



May 27, 2021

The Honorable Nancy Skinner
Chair, Senate Budget and Fiscal Review
State Capitol, Room 5094
Sacramento, CA 95814

The Honorable Jim Nielsen
Vice Chair, Senate Budget and Fiscal Review
State Capitol, Room 5064
Sacramento, CA 95814

The Honorable Phil Ting
Chair, Assembly Budget Committee
State Capitol, Room 6026
Sacramento, CA 95814

The Honorable Vince Fong
Vice Chair, Assembly Budget Committee
State Capitol, Room 2002
Sacramento, CA 95814

Sent via email

**SUBJECT: BUDGET PROPOSAL RE: UNEMPLOYMENT INSURANCE LOAN
SUPPORT IF AMENDED**

Dear Members:

The California Chamber of Commerce and other organizations listed below **SUPPORT IF AMENDED** the budget proposal to pay down a portion of the outstanding unemployment insurance (UI) loan from the federal government. The Governor has proposed to pay \$1.1 billion towards this outstanding debt. We respectfully request a higher amount to be contributed toward the UI fund's insolvency, which is currently \$21 billion, and for an ongoing commitment to continue applying surplus funds to the UI loan over the next five years.

This pandemic created unprecedented unemployment numbers, which drained the State's UI fund. As of May 2020, California's UI fund was depleted, which meant California had to begin borrowing money from the federal government to pay the ongoing unemployment benefits to over a million workers in California. The Employment Development Department recently stated that the current loan balance from the federal government is \$21 billion and that this amount is expected to grow to \$24 billion by the end of this year. Unless the State intervenes and pays off this outstanding debt, California employers will be forced to pay this loan through ongoing and escalating tax increases for decades to come.

California's UI program is funded exclusively by employers via state and federal taxes on wages. Employees do not pay any UI taxes. These employer contributions are deposited in the Unemployment Trust Fund (UI Fund) of the U.S. Treasury Department. States withdraw money from their account in the trust fund exclusively to pay UI benefits. If a state trust fund does not have adequate funds to pay benefits, as California experienced in May 2020, a loan is made from the federal fund so that all employee claims can be paid.

Generally, the contribution rate for an employer is 0.6% of wages, up to \$7,000 per employee/per year, which is \$42, assuming the state is in compliance with unemployment insurance laws and the state's fund is solvent. However, if a state's UI fund is insolvent for more than two years, that tax rate increases by 0.3% each year or \$21, until the fund becomes solvent, creating a steadily growing tax increase on the state's employers. If the fund remains insolvent for 18 years, the maximum rate is \$420/employee/year.

By January 2022, California's UI fund will have been insolvent for two years, meaning all California employers will face a tax increase in 2023 and every year thereafter that the UI fund remains insolvent. For comparison, as a result of the Great Recession from 2008 to 2012, California's UI fund became insolvent and California had to borrow approximately \$10 billion from the federal government. California employers faced a tax increase from 2011 until 2018 in order to pay off the \$10 billion. The current federal loan is twice that amount and expected to increase even further, meaning employers may well reach the maximum rate of \$420/employee if the State does not intervene.

The State is responsible for paying the interest on any outstanding UI loan from the federal government, making it even more important to pay down this debt as soon as possible. Given the State's unprecedented budget surplus, it should use a portion of that surplus to pay off the outstanding loan to eliminate any

ongoing financial responsibility to the General Fund and to California employers. While we appreciate that the State may not be able to pay off the full loan of \$21 billion this year, the State should pay down a higher amount of the loan than \$1.1 billion and make an ongoing commitment to pay off the loan over the next five years. After all – this shutdown was a state-mandated health precaution, and the resulting use of UI benefits to keep Californians afloat was a direct result of that state decision.

Employers throughout California of all sizes have struggled with the financial impact of the pandemic and the extended shut down of the State. With the expected reopening of the State and our economy on June 15th, there is optimism of a chance for many of these employers to begin to recover. A tax increase would certainly limit the success of any recovery, and a per-employee tax increase disincentivizes re-hiring at the worst possible time.

For these reasons, we **SUPPORT IF AMENDED** the budget proposal to pay down the UI loan more than just the \$1.1 billion proposed, with an ongoing commitment to continue paying down this loan over the next five years.

Sincerely,



Robert Moutrie
Policy Advocate
California Chamber of Commerce
On behalf of

American Staffing Association
Antelope Valley Chambers of Commerce
Associated General Contractors
Brea Chamber of Commerce
California Association of Winegrape Growers
California Bean Shippers Association
California Beer and Beverage Distributors
California Building Industry Association
California Business Properties Association
California Chamber of Commerce
California Farm Bureau
California Grain and Feed Association
California Grocers Association
California Pear Growers Association
California Pool & Spa Association
California Restaurant Association
California Retailers Association
California Seed Association
California Staffing Professionals
California Warehouse Association
Can Manufacturer's Institute
Chino Valley Chamber of Commerce
Corona Chamber of Commerce
El Dorado County Chamber of Commerce
Elk Grove Chamber of Commerce
Family Business Association of California
Folsom Chamber of Commerce
Fresno Chamber of Commerce
Garden Grove Chamber of Commerce
Gilroy Chamber of Commerce
Greater Bakersfield Chamber
Greater Coachella Valley Chamber of Commerce
Greater High Desert Chamber of Commerce
Greater Riverside Chambers of Commerce

Greater San Fernando Valley Chamber of
Commerce
Hollywood Chamber of Commerce
Housing Contractors of California
Inland Empire Economic Partnership
Laguna Niguel Chamber of Commerce
Lodi Chamber of Commerce
National Federation of Independent Business
Pacific Coast Egg & Poultry Association
Pacific Coast Renderers Association
Pleasanton Chamber of Commerce
Rancho Cordova Chamber of Commerce
Redondo Beach Chamber of Commerce
Roseville Area Chamber of Commerce
Sacramento Metropolitan Chamber of Commerce
San Gabriel Valley Economic Partnership
San Marcos Chamber of Commerce
Santa Ana Chamber of Commerce
Santa Maria Valley Chamber of Commerce
San Pedro Chamber of Commerce
South Bay Association of Chambers of
Commerce
South Orange County Economic Coalition
Southwest California Legislative Council
The Chamber of Commerce for Greater Brawley
Torrance Area Chamber of Commerce
Tri-County Chamber Alliance of San Luis Obispo,
Santa Barbara and Ventura County
Oceanside Chamber of Commerce
Orange County Business Council
United Chamber Advocacy Network
Valley Industry & Commerce Association
Wine Institute
Yuba Sutter Chamber of Commerce

cc: Keely Bosler, Director, Department of Finance
Members, Senate Committee on Budget and Fiscal Review
Members, Assembly Committee on Budget
Angie Wei, Legislative Affairs Secretary, Office of the Governor