Policy Matters Ohio

TESTIMONY
June 3, 2020

Unemployment compensation

Testimony on SJR 4 before the Senate Finance Committee

Zach Schiller

Good morning Chairman Dolan, Ranking Member Sykes and members of the committee. My name is Zach Schiller and I am research director of Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify. We would caution you that bonding our unemployment debt is not a solution to the state's solvency problems. While it could allow employers to reduce interest costs under certain circumstances, if it is to be done, it should really be as part of a package to address solvency, expand benefits protections, and strengthen the system as an automatic stabilizer. If you do approve this resolution, we suggest some changes so it is more likely to achieve real savings and is sufficiently transparent.

Selling bonds on the private market does not address the real source of our solvency problem because it does not increase the resources we have to pay for benefits. That has been the key reason why Ohio's unemployment trust fund has not met federal standards for decades. A tax on employers that covers just the first $9,000 in each employee's wages, and amounts to just half a penny on each dollar in wages, is not going to suffice to support benefits. These are average by national standards. And Ohio UC long has covered a smaller share of the unemployed than such benefits do across the country, in part because of our overly stringent earnings requirement.

By bonding our debt, the state would simply be paying its debt to a different party. That is not a real solvency solution.

Moreover, most of the states that have recently used private bonding have taken longer to pay off their debt than if they borrowed from the federal government and paid off the debt through the credit offset of the federal tax, the FUTA tax. Michigan only paid off its private debt late last year, while Pennsylvania did so on Jan. 1, 2020. Had we not experienced the longest economic expansion in recent U.S. history, these states would have found themselves still paying off private debt when the next recession arrived. While it may seem attractive for employers to avoid paying the higher federal taxes that eventually come with federal borrowing, using private borrowing to stretch out the debt is not a solvency solution. If it is simply a mechanism for employers to put off paying the taxes that are needed to fund the system, it is an avoidance mechanism.

As written, the resolution has some key defects. It states, "Obligations may be issued under this section only if the governor or the governor's designee determines and certifies that the rate of interest charged by the federal government for outstanding advances to the state exceeds the expected rate of interest to be paid on the obligations issued under this section." However, the rate of interest does not represent the total cost of such obligations. That depends also on the length of the obligations, as well as the cost of the transactions. Bonds with lower rates could cost more if they are paid over a longer period of time. We urge that you amend the resolution so that the governor's determination is based on the estimated full cost of the obligations compared to federal borrowing, not just the interest rate.

In fact, if the state trust fund were to have recently borrowed privately, it might well have paid more than if it borrowed from the federal government.

We also urge that you add a provision to the amendment that requires a quarterly public report to the General Assembly, easily accessible on a state website, regarding all the key aspects of such borrowing, including the transaction costs, the companies employed to sell the debt, the interest rates, the amounts paid and outstanding.

We hope you will consider these suggestions for improvements to this amendment.

Thank you for this opportunity to testify.