

# Backgrounder: House Democratic Office

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HB 2127: A summary

The House Revenue unanimously approved HB 2127 last week, and sent it to the floor of the House for today's vote.

The bill provides a new way of calculating the unemployment insurance taxes that businesses pay, enabling the state to cut the tax rate by more than \$200 million over the next four years. The bill will result in actual tax reductions of \$30 million-\$35 million in 2005-07, and \$170 million to \$195 million in 2007-09. Because Oregon's Unemployment Insurance Trust Fund contains over \$1 billion, the savings to employers does not threaten the state's ability to pay unemployment benefits.

Under the bill, the Oregon Employment Department would take the following action:

- Adjust the formula that determines the required balance for the Unemployment Insurance Trust Fund. The Department would base the calculation on the last two recessions, and change the solvency requirement by basing it on the amount needed to pay 18 months of benefits with 5.6-percent Insured Unemployment Rate, rather than 7.0 percent.
- Reduce the "New Employer Base," which will save *new* employers \$2.0 million in 2005-07, and \$15.6 million in 2007-09.
- Round off the "Taxable Wage Base" to the nearest \$100, rather than \$1,000. This simple action will result in a savings to employers of \$.6 million in 2005-07, and \$9 million in 2007-09.
- Spend down the Benefit Reserve Fund (BRF) while building up the trust fund. Created in the early 1990s, the BRF—which is invested in short-term securities—is not indexed for inflation or the growth in employment. House Bill 2127 would require payment of unemployment insurance benefits from the BRF until it's depleted, and direct a percentage of unemployment tax to the Supplemental Employment Department Administrative Fund (SEDAF), which pays for certain employment services that the Department provides (matching job seekers to jobs; helping small businesses with recruitment; job fairs, etc.). In combination with returning to the Trust Fund the ending balances above a reserve that's big enough to handle the obligations for one quarter, these actions will result in an interest gain to the Trust Fund of \$1.4 million in 2005-07 and \$.57 million in 2007-09.