent vs. the U.S. average 1.72 percent).

Given the state's strong financial footing, you have repeatedly reiterated your commitment to not raise taxes. Continuing to ignore the UI Fund debt, or relying on business to pay it back in its entirety, would be a violation of that commitment to businesses and workers.

In fact, using a rough cash flow analysis, we predict it will take **at least 10 years** to pay off the current debt, assuming there is not another economic downturn in that time and that the additional federal tax increase levied year 3 and year 5 are not imposed. In other words, in a **best-case scenario, California businesses will pay \$20 billion in higher state taxes compared to the C rate schedule and \$20 billion in higher federal taxes** to pay off the debt and make the UI Fund solvent again.

Because UI Fund taxes are levied per employee, the ongoing debt crisis will have a chilling effect on employers—especially small employers—looking to recover and grow jobs in California for at least the next decade. In fact, employers will pay as much as **\$324 per employee** in UI taxes should this crisis remain unaddressed. Employers are making decisions now about their future here, and with a looming \$40 billion tax bill, many will seek to either not hire or leave the state entirely.

Given the urgency of this issue and the critical role the UI Fund plays, we believe that a \$10 billion appropriation from the state's predicted \$30 billion (and growing) surplus is critical and will be a strong signal to businesses and employees that the state is committed to addressing this debt crisis.

At the same time, we are asking you to join us in forming a working group to help address the outstanding debt and the long-term solvency of the fund.

We look forward to working with you and the Legislature to address this urgent need in your January Budget Proposal and with the Legislature on making this critical investment in growing jobs and creating a strong social safety net for California workers.

Sincerely,

California Business Roundtable  
National Federation of Independent Business, California  
California Business Properties Association  
California Grocers Association  
California Manufacturers and Technology Association  
California Restaurant Association  
California Hotel and Lodging Association  
Family Business Association of California  
Building Owners and Managers Association of California  
NAIOP—The Commercial Real Estate Development Association  
Innovating Commerce Serving Communities  
Institute of Real Estate Management (IREM)  
Bay Area Council  
Los Angeles Area Chamber of Commerce  
Orange County Business Council  
Valley Industry and Commerce Association  
Long Beach Area Chamber of Commerce  
Fresno Chamber of Commerce