

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 7, 2005

3:21 p.m.

**MEMBERS PRESENT**

Representative Tom Anderson, Chair  
Representative Pete Kott  
Representative Gabrielle LeDoux  
Representative Bob Lynn  
Representative Norman Rokeberg  
Representative Harry Crawford  
Representative David Guttenberg

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 7

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

- MOVED CSHB 7(L&C) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 7

SHORT TITLE: UNEMPLOYMENT COMPENSATION BENEFITS

SPONSOR(S): REPRESENTATIVE(S) CRAWFORD, GUTTENBERG

01/10/05	(H)	PREFILE RELEASED 12/30/04
01/10/05	(H)	READ THE FIRST TIME - REFERRALS
01/10/05	(H)	L&C, FIN
02/18/05	(H)	L&C AT 3:15 PM CAPITOL 17
02/18/05	(H)	-- Meeting Canceled --
02/23/05	(H)	L&C AT 3:15 PM CAPITOL 17
02/23/05	(H)	Heard & Held
02/23/05	(H)	MINUTE(L&C)
03/04/05	(H)	L&C AT 3:15 PM CAPITOL 17
03/04/05	(H)	Scheduled But Not Heard
03/07/05	(H)	L&C AT 3:15 PM CAPITOL 17

**WITNESS REGISTER**

PATRICK SHIER, Employment Security Tax  
Division of Employment Security  
Alaska Department of Labor and Workforce Development  
Juneau, Alaska  
POSITION STATEMENT: Answered questions regarding HB 7.

**ACTION NARRATIVE**

**CHAIR TOM ANDERSON** called the House Labor and Commerce Standing Committee meeting to order at [3:21:02 PM](#). Representatives Guttenberg, LeDoux, Lynn, Crawford, and Anderson were present at the call to order. Representatives Rokeberg and Kott arrived as the meeting was in progress.

HB 7 - UNEMPLOYMENT COMPENSATION BENEFITS

CHAIR ANDERSON announced that the only order of business would be HOUSE BILL NO. 7, "An Act relating to the calculation and payment of unemployment compensation benefits; and providing for an effective date."

[3:22:07 PM](#)

REPRESENTATIVE ROKEBERG stated that he had received a letter from the commissioner regarding his questions dated March 1, 2005, and he wished to have it entered into the record.

PATRICK SHIER, Employment Security Tax, Division of Employment Security, Alaska Department of Labor and Workforce Development, was available to answer questions from the committee members.

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REPRESENTATIVE ROKEBERG asked Mr. Shier what the impact of this bill would be on employers.

MR. SHIER referred to Table 6 in the information packet provided by the Alaska Department of Labor and Workforce Development (ADLWD). The table was entitled, "Estimated Max Cost per Worker for Average Employer." He said that the table, "reflected as both a percentage and a cardinal number for that average employer."

[3:24:25 PM](#)

REPRESENTATIVE ROKEBERG asked if the \$530 amount listed in Table 6 for 2006 applied to this year.

MR. SHIER replied, "That, for the average employer, is the cost for a worker that is paid up to exceeding the taxable wage base." He said that currently the maximum average cost is \$530 per year.

CHAIR ANDERSON clarified that 2007 the average cost would be \$11 more per employee.

MR. SHIER agreed.

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REPRESENTATIVE ROKEBERG asked what the maximum was that an employer would pay on one employee.

MR. SHIER replied that the maximum would be based on a penalty rate for an employer that "has not been a good partner": 5.9 percent of \$27,000.

CHAIR ANDERSON commented that that calculation would equal about \$1,350.

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REPRESENTATIVE LEDOUX asked if the penalty rate would be for employers who had neglected to pay.

MR. SHIER responded affirmatively and noted that a very small number of employers are penalized.

REPRESENTATIVE ROKEBERG asked what the maximum amount was without penalties.

MR. SHIER replied that Table 6 in the information packet listed the maximum amount the average employer would pay. He said, "2006 shows us there's no cost associated with this bill that is reflected in the year 2006. The earliest we expect it to show up is 2007, and that would be \$11 more for the average employer."

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CHAIR ANDERSON clarified, "It goes up to \$20 per employee [in] 2008, maintains the \$20 [in] 2009, and then goes to \$13 [in]

2010, but then it goes down to zero. Is that because there's a cap?"

MR. SHIER replied that this is because the effects of any increased cost to the Unemployment Insurance (UI) Trust Fund are expected to have played out by that point.

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REPRESENTATIVE CRAWFORD, in response to Representative LeDoux, commented that [the cost would be] \$64 over four years.

REPRESENTATIVE ROKEBERG asked Mr. Shier if there was a statute that stipulated that the average percentage of employer contribution would be a certain amount and the that of the employee would be a certain amount.

MR. SHIER replied that Table 7 in the information packet reflects the average tax rates from 1983 to the present.

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REPRESENTATIVE ROKEBERG asked why [the contributions] are variable.

MR. SHIER replied that there is a statutory formula based on the in-flows and out-flows to the UI Trust Fund over the prior several periods.

CHAIR ANDERSON explained to Representative Rokeberg, "I think Representative Crawford ... wanted you to be able to ask that question in terms of the effects on business. But I think the reason he sponsored the legislation, based on his testimony last meeting, was that he thought it was negligible or limited at best, and the needs of the employee, unemployed, would outweigh the small amount raised on the employer.

REPRESENTATIVE CRAWFORD replied that this answer was accurate.

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REPRESENTATIVE ROKEBERG commented that any burden on small business today is not offset. He said, "It's like saying Workers' Comp premiums don't matter, insurance taxes don't matter, the cost of doing businesses don't matter, real property taxes don't matter.

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REPRESENTATIVE CRAWFORD directed the committee's attention to Table 1 of the information packet, which he explained showed that this has been the longest period over the last 40 years [where there had been no change in the unemployment compensation]. During that time period, he stated, "we've lost ... 31 or 32 percent of the actual unemployment dollar, so actually the benefit has gone to small business rather than to the unemployed worker over that time." He pointed out:

At the same time that the average annual increase was 3.1 percent and went to 166.7 percent of what it was in 1984, over that 20 years we lost 29 cents of the unemployment dollar. So somebody got that 29 cents and it wasn't the worker. ... The person that was supposed to be paying that ..., four-fifths of it comes from an employer and one-fifth comes from the employee. That was where it got cheaper, and the unemployed worker didn't benefit. ... We should correct this inequity.

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REPRESENTATIVE ROKEBERG commented that most retail businesses have been unable to raise their prices for the last 5-10 years. There's a misconception about the economics of this country, he said, and most people don't understand the impacts on pricing and why our inflation level is relatively low. He remarked that his business has been unable to increase prices for the past four years.

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REPRESENTATIVE CRAWFORD replied that he had been going by the consumer price index (CPI) which is an average of prices going up. [The CPI] went up 67 percent over that time, he noted, and the unemployment compensation only went up 30 percent. He said:

I know that there are some small businesses that have price sensitivity that aren't able to raise their prices. There were some businesses that were able to raise their prices a lot more, but that was the average that it came out to: about a 3 percent per year rise in prices that ... didn't coincide with the rise in unemployment.

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REPRESENTATIVE ROKEBERG noted that the 61 percent increase in CPI was between 1984 and 2004, spanning 20 years.

REPRESENTATIVE CRAWFORD remarked, "We lost 31 percent over that 20 years."

REPRESENTATIVE ROKEBERG asked how much was made up in increases.

REPRESENTATIVE CRAWFORD replied, "That's where we are right now; we're 31 percent down."

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CHAIR ANDERSON stated his support for the bill and noted that it's the same bill one he sponsored last year. He asked Mr. Shier if the department supports the bill.

MR. SHIER deferred to the department commissioner.

REPRESENTATIVE LEDOUX commented that she likes the first five and a half pages of the bill, but she was confused by Sections 2 and 3.

MR. SHIER replied that Section 2 was an extension of the prior table that would increase the weekly benefit amount by a set amount for each increment in earnings: \$12 for every \$750 of base earnings. "It's just an extension of that so that we can increase the weekly benefit amount \$12 for every \$750 of earnings up to the new intended maximum weekly benefit amount."

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REPRESENTATIVE LEDOUX stated that she was confused by Section 3, which she said, "looks like the benefits will be increased in the future through the Department of Labor."

MR. SHIER replied that Section 3 would connect the weekly benefit amount to the CPI changes.

CHAIR ANDERSON turned to Section 3, page 7, line 11 which read: "The department shall adopt regulations to establish a methodology to calculate new amounts that increase the highest weekly benefit amount in (d) of this section by \$2 increments." He asked, "Is this a new methodology or calculation that Representative Crawford is proposing?"

MR. SHIER deferred to the bill sponsor.

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REPRESENTATIVE CRAWFORD explained, "It pegs the weekly benefit amount to the average weekly wage in out-years, from 2007 on, so that we don't have to come back. ... It would add another \$2 for every \$250 of base wage...." He then read Section 3, page 7, lines 16-19: "The methodology established under this subsection may not result in new weekly benefit amounts that exceed 50 percent replacement of the average weekly wages in this state as determined under (k) of this section." He noted that the average weekly wage might go down or up, but the benefit would be pegged to it regardless. He remarked that there have been a couple of years where the average weekly wage actually went down in Alaska.

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REPRESENTATIVE LEDOUX asked, "Where does this peg anything to the CPI?"

REPRESENTATIVE CRAWFORD replied that the benefits would not be pegged to the CPI but to the average weekly wage.

MR. SHIER clarified that the average weekly wage is a calculation based on an aggregation of all wages divided by the number of workers and the number of weeks worked.

CHAIR ANDERSON asked Mr. Shier to interpret Section 3, page 7, line 7.

The committee took an at-ease from [3:43:18 PM](#) to [3:45:32 PM](#).

MR. SHIER replied that Section 3 makes an automatic adjustment to the weekly benefits, which may be up or down, depending on the average weekly wage.

CHAIR ANDERSON commented that the adjustment concerned him and he would consider an amendment.

[3:46:35 PM](#)

CHAIR ANDERSON asked Mr. Shier if it would affect the rest of the bill if Section 3 was deleted.

MR. SHIER was reluctant to offer an opinion.

CHAIR ANDERSON read Sections 4, 5, and 6, and stated that he didn't think these would affect Section 3.

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REPRESENTATIVE ROKEBERG moved to adopt Conceptual Amendment 1, which would delete Section 3 from HB 7.

REPRESENTATIVE CRAWFORD objected to the amendment. He said:

One of the big arguments about ever adjusting the unemployment insurance, or even the minimum wage, has been that when we leave it alone for a number of years like this, then we have to make a big adjustment. To catch up with the inflationary pressure, we've had to move in a big way this year to change the unemployment. If we were to just change it \$2 or \$4 at a time per year, then there wouldn't be this big adjustment [later].... The average weekly wage goes up some years and it goes down some years. I think it would be a good thing to reflect what the actual economy is doing in the state. [In 1987 and 1988] it would have gone down if we had had this adjustment in here. This is not an escalator. If it were the consumer price index it would have continued to go up in '87 and '88, but this is an adjustment that's pegged to the average weekly wage. I think it's a good idea.

CHAIR ANDERSON pointed out that the State of Washington was the only state that has the minimum wage tied to the CPI, and every year it increased: it never went down.

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REPRESENTATIVE GUTTENBERG commented, "This is not a debate between workers' rights and the health of a small business.... [There are] larger societal needs that we need to be examining." Particularly in Alaska, he said, UI is used to balance out swings in seasonal employment. He noted, "This is only tied to the highest weekly benefit amount, so you're not looking at the bottom, you're looking at the top and how many people are actually eligible for that." He commented that there would be some risk involved by having the benefits tied to the average wages rather than to the cost of living; in "boom years, gas

line years," when unemployment is low, people with the top tier wages will be employed. He supported Section 3 "so that we don't have to keep coming back to it."

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REPRESENTATIVE CRAWFORD referred to Table 7 in the information packet and pointed out that in 1988 and 1989, years of high unemployment, the UI tax rate went to 3.67 percent and then to 4.14 percent. He commented, "Had that been pegged to the average weekly wage in those years, the weekly benefit amount would have gone down and this tax rate wouldn't have been as high in those high unemployment years." He pointed out that in 2002 and 2003 the tax rate was dropping, because there was high employment those years.

REPRESENTATIVE LEDOUX commented that she thought a raise in benefits should be a legislative decision, so she would not support Section 3.

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REPRESENTATIVE ROKEBERG asked Mr. Shier to analyze Representative Crawford's statement that the rates went up during high unemployment periods, and if the benefits were tied to the average weekly wages they wouldn't have gone up so much. He stated that he disagreed with this theory, and said that he thought it was because the demands on the trust fund had gone up.

REPRESENTATIVE CRAWFORD said that the benefit amount would have dropped so the tax rate would not go so high under that scenario. He commented that it probably would have gone up because of the pressure on the trust fund, but it would not have gone up as much.

MR. SHIER, in response to Representative Rokeberg, replied that there were so many things going on in Alaska's economy that it would be difficult to guess all the things that contributed to the rise in UI tax rates in 1988 and 1989.

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A roll call vote was taken. Representatives LeDoux, Lynn, Anderson, Rokeberg, and Kott voted in favor of Conceptual Amendment 1. Representatives Guttenberg and Crawford voted

against it. Therefore, Conceptual Amendment 1 passed by a vote of 5-2.

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REPRESENTATIVE LEDOUX moved to adopt Conceptual Amendment 2, deleting "or (h)" on page 6, line 25. There being no objection, Conceptual Amendment 2 was adopted.

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REPRESENTATIVE ROKEBERG asked Mr. Shier to send him information on the [State Training and Employment Program] or "STEP program". He asked if the UI tax funded the STEP program.

MR. SHIER stated that a portion of the employee contributions are used to fund the STEP program.

REPRESENTATIVE ROKEBERG asked Mr. Shier to verify that to him in writing. He also asked that Mr. Shier send him a report on what programs are being funded by the STEP program, and he was particularly interested in their geographic distribution.

[4:00:02 PM](#)

REPRESENTATIVE CRAWFORD moved to report HB 7 as amended out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 7(L&C) was moved from the House Labor and Commerce Standing Committee.

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at [4:00:36 PM](#).