

CALTAX COMMENTARY: FULL RECOVERY OF UI FUND DEPENDS ON STATE'S ATTITUDE TOWARD JOBS

By David Kline, CalTax Vice President of Communications and Research



For the first time since 2008, California's Unemployment Insurance Fund is expected to end the year with a positive balance and be debt-free – an overdue situation that will prompt the end of a tax penalty on California employers. Without a change in the state's jobs climate, however, the celebration could be short-lived.

When the UI Fund went dry in 2009, California began borrowing money from the federal government to pay unemployment insurance benefits.

That year, the state paid \$11.3 billion in benefits, and collected only \$4.8 billion from employer taxes ("contributions").

A [new report](#) from the California Employment Development Department projects that thanks to an improved economy, the UI Fund will end 2018 with a \$2.1 billion balance that could grow to \$2.6 billion by the end of 2019 absent any economic calamities.

The fund had a deficit of more than \$10 billion in 2013, and a \$1.1 billion deficit at the end of last year, so any positive balance is good news, but the EDD cautions that "if changes are not made to the current financing structure, the UI Fund may not maintain a balance high enough to withstand an economic downturn."

If a downturn hits, we must hope that the state will learn from its mistakes and won't try to borrow its way out of the problem again. The federal loan was tremendously costly for businesses. As long as the loan and its corresponding interest remained unpaid, the federal government reduced California employers' Federal Unemployment Tax Act (FUTA) credits, translating to a tax increase that the EDD says will cost employers \$2.6 billion this year alone. (A FUTA credit reduction is not forecast for next year, as the federal loan will be repaid.)

Even after the loan is paid off, employers will continue being hit with the highest possible tax rate ("contribution" schedule F, plus a 15 percent surcharge) until the fund reaches a higher reserve level.

The EDD's warning about the strength of the fund should be heeded. In 2017, the fund paid out \$5.4 billion in benefits, and had total receipts of \$6 billion, so there isn't much wiggle room if a recession hits.

Reserves in the state budget could be used to assist the UI system in times of trouble, but the spending lobby would be competing for every penny, so it could be an uphill battle.

However, there are some steps the state's elected officials can take now to strengthen the UI Fund for the future. The first is to improve California's business climate, and focus on helping businesses put more people to work. In recent years, state lawmakers occasionally have voted

for small, industry-specific steps in this direction, but broad tax relief and regulatory improvements would have a larger positive impact on employment.

At the very least, officials should stop proposing laws and regulations that make it even harder for businesses to create California jobs. Proposals like the split-roll property tax, sales tax on business services and local “headcount” taxes send a loud and clear message to employers to take their jobs elsewhere.

Even the well-meaning increases in the minimum wage have a negative impact on job creation, and at the same time increase the cost of UI benefits – a double-whammy on the UI Fund. In fact, total benefit payments are projected to cost \$100 million more in 2019 than they did in 2017, despite the number of unemployed Californians projected to be 54,000 lower in 2019.

To shore up the UI Fund, we need a statewide focus on having more Californians receiving paychecks, and fewer receiving unemployment checks from the EDD. Strengthening the UI Fund goes hand in hand with strengthening the state economy.