

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2617-01
Bill No.: HB 782
Subject: Employees - Employers; Employment Security; Labor and Industrial Relations
Dept.
Type: Original
Date: January 12, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$1,344,000)	(\$1,835,000)	(\$2,331,000)
Total Estimated Net Effect on General Revenue Fund	(\$1,344,000)	(\$1,835,000)	(\$2,331,000)

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Unemployment Compensation Trust	\$158,923,297	\$310,601,386	\$304,177,245
Total Estimated Net Effect on <u>All</u> State Funds	\$158,923,297	\$310,601,386	\$304,177,245

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	(\$3,997,579)	(\$7,810,283)	(\$8,236,480)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations, Division of Employment Security (DES)**, assume this proposal would provide additional flexibility to DES in establishing employer tax rates, allowing for increased short-term rates to restore the solvency of the state Unemployment Compensation Trust Fund. The fund began borrowing from the federal government in March 2003 due to benefit payments exceeding the accumulated fund balance. The proposal also provides a simplified method for reporting newly combined businesses' taxes, changes in the methodology for computing benefits, and a change to the reduction of benefits unemployed workers experience when they accept part-time work.

DES assumes the cost for computer programming, reprinting forms and pamphlets due to changes created by the proposal would be absorbed through the normal costs of operations and paid from federal administrative funds, since these provisions would affect the operation of the state unemployment insurance (UI) benefit fund.

ASSUMPTION (continued)

The Division estimates the net impact on the Unemployment Compensation Trust Fund as follows:

SS:LR:OD (12/02)

DES stated the Unemployment Compensation Trust Fund (UCTF) is funded by employer contributions and reimbursements for benefit payments. The UCTF is strictly for the payment of unemployment insurance (UI) benefits. Governmental agencies and not-for-profit organizations have the option to reimburse the trust fund in lieu of making quarterly contributions. DES has estimated the (1) cost to local government and (2) cost to the UCTF. It is DES's understanding that the Office of Administration is responding as to the impact of this proposal on state government.

DES noted the Maximum Weekly Benefit Amount (MWBA) is currently \$250. The proposal provides for calculating the MWBA at 50% of the state's Average Weekly Wage (AWW), rounded to the nearest \$5 increment, with a minimum MWBA of \$275. This would make the calendar year 2005 MWBA \$330.

In addition the proposal would eliminate the current vacation pay deduction from a claimant's weekly benefit amount. Based on calendar year 2002 data, DES estimated increase in benefits for calendar year 2005 would be \$7,681,317.

Finally, the proposal would increase from \$20 to 20% of MWBA the amount of money a claimant could earn during a week claimed without having his/her weekly benefit amount reduced. Based on calendar year 2001 data, DES estimated the increase in benefits paid during calendar year 2005 would be \$4,208,227. That amount does not include an estimated amount of benefits saved from claimants whose part time work would have resulted in increased hours or eventual full time employment. The amounts of those savings are not known.

Based on calendar year 2002 claims data, and assuming the proposal would be effective in January 2005, DES estimated the increase in benefits would be a cost to the UCTF of \$67,734,023 for the last six months of FY 2005; \$132,299,643 FY 2006 and \$147,553,390 for FY 2007. Included in these amounts is a cost to local government of \$1,452,217 for the last six months of FY 2005; \$2,836,504 for FY 2006 and \$3,163,545 for FY 2007.

DES assumes the overall impact to the UCTF of the change to the computation of contribution rates for newly combined businesses would be minimal.

ASSUMPTION (continued)

DES notes the proposal would replace the current UI tax rate schedule with the table found in Section 288.120.1, which is currently used for employers participating in the shared work program. Using the proposed rate table for all employers will help ensure that those employers

using the trust fund the most would pay their fair share of the costs. Increasing the maximum rate incrementally to a maximum of 9% would result in approximately \$44.8 million annually, based upon the Calendar year 2004 rate calculations adjusted for Taxable Wage Base (TWB) growth. The rate change also raises the minimum rate from zero to one-tenth of one percent which would increase contributions approximately \$5.8 million or more per year, depending on the Contribution Rate Adjustment (CRA) in effect.

DES assumes that changing the current trigger factors for the CRA would not have an immediate affect since the CRA is currently projected to be at the 30% maximum rate for 2004, 2005 and 2006. DES also assumes that changing the CRA trigger to a measure of trust fund solvency from a fixed UCTF balance will help maintain sufficient reserves in the fund.

Under the proposal, the TWB would be 50% of the AAW. This would result in an estimated TWB of \$17,000 for 2005.

Based on the proposed contributions rate changes the proposed TWB of 50% of AAW, and assuming all other factors remain unchanged, DES assumes an estimated increase in contributions received of \$226,657,320 for the last six months of FY 2005; \$442,901,029 FY 2006 and \$451,730,635 for FY 2007. Included in these amounts is a cost to local government for increased contributions of \$2,545,362 for the last six months of FY 2005; \$4,973,779 for FY 2006 and \$5,072,935 for FY 2007.

DES assumes the combined fiscal impact of the various provisions of this proposal would be a net income to the UCTF of \$158,923,297 for the last six months of FY 2005; \$310,601,386 FY 2006 and \$304,177,245 for FY 2007. In addition, DES assumes that implementing these provisions would reduce interest charges to employers totaling \$2,783,271 in 2005, \$19,354,738 in 2006 and \$25,289,393 in 2007.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Accounting**, (OA) assume this proposal would increase state government's cost to reimburse the Division of Employment Security for benefits paid to former state employees. Based on recent experience, OA assumes benefit claims will continue to increase 15% per year. OA officials assume the revision of the formula will result in a 32% increase in costs reimbursed for FY05, 38% increase for FY06 and 42% increase for FY07. State reimbursement includes all state agencies and colleges and universities.

OA has projected General Revenue unemployment expenditures for FY05 based on \$4.2 million in FY04 year to date actual reimbursement. The \$4.2 million multiplied by the 32% wage base increase in this proposal would indicate \$1,344,000 in additional General Revenue Fund cost.

OA has projected General Revenue unemployment expenditures for FY06 based on \$4.2 million in FY04 year to date actual reimbursement, increased by 15% to \$4.83 million. The \$4.83 million multiplied by the 38% wage base increase, would indicate \$1,835,000 in additional General Revenue Fund cost.

OA has projected General Revenue unemployment expenditures for FY07 based on \$4.83 million in projected FY06 expenditures before the wage base increase, increased by 15% to \$5.55 million. The \$5.5 million multiplied by the 42% wage base increase, would indicate \$2,331,000 in additional General Revenue Fund cost.

Officials from the **Office of Administration, Division of Budget and Planning**, assume this proposal would not have a direct fiscal impact on their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Cost</u> - Office of Administration			
Reimbursement of unemployment compensation payments	<u>(\$1,344,000)</u>	<u>(\$1,835,000)</u>	<u>(\$2,331,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$1,344,000)</u>	<u>(\$1,835,000)</u>	<u>(\$2,331,000)</u>
UNEMPLOYMENT COMPENSATION TRUST FUND			
<u>Income</u> - Division of Employment Security			
Increased contributions	\$226,657,320	\$442,901,029	\$451,730,635
<u>Expenditure</u> - Division of Employment Security			
Increased benefit payments	<u>(\$67,734,023)</u>	<u>(\$132,296,643)</u>	<u>(\$147,553,390)</u>
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	<u>\$158,923,297</u>	<u>\$310,601,386</u>	<u>\$304,177,245</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
LOCAL GOVERNMENTS			
Cost - Increased contributions	(\$1,452,217)	(\$2,836,504)	(\$3,163,545)
Cost - Increased benefit payment reimbursements	<u>(\$2,545,362)</u>	<u>(\$4,973,779)</u>	<u>(\$5,072,935)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(\$3,997,579)</u>	<u>(\$7,810,283)</u>	<u>(\$8,236,480)</u>

FISCAL IMPACT - Small Business

This proposal would affect small businesses as a result of direct changes to their unemployment tax rates, and changes in benefits paid to former employees which in turn affect the businesses' experience ratings.

DESCRIPTION

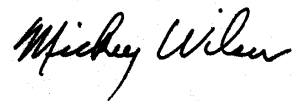
This proposal would revise employment security laws as follows:

- a. The reduction of weekly benefits for part-time employment would be changed from the earnings over \$20 per week to earnings over 20% of the state maximum weekly benefit amount.
- b. The Taxable Wage Base and Contribution Rate Adjustment factors used in computing unemployment taxes would be expanded to provide greater flexibility in maintaining the solvency of the Unemployment Compensation Trust Fund.
- c. The state Maximum Weekly Benefit Amount would be computed as a percent of the state Average Weekly Wage rather than a set amount.
- d. The method for determining a composite contribution rate for an acquired business would be changed so that the new rate would take effect at the beginning of the next quarter rather than at the time of the acquisition.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Office of administration
 Division of Accounting
 Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 12, 2004