[MS-0398.027.010.018]

Briefing Paper

UNEMPLOYMENT COMPENSATION

Mandated Coverage for State and Local Employees

H.R. 10210, a measure which extends unemployment compensation benefits to State and local employees, was reported on December 16, 1975 by the House Ways and Means Committee (Ullman, D-Ore., Chrmn.)

The measure requires States to extend coverage to all State and local employees as a condition for continued participation in the Federal Unemployment Compensation system. Elected, appointed and part-time officials as well as members of the legislature and judiciary are exempted from coverage.

Financing

State and local governments will be required to pay only the State portion of the wage tax (average State tax is currently 2.7% on a wage base of $4,200; under provisions of the House bill, wage base will rise to $8,000) levied for unemployment compensation purposes, but will not be required to pay the federal portion of the tax (.05% currently, .07% under the House bill). Concomitantly, States or State and local governments will be 100% liable for the costs of administering the program as well as for the full costs of the extended benefits program (i.e., unemployment compensation paid after the first 26 weeks of unemployment).

Transition Provisions

While the measure has an effective date of January 1, 1977, it provides that if a State permits newly covered workers to collect unemployment compensation benefits on wages earned prior to January 1, 1977, the State will be reimbursed from Federal general revenues for these benefits. Federal reimbursement will be phased out in most States about March 31, 1978. Also, Federal reimbursement will apply in any case only to the extent that benefits are based on services that were not covered at any time during 1975.

Legislative Status

In the first major test of the new Congressional Budget process -- which rules out, except when "waived," consideration of all measures which would impact on the FY 77 budget until Congress has an opportunity to review overall FY 77 Federal spending and taxing -- the Budget Committee recommended that a "waiver" for consideration of the Unemployment Compensation Act <u>not</u> be granted. The impact of this negative recommendation in all likelihood will delay House floor consideration of H.R. 10210. The measure may still come up before the Rules Committee which may choose not to concur with the Budget Committee's negative recommendation -- in which case the bill can be considered on the House floor -- but this is unlikely.

It is essential, however, for city officials to understand that the Budget Committee's action was largely based on procedure -- i.e., they have agreed not to recommend "waivers" except in cases of emergency -- and not on the substantive provisions of extending coverage to State and local employees.

Constitutional Issues

The Committee did deal with the Constitutional questions involved in extending unemployment compensation benefits to State and local employees. They concluded that such action fell within the purview of Congressional power to lay and collect taxes and that it did no violence to the 10th Amendment since State power includes the authority to make contracts and consent to the offer by the Federal government of a Federal tax credit and grant.