



NC JOB READY FUND: DECREASING TAXES AND FUNDING WORKFORCE NEEDS

The Governor's recommended budget restructures unemployment insurance taxes to lower the taxes paid by businesses while investing new revenue directly into worker training. Businesses in North Carolina need a skilled workforce to thrive, and a better educated and trained workforce also attracts new companies and jobs to the state.

Unemployment in North Carolina

Individuals who are unemployed through no fault of their own are eligible to receive a weekly benefit ranging from \$15 to \$350. Depending on the state unemployment rate, individuals can receive between 12 and 20 weeks of benefits. **Benefit payments from the Unemployment Trust Fund for FY 2017-18 were approximately \$200 million**; if there are no major changes to the state's economic condition, that level of benefit payout is likely to continue.

The unemployment system in North Carolina is funded through employer taxes. Employers, based on their prior contributions and the current balance in the Trust Fund, pay a state tax (SUTA) ranging from 0.06% to 5.76% on the first \$23,100 of wages. These taxes go into the Federal Unemployment Trust Fund where North Carolina has its own account, as do other states.

Unemployment Trust Fund Balance and Interest

The trust fund balance as of **December 31, 2018 is \$3.5 billion**, over \$1 billion more than the US Department of Labor recommends to ensure that necessary funds are available. The federal government credits interest to each state's account at approximately 2%; thus, with a balance of approximately \$3.5 billion, North Carolina should be credited with at least **\$70 million in interest annually**. Interest earned is credited to the Trust Fund held by the federal government and can only be used for paying unemployment benefits.

How much is needed in the Trust Fund?

The US Department of Labor encourages states to maintain a balance in its Trust Fund equivalent to 12 months of unemployment benefits based on the average of the three highest years of benefit payments over the last 20 years. For North Carolina, **this amount is \$2.4 billion**; however, this measure likely overstates what North Carolina will need in the next recession as benefits have been significantly reduced since 2013.

Unemployment Tax

Base Tax

The base tax rate is adjusted based on the balance in the Unemployment Trust Fund as compared to total taxable wages in the state. Employers pay the base rate plus or minus an amount tied to their "experience rating" (i.e., how frequently and to what extent their former employees have collected UI benefits). The base rate as of January 1, 2019 continues to be set at the lowest level of 1.9%; that rate

has generated approximately \$500 million in revenue annually beginning in 2018. With the current level of benefit payments, the Trust Fund has been growing by nearly \$300 million annually.

Surcharge

Per current North Carolina statute, employers pay a surcharge of 20% when the balance in the Trust Fund is less than \$1 billion. Governor Cooper’s budget proposes applying the surcharge at all times and lowering the base tax; doing this means employers will pay less in unemployment taxes and more money will stay in North Carolina to fund the NC Job Ready Fund. With these restructured rates and no significant economic changes, the Trust Fund is anticipated to continue to grow by more than \$150 million annually. In addition, applying the surcharge will generate \$60 to \$75 million annually. Governor Cooper’s recommended budget uses the funding generated from the surcharge to establish the NC Job Ready Fund to support worker training.

Current Tax Rate	Proposed Tax Rate	Effective Rate with Surcharge	Surcharge Revenue Generated
1.9%	1.4%	1.68%	\$60-75 million annually

These tax law changes will go into effect January 1, 2020, so half of the anticipated annual revenues will be generated in fiscal year 2019-20 with full revenues expected in 2020-21.

NC Job Ready Fund

The \$65 million generated from the surcharge will be 100% dedicated to workforce programs to help North Carolina workers get the education and training they need for good-paying jobs including:

	FY 2019-20	FY 2020-21
NC GROW Scholarships	-	\$30,000,000
NC GROW - Short Term Credential Assistance	\$5,000,000	\$10,000,000
Finish Line Grants	\$15,000,000	\$15,000,000
Work-Based Learning Fund	\$10,000,000	\$10,000,000
NC Job Ready Fund Total	\$30,000,000	\$65,000,000