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Measure Description:

Extends look-back period used to determine Unemployment Compensation Trust Fund solvency level from 10 years to 20 years.

Government Unit(s) Affected:

Oregon Employment Department (OED)

Summary of Fiscal Impact:

Costs related to the measure may require budgetary action - See analysis.

Analysis:

HB 3389 creates new laws and makes changes to five Oregon Employment Department (OED) statutes under Oregon Revised Statutes (ORS) chapter 657 used by the Department to determine employer unemployment insurance (UI) tax contributions and rates, including:

- Extending the look-back period used to determine the Fund Adequacy Percentage Ratio (FAPR) from 10 years to 20 years. The measure also states that calendar years 2020 and 2021 may not be considered a “high benefit cost period” for purposes of making determinations for the solvency level of the fund.
- Providing that the same experience rating used to determine an employer’s 2020 UI tax rate shall be used to determine their rate for calendar year 2022, 2023, and 2024.
- Allowing for the deferral of up to one-third of 2021 UI tax contributions for employers whose UI tax rate increased by at least 0.5 percentage points and not more than 2.0 percentage points from 2020 to 2021. Further, the measure authorizes forgiveness of a percentage of deferrable tax contributions according to tax rate increase brackets as well as forgiving one-third of 2021 UI tax contributions for employer whose UI tax rate increased by more than 2 percentage points from 2020 to 2021.
- Reducing the FAPR requirements used to determine the UI tax schedule for employers.
- Broadening the kinds of property that may be received for the Unemployment Insurance Trust Fund.

The measure takes effect on the 91st day after the 2021 Legislative Assembly adjourns sine die.

The measure is anticipated to have a fiscal impact on both the administration of ODE and on the Unemployment Insurance (UI) Trust Fund.

Administrative Impact

OED estimates the administrative cost of this measure to be \$500,845 Other Funds, 17 limited duration positions (2.75 FTE) in the 2021-23 biennium. This estimate reflects the costs and positions associated with the following tasks: documenting necessary changes to business processes (3 positions); programming changes for the agency’s information technology systems (6 positions); setting up, monitoring, and process refunds for accounts eligible for deferral (8 positions); and determinations of continued eligibility. The work performed by these limited duration positions will help to minimize any potential impact on the Department’s Modernization Program.

Unemployment Insurance (UI) Trust Fund Impact

OED estimates the schedule changes, tax deferral forgiveness, and reduced interest earned due to this bill are estimated to reduce the UI Trust Fund balance by \$291 million in the 2021-2023 biennium and by \$649 million in the 2023-2025 biennium.

For the 2021-2023 biennium, \$278 million of the UI Trust Fund impact is due to reduced tax contributions, with the remainder from reduced interest earned. For the 2023-2025 biennium, \$610 million of the UI Trust Fund impact is due to reduced tax contributions, with the remainder from reduced interest earned. Tax schedule changes due to the extension of the "high benefit cost" look-back period from 10 years to 20 years, exclusion of 2020 and 2021 from the "high benefit cost" period, and the reduction of the FAPR requirements for each tax schedule are estimated to reduce UI tax contributions by \$194 million in the 2021-2023 biennium and \$610 million in the 2023-2025 biennium. The full or partial forgiveness of deferred taxes in 2021 reduces UI tax contributions in the 2021-2023 biennium by \$84 million (\$27 million + \$29 million + \$28 million). Employers whose tax rate increased by more than 1 percentage point and not more than 1.5 percentage points from 2020 to 2021 will be entitled to 50% forgiveness of deferred taxes, totaling \$27 million of reduced tax contributions. Employers whose tax rate increased by more than 1.5 percentage points and not more than 2 percentage points from 2020 to 2021 will be entitled to 75% forgiveness of deferred taxes, totaling \$29 million of reduced tax contributions. Employers whose tax rate increased by more than 2 percentage points from 2020 to 2021 will be entitled to forgiveness of one-third of their 2021 tax contributions, totaling \$28 million of reduced contributions. The table below from OED reports the estimated UI Trust Fund impact of this measure for the 2021-2023 and 2023-2025 biennia.

Table 1. Estimated Trust Fund Impact

	UI Tax Contribution Impact— Schedule Changes	UI Tax Contribution Impact—Tax Deferment Forgiveness	UI Tax Contribution Impact—Total	Interest Earned Impact	UI Trust Fund Impact
2021-2023 Biennium	(\$194,407,171)	(\$83,855,562)	(\$278,262,733)	(\$12,631,078)	(\$290,893,811)
2023-2025 Biennium	(\$609,868,618)	\$0	(\$609,868,618)	(\$39,624,557)	(\$649,493,175)

The -1 amendment includes funding for ODE to carry out the work required by the measure.