California Unemployment Debt

California is borrowing billions of dollars from the federal government to cover unemployment insurance benefits to jobless workers, but how it will be repaid remains uncertain.

* Millions of California residents lost their jobs during the COVID-19 pandemic
* By the end of the year, the state’s Unemployment Insurance Fund (UIF) is expected to owe more than $24 billion that — unless Congress forgives the debt — must be repaid with interest. And if the state doesn’t make its payments, the feds will hike payroll taxes on California employers to retire the loan.
* It could have been worse. Newsom’s original budget projected that the debt would reach $48.3 billion by the end of 2021, but as employment picked up and the [unemployment rate](https://calmatters.org/commentary/2021/05/newsom-economy-unemployment-rate-recall-california/) declined, the estimate was cut in half.
* The state began taking out loans when last year’s sudden spike in pandemic-related unemployment quickly exhausted the UIF. The state is responsible for the first tier of payments to jobless workers and by the end of 2020, California had borrowed $18 billion to cover its basic payments.

Why is California drawing more than other states?

* California resorted to borrowing because its UIF had one of the nation’s most anemic reserves, as the federal [Department of Labor often notes](https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2021.pdf), due to a decades-long political stalemate.
* Two decades ago, the UIF had a healthy reserve, but then-Gov. Gray Davis and the Legislature, bowing to pressure from labor unions, sharply increased unemployment benefits without increasing payroll taxes to pay for them due to counter-pressure from employers.
* When the Great Recession struck a few years later, the UIF was quickly drained and the state borrowed from the federal government to cover benefits, eventually owing about $11 billion. The debt was repaid via higher federal payroll taxes over 10 years, but the UIF never recovered. Until the pandemic struck, the state was paying out about $5 billion a year in benefits and collecting just enough taxes to cover them, but not enough to rebuild a reserve.

What’s Next?

* Newsom’s revised budget offers $1.1 billion to pay down the debt, but the Business Roundtable is pressing him to allocate more from the state’s multi-billion-dollar budget surplus and/or federal relief funds.
* The California Budget & Policy Center says the $1.1 billion is already too much, describing it as a “poorly targeted tax break to businesses that were not paying enough into the UI system before the pandemic at the expense of helping Californians most harmed by the economic crisis who need financial support now.”
* It’s likely that the feds will once again hike payroll taxes on employers to repay California’s new and much-larger debt, which will make them even less willing to pay more state taxes to rebuild the UIF for the next recession.