COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.:	4224-08
Bill No.:	SCS for HS for HCS for HB 1268 and 1211
Subject:	Employees-Employers; Employment Security; Labor and Industrial Relations Dept., Unemployment Compensation
Type:	Original
Date:	April 26, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
	$0	$0	$0
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Unemployment Compensation Trust Fund	$102,199,983	$154,759,908	$108,882,792
Special Employment Security Fund *	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$102,199,983**	**$154,759,908**	**$108,882,792**

* net of assessments and payments; excludes bond proceeds and repayments.
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 All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government *	**($275,635)**	**($246,585)**	**$17,018**

* excludes interest and debt service charges.

FISCAL ANALYSIS

ASSUMPTIONS

In response to a previous version of this proposal, officials from the **Office of Administration, Division of Accounting** assumed the proposal would have no impact on their organization or on the state General Revenue Fund.

Officials from the **Department of Labor** (DOL) assume:

Governmental agencies and not-for-profit organizations have the option to reimburse the trust fund in lieu of making quarterly contributions. To more clearly define the impact, the costs are distributed among: (1) cost to local government and (2) cost to the Unemployment Compensation Trust Fund (UCTF). It is the department's understanding that the Office of Administration is responding as to the impact of this proposal on state government.

ASSUMPTIONS (continued)

The maximum weekly benefit amount (MWBA) is currently a set figure of $250. This proposal would retain the current MWBA in 2004 & 2005 and increase the benefit to $260 in 2006 & 2007 and to $270 beginning in 2008, and would add some provisions that would reduce benefit payments. Among them are the elimination of compensation for waiting week credits (approx. $23.3 million), changes to the provision related to misconduct connected with the work (approx. $32.3 million), making termination/severance pay deductible except if enrolled and attending specific retraining programs (unknown savings), making elected offical pay countable as wage when calculating the claimant's weekly benefit amount (unknown savings), and changes the provisions related to drug & alcohol related misconduct (approx. $300,000).

This proposal includes language requiring the Division of Employment Security (DES) to cross-check Missouri unemployment compensation recipients against any federal new hire database. The federal new hire list is currently not available, and would require congressional authorization to provide access to the states. Therefore, this language is only enabling and no fiscal effect can be determined. Additionally, this legislation increases the partially unemployed earnings disregard from $20 to $40 (cost of approx. $2.5 million) and establishes an exemption to the 10X earnings rule on the quit related to domestic violence (unknown cost). For the purposes of preparing this fiscal note the above mentioned benefit changes are assumed to be effective with claims filed on or after January 1, 2005.

Based on 2002 claims data, and considering the proposal would be effective with claims beginning January 2005, the estimated decrease in paid benefits for the provisions listed above would be a savings to the UCTF of $26,693,337 for the last six months of FY 2005; $45,649,486 FY 2006; and $37,948,301 for FY 2007. Included in these amounts is a savings to local government of $572,305 for the last six months of FY 2005; $978,725 for FY 2006; and $813,612 for FY 2007.

When the contribution rate for a new acquisition rate is lower than the acquiring company rate, most employers choose to pay the contributions due at the higher rate rather than submit separate reports as allowed by existing law. When an employer’s rate goes up, the employer must report it on two separate wage reports because there is no provision that allows for waiving the additional tax due. Some employers have been required to submit as many as six contributions reports for one quarter, because they experience mergers and acquisitions during the quarter. DES believes the overall impact to the UCTF would be minimal.

ASSUMPTIONS (continued)

Under current law, DES projects Unemployment Insurance (UI) benefits will be paid in the amount of $570,897,411 for 2005, $564,523,721 for 2006 and $561,810,117 for 2007. Based on the current contributions rate schedule, the current Contribution rate Adjustment (CRA), and current Taxable Wage Base (TWB) of $8,500 for 2005, $9,000 for 2006 and $9,500 for 2007, it is projected DES would receive approximately $404,191,454 in contributions for 2005, $435,487,323 for 2006 and $465,358,476 for 2007 leaving a negative UCTF balance of ($491,653,697) for 2005, ($557,812,402) for 2006 and ($418,351,522) for 2007. The deficit would continue to worsen each year because the current factors establishing the rate schedule, CRA trigger and TWB are not sufficient to maintain or replenish the fund.

This proposal would increase TWB to $10,000 effective October 1, 2004. The proposal also changes the dollar amount that trigger increases (proposed to be $1,000 increments, currently $500) and decreases (to remain at current $500 increment) to the TWB however. This proposal increases the taxable wage base cap to $11,000, however that level will be reached in 2005, therefor after the initial increase no near term future increase will occur.

Based on the proposed changes to the TWB, and assuming all other factors remain unchanged, it is projected the Division would receive approximately $531,521,403 for 2005, $522,795,360 for 2006 and $529,190,254 for 2007. This would leave trust fund balances, including oustanding loans and bonded indebtedness, of ($277,931,186) for 2005, ($54,208,512) for 2006 and $250,582,539 for 2007. It should be noted that the 2007 balance includes $128,958,271 that is added to the balance of the trust fund as a result of the difference between the amount of the bond assessment based on the Federal Unemployment Tax Act (FUTA) reduction schedule and the amount necessary to repay outstanding bonded indebtedness.

The proposed changes would generate an estimated income to the UCTF of $75,506,646 for the last six months of FY 2005; $109,110,422 FY 2006 and $70,934,491 for FY 2007. Included in these amounts is a cost to local government for increased contributions of $847,940 for the last six months of FY 2005; $1,225,310 for FY 2006 and $796,594 for FY 2007.

ASSUMPTIONS (continued)

The combined fiscal impact of the various provisions of this proposal would create a net income to the UCTF of $102,199,983 for the last six months of FY 2005; $154,759,908 FY 2006 and $108,882,792 for FY 2007. These totals do not take into account differences in estimated interest and debt service charges Missouri employers would be assessed for outstanding Title XII loans and bonded indebtedness, nor does it take into account any differences in the amount of FUTA offset credits. Implementation of these provisions would cause the following estimated savings to employers for these charges totaling $23,933,542 in CY 2005, $30,787,392 in CY 2006 and $27,103,534 in CY 2007.

Based upon the issuance of 10 year level debt service bonds with a interest rate of 4.0% (this is the rate provided to DOLIR by the Office of Administration), the amount of interest that would be paid on the bonds sold through fiscal year 2007 to cover unemployment insurance benefits would total $35,511,690 over the life of the bonds. This assumes that the bonds are repaid based on the most aggressive schedule and that the commission does not execute the opt-out provision in section 288.330.2(5). This proposal would prevent a reduction of Federal Unemployment Tax Act (FUTA) offset credits.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
SPECIAL EMPLOYMENT SECURITY FUND			
Revenue - employer assessments *	unknown	unknown	unknown
Cost - Interest on bonds *	(unknown)	(unknown)	(unknown)
ESTIMATED NET EFFECT ON SPECIAL EMPLOYMENT SECURITY FUND *	**$0**	**$0**	**$0**
* assessments presumed equal to costs; excludes bond proceeds and repayments.			
UNEMPLOYMENT COMPENSATION TRUST FUND			
Income - Division of Employment Security			
Increased contributions	$75,506,646	$109,110,422	$70,934,491
Cost Reduction - Division of Employment Security			
Decreased benefit payments	$26,693,337	$45,649,486	$37,948,301
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	**$102,199,983**	**$154,759,908**	**$108,882,792**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
LOCAL GOVERNMENTS			
Cost Reduction			
Decreased benefit payments	$572,305	$978,725	$813,612
Cost - Increased contributions *	($847,940)	($1,225,310)	($796,594)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS *	**($275,635)**	**($246,585)**	**$17,018**

* excludes interest and debt service charges.

FISCAL IMPACT - Small Business

Changes in this proposal would affect all employers. Department of Labor and Industrial Relations officials state that whether the impact on small businesses as a group would be positive or negative can not be determined.

DESCRIPTION

This proposal would revise employment security laws as follows:

- The state taxable wage base for 2005 would be $11,000 and future years' taxable wage base amounts would be increased or decreased depending on the Unemployment Compensation Trust Fund balance.

- The maximum weekly benefit amount for years 2004 and 2005 would not exceed $250. For years 2006 and 2007 the amount would not exceed $260. For years 2008 and thereafter the amount would not exceed $270.

- Misconduct disqualification provisions would be added.

DESCRIPTION (continued)

- Increases and decreases in employer contribution rates would increase or decrease based on a rate table. Increases would be triggered by a declining Unemployment Compensation Trust Fund balance and decreases would be triggered by an increasing balance.

- A new temporary solvency charge would be added to employers' contribution rates.

- Procedures would be established for issuing bonds to replenish the Unemployment Compensation Trust Fund.

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

NOT RESPONDING

Office of Administration
Division of Accounting
Department of Labor and Industrial Relations

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Director
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