



## State of Connecticut

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### Testimony before the Labor Committee

March 11, 2014

#### House Bill 5314

#### “An Act Concerning Payments on Advances from the Federal Unemployment Account”

Chairmen Tercyak and Holder-Winfield, Ranking Members Smith and Markley and members of the Labor Committee, I’m testifying today in support of House Bill 5314, “An Act Concerning Payments on Advances from the Federal Unemployment Account”

Our state is still struggling to get out of one of the worst recessions since the Great Depression and the loss of jobs that has resulted. Like other states, we have met our obligations to those who have become unemployed through no fault of their own but, also like other states, our resources have been overwhelmed and our unemployment trust fund – the savings account we use to pay unemployment benefits – became insolvent in October, 2009. As a result, we’ve had to replenish the fund using federal loans. The interest on those loans must be repaid by employers through a Special Assessment and part of the principal has to be repaid through annual increases in the unemployment tax paid to the federal government.

Since we have an obligation to continue to pay unemployment benefits to folks who qualify, we’ve had to borrow well over a total of \$1 *billion* dollars from the federal government and, including anticipated additional loans, our total borrowing since October 2009 will come close to \$1.2 billion dollars very soon.<sup>1</sup>

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<sup>1</sup> During recent budget discussions, DOL indicated a need to borrow \$100 million, in addition to the \$810 million already borrowed. The outstanding balance on our loans was \$575 million as of July, 2013. This balance of course does not include the projected additional \$100 million in borrowing.

During this same period, approximately \$427 million dollars was repaid to the federal government from state unemployment tax revenues collected over and above the amount of unemployment benefits paid out. Additionally, approximately \$86 million dollars was repaid by the businesses in our state through an increase in their federal unemployment tax liability, which was applied to the loan principal owed.

While the interest costs on these loans were waived for the first year, pursuant to federal law and for over three years now, our state has passed the interest costs onto the backs of our employers, to the tune of \$18 million dollars last year alone.<sup>2</sup> Every August, just about every business in our state receives a "Special Assessment" that they have to pay to cover the interest on our borrowing, over and above what they normally have to pay in unemployment taxes – and, of course, in addition to all the myriad other taxes they are required to pay every year.

But we have an opportunity this session to remove this "Special Assessment" burden – and removing that burden is what House Bill 5314 is all about.

Budget gimmicks enacted over the past few years has resulted in unanticipated additional tax revenue. Another way of putting it is that we've been overtaxed to the tune of over \$500 million dollars. We as House Republicans think at least some of that excess revenue ought to be used to pay off the interest on our federal unemployment loans. In fact, we feel so strongly about this that we took the rare step of forcing a public hearing on this issue so that it could at least be on the table for discussion.

HB 5314 directs the state comptroller and the state treasurer to use a portion of the excess revenue to pay off the interest on our federal unemployment account loans and thereby eliminate the need for future "Special Assessments" on our state's businesses. We expect this to use approximately \$60 million, or a little over *one-tenth*, of the excess revenue we're projected to receive.

It doesn't cost much when compared to the total amount our taxpayers have been overcharged, but it would be a huge benefit to our state's businesses – and would go a long way toward convincing them that we're serious about removing burdens from them when we can.

Thank you for this opportunity to voice my support for this common sense piece of legislation. I hope you'll agree that it will do a lot of good and that you'll work with me to move it forward in the process.

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<sup>2</sup> This equates to an additional "tax" on businesses of approximately \$15 per employee.