

CHAMBER UNEMPLOYMENT INSURANCE JOB PRESERVATION BILL

Support C3 and Save Hawaii Jobs.

Current State of Unemployment Insurance

An immediate ten-fold increase in the average unemployment tax could result in the loss of 5,000 to 14,000 jobs in 2010, and many business closures. The “tax shock” will hurt the overall economy and employment just as our economy is beginning to recover. For example, the net effect of the unmoderated UI tax increase alone on a business with 40 employees paying \$40,000 in annual compensation would be one job reduction.

Fact

The Unemployment Trust Fund must be replenished to adequate reserve levels through increased tax paid by Hawaii private sector employers.

In 2007, Act 110 passed which was intended to provide unemployment insurance tax relief for three years to employers. However, a trigger in the bill allowed the relief to sunset if the UI fund fell below the adequate reserve level. The world-wide recession and job loss in Hawaii have triggered the loss of the tax relief after two years and the dramatic tax increase to replenish the UI Fund.

Reasons for Unemployment Insurance Tax Assistance Legislation

Not passing C3 will result in further job cuts, as the cost to every employer for each employee is increased resulting in increased unemployment. This will drive the unemployed to the UI fund, further driving it to insolvency.

- Moderating this increase over a few years will:
 - help the economy recover faster and create jobs,
 - help businesses plan expenses over a larger period of time,
 - minimize the impact on jobs, wage or benefits reductions.
- Businesses will restore the Trust Fund to adequate reserve levels fairly quickly once the economy and employment recover.
- Borrowing from the federal government in the short term is good for the economy and employers will pay off any loans as the interest is accrued.

Evaluation of Alternatives

The Chamber's Alternative (C3) can be broken down into three main components:

- **Reduce the Tax Rate** by holding the tax rate schedule to D (from F) in 2010 and F (from H) in 2012 to reduce the impact of the tax increase on the average and small businesses.
 - Changing the tax rate schedule will reduce the immediate “tax shock” and will safeguard the statewide unemployment rate.
 - Borrowing (estimated at \$4 million) to keep the UI Fund solvent keeps \$289 million* in the state economy over 2010-2011 that would otherwise be unused and accumulated in the Trust Fund instead of providing stimulus for the economy. Reducing the tax rate will provide immediate relief to businesses, as the tax will be reduced on the first dollar of wages paid in 2010.
- **Set the Taxable Wage Base at 90%** of the Average Annual Wage rather than 100% to provide ongoing relief to those hardest hit by the recession. Also, reducing the taxable wage base will reduce taxes over the year, but only when employees exceed 90% of the average annual wage base (in 2010, \$34,900).
- **Maintain the Adequate Reserve Ratio at 1.0** as opposed to increasing it to 1.5 in 2011 so that the funds are circulated within the economy. 12 months of benefits for the worst year in the past ten years is more than adequate reserves according to most experts.

* The Chamber's analysis is even more conservative than UHERO projections by factoring in a 30% higher projected total unemployment rate due to rising taxes or changes in average tax rate due to employer reserve reductions.

The House Labor Committee Chair's Alternative (R8) addresses the problem for one year only and does not do enough to mitigate the loss of jobs and businesses caused by the tax shock and will eventually cost businesses \$26 million more than doing nothing.

- The Chamber appreciates the Chair's understanding of the problem and effort to work with all segments of our community to find a solution to the negative impact of this nationally unprecedented UI tax increase. However, based on the projected unemployment rate, we prefer C3. R8 only defers the “tax shock” until 2011. We estimate R8 will increase taxes on the average business to \$1,640 per employee in 2011 and \$1,920 in 2012 compared to C3 which will increase taxes to \$1,270 and \$1,730. And there is no tax relief for the hardest hit after 2010.

TAKE ACTION

The House Labor Committee plans to schedule a hearing either on January 26 or 29 (contingent on when committee referrals are made). The hearing will start at either 8:30 a.m. or 9:30 a.m. and should end by noon or earlier. The chair is introducing and intending to pass his bill (R8) out of committee. Unless he hears compelling arguments to support C3, he will probably not consider the C3 language. Therefore, it is imperative that members of the business community voice their support for C3. Action can be taken in the following ways:

1. **Contact Karl Rhoads**, Chair of the House Labor Committee, to support C3 by **Monday, January 25**.

TALKING POINTS: "Please support C3, the Chamber's bill. Changing schedule Base to F in 2012 and holding the taxable wage base to 90% of the average annual wage will reduce the impact of the tax increase on the average and small businesses. We do not need more than one year of benefits in the UI Fund to be safe and prudent. Extending the tax relief beyond 2010 will save jobs, preserve businesses and spur the economy by keeping more dollars flowing into the economy through wages and purchases and will help businesses plan expenses over a longer period of time."

- (808) 586-6180
- Reprhoads@capitol.hawaii.gov

2. **Submit testimony** to the House Labor Committee. DO NOT SUBMIT until the hearing notice has been published.
 - Once the hearing notice is issued, you can submit testimony through the www.capitol.hawaii.gov website. The notice will have a "testimony" link. Click on it and follow the directions. OR,
 - E-mail testimony to labtestimony@capitol.hawaii.gov. HOWEVER, DO NOT SUBMIT until the hearing notice has been published. OR,
 - Respond to the Chamber's Action Alert. HOWEVER, please add your own message to the content box. OR,
 - E-mail your letter to smenor-mcnamara@cochawaii.org now until and Monday and I will fill out the required information on the letter and submit on your behalf.
3. **Testify** at the House Labor Committee hearing. Emphasize how an increase in the UI tax will affect your business, specifically the impact on jobs and wages & benefits. Feel free to use the talking points above or on the first page.
 - The committee will have the testimonies beforehand. If you have not had an opportunity to submit testimony prior to the hearing, you will still be able to submit one on the day of.
 - Oral testimony will be in the order the committee has received the written testimonies.
 - The limit is two minutes followed by possible Q&A.
 - Hearing will be in Room 309 of the State Capitol.
 - Metered parking is available on the ground level of the Capitol. Other places to park is in the Alii building on Alakea. Rates are reasonable.