



February 10, 2025

The Honorable Scott Wiener
Chair, Senate Committee on Budget and Fiscal Review
1021 O Street, Suite 8620
Sacramento, CA 95814

The Honorable Jesse Gabriel
Chair, Assembly Committee on Budget
1021 O Street, Suite 8230
Sacramento, CA 95814

SUBJECT: NEED FOR UI FUND DEBT ASSISTANCE IN 2025-2026 BUDGET

Dear Chairpersons Wiener and Gabriel,

On behalf of California's over 4 million employers—big and small, rural and urban, and across all industries—we write regarding the Governor's Budget Proposal for the 2025-2026 Budget ("Proposed Budget") and its failure to provide any form of aid to California's employers related to the Unemployment Insurance Fund (UI Fund) and the increased UI-related taxes that California employers are facing.

Though we appreciate the passage (and ongoing implementation) of reforms at the Employment Development Department,¹ these reforms will not provide relief for businesses affected by the pandemic-related fraudulent UI claims and currently paying increased unemployment taxes.

Specifically, we ask that the State of California deliver on the commitments made in the 2022-2023 Budget to provide \$750 million to the UI Fund, and to provide \$500 million in tax rebates to help defray the cost of increasing UI taxes for small businesses.

¹ Including the Proposed Budget's one-time investment of \$124.2 million to continue EDDNext's four-year implementation, and the full implementation of the CA State Auditor's audit recommendations.

Wildfires Highlight the Importance of the Unemployment Insurance System.

As we are all too aware, wildfires have devastated significant parts of Los Angeles County. Thousands of businesses—which provided economic lifeblood and places of community—have burned. Even businesses outside of burn areas are struggling to operate amid evacuations and severely limited foot traffic. Foreign and domestic tourists are also cancelling trips to Los Angeles, despite 98% of LA County being open and safe. We expect the devastation in Los Angeles to have shockwaves throughout the region and state because, just as families and friendships tie California together, so too do the supply chains of our businesses.

Though it is too early for complete data to be available, we fear that many employers will struggle to re-build and re-open. As these businesses shut down temporarily (or permanently), their workers will turn to California's UI benefits for relief—as they should. Business owners will similarly look to the state for aid in getting through this hard time.²

To that end, we are thankful for the availability of new federal Disaster Unemployment Assistance, which will aid workers who cannot claim traditional unemployment.³ We also appreciate Governor Newsom's order to waive the one-week-waiting period for new claimants in light of the immediate need across Southern California. However, ultimately, the cost of state-provided unemployment benefits will fall on employers' shoulders to pay – as our unemployment insurance system is funded by employers.

Unemployment Insurance Taxes Have Risen Since the Pandemic – and Businesses Need Relief.

California businesses are already facing steadily increasing UI taxes due to the pandemic-era deficit. By way of background, unemployment-related taxes increase by \$21 per employee⁴ per year when a state's UI Fund is insolvent for two consecutive years pursuant to federal law. California's UI Fund has been insolvent since the COVID-19 pandemic, and employers have been paying increased taxes since 2022, with the initial load of increased taxes being due in 2023.

For context, employers pay \$42 per employee per year when our UI Fund is solvent in federal unemployment insurance taxes ("FUTA taxes").⁵ With ongoing insolvency, FUTA taxes are increased by \$21 per year per employee, up to a maximum of \$434 per year. Because of these increases, California employers paid an estimated \$770 million in additional federal taxes in 2024 (for a total of \$4.9 billion in UI contributions) and are estimated to pay an additional \$1.2 billion in 2025 (for a total of \$5 billion). Notably, these amounts do not account for the cost of rebuilding and the added UI-fund drain that the wildfires will cause as workers tap this critical stopgap and employers begin to pay for those claims via the UI Fund.

As it stands now, California's UI Fund debt is at historic levels—with total debt over \$20 billion.⁶ This debt has only grown since the COVID-19 pandemic and is expected to grow until federal tax increases finally rise high enough to push it back down. Functionally, this means California employers are facing a decade or more of tax increases, with total payments likely to far surpass the UI-related tax increases following the Great Recession.

The Promises of the 2022-2023 Budget Should Be Fulfilled – Including UI Fund Assistance and Tax Rebates.

With this background of ongoing tax increases, and the unexpected tragedy of the Los Angeles fires only adding costs to the UI Fund, we believe now is the time for aid to California's ailing UI Fund.

² CalChamber has created a compendium of resources related to the wildfires—including emergency warnings, available benefits, and more. For those seeking aid, please visit: <https://www.calchamber.com/wildfires>.

³ Disaster Unemployment Assistance may be available for any worker who is out of work because of the wildfires and does not qualify for regular unemployment benefits. More information is available at: https://edd.ca.gov/en/unemployment/disaster_unemployment_assistance

⁴ This per-person tax increase applies regardless of whether the employee is part-time or seasonal.

⁵ This \$42 per employee is a baseline under the Federal Unemployment Tax Act (FUTA), but it is often increased by the employer's experience rating.

⁶ Recent EDD and LAO estimates place it at around \$22 billion for the end of 2024, though the Department of Labor's public reporting of balances notes \$21 billion (see <https://oui.doleta.gov/unemploy/budget.asp>).

In 2022-2023, the Governor's proposed budget included three key pieces of aid for employers facing a massive UI Fund debt (and related tax increase) due to the COVID-19 pandemic. First, it included a payment of \$250 million to the UI Fund in the 2022-2023 budget year. Second, it promised an additional \$750 million for the UI Fund to follow in the 2023-2024 budget year. Third, it proposed \$500 million in tax rebates for small employers facing increased UI taxes in the 2023-2024 budget year. Though California employers were disappointed that the majority of aid was being delayed until the 2023-2024 budget year, we were thankful that aid would be forthcoming, given the nearly \$20 billion UI Fund debt. However, that promised aid did not arrive. In the 2023-2024 Budget, the promised UI Fund assistance—both the direct payment and the tax rebates—did not materialize.⁷ As California's 2022-2023 budget surplus disappeared, California employers became victims of the state's difficult budget situation.

While we understand and acknowledge that California faced budget shortfalls in 2023-2024 and 2024-2025, we believe that the Proposed Budget has a brighter outlook and is the appropriate time to deliver on these commitments.

Sincerely,



Robert Moutrie
Senior Policy Advocate
on behalf of

Acclamation Insurance Management Services
Allied Managed Care
American Petroleum and Convenience Store
Association (APCA)
American Subcontractors Association of
California
Associated Equipment Distributors
Associated General Contractors
Associated General Contractors – San Diego
BizFed – Los Angeles County Business
Federation
California Association of Sheet Metal and Air
Conditioning Contractors National Association
California Attractions and Parks Association
California Beer & Beverage Distributors
California Builders Alliance
California Chamber of Commerce
California Farm Bureau
California Grocers Association
California Hispanic Chambers of Commerce
California Hotel & Lodging Association
California Restaurant Association
California Retailers Association
California Self Storage Association
California Travel Association
Coalition of Small and Disabled Veteran
Businesses

El Dorado County Chamber of Commerce
El Dorado Hills Chamber of Commerce
Elk Grove Chamber of Commerce
Flasher Barricade Association (FBA)
Folsom Chamber of Commerce
Housing Contractors of California
Laguna Niguel Chamber of Commerce
Lincoln Area Chamber of Commerce
Los Angeles Area Chamber of Commerce
National Association of Theatre Owners of CA
National Electrical Contractors Association
National Federation of Independent Business
Orange County Hispanic Chamber of Commerce
Rancho Cordova Chamber of Commerce
Rocklin Chamber of Commerce
Roseville Area Chamber of Commerce
Sacramento Regional Builders Exchange
San Manuel Band of Mission Indians
Santa Barbara South Coast Chamber of
Commerce
Shingle Springs/Cameron Park Chamber of
Commerce
Torrance Area Chamber of Commerce
United Chamber Advocacy Network
United Contractors
Wine Institute
Yuba-Sutter Chamber of Commerce

⁷ The initial \$250 million from the 2022-2023 was paid – but the far more significant aid promised in the 2023-2024 budget was removed.

cc: Christine Aurre, Legislative Affairs Secretary, Office of the Governor
Members, Senate Committee on Budget and Fiscal Review
Members, Assembly Committee on Budget

RM:ldl