

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4598-01
Bill No.: HB 1456
Subject: Employees - Employers; Employment Security
Type: Original
Date: January 31, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$270,000	\$460,000	\$550,000
Total Estimated Net Effect on General Revenue Fund	\$270,000	\$460,000	\$550,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Unemployment Compensation Trust	\$20,807,732	\$31,810,588	\$35,725,027
Other state	\$70,000	\$50,000	\$60,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$20,877,732	\$31,860,588	\$35,785,027

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Other	\$20,000	\$50,000	\$60,000
Total Estimated Net Effect on <u>All</u> Federal Funds	\$20,000	\$50,000	\$60,000

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$500,310	\$854,114	\$1,142,995

FISCAL ANALYSIS

ASSUMPTION

Officials from **Jefferson County** and the **Department of Economic Development, Division of Workforce Development** assume this proposal would have no fiscal impact on their organizations.

Officials from the **University of Missouri** assume this proposal would have little or no fiscal impact on their organization.

Officials from the **Office of Administration, Division of Accounting** (OA) assume this proposal would cap the maximum weekly unemployment benefit at \$250 instead of the current scheduled increases to \$280 in 2007, \$300 in 2008, and \$310 in 2009. OA estimated the proposal would result in savings in FY 2007, 2008, and 2009 as follows:

General Revenue Fund -	\$270,000; \$460,000; and \$550,000
Other state funds -	\$70,000; \$90,000; and \$120,000
Federal funds -	\$20,000; \$50,000; and \$60,000

ASSUMPTION (continued)

Officials from the **Department of Labor and Industrial Relations** (DOL) assume this proposal would change the way the benefits are calculated and paid. It is DOLIR's understanding that the Office of Administration is responding to the impact of this proposal on state government and whether any of the proposed changes might adversely impact the state's ability to use alternate financing; further, it is the DOLIR's assumption the Division of Workforce Development within the Department of Economic Development will provide fiscal impact estimates regarding their organizations.

The proposal includes provisions that would implement:

- 1) reduction of the maximum weekly benefit amount (MWBA) to \$250 as of the effective date of the legislation until such time as the trust fund balance including debt exceeds \$400 million;
- 2) changing the formula whereby the claimant's weekly benefit amount (WBA) is calculated;
- 3) amending the existing drug and alcohol related misconduct provisions;
- 4) changing the penalty for misconduct when a claimant has committed multiple disqualifying acts; and
- 5) adding provisions giving the DES additional tools to use when recovering overpayments.

To arrive at fiscal impact estimates, the Division of Employment Security (DES) utilizes the Benefit Financing Model established by the United States Department of Labor (USDOL) and works with USDOL actuarial staff to make the necessary adjustments to the model to forecast the impact of proposed legislation. 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 UCTF.

ASSUMPTION (continued)

In total these changes result in a reduction in benefits paid in FY 2007 by \$22,323,939; in FY 2008 by \$37,947,708 and in FY 2009 by \$48,420,227. These amounts include impacts from the five provisions listed above, and the interactions they have with other trust fund financing components on the benefit side of the model. Depending upon the average weekly benefit amount (AWBA) and the total weeks compensated (TWC) during a given year, the impact of a specific provision varies. The DES estimates that changing the WBA calculation will result in a savings of approximately \$2.4 million in FY 2007, a cost of \$600,000 in FY 2008, and a cost of \$4.8 million in FY 2009. Amending the existing drug and alcohol related misconduct provisions is estimated to result in approximately \$375,000 in savings during FY 2007 and approximately \$500,000 in savings in FY 2008 and FY 2009. Changing the penalty for misconduct when a claimant has committed multiple disqualifying acts is estimated to save approximately \$2.2 million in FY 2007 and approximately \$3.1 million in FY 2008 and FY 2009. Finally, the provisions that provide additional overpayment recovery tools to the DES are estimated to result in a trust fund savings of \$600,000 in FY 2007 and \$800,000 in FY 2008 and FY 2009.

The proposed changes would also have an impact on the contributions the DES is projected to receive. The reduction in contributions is attributable to the interaction between benefits paid and the experience rating system used to calculate an employer's contribution rate. As the total amount of benefits is reduced in a given year, the charges attributable to a given employer would also be reduced. This results in a higher experience ratio being earned for that employer, and therefore, a lower contribution rate is assigned resulting in fewer contributions being received by DES. The reduction in contributions received is estimated as follows: FY 2007 - \$1,516,207; FY 2008 - \$6,137,120 and FY 2009 \$12,695,200.

The combined fiscal impact of this proposal will result in a net savings to the UCTF as follows: in FY 2007 - \$20,807,732; FY 2008 - \$31,810,588 and FY 2009 - \$35,725,027. Included in these totals are savings to local governments as follows: FY 2007 - \$500,310; FY 2008 - \$854,114 and FY 2009 - \$1,142,995.

The provisions of this legislation will impact all businesses; however, the economic impact on small business alone cannot be determined.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
<u>Cost reduction</u> - Office of Administration			
Benefit reimbursements	<u>\$270,000</u>	<u>\$460,000</u>	<u>\$550,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$270,000</u>	<u>\$460,000</u>	<u>\$550,000</u>
OTHER STATE FUNDS			
<u>Cost reduction</u> - Office of Administration			
Benefit reimbursements	<u>\$70,000</u>	<u>\$90,000</u>	<u>\$120,000</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>\$70,000</u>	<u>\$90,000</u>	<u>\$120,000</u>
FEDERAL FUNDS			
<u>Cost reduction</u> - Office of Administration			
Benefit reimbursements	<u>\$20,000</u>	<u>\$50,000</u>	<u>\$60,000</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$20,000</u>	<u>\$50,000</u>	<u>\$60,000</u>
UNEMPLOYMENT COMPENSATION TRUST FUND			
<u>Revenue reduction</u> - Employment Security			
Contributions	(\$1,516,207)	(\$6,137,120)	(\$12,695,200)
<u>Cost reduction</u> - Employment Security			
Benefits	<u>\$22,323,939</u>	<u>\$37,947,708</u>	<u>\$48,420,227</u>
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	<u>\$20,807,732</u>	<u>\$31,810,588</u>	<u>\$35,725,027</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
LOCAL GOVERNMENTS			
Cost reduction - local governments Benefit reimbursements and contributions	<u>\$500,310</u>	<u>\$854,114</u>	<u>\$1,142,995</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$500,310</u>	<u>\$854,114</u>	<u>\$1,142,995</u>

FISCAL IMPACT - Small Business

This proposal would be expected to have a direct positive fiscal impact to small businesses as a result of the provisions reducing benefits paid and contributions made by employers.

DESCRIPTION

This proposal would change several provisions related to the Missouri Unemployment Compensation program:

- The maximum weekly benefit amount would be reduced to \$250 as of the effective date of the legislation until such time as the trust fund balance including debt exceeds \$400 million;
- The formula whereby the claimant's weekly benefit amount is calculated would be changed;
- Existing drug and alcohol related misconduct provisions would be amended;
- The penalty for multiple disqualifying acts (misconduct) would be changed; and
- The Division of Employment Security would have authority for additional tools to recover overpayments.

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 Economic Development
Division of workforce Development
Jefferson County
University of Missouri

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

Mickey Wilson, CPA
Director
January 31, 2006