GOVERNMENT ACCOUNTABILITY AND OVERSIGHT COMMITTEEE
REPRESENTATIVE LOUIS BLESSING III, CHAIRMAN

TESTIMONY
OF
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DIRECTOR, PUBLIC POLICY SERVICES
THE OHIO MANUFACTURERS' ASSOCIATION

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Chairman Blessing, Vice Chairman Rezabek, Ranking Member Clyde and members of the House Government Accountability and Oversight Committee. Thank you for the opportunity to provide proponent testimony today regarding House Bill 620 and Ohio's unemployment compensation insurance system. My name is Rob Brundrett, and I am Director, Public Policy Services for The Ohio Manufacturers' Association (OMA). The OMA was created in 1910 to advocate for Ohio's manufacturers; today, it has more than 1,400 members. Its mission is to protect and grow Ohio manufacturing.

Ohio's unemployment insurance trust fund, which is funded by employers and pays benefits to qualifying jobless workers, is insolvent. Prior to the passage of House Bill 390 this past summer which allowed the state to use unclaimed funds to eliminate Ohio's unemployment compensation debt obligation to the federal government, Ohio was one of only three states that still owed money to the federal government due to Title XII loan borrowing. The OMA would like to thank each of the elected officials on this committee, for passing the legislation that enabled the debt to be retired prior to November of this year.

While, House Bill 390 enabled Ohio to pay off its outstanding federal debt that covered unemployment compensation obligations incurred during and after the Great Recession, because no legislation was passed that corrected the conditions that caused Ohio to incur such a large federal debt, Ohio's unemployment insurance system remains among the least solvent in the country.

The unemployment insurance (UI) burden in Ohio generally increased as a result of the Great Recession, as claims experience increased, the payroll against which experience was determined was reduced, and Ohio became subject to the FUTA offset credit reductions under federal law. As the economy slowly recovered with increased payrolls and reduced claims experience, experience rates improved and the average state UI premium was reduced. However the FUTA tax continued to increase as Ohio's Title XII loan was not repaid.

Further, experience rate reductions were restrained due to tax increases automatically triggered by the state's failure to meet Ohio's Minimum Safe Level (MSL) standard for

UI trust fund solvency. This solvency provision results in the maximum contribution rate for Ohio employers being increased to 8.7%, although the maximum rate on the base rate schedule is just 6.7%. Therefore, businesses experienced triple the pain: 1) an increase in base rates, 2) Minimum Safe Level tax triggers, and 3) FUTA penalties.

House Bill 620 is a balanced approach that better aligns benefits and contributions. It is intended to build a balance in the state's trust fund before the next recession. These reasonable provisions to address solvency include: 1) freeze the maximum weekly benefit amounts, 2) increase the taxable wage base which employers pay and adjust the minimum safe level (MSL) tax rate, 3) establish a reasonable minimum safe level for the UI trust fund, 4) adjust the number of potential weeks of unemployment compensation, and 5) modernize Ohio's dependency provision which provides benefits unequally for qualified unemployed workers.

It is imperative that the General Assembly pass solvency legislation prior to the end of session. House Bill 390 contained a penalty provision allowing that if Ohio borrows funds from the federal government to cover future unemployment compensation liabilities, all employers are subject to an immediate contribution rate increase as determined by the Director of the Ohio Department of Jobs and Family Services, in an amount up to ½ of 1%, for the purpose of eliminating the principal on any outstanding loan balance. This is a severe penalty on Ohio's employers and puts jobs at risk during a time when businesses would be struggling.

The best solvency plan is one that includes a focus on job creation because increased employment not only increases contributions but also reduces benefit payout. For that reason we appreciate the approach taken by Representative Schuring that takes into account the rates and benefits paid out by states surrounding Ohio with which Ohio competes to attract and retain new businesses.

Finally the OMA previously testified in front of the Joint Committee that held hearings on unemployment compensation over the summer. At that time one of our recommendations was to include bonding authority in any long term solution. While bonding is not the preferred solution advocated by the OMA, it would be a beneficial option for Ohio that other states have successfully used to address solvency issues.

While Ohio was one of many states that borrowed money from the federal government, due to Ohio's constitution, the state was unable to entertain the option of issuing bonds to pay off the debt in order for employers to avoid the burdensome increase in FUTA penalties.

Ohio tried this before. Amended Substitute House Bill 171 effective July 1, 1987 directed the Ohio Treasurer to issue bonds to repay outstanding advances made by the federal government to the Ohio unemployment compensation program, to pay interest on advances and to reimburse the general revenue fund for interest paid.

However the Ohio Supreme Court denied a mandamus action. The Court in a 4-3 decision held that the law allowing for the issuance of bonds was unconstitutional under Sections 1,2, and 3 of Article VIII of the Ohio Constitution and further that the "special fund" exception created by the Supreme Court in a prior decision also did not allow for the type of bonding directed in the bill.

During the past recession eight states (Arizona, Colorado, Idaho, Illinois, Michigan, Nevada, Pennsylvania, and Texas) turned to bonding in order to avoid onerous federal penalties. By bonding the debt, the states were able to take advantage of lower interest rates, saving the states and employers money.

We appreciate the inclusion of language in House Bill 620 intending the General Assembly to adopt a joint resolution to allow the state to issue bonds to repay debt incurred by the unemployment compensation system.

In conclusion, unemployment insurance policy reform priorities should now focus on aligning benefit payout with contribution revenue and building a balance in the unemployment trust fund sufficient to avoid triggering automatic FUTA tax increases that have significantly increased unemployment taxes for Ohio employers since the Great Recession of 2008. The first step was to pay off the remaining Title XII loan balance, which the General Assembly achieved this summer. The OMA and its members thank and appreciate the leadership of the General Assembly in accomplishing that pay off. Now it is imperative to pass solvency reform in order to protect Ohio’s employers and employees from being subjected to onerous federal penalties during any future economic recession. House Bill 620 meets these priorities and we urge this committee to pass this important piece of legislation.

Thank you and along with my colleagues I will be happy to try and answer questions from the committee members.