



**Testimony Relating to Replenishing the Unemployment Insurance Trust Fund:
HB7385 and HB7123 Budget Article 1 Section 16
House Committee on Finance
March 1, 2022**

The American Rescue Plan Act (ARPA) State Fiscal Recovery Funds (SFRF) should be used to invest in Rhode Island's people and businesses – and using these funds to replenish the state's Unemployment Insurance Trust Fund is an inefficient means of doing so. **Replenishing the funds would not be a targeted and strategic investment in Rhode Islanders and Rhode Island businesses, but rather a future tax cut that will mostly benefit the largest employers.**

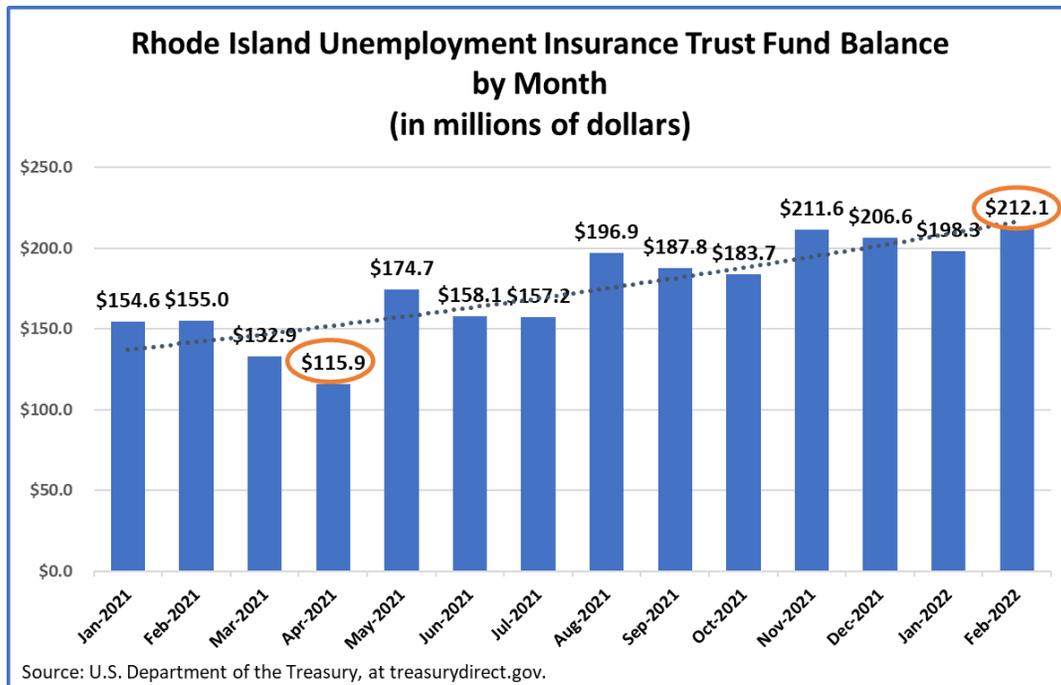
While the Governor's Recommended FY2023 budget would allocate \$30 million from ARPA SFRF to the trust fund in FY2023 and up to another \$15 million in FY2024, HB7385 would divert **close to \$320 million, more than a quarter of all ARPA SFRF expenditures**, in order to return the balance to the pre-pandemic emergency level.

This is far from the best use of ARPA SFRF for the following reasons:

- **Most sole proprietors**, counting for tens of thousands of Rhode Island businesses, do not have employees and do not pay UI taxes. These small business and micro-business owners **will not be helped at all by this measure**. According to the Small Business Association's most recent state profile for Rhode Island, **83,145, or 77.3% of Rhode Island businesses, have no employees¹** and therefore do not pay payroll taxes for unemployment insurance.
- This future tax relief **will mostly benefit the largest businesses**, and at least some of these businesses will not need the tax break; there are much better ways to target aid.
- This measure **would do nothing to lessen racial/ethnic disparities or increase equity** in using ARPA funds to address the effects of the pandemic.
- Replenishing the Trust Fund **will do nothing to reform the system or make sure the unemployed are receiving adequate benefits**. The Unemployment Insurance system is meant to help people who lose their jobs. The extended benefits under COVID proved a lifesaver for many workers and families, and poverty declined. We learned that without these extended benefits, **regular UI benefits are inadequate**. We should consider modernizing and improving the overall system, not simply lowering taxes but otherwise keeping the system as is.
- Unemployment Insurance taxes are based upon employer experience ratings (which vary by business) and a schedule (applying to all businesses). Variation in experience rating has the greatest impact on employers, much more than the schedule, but using ARPA funds like this would affect only the latter. Furthermore, under the pandemic emergency rules, employer experience ratings have been frozen, protecting employers. Although the schedule for 2022 is H, the 8th highest of the nine levels, the state was at

Schedule F when the pandemic struck and unemployment was at or near a historic low. Returning to Schedule F would not provide for a huge per employee discount.

We already have a system for replenishing the Unemployment Insurance Trust Fund, and we should let it do its job. As of the last full week of February 2022, the Trust Fund balance sat at \$212.1 million. Although far below the March 2020 pre-emergency amount of \$531.0 million, it is now almost \$100 million above the Trust Fund's low point of \$115.9 million at the start of May 2021. In a real crisis, Rhode Island can borrow from the federal government, at little or no interest. The following chart shows the growth of the Trust Fund:



With a strengthening economy, the fund will replenish itself over time, as it has already started to do. **In an important sense, the replenishment of the Trust Fund would be a future tax cut that might prove unnecessary – especially if we instead invest the money in recovery and keep unemployment low.**

It would be wiser to focus ARPA SFRF spending on small businesses and micro-businesses with demonstrated need of assistance. Such aid could take the form of loans or grants, or be used for workforce training and employment programs, as well as for adult education and basic skills training. Investing in paid leave and child care would help employers and employees alike. ARPA SFRF should be used to help people and businesses now and invested in targeted and strategic ways over the next few years.

¹ See: <https://cdn.advocacy.sba.gov/wp-content/uploads/2021/08/30143125/Small-Business-Economic-Profile-RI.pdf>. Note that sole proprietors can hire employees, and some do; they can also hire non-employee independent contractors.