

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 9, 2001

3:20 p.m.

MEMBERS PRESENT

Representative Lisa Murkowski, Chair
Representative Kevin Meyer
Representative Pete Kott
Representative Harry Crawford
Representative Joe Hayes

MEMBERS ABSENT

Representative Andrew Halcro, Vice Chair
Representative Norman Rokeberg

COMMITTEE CALENDAR

HOUSE BILL NO. 58

"An Act relating to the calculation and payment of unemployment compensation benefits; and providing for an effective date."

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 58

SHORT TITLE: UNEMPLOYMENT COMPENSATION BENEFITS

SPONSOR(S): RLS BY REQUEST OF THE GOVERNOR

| Jrn-Date | Jrn-Page | | Action |
|----------|----------|-----|------------------------------------|
| 01/16/01 | 0089 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/16/01 | 0089 | (H) | L&C, FIN |
| 01/16/01 | 0089 | (H) | FN 1: ZERO(LWF) |
| 01/16/01 | 0089 | (H) | FN 2: (ADM/VARIOUS DEPTS) |
| 01/16/01 | 0089 | (H) | GOVERNOR'S TRANSMITTAL LETTER |
| 01/16/01 | 0089 | (H) | REFERRED TO LABOR & COMMERCE |
| 02/28/01 | | (H) | L&C AT 3:15 PM CAPITOL 17 |
| 02/28/01 | | (H) | Bill Postponed To 3/9/01 |
| 03/09/01 | | (H) | L&C AT 3:15 PM CAPITOL 17 |

WITNESS REGISTER

REBECCA GAMEZ, Deputy Commissioner

Department of Labor and Workforce Development (DLWD)
P.O. Box 21149
Juneau, Alaska 99802-1149

POSITION STATEMENT: Testified that the department supports HB 58.

RON HULL, Acting Director
Division of Employment Security
Department of Labor and Workforce Development (DLWD)
P.O. Box 21149
Juneau, Alaska 99802-1149

POSITION STATEMENT: Provided information to the committee on HB 58.

CHUCK BLANKENSHIP, Program Manager
Unemployment Insurance Program
Division of Employment Security
Department of Labor and Workforce Development (DLWD)
P.O. Box 21149
Juneau, Alaska 99802-1149

POSITION STATEMENT: Provided information to the committee on HB 58.

JOHN BROWN
International Union of Operating Engineers (IUOE)
Local 302
309 Juneau
Fairbanks, Alaska 99701

POSITION STATEMENT: Testified in support of HB 58.

KIM GARNERO, Director
Division of Finance
Department of Administration
P.O. Box 110204
Juneau, Alaska 99811-0204

POSITION STATEMENT: Provided information on the fiscal note for HB 58.

ACTION NARRATIVE

TAPE 01-30, SIDE A
Number 0001

CHAIR LISA MURKOWSKI called the House Labor and Commerce Standing Committee meeting to order at 3:20 p.m. Members present at the call to order included Representatives Hayes,

Meyer, Crawford, Kott, and Murkowksi. Representatives Halcro and Rokeberg joined the meeting as it was in progress.

HB 58-UNEMPLOYMENT COMPENSATION BENEFITS

Number 0021

CHAIR MURKOWSKI announced that the committee would hear HOUSE BILL NO. 58, "An Act relating to the calculation and payment of unemployment compensation benefits; and providing for an effective date."

Number 0093

REBECCA GAMEZ, Deputy Commissioner, Department of Labor and Workforce Development (DLWD), testified in support of HB 58; the bill would increase the maximum weekly benefit amount of Unemployment Insurance (UI). She said this piece of legislation comes before the legislature every four to six years; it has been about five years since the last "go around."

MS. GAMEZ stated that the bill does three things: it raises the maximum weekly benefit amount of UI from \$248 to \$284 in the first year; it raises the maximum from \$284 to \$320 in the second year; and third, during the second year it attaches itself to an indicator, which is the average weekly wage of earners for the state.

Number 0246

MS. GAMEZ referred to a question-and-answer sheet provided to the committee by the DLWD. She said the average weekly wage [is figured] by dividing the total of all covered wages for the fiscal year ending June 30 by the average covered employment in the state. The figure is divided by 52, for 52 weeks [in a year], to obtain the average weekly wage, so [UI benefits] would be tied to that, she explained.

RON HULL, Acting Director, Division of Employment Security, Department of Labor and Workforce Development (DLWD), referred to one of the charts provided by the department. The first chart, entitled "State Average Weekly Wage Comparison 1999," depicts Alaska's ranking for an Alaskan worker's average salary. He said Alaska ranks number 14 at \$639.50 per week. He pointed out that this [information] is tracked by the research and analysis section [with the DLWD]. This consists of all covered taxable wages, divided by the number of Alaskans employed; it

covers 97 percent of all wages, he said. The earnings of corporate officers, elected officials, and those who are self-employed are not included.

MR. HULL referred to the second chart, entitled "Federal Wage Replacement Comparison, CY 1999, Average Wk Benefit as a Percent of Average Weekly Wage." He said this compares wage replacement with all other states; it shows that Alaska is "dead last," which is the issue that is addressed in HB 58. The data was prepared by the United States Department of Labor (USDOL) under the Government Performance Results Act (GPRA). The federal government set three performance standards: wage replacement, trust fund solvency, and the reciprocity rate. Alaska is doing fine on two of the three, but [the DLWD] is in front of the committee today because of the third one, he said.

Number 0437

MR. HULL referred to the next chart, entitled "Wage Replacement Comparison 1999, Maximum Weekly Benefit as a Percentage of Average Weekly Wage." If [Alaska] gets to the maximum weekly benefit amount [WBA] of \$320, he explained that it puts Alaska just below the "middle of the pack," in the 28th position. Next year, at \$284, Alaska would be number 12 from the bottom.

MR. HULL referred to a chart entitled "Alaska's Maximum Weekly Benefit Amount Compared with 50 Percent Average Weekly Earnings." He explained that this refers to the years 1980 to 2001, and shows what [Alaska] would have been paying if benefits had been paid at the average weekly salary level. The increases in wages in the past have been significant because Alaska has waited so long to make the changes.

MR. HULL referred to the chart entitled "Number of Two Dollar Increases in Calculation of [the] 50 Percent Average Weekly Earnings." This attempts to ease the fears of the potential for wildly shifting tax rates, he said. "We" went back to 1990, and for each year through the current year, calculated increases at \$2 increments and [figured out] what it would cost the UI trust fund. A \$2 increase represents a cost of \$200,000 to the UI trust fund, and an increase of \$500,000 in benefits equates to an annual cost of \$3 per worker for the average tax class employer.

Number 0567

MR. HULL, still referring to the chart, said the number "1" on the top bar, referring to years 1990, 1993, 1997, and 2001, indicates one increase of \$2 in weekly UI benefits. This one increase would cost the average employer \$1.20 in taxes per employee per year. This increase would only be for those earning the maximum taxable wage. The number "4" [on the chart] is for years 1991 and 1992, which would increase to \$8 in weekly UI benefits, and an increase of taxes of \$5 per employee. He pointed out that during this same period, 1990 to 2001, Alaska raised benefits \$90. If it had been attached to the average weekly wage, Alaska would have raised them only \$36; [having it tied to an indicator] stops the fluctuations, he said.

Number 0640

MR. HULL referred to the chart entitled "Alaska Wage Replacement [Compared] to Washington [State] Wage Replacement." This shows that Alaska is close to Washington [state] in average weekly wage, but in the maximum weekly benefit amount, there is a disparity between what "we" expect Alaskans to get by on when they are temporarily unemployed.

Number 0665

REPRESENTATIVE HALCRO asked how long someone is eligible for UI. He said according to the packet, the average claim duration is 14.9 weeks, which equates to almost four months. He remarked that it seems like a long period for someone to be unemployed.

MR. HULL responded that the other two programs within the DLWD work on that. The worker profiling system tries to get people back [to work] by giving them classes on resume [writing], job search, and job-hunting [skills]; it is for those people likely to run out of benefits before going back to work.

Number 0789

CHUCK BLANKENSHIP, Program Manager, Unemployment Insurance Program, Division of Employment Security, Department of Labor and Workforce Development (DLWD), said there is a formula that calculates duration [of benefits] based on the worker's attachment to the labor market. If a person has worked 12 months straight on a normal basis and loses his or her job, this person would have a longer-duration claim. Those that normally work more intermittently would have shorter-duration [claims]; the duration ranges from 16 to 26 weeks.

MR. BLANKENSHIP, responding to a question about whether the claims formula is a federal formula, said it isn't. The 26-week maximum [weekly benefit amount] is common and there are other federal requirements that limit states to 26 weeks. He said [Alaska's formula] compares the total wages on which the claim is based to the quarter with the highest dollar amount, and the formula that [HB 58] affects is in statute.

REPRESENTATIVE HALCRO asked what percentage of claimants are seasonal workers.

MR. BLANKENSHIP replied that he didn't have that information but could get it for the committee.

REPRESENTATIVE ROKEBERG said the average weekly wage is one-dimensional; Alaska has a different labor force and job market up here. The amount of benefits paid out and the relationship to the trust fund is extremely important. It would be helpful for the committee to see the length of time and dollars per capita paid out on a comparative basis, because it might be different. He surmised that people would be on UI longer here than in other "jurisdictions."

MR. HULL said [Alaska's] average is 14.9 [weeks], and 15 weeks is the average nationwide.

Number 1019

MR. BLANKENSHIP explained that the 14.9-week duration is the entire duration for a one-year benefit period. An individual period of unemployment compensation is generally closer to eight to nine weeks, he said. And [Alaska] has a large number of employees that may have more than one "spell" of work during the course of a year.

REPRESENTATIVE ROKEBERG asked if Alaska would be changing the average weekly wage formula [under HB 58].

MR. HULL responded that the formula remains in place; all the bill does is raise the amount in two increments and tie it to an indicator, which is 50 percent of the average weekly wage. The formula in statute remains in place.

REPRESENTATIVE HALCRO said, in looking at the characteristics supplied by the DLWD from 1999, over 50 percent [of the unemployed] are in some of the largest urban centers of the state; these folks aren't in isolated rural villages, but are in

urban centers, and there seems to be a lot of employment out there. He asked why there would be such a large percentage from urban areas, if the [employment] is in fact seasonal.

MR. HULL responded that this is because of tourism and construction, which are big [employers] in urban areas and have the biggest impact on seasonality.

REPRESENTATIVE HALCRO referred to the chart broken down by category [with the reference year of] 1999. He observed that construction wasn't even the highest [category]; "services" was. He said he would assume "services" incorporates large department stores, and so forth.

MR. HULL responded affirmatively, but pointed out that tourism also falls under this [category].

Number 1220

REPRESENTATIVE KOTT said we tend to think of fisherman as being in the category that would draw UI, but many of these fishermen are self-employed and don't pay into the UI program, and thus aren't eligible [to receive benefits].

MR. HULL confirmed that Representative Kott was correct in his assessment.

CHAIR MURKOWSKI asked where the seafood industry [would fall] in the categories, because she understood that area had an exceptionally high turnover and number of [UI] claimants.

MR. HULL said it would be under manufacturing, but said the DLWD would double-check that.

CHAIR MURKOWSKI asked about interstate benefits. Referring to a handout supplied by the DLWD that indicates that of the benefits received, a total of 17.7 percent go outside Alaska, she asked how Alaska monitors whether a person is doing what Alaska requires to continue receiving benefits.

Number 1348

MR. BLANKENSHIP responded that since 1948 [there has been] an interstate benefit agreement; the 53 signatories have agreed to assist each other in ensuring that those who draw UI from one state, but live in another, are exposed to the labor market in that state [of residence]. The requirement is that a person

meet the work search and availability [criteria] from that state, which are often more stringent than Alaska's might be in the winter.

CHAIR MURKOWSKI said a person [residing] outside Alaska would have to check in with the job service where he or she is, and that state would contact the DLWD [and relay] that he or she is doing what [is required]. She asked if there are any states that are not a part of the "compact."

MR. BLANKENSHIP responded negatively.

REPRESENTATIVE HALCRO asked about the average claimant who works [in Alaska] and then goes out of state [and claims UI].

MR. BLANKENSHIP responded that oftentimes these workers earn wages in more than one state. A common example is a seafood worker who comes up for a season, then goes back to his or her state of origin and seeks work there until the next season in Alaska. Similarly, there are construction workers who will travel up to Alaska. The rate of benefits going out of the state is [currently] lower than it has been over the last 20 years; traditionally, 20 to 24 percent went out of state.

Number 1485

MR. HULL emphasized that people aren't coming up to Alaska to earn benefits and take them out, because almost every other state pays more benefits than [Alaska] does. He said there might be seasonality issues in Alaska that aren't [present] in other states.

REPRESENTATIVE ROKEBERG asked for a clarification of the average weekly wage chart, and whether there was information showing a comparison to other states on what [Alaska] is paying in actual dollars.

MR. HULL pointed out that the state average-weekly-wage chart is not [referring to] UI benefits, but refers to salary. He directed the committee to the handouts and said there is a chart that shows that 35 other states are tied to an indicator; the chart shows the maximum weekly benefit amount. He made a point to say that the DLWD could provide the information needed by the committee.

Number 1605

MR. HULL, responding to a request for clarification on a previous statement he made, said that individuals wouldn't come to Alaska just to accrue wages in order to file for benefits when they would be going to a state that actually pays more.

REPRESENTATIVE KOTT asked if federal employees who retire from the military are eligible for UI [benefits].

MR. BLANKENSHIP said there are two issues involved and the military service can be considered covered service to establish a claim. The ex-military person could establish that claim in the state where he or she resides, and a person has a choice of where he or she resides. Separate from the monetary issue, one must establish that he or she is able and willing to return to full-time work. Any retirement pay being received from the military would be deducted from [UI] benefits on a dollar-for-dollar basis, he said.

Number 1714

REPRESENTATIVE KOTT used another example of a person who has been an air traffic controller all of his or her life. That person is separated from the military, and finding similar employment is difficult. He asked if that person would be eligible for UI.

MR. BLANKENSHIP said probably so. The benefits paid to that person would be directly reimbursed by the federal government and wouldn't come from the state's trust fund; furthermore, if he or she is attempting to work in an occupation with limited job opportunities, that person would be given a relatively short period of time before the DLWD would expect him or her to expand the job search to include other occupations.

REPRESENTATIVE KOTT asked:

If that is in fact the case and the federal government is reimbursing our trust fund, if that is how it works, are those people that are identified as being unemployed and susceptible to drawing from that trust fund, which is reimbursed, part of the overall population, as far as we determined in the packet, of [the] percentage of Alaskans who are unemployed?

MR. BLANKENSHIP responded that he believed so, and didn't know why those people would be excluded. The benefits paid wouldn't come from the tax contributions of Alaskan employers unless the

numbers [in the charts] included those drawing from the trust fund.

Number 1804

REPRESENTATIVE KOTT said Alaska has a large per-capita military [population], not only [those stationed] in the state, but also those who stay in Alaska and are out there seeking employment. Many of the military occupations are not easily transferable, so those numbers [provided by the DLWD] could be skewed, when compared with states that may not have a large military population.

MR. HULL recalled an ex-military employee who went into the job-training program, was trained in computers, and ended up working for the DLWD in Juneau. He said he understood that a lot of what one learns in the military doesn't translate [to the civilian labor force], but [the DLWD] has programs to help train people.

CHAIR MURKOWSKI referred to teachers and how they are not eligible for UI during the summer months. If a teacher's contract wasn't renewed, and he or she didn't have a job at the beginning of the school year, Chair Murkowski surmised that the person would be eligible for UI.

MR. BLANKENSHIP said the disqualification for the school employee applies only to those benefits that are based on wages earned from the educational institution; it only applies to those who have worked in the first school year and have a reasonable assurance of work in the next. If a schoolteacher is laid off in May and has no contract, he said, that person could be eligible for benefits through the summer based on his or her school wages; [benefits could extend] until that person has a reasonable assurance of getting a similar position with an educational institution.

Number 1927

MR. HULL clarified that those benefits wouldn't come out of the UI trust fund, because the school district is a reimbursable employer.

CHAIR MURKOWSKI asked if Alaska is seeing an increase in claimants who are teachers. She said in the past couple of years in Anchorage, because of how the budget happens in the school district and the state, there are "pink slips" that go

around toward the end of the school year, and there is no certainty that teachers will be back; however, they are back at the beginning of the year.

Number 1966

MR. BLANKENSHIP responded in the negative. Generally teachers don't file; a lot of the claims come from school district employees who are aides and substitute teachers. If the teacher works for a district where the budget is a perennial problem, yet it comes through at the last minute, loss of "reasonable assurance" becomes somewhat questionable. In reality, [the DLWD] knows that the Anchorage School District has had some significant cutbacks, he noted. If [teachers] have lost reasonable assurance and don't find out until the day before school starts, it is not until that point that the disqualification would be reapplied.

MR. BLANKENSHIP clarified that reasonable assurance would be [determined through] communication with the school district and with the employee.

CHAIR MURKOWSKI asked about the grounds for denying UI benefits.

Number 2054

MR. BLANKENSHIP said if a person lost a job [due to a criminal act], there would be a disqualification [from benefits]. But if [the offense] was not the cause for losing the job, and if that person is able and seeking work and not incarcerated, eligibility could still be established; however, the reason for losing the job could be a critical factor.

REPRESENTATIVE HALCRO asked how benefit amounts are figured.

MR. BLANKENSHIP replied that Alaska has a fairly standard qualifying period that is used in most states. The first four of the last five completed calendar quarters would be the qualifying period of wages. As happens with any other insurance program, if one doesn't incur a loss, one will not get the premium back; but if a loss is incurred, a "snapshot" of wages is taken. He said maximum benefits would be based on that level of wages. Responding to a question about whether someone could get out what was paid in, he said pretty rarely.

MR. BLANKENSHIP explained that a person who earned \$1,000 over a couple of quarters in the year 2000 could file a claim on April

1 [2001] and would qualify for the bare minimum in the current wage schedule in statute. For every additional \$250 of wages [earned] during the calendar year 2000, that benefit amount would increase by \$2. The proposed legislation extends that schedule, he remarked. He said \$26,750 is the amount that a person would have to earn to get \$248 [a week], which is the current maximum.

Number 2166

REPRESENTATIVE KOTT asked if a person who had two part-time jobs and was laid off from one could apply for UI [benefits].

MR. HULL replied that a person could be working and get UI.

MR. BLANKENSHIP added that [the DLWD] would reduce the benefits by the wages [earned]. A person can earn up to \$50 without affecting the weekly check; after that the weekly check is reduced by 75 cents for each dollar earned.

Number 2244

CHAIR MURKOWSKI said she is somewhat troubled that a person can get UI [benefits] while working.

MR. HULL replied that the reduction is severe; if a person is drawing benefits and has a part-time job, this person is not getting a whole lot of money.

MR. BLANKENSHIP clarified that the compensation is for "underemployment," and there is a rapid decrease [in benefits] until a person reaches what [the DLWD] defines as full employment, meaning a person either is working 40 hours a week or has made one-and-a-third times the benefit amount plus the \$50. He said there are many claimants at the very low end of the employment scale who are marginally employed and receive a reduced amount of benefits; however, they must be available for full-time work.

MR. BLANKENSHIP said he believes the philosophy of not cutting off benefits immediately when a person begins work is to encourage people to return to work; benefits would be gradually phased out as people moved into work. He added that a person couldn't earn much money and still receive benefits.

Number 2351

REPRESENTATIVE CRAWFORD, speaking from experience as an ironworker, said he is one of those people who have a lot of temporary jobs, especially in the wintertime when hours are cut. [Unemployment Insurance benefits] are not enough to live on, he emphasized, but are enough to "keep the wolf from the door sometimes."

REPRESENTATIVE CRAWFORD said he is in favor of raising UI [benefit amounts]. From his perspective as an iron worker, Alaska is losing more and more workers because the weekly benefits have fallen so far behind; Alaska doesn't provide enough of a benefit during the winter to retain employees, so [workers] are going to other states and [Alaska is] not getting a lot of those folks back. "We're" going to have to address this if we want to retain our trained construction [workers], and [workers from] other areas of employment, he concluded.

Number 2432

CHAIR MURKOWSKI said if a person is on a job, and because of a "slowdown," is only working one day out of the week, [UI] encourages a person to stay on that job and finish it up, rather than "quit it altogether and go out and look for one more full-time job."

TAPE 01-30, SIDE B
Number 2456

REPRESENTATIVE HALCRO requested clarification regarding his understanding that the first week a person is on UI, he or she gets back what was paid in.

MR. HULL said it fluctuates with the tax rate, but he thinks [the employee deduction] is the highest that it has been in years, around \$114 to \$120 [a year].

MR. BLANKENSHIP said the tax costs are split 80-20 between the employer and the employee. The maximum an employee could pay would be \$120 or \$130. He said he thought the average cost for employers, per employee, was a maximum of \$530.

MR. HULL explained that there are 21 different rate classes for taxes. He explained the chart. He said for a \$500,000 increase in benefits, the taxes are raised \$3 per year, per employer.

Number 2377

CHAIR MURKOWSKI asked why the numbers jump around on the chart.

MR. HULL explained that it depends on the tax rate for [an employer], and there is a multiplier, so the higher the tax rate where a person resides when that multiplier takes effect, the more that person's cost will go up [accordingly]. He pointed out that there is no cost at all at the lower end of the rate.

MR. BLANKENSHIP, responding to an earlier question from Chair Murkowski, said he, too, had noticed that the numbers go up in an unpredictable fashion on the chart, and had asked the actuaries about it; he said the formula is complex, and he would be glad to bring [the actuaries] in [to explain].

MR. BLANKENSHIP explained that the reason \$500,000 was used - instead of the \$200,000 [figure] that [the DLWD] thought a single \$2 increase in benefits would cost - was because it couldn't be calculated that small. A \$500,000 increase in benefit costs is still on the lower end of what [the actuaries] can calculate, as far as an individual dollar increase per tax rate.

Number 2318

CHAIR MURKOWSKI asked for confirmation that with the 21 different rate classes, an employer will be in a higher rate class for a category such as construction, tourism, or seafood processing, in which there is a higher turnover within the industry.

MR. BLANKENSHIP said in general, that is correct. He explained that rate classes 10 and 11 are the average tax rates calculated in the initial tax-rate formula; everything up and down from there is [graduated] based on the portion of payroll [affected] and the degree of risk that employment poses.

CHAIR MURKOWSKI asked if there was a process for lowering one's rate.

Number 2250

MR. BLANKENSHIP replied that the Alaska tax schedule determines the experience rating, so called by the federal government, which is how much risk is posed by an entity's employment using a payroll decline formula. If a payroll is relatively stable throughout the year, a business would gravitate to the lower tax rates.

CHAIR MURKOWSKI asked whether, if she owned a small business and lost half of her staff due to an unforeseen circumstance, she could [make a case] to the DLWD that her rate shouldn't change.

MR. BLANKENSHIP responded that the payroll dollars that a company reports is what is used to calculate the tax rate. A small "blip on the screen" wouldn't have a significant impact on the tax rate, he explained.

Number 2183

MR. HULL said the DLWD's tax unit goes out and trains employers on how to lower their tax rates. He said the class is set up with the Small Business Administration (SBA), the Internal Revenue Service (IRS), and the DLWD staff. He said "we" are not in a "gotcha mode"; if an employer is doing something wrong, there is help to lower the tax rate, but employee turnover is a problem that [the DLWD] can't help a company with.

REPRESENTATIVE ROKEBERG referred to the chart entitled "Alaska's Maximum Weekly Benefit Amount Compared with 50 percent Average Weekly Earnings." He said this bill proposes to make a fundamental policy change in Alaska. If he is understanding this chart correctly, it says that if [Alaska would have] had a formula going all the way back to 1980, this is where [referring to the chart] Alaska would be in terms of a dollar pay out.

MR. HULL said it shows what Alaska would have paid out if [the DLWD] were paying out at 50 percent of the average weekly wage.

Number 2015

REPRESENTATIVE ROKEBERG said this bill provides a huge policy change. Not only is it raising the average benefit, but it also [changes] how it is calculated. He said it looks as if there is at least a 10 percent increase to employers over a period of time.

MR. HULL said [the DLWD] would calculate that [and report back to the committee].

REPRESENTATIVE ROKEBERG referred to page 6 of the bill, and asked for clarification on the incremental approach.

MR. HULL said the calculation and the incremental approach are in statute now; all the new bill does is extend the increments.

He said the first year would take "us" up to \$284, referring to the bold print on page 5 of the bill that has been added to the current statute. The second step continues on, and is discussed in Section 3, subsection (h), which extends it on to "not more than 50 percent of the average weekly wage." He explained that the DLWD would extend the \$2 increment of benefits from \$250 of earnings out to \$320.

Number 1931

REPRESENTATIVE ROKEBERG referred to the handout provided by the DLWD regarding the percentage of impact to the calculation of tax. He said it goes from 2.08 [percent] to 2.18, and then to 2.28 the next year. He asked if it represents a two-year increase of 10 percent.

MR. HULL responded that it is 8 percent the first year, from \$248 to \$284, and 9 percent the second year, from \$284 to \$320.

REPRESENTATIVE ROKEBERG said it is actually greater than 17 percent, depending on how it is calculated. He asked if a lower base [number] had been used.

MS. GAMEZ explained that she took the jump from \$248 to \$284, which is roughly 8 percent, and then she calculated from \$284 to \$320, which is roughly 9 percent. She said, it is about a 9 percent increase over five years from the last increase. This would self-adjust, so there wouldn't be 8 and 9 percent increases in the future; increases would be smaller or there would be a decrease.

Number 1847

REPRESENTATIVE ROKEBERG said Alaska is raising not only the benefit, but also the formula, which is huge. Over time, it is greater than a 10 percent increase in taxes with the second increase increment of .03 in contributions from employers and employees. Frankly, he said this committee was adjourned last year increasing workers' compensation benefits, which was a big burden, particularly on small businesses. He said he hoped this wouldn't be an annual thing coming out of the DLWD. He said he is concerned about the macroeconomic impact on the economy. Alaska needs an adjustment in benefits, but he asked if the formula needs to be changed by such a huge increment.

MR. HULL responded that [the legislation] is not changing the formula; it stays the same. The tax rates are going to go up,

he said, but [the DLWD] has shown that the fluctuations for an employer will be less when [the rate] is tied to the indicator.

Number 1796

MR. HULL said if [Alaska] raises the benefits \$90 over eight or ten years, and during that time it is tied to an indicator, the benefits would have [only] risen \$36. He said [the state] has to get there first, and that is the "leap" that "we" have to take in the first two years.

REPRESENTATIVE ROKEBERG asked if "we" are paying for all that is received out of the federal and [state] trusts, because of the "translation" through the federal government.

MR. HULL said [Alaska] does get an extra benefit because the state gets to keep the interest being earned on the trust fund. He remarked that Alaska wins as a small [population] state.

Number 1747

MS. GAMEZ, speaking from six years' experience with the department, said [the DLWD] gets anywhere between 215 and 325 percent back in administrative funds to administer the program; Alaska is considered a "winner" state. Many states get less than 50 percent back for administrative funds. Alaska gets about \$22 million to administer UI, so in terms of benefits and the trust fund, employers pay into that; in terms of administration, employers pay much less in this state than in any other.

REPRESENTATIVE ROKEBERG commented that Alaska is increasing benefits 17 percent over a two-year period, and he asked what taxes are being raised to pay for that.

MS. GAMEZ said the benefit is raised within three years, and the tax effect is spread over a period of five to six years. The employers wouldn't feel the impact until 2003.

REPRESENTATIVE ROKEBERG said if there is an annual adjustment under the statute to the average weekly wage, to the average benefit, it is going to be an annual increase; if there is an increase in wages, it is going to keep going up and accelerate faster than what [the DLWD] testified to. He asked whether that is correct.

MS. GAMEZ said it depends on the wages in the state. The wages, benefits, and tax rate could go either up or down. She referred to the packet and said 35 other states have their benefits tied to an indicator of some sort.

Number 1650

REPRESENTATIVE ROKEBERG said he wants to know what the cost to employers in Alaska will be, because he is concerned about its impact on the economy and the "macro effect." He asked if "we" are talking about raising taxes \$10 million or more.

MR. BLANKENSHIP explained that if [Alaska] increases the benefit amount, since the tax calculation is based on an average of three years of benefit costs, it impacts the tax rate; the full impact is not felt for three years. Regarding what the full impact of this increase to \$320 would be on the employer, he said the current tax rate for the average employer is 2.08 percent; [the DLWD] anticipates that if it is increased to \$320, it would be 2.28 percent, or a 10 percent increase, not in full effect until 2007.

Number 1573

REPRESENTATIVE ROKEBERG asked for confirmation that the 2.28 would be spread over the years. He referred to subsection (h) and said with the addition of the average weekly wage calculation going into effect 2003, [the DLWD] can make the adjustment in the rate to the employer.

MR. BLANKENSHIP said if there is an increase to \$320 January 1, 2003, when the tax rate is calculated for 2004, it will be near the end of 2003; only six months of that increased benefit cost would go into [the DLWD's] calculation. "Our" calculation average is 3 years, so only one sixth of that final step of increase would be included in the calculation for 2004. The calculation for 2005 would have about half of the impact of that new increase included in the tax calculation.

MR. BLANKENSHIP said four-fifths of it [would be felt] in 2006, with the full impact in 2007. That section of statute could adjust, \$320 in January of 2003 to \$322 in January of 2004, or down to \$318. There could be some adjustment. He said the chart attempted to show that the changes in the past decade would [have been] relatively flat.

Number 1465

REPRESENTATIVE ROKEBERG mentioned that Alaska is one of the only states where employees make contributions. Switching gears, he said periodic review of this [issue] by the legislature is not a bad idea.

CHAIR MURKOWSKI clarified her understanding that [the bill] is not changing the formula, but the tax rate. She said it is confusing because in Section 3 the formula is changed because it is no longer pegged to a fixed maximum weekly benefit, but rather to 50 percent of the average weekly wage. She said to her, that changes the formula.

MR. BLANKENSHIP clarified that the "hard-coded formula" that allows a \$2 benefit increase for every additional \$250 for qualifying period wages would remain. Whatever the new maximum amount becomes, if it's tied to 50 percent of the average weekly wage, would extend to that new amount. The difference is that it wouldn't be hard-coded in statute, but would be recalculated at the beginning of each new year.

Number 1374

REPRESENTATIVE HALCRO returned to the interstate claim issue. He expressed concern about those that work and then leave the state and claim UI; however, he recognized that it wouldn't be enough to live on. He asked what percentage of the 17.7 percent come back to the state to work.

MR. BLANKENSHIP responded that he didn't know the answer. He said approximately 20 to 24 percent of [Alaska's UI] dollars go out of state, and, frankly, he was surprised to see that it was down to 17.7. "We've" lost the high-pay advantage. The last figure he'd heard from the economists was that Alaska's wage was 1.03 [percent] of the national average; Alaska used to be known for having a wage that was much higher than one would get in another state. He surmised that the decline of UI claimants drawing benefits out of state might be indicative of their not returning.

Number 1271

MS. GAMEZ referred to a report done each year by the research and analysis section, DLWD, called "Non Residents Working in Alaska." Alaska is the only state that prepares that report, which goes by industry, wages that go out, what industries they are in, and so forth. She said there is definitely a

correlation between that and the interstate claims against the state.

REPRESENTATIVE KOTT asked how many people, drawing on Alaska's UI from out of state, draw the maximum dollar amount. He was interested to know if the [agreement] between states is actually working. He said he would also like to see data on those who come to the state and draw UI from other states.

MR. BLANKENSHIP said he didn't have that information but could get it for the committee; however, the information on claimants in Alaska drawing UI from other states would be more difficult to get. [The DLWD] would have to contact the individual states, and Washington and Oregon would be the easiest from which to get information.

Number 1115

CHAIR MURKOWSKI said she would assume that the numbers residing in other states [and drawing Alaska's UI] could be gotten. She said she would like to compare that with the weekly benefit in individual states. People could make their own assumptions based on the correlation, she pointed out.

MR. BLANKENSHIP said that figure is gathered weekly and is used in the weekly "employment picture for the nation" report.

REPRESENTATIVE ROKEBERG asked if there had ever been studies about types of employment, to coordinate why Alaska has such a disproportionate number of out-of-state people. In the "old days," he said, it was "We'll work and bust our chops in the summertime, and then go on rocking-chair money in the wintertime [mentality]," just part of the "labor culture" of Alaska, until Alaska started developing winter construction techniques. With the exception of agricultural-type production, Alaska seems to be more susceptible to employment seasonality. He asked if there had been studies done to see what can be done to overcome some of those problems and "the interstate plight of our money."

Number 0986

MR. BLANKENSHIP responded that [the DLWD] has information about the distribution of seasonal workers by industry and by location. The information has not been used by UI to develop back-to-work programs, but Mr. Blankenship said he is certain that it has been used by other agencies within division.

MS. GAMEZ said, "We can ferret that out."

MR. HULL said the research and analysis section does research on jobs and future jobs, which is pointing to things like health care as a field that people should be looking at in Alaska that isn't seasonal; he said another way to keep everyone here is to raise the benefit so people don't want to leave.

Number 0906

REPRESENTATIVE ROKEBERG said there is a correlation between the seasonality and interstate workers, which used to be referred to as the "snowbirds."

MR. HULL said he thought that is still true. He pointed out that Alaska doesn't have a border state, and that other states have border-state agreements, although there may be less of an impact [in those states] than here.

MR. BLANKENSHIP said states that share geographic borders have special problems tracking who is filing where, and who is paying whom. He said that is less of a difficulty for Alaska, which has very few commuters from other states. He said at one time [the DLWD] knew that Alaska had wages that attracted people up here, when the cost of living was lower elsewhere, but this is going away.

REPRESENTATIVE ROKEBERG asked about seasonal employment and rate classes.

Number 0766

REPRESENTATIVE HALCRO asked [hypothetically]: If he worked for a company based out of Seattle and his check was from Seattle, and he was laid off and claimed benefits, would he get Washington benefits or Alaskan benefits, because he is currently in Alaska?

MR. BLANKENSHIP said any company doing business in Alaska has to establish an Alaskan account and pay taxes to [the DLWD], which will issue that check.

REPRESENTATIVE HALCRO followed up by asking about the weekly reports from the various states showing UI recipients that are living in Alaska now. He asked what type of interaction the DLWD has with those folks to satisfy the suitable-work clause regarding UI.

MR. BLANKENSHIP said [the DLWD] includes interstate claimants in the worker profiling reemployment services. This is an algorithm that identifies those likely to run out of money before finding another job, and refers those people to services. He said people from other states might get lesser services than Alaska; there is less contact with them than with in-state people who need work.

Number 0650

REPRESENTATIVE HALCRO asked if other states contact the DLWD to inquire about what a claimant is doing in Alaska.

MR. BLANKENSHIP said traditionally that was the way the system worked, because all of the states had in-person-filing requirements. Every week a person would have to stand in line and see someone in person who would make sure that all of the boxes were checked right, and [ensure that the claimant] hadn't refused work. Filing systems now have generally migrated to telephonic filing systems, so there is more computerized identification of people who are likely to be unemployed longer than the average, and the department can refer them to services.

Number 0572

MR. BLANKENSHIP, responding to a question about cruise ship employees and whether "we" count them, said there are some special provisions for maritime employees. If a person is hired out of Seattle or Vancouver and works on the ship and not on shore, most would not be covered by Alaska tax; however, there are some exceptions in the seafood industry. There is a complexity there that he is not familiar with, he said.

Number 0503

JOHN BROWN, International Union of Operating Engineers (IUOE) Local 302, and President of the Central Labor Council, said he supports HB 58. Unemployment Insurance is vitally important to construction workers, whom he represents; construction workers are vitally important to Alaska, as a young growing state that still needs to build infrastructure. Construction is a huge part of our economy, and it appears that it will be growing with some of the projects "online" to go.

MR. BROWN said without UI, there is no way [Alaska] is going to be able to retain the workforce that is needed to complete these

projects, and to maintain the ones that are done on a regular basis. The evidence is clear with the testimony from the department that the numbers are on the way down, as far as being able to attract workers to Alaska, and workers are just not coming here. "We" need to find ways to keep the workers that are already here, and to attract new ones to the industry.

MR. BROWN said without a reason for people to stay, and without raising UI, "we" are "cutting our own throats." He urged the committee to pass the bill.

Number 0300

KIM GARNERO, Director, Division of Finance, Department of Administration, introduced the fiscal note indicating the budgetary impact of HB 58 on the State of Alaska. Like the school districts, the state is a reimbursable employer for UI, she said. "We" don't make tax contributions based on employer experience ratings; rather, "we" reimburse the UI compensation fund for actual payments made to former employees. The state [allocates] about \$4 million a year in UI. A 15 percent increase in benefits, as proposed by this legislation, results in an annual increase for payroll costs of \$590,000 to the state's budget.

MS. GARNERO, responding to a question, clarified that the \$590,000 is the incremental step for 2003.

MS. GARNERO said [the department] assumed a 15 percent increase starting half way through the first year and through the life of the fiscal note. She would like the UI fund actuary to look at the fiscal note, and said she would redo it after that. She explained that the \$284 or \$248 was calculated as a 15 percent increase in benefits.

Number 0130

REPRESENTATIVE HALCRO asked for clarification of why the fund source [on the fiscal note] says "other." He also asked if the state contributes to the fund and where the money comes from.

MS. GARNERO said the money for the reimbursement comes from the working reserves. As authorized under Title 37 of the Alaska Statutes, all state agencies pay into the working reserves based on rates developed by the Division of Finance, Department of Administration. The money accumulated in the worker reserve pays for leave "cash-ins," terminal leave, as well as worker

compensation. The source of those funds is an assessment on an employer's charge on payroll, coming out of all funding sources that pay for payroll across the state.

TAPE 01-31, SIDE A
Number 0031

CHAIR MURKOWSKI said the department and division have indicated that there are items they would like to provide to committee members. She said the bill goes onto the House Finance Committee next, and the House Labor and Commerce Committee is the primary committee of review. She stated that she would like to make sure that all the members are comfortable with this.

REPRESENTATIVE KOTT asked if Chair Murkowski would be accepting amendments the next time the bill comes before the committee.

CHAIR MURKOWSKI responded that she thought the committee would be ready. She hadn't heard that there was desire for further public comment on the bill, she said. She appreciates the department's effort to educate the committee, and said it has been very helpful.

Number 0204

REPRESENTATIVE KOTT commented that the meeting was advertised as usual, and there were no business people out there "clamoring" that this is going to "break the bank." Alaska is last in the nation, and there has always been this notion that "we" are open for business; this says, not only are "we" open for business, but Alaska is open for employees. It is important to recognize that this group was notably absent, he said, although he wasn't sure why.

REPRESENTATIVE KOTT asked the department for information on who is ineligible for UI. He said he hadn't realized that if a person was fired or quit a job, eventually he or she could draw UI.

REPRESENTATIVE HALCRO said he would be interested in seeing the breakdown on seasonal employees and how [Alaska] compares to other states as far as interstate claims. He thinks workers need to be protected if they are to stay in the state, he said. If the "rocking chair" money is going out of state for four or five months, and then dropping off [when that person] gets another job, [Alaska] should take a look at that; [Alaska] is possibly very seasonal [when] compared to other states, he said.

Number 0339

REPRESENTATIVE ROKEBERG commented that one of the reasons Alaska has an employee contribution is to try to dissuade people from that type of thing, because [Alaska] has such a transient workforce. People have an investment in it and feel that they are making a contribution. This "super amount of leakage" is always very troublesome. He added that he would not be comfortable with any bill that takes away the review [process] from the legislature. [HB 58 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:02 p.m.