Senate Joint Resolution 4 – Unemployment Compensation Bonds

Ohio Senate Finance Committee

Interested Party Testimony

June 9, 2020

Chairman Dolan, Vice-Chair Burke, Ranking-Member Sykes, and members of the Ohio Senate Finance Committee, on behalf of the nearly 22,000 Ohio members of the National Federation of Independent Business (NFIB), thank you for the opportunity to provide testimony on Senate Joint Resolution 4. We appreciate Senator Peterson introducing Senate Joint Resolution 4, to look at a new avenue for Ohio to take on the management of debt related to paying legitimate unemployment compensation claims. Before I address the Joint Resolution, I want to provide a brief recap of Ohio's recent unemployment compensation trust fund history.

As many in the legislature are aware, Ohio's unemployment insurance (UI) system is broken, and the COVID-19 pandemic has only exacerbated the issue. The Ohio Unemployment Insurance Trust Fund, which is funded entirely by employers and pays out benefits to qualifying jobless workers has already borrowed billions from the federal government to pay COVID-19-related claims. We appreciate the legislature and Governor DeWine's administration for recognizing the unique situation related to COVID-19, electing to not charge individual employer accounts for claims resulting from the closing of businesses due to government orders.

But, Ohio's insolvent trust fund has been known to be a problem for decades. Recall during the last economic downturn of 2008-09, Ohio borrowed over $3 billion from the federal government. As a result of this borrowing, Ohio employers incurred tens of millions of dollars in additional costs to repay the loan. These charges were attached to every employer, irrespective of whether they had laid off any employees. Additionally, any interest accrued on the loan was paid out of the state general revenue fund (GRF). Though going forward, due to legislative action, employers will now pay this interest.

We are also grateful for the legislature saving employers hundreds of millions of dollars in additional penalties by borrowing from unclaimed funds to repay the outstanding loan to the federal government, adding a one-time charge to employer accounts for repayment. This temporary solution, however, did not tackle the larger issue of Ohio's long-term insolvency. The ongoing instability creates uncertainty for employers concerning their unemployment taxes.

We believe comprehensive reforms are needed to update and strengthen Ohio's UI program for the benefit of Ohio's employers, employees, and the overall economy. For the past several years, NFIB has been before the Ohio General Assembly advocating for reforms to our unemployment compensation system. We recognize the current situation makes tackling this important issue difficult. We respectfully request the legislature revisit the issue of long-term solvency when this pandemic has subsided. Turning to Senate Joint Resolution 4.

Senate Joint Resolution 4 (SJR 4) provides Ohio the opportunity to better manage unemployment compensation debt. As stipulated in SJR 4, bonding may only occur when the state can obtain a more favorable interest rate than that being offered by the federal government. Had SJR 4 been in place during the last economic downturn, Ohio likely could have obtained a better interest rate than what the federal government was charging, saving employers and the GRF money.

An additional effect of SJR 4 may be a more controlled assessment on employers to repay the debt. This of course will depend upon the structure of repayment crafted by the General Assembly. Currently, after two years of ongoing federal borrowing, Ohio employers begin to see their federal unemployment tax (FUTA) off-set credit erode. FUTA is levied on the first $7,000 of employee wages at a 6 percent rate. However, when a state is in good standing, that is to say not borrowing or otherwise in violation of federal unemployment law, employers can recognize a credit of 5.4 percent, for an effective tax rate of 0.6 percent. It is this credit that is reduced annually to repay the debt. The longer the borrowing, the greater the reduction and thus the more per-employee charge employers incur. Managing the debt with in-state bonds could allow for a less punitive repayment structure.

We believe SJR 4 can serve as an important tool, allowing Ohio flexibility when the state needs to borrow funds to support the UI system. Our organization has long supported bonding as a helpful option when dealing with insolvency. While we support SJR 4, we respectfully ask the legislature to revisit the greater issue of unemployment compensation trust fund insolvency. We strongly believe these should be done in tandem.

Thank you Mr. Chairman and members of the committee. I will try and address any questions.