

# MICROFILM DIVIDER

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ROLL NUMBER
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DESCRIPTION

1413

2007 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1413

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1413

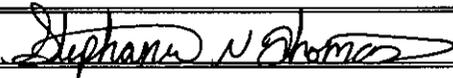
House Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: January 24, 2007

Recorder Job Number: 1857

Committee Clerk Signature



Minutes:

**Chair Keiser** opened the hearing on HB 1413.

**Rep. Mark Dosch, District 32:** HB 1413 deals with the determination of the unemployment insurance tax rates. This would deal with rearranging, tweaking current legislation in regards to positive balance employers, and how the rates are being determined. Currently, I have handed out a copy of a statement of an unemployment account, just to give you some idea of some of the frustrations that I think the community and various businesses experience with in how some of the rates are determined.

See handout A.

At what point in time do you say enough is enough, and we need to really take a closer look at how these rates are determined, and are they really determined based on a companies risk towards the fund. So, as we started to look at this, we tried to come up with some idea, and I had one idea that maybe we could pay interest on the access reserve balances, and with Job Service, ram that through there. People on the regional level said that would not have been equitable. So, as we worked with Job Service they came up with a different scenario that I think accomplishes the same thing. Currently, under the unemployment rate structure of the unemployment wages, 10% must be distributed amongst each of the rate codes. What can

happen is you can have a very good year where you can have no unemployment claims, and yet you can see your rate stay the same, or maybe even increase, or you can find yourself not even being at the bottom of the rate scale. I believe it sets out risk a little bit more uniformly amongst the positive balance rate employers.

**Larry Anderson, Job Service ND:** See written testimony #1.

**Rep. Keiser:** With our current system we have 10 different tiers in the positive group. Are those ten based on numbers of employers, numbers of employees, or premium rates, or salary?

**Larry:** They're based upon total wages.

**Rep. Keiser:** So, you take the total wages that exist in the field of positive employers, and you divide them into ten equal parts. If those wages increase, you still end up with ten equal parts, but things move, so the ends of those tiers change, is that correct?

**Larry:** That is correct.

**Rep. Johnson:** Who determined that the rates had to be distributed equally?

**Rep. Keiser:** Rep. Berg, Rep. Kasper, and Rep. GLassheim, along with Job Service. It was in the original legislation.

See handouts B, C, & D.

**Rep. Keiser:** Exhibit 3, by the time that you get down to the 6<sup>th</sup> entry there, what we have done is account for 60% of the cash that has the lowest rate of .24%.

**Larry:** 60%, correct.

**Rep. Keiser:** The balances of the wages were divided into a deposit of 9 categories. There's nine left, correct?

**Larry:** Yes.

**Rep. Keiser:** Go down the right most column, what we are suggesting is we're going to benefit the vast majority of positive balance employers who will receive a benefit from this. We are going to generate the same amount of dollars so, if that number benefits somebody has to take a hit, and who takes a hit are all of those people in the last 5 entries that show an increase, but they also have higher risks.

**Rep. Boe:** We heard that bill earlier today about the \$100 payment, and if we adopt this, is there still a need for that?

**Rep. Keiser:** This applies to positive balance employees only. This is a shuffling of dollars from the positives.

**Rep. Amerman:** The ones that take the hit on the increase from 107 to 179 on the positive scale, does that do anything to move them closer to negative, or are there other things in consideration?

**Larry:** No, it does not, because the other changes that we're making in legislation to change the gap between the positive and negatives is to prevent them from getting any closer, more risk of going positive.

**Rep. Keiser:** By going from 1.07 to 1.79 assuming everything is held constant, your reserve does increase.

**Larry:** The requirement for your reserve does increase then.

**Maren Daily, Job Service ND:** I've been asked by Rep. Berg what I hear from the employers, and what I have to do to tweak to make the system work a little better, and keep refining it. That is what this bill is with tweaking. This is in response to a very good economy hence, there's a very tight risk dispersion as you saw in that graph of positive balance employers in a very tight reserve ratio area. If the economy turns, that risk dispersion could widen, and it may

require a tweak, so less than 50% get the best rates. Right now for today's economy we find this to be very fitting.

**Rep. Keiser:** If the economy goes in the wrong direction in a significant manner, that range will spread out. What happens is using the 50%, we're going to be giving a large range the best rate, meaning that the people who really deserve the very best rate and have earned it are going to have to share with the people down here who don't deserve the best rate, and that's going to create problems. So, for the current economy it's the perfect model.

**Maren:** If the economy starts to go south, it will not jeopardize the trust fund, because we will still drive the total rate schedule based on the revenue we need to pay benefits, but it may develop some perceived inequities between those who get the lowest rates.

**Rep. Dosch:** There also are inequities with the system right now, because you're having a lot of big ones also subsidizing the bad to the higher rates to.

**Maren:** Exactly, that's why we're recommending supporting your changes this time. It fits the economy, but this system will be tweaked down the road.

**Tom Balzer, ND Motor Carriers Association:** Support HB 1413. 90% of our members are in the positive balance category, and we feel this will be very beneficial to them, and we also understand that when the economy does turn, the ride will end.

**Bill Shalhoob, ND Chamber of Commerce:** Support HB 1413. The bill is consistent within the policies adopted by the ND Chamber of Commerce. Positive balance employers are rewarded for those positive fund balances, and this bill creates a positive within the positive.

**Rep. Dosch:** I move a do pass.

**Rep. Kasper:** Second.

**Roll call vote was taken. 13 Yeas, 0 Nays, 1 Absent, Carrier: Rep. Kasper**

Hearing closed.

**FISCAL NOTE**  
**Requested by Legislative Council**  
01/16/2007

Bill/Resolution No.: HB 1413

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>	\$0	\$0	\$0	\$0	\$0	\$0
<b>Expenditures</b>	\$0	\$0	\$0	\$3,712	\$0	\$0
<b>Appropriations</b>	\$0	\$0	\$0	\$0	\$0	\$0

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill modifies the way Job Service determines unemployment insurance tax rates.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

If this measure is enacted, it will be necessary for Job Service to incur expenditures for programming our mainframe computer system to allow for the different method of calculating UI taxes for each taxable employer.

MIS programming changes will be needed to modify the method of building the positive rate table. The system will allow for 10 rates, with 60% of the employer wages being placed within the minimum rate. The changes will also encompass programming to:

- Determine individual rates within the positive rate schedule
- Adjust the new employer non-construction rate
- Modify the gap between the positive and negative rate schedules.

The programming will be done by Job Service North Dakota IT staff. The estimated cost is \$3,712.00 (64 Programmer/Analyst hours).

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The programming will be done by current Job Service North Dakota IT staff, the number of FTEs would not be changed.

The expenditures would be offset against another planned expenditure in order to stay within the available federal resources.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency*

*and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Because the agency would not be receiving any additional federal resources to fund this expenditure, an offsetting decrease in another budgeted operating expense item would need to be accomplished. Therefore, there would not be any impact on the agency's appropriation.

<b>Name:</b>	Larry Anderson	<b>Agency:</b>	Job Service
<b>Phone Number:</b>	701-328-2843	<b>Date Prepared:</b>	01/18/2007

Date: 1-24-07  
Roll Call Vote #: \_\_\_\_\_

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1413

House Industry Business & Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Rep Dosch Seconded By Rep Kasper

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Rep. Amerman	X	
Vice Chairman Johnson	X		Rep. Boe	X	
Rep. Clark	X		Rep. Gruchalla	X	
Rep. Dietrich	X		Rep. Thorpe	X	
Rep. Dosch	X		Rep. Zaiser		
Rep. Kasper	X				
Rep. Nottestad	X				
Rep. Ruby	X				
Rep. Vigesaa	X				

Total Yes 13 No 0

Absent 1

Floor Assignment Rep. Kasper

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)  
January 25, 2007 8:30 a.m.

Module No: HR-17-1182  
Carrier: Kasper  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**

**HB 1413: Industry, Business and Labor Committee (Rep. Keiser, Chairman)**  
recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).  
HB 1413 was placed on the Eleventh order on the calendar.

2007 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1413

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1413 B**

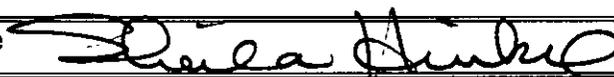
Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **February 21, 2007**

Recorder Job Number: **3601**

Committee Clerk Signature



*Job Service:*

**S Klein:** For discussion, another Job Service issue, I see where they're going and what we're trying to accomplish, wondering if you need to have more time to study this.

**S Heitkamp:** More time. It might end up 3 to 3, We get to see Maren in the hallway and I asked if it was part of her portfolio, they brought it forth; two House members on the top, no Senate members. I felt we put compromises out there for the better employers and so want to talk to some of them back home and make sure they're ok with this, even though we heard from the Association of General Contractors on the way out the door.

I think what it does is the people that start a business and then have to fluctuate, they really get it on this bill. People in a season business, this is a bad bill for them.

**S Wanzek:** Didn't Maren say when the new one comes on, when you're on for 3 or 4 years with no unemployment, all of a sudden they get bumped up to the top and push others to the bottom of the category.

**S Heitkamp:** The argument was, an "A" should be an "A."

**S Klein:** For 29 years, I have never had ONE person ever draw and can't get to be an "A." I'm still a "B," and didn't have a clue why I couldn't get there until today. When you bring in all those brackets and they have to divide them out. **CLOSE**

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1413**

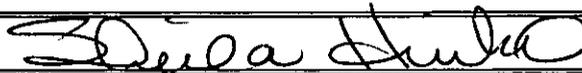
Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **February 22, 2007**

Recorder Job Number: **3553**

Committee Clerk Signature



*Determination of Unemployment Insurance Tax Rates:*

**Representative Mark Dosch, District 32 - In Favor**

*Looks at the overview that deals with positive balance employers. Modifying breakdowns on rates on positive employers. Now 10% of wages must go into 10 categories. Worked ok, this is tweaking the program. This bill makes it more reflective to the risk of the funds. Analogy of what they're trying to do: 25 students in a class, take a test, you score 97% on the test, you think, "I got an A on this test." When you get the paper back from your teacher, teacher says you got a B. What's going on? She says, "the way I grade, I only 5 people to get A's in the class, 5 B's, 5 C's, etc. And in your category, 3 people had 100%, 2 had 98%, and I'm sorry, the 5 were used up, you have to drop down to the next B grade." That's the way it is with the rate scale in Job Service. 10% of the wages have to go into 10 categories. You can be very good, but you can be pushed down because someone is slightly better.*

*As we looked at it to make it more reflective, based on rates, we need to reallocate the fund. 60% can qualify for the best rate and the rest would tier down to the other 10 rates. We are trying to accomplish making the rate scale a little more fair to those within the positive rate category.*

**S Potter:** So 60%, would go from 10% to 60%, does that mean that the best rate will not be as good as it was, or is it a "0 sum" game for the fund?

**R Dosch:** It is 0 sum, and the way it is designed is by expanding that best category, 60%, that rate does stay the same.

**S Potter:** So the best rate stays the same, so we move 50% up into that rate, then do the other 40% make up the difference?

**R Dosch:** It is tiered down, the lowest positives rates will go up, it tiers.

**S Klein:** We see that breakdown from Job Service.

**R Dosch:** Yes

**S Wanzek:** What you're saying is that you want to reward the positive categories, you want to reward some of the better performing employers?

**R Dosch:** That's right, right now the way it is, it is not being fair, you get people moved down the scale for no fault of their own, because the bands are so narrow, the ones with the best will get the best and get best rates.

**Larry Anderson – Job Service ND - In Favor**

**TESTIMONY # 1** *Read testimony*

**TESTIMONY # 2** – Exhibit 2 – shows calculation, reserves, covers schedule and evolution of current method. Overall effect is minimal. Work to maintain targets.

**TESTIMONY # 3** - Exhibit 3 Reserve ratios.

**TESTIMONY # 4**

**S Klein:** How is this shifting money? What is the dollar amount?

**Larry A:** In Exhibit 1, you'll see dollar shifts. In the middle of the chart, it is the experience the employer will shift.

**S Klein:** If I get a decrease, someone is increased. Is there going to be a problem? Are we going to see a substantial increase?

**Larry A:** Exhibit 3 will best answer that question. On the chart on calendar year for 2007, *[refers to chart]*

**S Klein:** So the last on the list with the most employees takes the increase?

**Larry A:** Yes

**S Hacker:** If you look at these types of employers, at the bottom of the scale of POSITIVE rate employers, some are they new to the positive world, in other words, do you erode away a positive balance?

**Larry A:** The motivation is to move the negative to positive rate group.

**S Klein:** Negative group is over 5% more already.

**S Wanzek:** So Senator Klein is getting an increase and I'm getting a decrease, I'll vote, "No," *[laughter]* What I see as the intent here is move the fund more towards it being reflective of utilization.

**Larry A:** That's correct, this is trying to work fairly and equitably distribute the rate for the already positive employees to balance funds. When you're an A you don't get pushed down to a B. Spreads out the fairness. You could assess line along line, with a higher reserve rate.

**S Wanzek:** Farm labor. How many years before you start with a new employer rate?

**Larry A:** After 3 years you establish for construction, 2 for non-construction.

**S Potter:** Do we set the rates through statutes, or do you set them administratively?

**Larry A:** Established through statute.

**S Potter:** Could you administratively implement this change without legislation?

**Larry A:** No

**Tom Balzer – ND Motor Carriers - In Favor**

90% of our members are positive balance employers. It makes common sense. The current rate structure is not defined as it doesn't look at risk.

**Dave MacIver – ND Chamber of Commerce - In Favor**

We have worked on this issue over past years. Over past couple sessions, we have managed to bring positive and negative a little bit closer together each session. This tries to help all the employers to understand what it is we're looking to do.

**S Wanzek:** Do this does not affect negative employers? We're just readjusting the positive?

**Dave M:** There is some to the negative as I recall, too.

**S Heitkamp:** When we talked of the role of the Chamber in business, is there any concern on the role of the Chamber on these negative balance employers, there isn't going to be many of these guys left if we keep picking away at them to build the roads and the bridges, it's a certain line of work that requires unemployment. You stand today with the positive balance employers, is that a numbers game, aren't we worried about the Northern Improvements?

**Dave M:** We've talked with a number of the people and they understand that they're using the program heavily, and with that, they're concerned about their rates, yes, but they're also concerned that if this gets out of line that there will be other kinds of legislation that will drastically affect them. So they'd rather deal with it a little bit at a time, than trying to come in and level off on it.

**S Hacker:** Rates, how do we compare to other states like Minnesota?

**Dave M:** Our rates are lower than other states around us.

**S Potter:** Can you give me examples of the industries affected by this? Who will be negatively affected? Who are the positive rate employers that are going to be paying more out of this?

Do you know?

**Dave M:** I can't answer that.

**Maren Daly – Executive Director of Job Service ND – answering questions**

The biggest impact with this chart, it's the positive balance employers who have had some claims in recent years, so there will be a variety. There may be some in manufacturing, some who have made voluntary payments to buy-down their account, the risk is much different than in the very tight dispersion. S Hacker's questions, asked about discouraging new employers coming in. Typically the new employer rate is higher for that first 2 years, but by paying a higher rate, they build up a substantial reserve if they don't have significant claims. They are typically the ones who cause the scale to fluctuate and bump out the long-term employers that have been paying relatively low rates, but have had no claims, that's where you get the calls that "I didn't have any claims, I'm in a long-term business, why did my rate double?" Because it's the new employers coming off the high rate who have built up a reserve that bump them out. This is a good refinement of the system, it's a tweaking. We have one of the BEST UI rate structures in the country. For the first time in my history, we will fall below the national average for tax rates, that's a good thing for claimants. They will get a boost in benefits because of being below the national average.

**S Hacker:** Is this a small or a large tweak? 2900 employers seems like a large tweak, subsidizing 9800 other employers.

**Maren D:** The reason I say it's a small tweak is because of the small dispersion of risk for these employers and getting rate differences right now when their risk level is so tight, they deserve more of the same rate.

**S Hacker:** This segment with positive rate employers, are they seasonal?

**Maren D:** Seasonal are high and continue to be in the negative category.

**S Hacker:** But those seasonal who are fighting to be positive, are they going to be in the low end of the spectrum as well?

**Maren D:** Some of them have made it because they have seen high rates for a lot of years, there will be a variety in there.

**S Klein:** The question on how it affects negative balance employers, is there an affect to them in this bill?

**Maren D:** It is not a significant affect, if you remember the bill that was passed in the first ½, that said that when rates are coming down, everyone is getting a rate break because the negative balance employers have not contributed to any excess in the fund, they should not share in the redistribution for rate reductions and would keep them at that same level. They're not going to move a lot, this is a "0 sum" game.

**S Heitkamp:** That's the point, we passed that legislation with 2 bills, one made it through and one is at the House, is this part of what you at Job Service had in your portfolio to tweak the change to do all this? Was this part of that vision? Does this go beyond the compromises?

**Maren D:** It came later.

**S Heitkamp:** So this is your bill?

**Maren D:** No, it is Representative Dosche's bill, but when we worked the numbers, they worked out so well, it has more distribution on a positive bases. We ran a spreadsheet on both bills passed and it does not significantly increase the burden on the negative. It allows us to keep the seasonal construction in business.

**S Potter:** Why were 60%, why was that the number you picked here to be in the best rate category?

**Maren D:** They are so close in that point, the graph told the whole story.

**S Potter:** Part of the essence of insurance is to spread the risk, not to identify risk and charge what it is, my question, did you make sure the Senators at the Senate Industry, Business & Labor are taken care of?

**Maren D:** We ran samples to get a feel for who it would impact.

**S Wanzek:** Negative employers, it appears that the ones impacted the most are the ones at the lower end of the positive chart. It seems like the ones at the lower ends are going to pay for those higher performers on the top of the positive balance.

**Maren D:** That's correct.

**CLOSE**

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1413 C

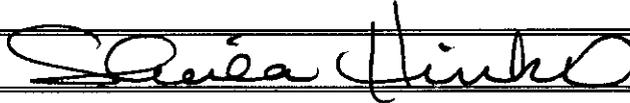
Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **February 26, 2007**

Recorder Job Number: **3832**

Committee Clerk Signature



*Determination of unemployment insurance tax rates:*

**S Klein:** Discussion of the bracketing of the unemployment. The director brought to my desk a copy of how it affects, which classifications it affects, it's everywhere.

**S Heitkamp:** It's not just the negative employers, she came and spoke to me, it affects those people who get in for a short period of time more than anyone else.

**S Klein:** Right, it addresses the concerns as it really doesn't touch the negative guys at all, but what it does do, some of the new companies, especially, that have been in there and come all the way around to the top, get an "A" when they really shouldn't be that high.

**S Heitkamp:** The thing that should be pointed out is that, the reason for my apprehension for when it comes to this is because we did do about 3 millions worth of stuff to negative balance employers, and I don't think anyone at this committee wouldn't recognize the fact negative balance employers, something needs to be done, but how much and how fast, and how far? If you want roads built in Crosby or Hankinson, you still need to have some negative balance employers out there. Plain and simple. When she came to my desk and explained this, the one thing that was perfectly clear, is that those beginning businesses that everything looks hunky-dory and then might cycle this way, they take more of a hit here than the Northern Improvements. I will move a DO PASS.

**Do Pass move by S Heitkamp**

**Second by S Potter**

**S Potter:** My understanding was that this does NOT affect negative balance employers, whatsoever, correct?

**S Heitkamp:** No, that's not true either.

**S Klein:** It's not completely, but it is so, she said, "I'm not going to say absolutely without a doubt, no." She doesn't want to be on the record in saying without a doubt, is not.

**S Heitkamp:** Another point, I raised with her, "Why 2 House members?" No offense to any names on top, but why 2 House members if we're changing a policy for the state, and you're getting behind it as an agency, and the one thing I do know about her, now that she runs her agency is that you can trust her. She said, "Well, we had this other thing out here to get done, this came along, dealing with a smaller issue and we're happy with it, we wish we would have come up with it."

**S Andrist:** Indulge me, on a quick scan on who it does affect, it's probably mostly positive balance employers who have the higher rates?

**S Klein:** That's correct, I believe is what we have is 10 categories out there and we have to force everyone, a certain amount into each of those groups into those 10 categories. The problem is, you can have a GREAT rating with no hits to the fund, but you could be a "B" even though you deserve an "A", but because you have a 97, someone with a 98 takes it's place, 97 deserves an "A" also, so what this does says: Now they are equal brackets, spread them a bit, the folks who have done a good job, we're going to give you a break. You folks down here who have been enjoying a good rate, are going to pay a little more.

**S Potter:** Do I have this right? What we're doing is, my concern is, we like negative balance employers to throw something into the kitty to bring themselves up to be positive, right? They

can buy their way out of this with a voluntary contribution, advance payment or something. I'm was afraid that would end, but it won't because the difference is between a 1.7 rate and anybody that's a negative over 5. Correct?

**S Klein:** Yes

**S Behm:** Do I understand this correct that if I started up a new business, and had no reason to lay off anybody, I would start out as an "A" rating, or would start out lower?

**S Klein:** You'd start out lower, you'd have a trial period and if you'd have not hits, you move up to...

**S Behm:** You'd have to prove yourself?

**S Klein:** Correct

**S Wanzek:** A new employer, basically, is it a percentage, or there is a minimum amount that they pay that is higher than most of those in that category, and then they go for 3 years and each year with good performance it keeps going down and after the 3<sup>rd</sup> year, if there's no problem, you get bumped all the way to the top?

**S Heitkamp:** I don't know that it's 3 years, Mr. Chairman, I was trying to remember that. What you described is accurate.

**S Wanzek:** Didn't we ask Maren or Larry, and they said 3 years.

As I understand it, you start as new and then the 3<sup>rd</sup> year, if you have 100% performance, that next year, you are a positive employer at the top.

**Roll call on DO PASS on :HB 1413 – 7-0-0 Passed**

**Carrier: Heitkamp**



**REPORT OF STANDING COMMITTEE**

**HB 1413: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1413 was placed on the Fourteenth order on the calendar.**

2007 TESTIMONY

HB 1413

House Bill 1413  
Testimony of Larry D. Anderson  
Job Service North Dakota  
before the  
House Committee On  
Industry, Business and Labor  
Representative George Keiser, Chairman  
January 24, 2007

*Same  
given to  
senate*

Mr. Chairman and Members of the Committee, I am Larry Anderson, Director of Workforce and Unemployment Insurance Programs with Job Service North Dakota. House Bill 1413 provides for a change to the calculation of Unemployment Insurance tax rates.

Currently, our tax system provides for 10 rate categories within the positive rate schedule. Within these 10 rate categories, an equal percentage of wages (10%) must be placed in each category.

While this method of rate calculation has served us well, we have found that a large percentage of our employers share a very similar history and reserve ratio, in essence their risk to the UI Trust Fund is fairly equal. However, because the wages must be distributed equally between 10 rate categories, we find employers with a similar level of risk can often have widely varied tax rates. With so many employers sharing a similar history, including many who have experienced few or even no benefit charges, an extremely small change in reserve ratio can affect an employer's rate significantly. An

example of this would be a situation that occurred this last year. An employer with a rate of .42% was faced with the need to lay off an employee. As a result, a claim was filed, and between \$300 and \$400 was paid to the claimant in benefits. This relatively small benefit charge caused the employer's reserve ratio to go from approximately 3.9% to approximately 3.5%, causing the employer's tax rate to almost double to .74% (this change encompassed 5 rate categories).

Another issue addressed by this bill relates to positive rate employers who have a recent negative history. 1,215 employers (7%) in the positive rate schedule have had benefit charges exceeding their contributions over the last 6 years, but because they have a positive lifetime reserve, they receive the same or a very similar rate as employers with a much smaller risk to the fund.

HB 1413 allows for 60% of our employer wages to be placed into the lowest positive rate category, and spreads the remaining wages out equally among the 9 subsequent rate categories in the rate schedule. This shift allows for a more equitable distribution of rates according to risk to the unemployment insurance trust fund, and helps to minimize the issues noted previously.

The additional changes within the bill address adjustments that must be made to maintain the continuity of the tax calculations in relation to the proposed tax rate structure change.

These two other changes are the adjustment of the calculation that dictates the rate gap between the positive and negative rate schedules, and an adjustment to the way in which the new employer rates are calculated. These changes were necessary in order to prevent a major impact to these employer groups.

Along with my testimony, I have provided three exhibits to demonstrate the affect of our current tax rate structure. Exhibit 1 is a table displaying the grouping of employers by reserve ratio, and exhibit 2 provides a graphical representation of this employer grouping. In reviewing exhibit 2, you will see the close grouping of employers by reserve ratio displayed. Exhibit 3 shows the affect of this calculation change upon the employers of North Dakota.

This change to the tax rate calculations can be looked at as an evolution of our current method. By fine-tuning our rate calculation, we are building upon the successes of our current system, and will provide employers with a rate that more closely reflects their risk to the unemployment insurance trust fund. Exhibit 3 provides detail as to how employer rates are affected. 2,916 employers within the upper categories of the positive rate schedule will see an increase in rates, 9,835 will be provided with lower rates, and 5,232 will remain unchanged.

It is important to note that the overall affect of this new method of calculation upon all tax revenues generated is minimal. The changes within the bill are not designed to generate more or less revenues overall, but to work in conjunction with the system in order to work toward and/or maintain the designated trust fund target.

There is a fiscal note associated with implementation of this bill. This fiscal note is fairly minimal, and represents the need to change the programming of the Job Service mainframe system to calculate rates based upon this new structure. All costs are associated with programmer analyst time, with no need to purchase any new hardware or software.

Mr. Chairman, this concludes my testimony. At this time I would be happy to answer any questions from the committee.

A

2007 UNEMPLOYMENT INSURANCE TAX RATE  
AND TAXABLE WAGE BASE NOTICE

ACCOUNT 0634379

\*\*T\*\*

DATE: 12-05-06

~~XXXXXXXXXX~~  
~~XXXXXXXXXX~~  
~~XXXXXXXXXX~~  
BISMARCK ND 58504

YOUR 2007 UNEMPLOYMENT INSURANCE TAX RATE IS 0.74%

IN 2007 THE FIRST \$21,300 PAID EACH WORKER IS TAXABLE.

Your rate is determined in two steps. Step 1: It is determined if your Total All Years Reserve is positive or negative. Because your TOTAL ALL YEARS RESERVE is positive, your rate is from the enclosed POSITIVE ACCOUNT TAX RATE SCHEDULE.

Step 2: Your Reserve Ratio is determined by dividing the Last 6-Year Reserve by the Average Taxable Payroll. The Reserve Ratio determines your rate within the Positive Account Tax Rate Schedule.

YOUR RESERVE RATIO IS 3.49 (LAST 6-YEAR RESERVE DIVIDED BY AVERAGE PAYROLL.)

	TOTAL ALL YEARS*	LAST 6 YEARS**	YEAR ENDING	TAXABLE PAYROLL
TAXES PAID	157,901	62,262	9/06	1,621,896
BENEFIT CHARGES	18,882	6,603	9/05	1,637,196
			9/04	1,513,501
RESERVE =	<u>139,019</u>	<u>55,659</u>	AVERAGE =	<u>1,590,864</u>

Information Purposes Only: YEAR ENDING 9/06 TAXES PAID 11,191  
BENEFIT CHARGES 3,328

Additional payments may be made to lower your rate. To figure the amount needed to place you in a lower rate within the schedule, multiply your average payroll by the reserve ratio needed for the desired rate, and subtract the present 6-year reserve. Such payment must be made by April 30, 2007, in addition to taxes due.

\* Total All Years Reserve is the Taxes Paid through October 31, 2006, minus the Benefit Charges to your account through September 30, 2006.

\*\*Last 6-Year Reserve is the Taxes Paid for the last six years through October 31, 2006, minus the Benefit Charges to your account for the last six years through September 30, 2006.

If you disagree with this determination,  
YOU HAVE 15 DAYS FROM THE DATE OF THIS NOTICE TO FILE AN APPEAL.

**POSITIVE BALANCE ACCOUNT**

**2007 UNEMPLOYMENT INSURANCE  
TAX RATE SCHEDULE**

<u>Reserve Ratio</u>	<u>Rate</u>
+1.69% and less-----	1.07%
+1.70% to +2.70%-----	0.98%
+2.71% to +3.18%-----	0.90%
+3.19% to +3.40%-----	0.82%
+3.41% to +3.54%-----	0.74%
+3.55% to +3.70%-----	0.66%
+3.71% to +3.81%-----	0.58%
+3.82% to +3.94%-----	0.50%
+3.95% to +4.33%-----	0.42%
+4.34% and over-----	0.34%

**New Employer**

Non-Construction-----	1.60%
Construction-----	8.09%

**New Employers are:**

- Non-construction covered after June 30, 2005.
- Construction covered after June 30, 2004.

Taxable Wage Base:       \$21,300

**See Negative Balance Account Schedule  
on OTHER SIDE**



*1/2 year Cost  
40 year Ben  
divide by 3 year taxable payroll*

Exhibit 1

6-Year Reserve Ratios			Positive				
Minimum	Maximum	Range	Employers	Cum %	FY 2006 Taxable Wages	Cum %	
19.50%	999.99%	>=19.50%	556	3.09%	14,407,076.10	0.40%	
18.50%	19.49%	19%	48	3.36%	1,768,677.25	0.44%	
17.50%	18.49%	18%	36	3.56%	978,369.33	0.47%	
16.50%	17.49%	17%	40	3.78%	2,573,227.57	0.54%	
15.50%	16.49%	16%	35	3.98%	879,824.56	0.57%	
14.50%	15.49%	15%	53	4.27%	1,720,759.23	0.61%	
13.50%	14.49%	14%	68	4.65%	5,649,489.39	0.77%	
12.50%	13.49%	13%	58	4.97%	1,252,660.45	0.80%	
11.50%	12.49%	12%	80	5.42%	2,971,325.36	0.88%	
10.50%	11.49%	11%	107	6.01%	4,693,174.42	1.01%	
9.50%	10.49%	10%	118	6.67%	5,492,794.60	1.16%	
8.50%	9.49%	9%	169	7.61%	14,686,725.84	1.57%	
7.50%	8.49%	8%	239	8.94%	22,575,025.96	2.19%	
6.50%	7.49%	7%	402	11.17%	36,239,027.53	3.18%	
5.50%	6.49%	6%	833	15.80%	39,867,849.73	4.27%	
4.50%	5.49%	5%	1,833	26.00%	154,659,811.03	8.52%	
3.50%	4.49%	4%	7,339	66.81%	1,709,668,371.64	55.42%	
2.50%	3.49%	3%	3,149	84.32%	1,002,447,324.80	82.93%	
1.50%	2.49%	2%	1,084	90.35%	289,812,389.69	90.88%	
0.50%	1.49%	1%	521	93.24%	132,940,327.04	94.52%	
-0.50%	0.49%	0%	358	95.23%	91,650,667.05	97.04%	
-1.50%	-0.51%	-1%	168	96.17%	49,840,185.51	98.41%	
-2.50%	-1.51%	-2%	137	96.93%	18,294,407.55	98.91%	
-3.50%	-2.51%	-3%	93	97.45%	17,587,730.28	99.39%	
-4.50%	-3.51%	-4%	74	97.86%	7,904,486.51	99.61%	
-5.50%	-4.51%	-5%	77	98.29%	5,422,886.08	99.76%	
-6.50%	-5.51%	-6%	47	98.55%	3,217,814.37	99.84%	
-7.50%	-6.51%	-7%	31	98.72%	1,628,264.01	99.89%	
-8.50%	-7.51%	-8%	21	98.84%	1,217,621.67	99.92%	
-9.50%	-8.51%	-9%	18	98.94%	525,180.53	99.94%	
-10.50%	-9.51%	-10%	16	99.03%	534,336.70	99.95%	
-11.50%	-10.51%	-11%	17	99.12%	220,915.34	99.96%	
-12.50%	-11.51%	-12%	17	99.22%	316,667.90	99.97%	
-13.50%	-12.51%	-13%	8	99.26%	254,876.03	99.97%	
-14.50%	-13.51%	-14%	7	99.30%	122,494.29	99.98%	
-15.50%	-14.51%	-15%	7	99.34%	114,885.25	99.98%	
-16.50%	-15.51%	-16%	10	99.39%	58,248.30	99.98%	
-17.50%	-16.51%	-17%	4	99.42%	36,782.32	99.98%	
-18.50%	-17.51%	-18%	7	99.46%	85,832.47	99.98%	
-19.50%	-18.51%	-19%	9	99.51%	74,100.99	99.99%	
-999.99%	-19.51%	<=-19.51%	89	100.00%	503,191.79	100.00%	
			<u>17,983</u>		<u>3,644,895,806.46</u>		

### 17,983 Positive Employer 6-Year Reserve Ratios

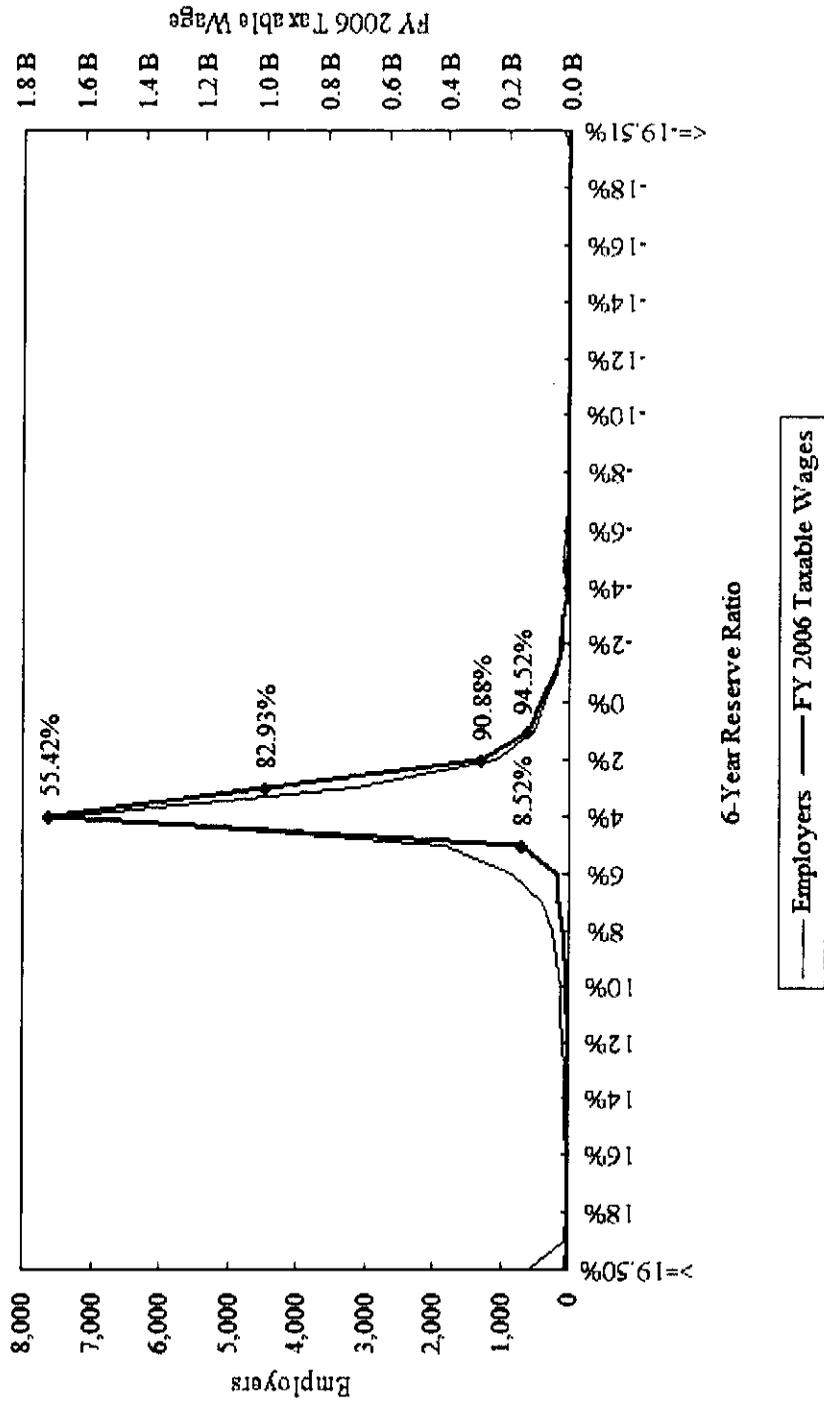


Exhibit 2

EXHIBIT 3

Example of HB 1413		Number of Employers	Adjustment to Rate
CY 2007	New Rate		
0.34%	0.34%	5,232	No Change
0.42%	0.34%	2,536	Decrease
0.50%	0.34%	1,584	Decrease
0.58%	0.34%	1,046	Decrease
0.66%	0.34%	1,297	Decrease
0.74%	0.34%	861	Decrease
0.82%	0.42%	395	Decrease
0.82%	0.50%	456	Decrease
0.82%	0.60%	64	Decrease
0.90%	0.60%	465	Decrease
0.90%	0.72%	496	Decrease
0.90%	0.86%	343	Decrease
0.98%	0.86%	292	Decrease
0.98%	1.03%	593	Increase
0.98%	1.24%	443	Increase
1.07%	1.24%	196	Increase
1.07%	1.49%	647	Increase
1.07%	1.79%	1,037	Increase
		<u>17,983</u>	

5,232	No Change
9,835	Decrease
2,916	Increase
<u>17,983</u>	