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HEADLINE: WSJ(6/23) Fund Debt Fans Fears Of Spike In Taxes

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By Jacob Gershman Dow Jones & Company, Inc.

(From THE WALL STREET JOURNAL)

New York's unemployment-insurance system is borrowing money from the federal government at an explosive pace -- sinking \$1 billion deeper into debt since the beginning of the year -- and that has businesses bracing for a sharp increase in taxes.

As New York continues to shed private-sector jobs, the fund that pays unemployment claims is now \$3.2 billion in the hole, the largest deficit in the nation after Michigan and California.

Since the fund dipped into the red a year and a half ago, the state has accumulated a deficit more than four times greater than the widest gap it faced during the last recession nine years ago.

Gov. David Paterson and lawmakers are considering legislation that could raise taxes to cover the deficit and to increase the maximum weekly benefit of \$405 by more than 50% by 2013.

Currently, employers pay the state a rate of 1.5% to 9.9% -- with higher levels paid by businesses with more layoffs -- on the first \$8,500 of wages. Lawmakers are considering raising that over the next two years to \$13,500.

Labor unions and other advocates for years have urged Albany to raise the taxes and benefits, which haven't moved in about a decade.

Twenty other states pay higher benefits than New York, which pays an average of about \$310 a week, according to a report by ProPublica, a nonprofit news organization.

"The state has been an ostrich with their head in the sand," said Andrew Stettner, a deputy director at the National Employment Law Project, which has been lobbying for the increase. "The taxable wage base needs to increase and catch up with wage growth."

Business advocates say they're trying to negotiate a compromise that doesn't further knock down recession-scarred employers.

"It's a real possibility that the size of the repayment to the federal government is such that it will hinder economic growth, and that's before we talk about any changes to the benefit levels," said Margaret Moree, director of federal affairs for the *New York State* Business Council, a lobbying group based in Albany.

New York is now paying jobless benefits to more than 500,000 residents as of May, according to state data. New York's unemployment fund pays for the first 26 weeks. The federal government covers up to another 73 weeks.

While the state's unemployment rate has dipped slightly to 8.3%, New York lost 9,500 private-sector jobs in May, according to seasonally adjusted state data. Since 2007, the state's private sector has shed 200,000 jobs. New York City's unemployment rate is 9.6%, about the same rate as the national average.

Without federal intervention, New York will have to start paying interest on the deficit beginning in January. The interest will be paid through a surcharge set by the government and imposed on companies on a

per-employee basis. From 2003 to 2005, the last time New York was in the red, the fee was around \$50 per employee on a \$700 million deficit, on top of a smaller federal penalty. Businesses could end up paying a considerably stiffer surcharge this time.

Congress, which temporarily waived the interest through the end of the year, is considering an extension of the interest-free period. Democratic lawmakers haven't advanced any plans to forgive debt owed by states, according to a congressional aide familiar with the discussions.

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