COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4224-18
Bill No.: SS #2 for SCS for HS for HCS for HB 1268 and 1211 with SA 1 and SA 3
Subject: Employees-Employers; Employment Security; Labor and Industrial Relations Dept., Unemployment Compensation
Type: Original
Date: May 12, 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	$101,118,678	$173,518,425	$114,804,053
Special Employment Security Fund *	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$101,118,678**	**$173,518,425**	**$114,804,053**

* net of assessments and payments; excludes bond proceeds and repayments.
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 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 *	**($260,438)**	**($629,235)**	**($620,088)**

* 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) stated:

The administrative impact of the proposal would be relatively low and would be absorbed from the organization's federal operating grant.

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)

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. This proposal also includes language requiring DES to compare data with the federal Social Security Administration as to reported wages, and with the Missouri Department of Revenue Drivers License database.

This proposal makes a series of changes to benefits payable, including scheduled increases in the maximum weekly benefit and specific benefit disqualifications. 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 $26,786,802 for the last six months of FY 2005; $40,384,962 for FY 2006; and $20,482,434 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.

This proposal would reduce the TWB to $8,000 until the end of 2004. The TWB for 2005, 2006, and 2007 would be increased to $11,000, and would be $12,000 for years after 2007. The proposal also changes the Unemployment Compensation Trust Fund Balance amounts that would trigger increases and decreases in the TWB. The proposed changes would generate additional estimated income to the UCTF of $74,331,876 for the last six months of FY 2005; $133,133,463 for FY 2006 and $94,321,619 for FY 2007.

Local government impact from the proposal includes benefit reductions which result in reduced overall cost for reimbursing organizations; and also includes increased costs for contributory organizations, partially offset by benefit reductions. The overall effect of these changes is a net additional cost to local government of $260,438 for the last six months of FY 2005; $629,235 for FY 2006 and $620,088 for FY 2007.

ASSUMPTIONS (continued)

These amounts shown 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.

In response to a previous version of this proposal, DOL indicated that 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.

Also, in response to a previous version of this proposal, DOL indicated that, 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.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
UNEMPLOYMENT COMPENSATION TRUST FUND			
Income - Division of Employment Security			
Increased contributions	$74,331,876	$133,133,463	$94,321,619
Cost Reduction - Division of Employment Security			
Decreased benefit payments	$26,786,802	$40,384,962	$20,482,434
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	**$101,118,678**	**$173,518,425**	**$114,804,053**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
LOCAL GOVERNMENTS			
Cost Increased contributions *	($260,438)	($629,235)	($620,088)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS *	**($260,438)**	**($629,235)**	**($620,088)**

* excludes interest and debt service charges, includes increased contributions for contributory organizations, partially offset by benefit reductions.

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would revise employment security laws:

- The state taxable wage base for the balance of 2004 would be $8,000; in 2005, 2006, and 2007, the taxable wage base would be $11,000 and the taxable wage base for years after 2007 would be $12,000. 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 2006 the amount would not exceed $270, and for 2007 the amount would not exceed $280. For years 2008 and thereafter the amount would be calculated on an employee's base period wages, but not to exceed $300 in 2008, $310 in 2009, and $320 for years after 2008.

- The Division of Employment Security would be required to compare claims against a federal new hire database, the federal Social Security Administration earnings database, and the Missouri Department of Revenue Drivers License database.

- Specific misconduct disqualification provisions would be added, and several types of misconduct would be defined. Benefit fraud would be defined and penalties prescribed.

- Employer contribution rates would increase or decrease based on a rate table, with rates based on the ratio of the employer's experience rating account to that employer's annual payroll. Surcharges would be added to the contribution rate for any employer taxed at the maximum rate.

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

DESCRIPTION (continued)

- Procedures would be established for issuing bonds to replenish the Unemployment Compensation Trust Fund and to allocate the cost of debt issuance to employers.

- The Division of Employment Security would be authorized to contract with consumer reporting agencies for access to quarterly wage report data.

- A Missouri State Unemployment Council would be created to advise the Division of Employment security.

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

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

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