

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3826H.01P
Bill No.: Perfected HB 2098
Subject: Unemployment Compensation; Employees - Employers; Employment Security;
Labor and Management; Department of Labor and Industrial Relations
Type: Original
Date: March 26, 2024

Bill Summary: This proposal modifies provisions relating to employment security benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Unemployment Compensation Trust Fund*	\$0 Up to \$3,807,341	\$0 Up to \$3,807,341	\$0 Up to \$3,807,341
UI Administrative Trust Fund **	(\$186,956)	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	(\$186,956) Up to \$3,620,385	\$0 Up to \$3,807,341	\$0 Up to \$3,807,341

*Oversight reflects the impact due to the changes in Section 288.036 (severance pay) as savings to the trust fund.

**Oversight reflects one-time ITSD changes to UIneract software.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOLIR)** note:

Division of Employment Security (DES)

Section 288.036 is amended to add termination and severance pay as types of pay that shall be considered as wages for purposes of determining weekly unemployment benefit eligibility. Section 288.060 is amended to remove the current language used to determine unemployment benefit duration and indexes the maximum number of weeks of unemployment benefits that are payable to the average statewide unemployment rate. The bill also modifies this section by removing a provision stating termination pay and severance pay shall not be considered wages regarding the calculation of partial benefits. For weeks in which an otherwise eligible claimant reports termination pay or severance pay, the claimant will be entitled to either a reduced weekly benefit payment or no weekly benefit payment, depending on the amount of the termination pay and severance pay reported. These changes would increase the balance of the Unemployment Insurance Trust Fund.

Based on data from the U.S. Bureau of Labor Statistics, the average weekly wage for an employed Missourian is \$1,140, and the average tenure of an employee over age 25 is 4.9 years.

During the 12-month period ending June 30, 2023, DOLIR made 55,550 initial payments.

Using the average weekly unemployment payment of \$279.75, and the assumptions that severance payments would be made on a weekly basis at the common method of calculation of one week’s pay per year of service and that up to 5% of employers make severance/termination payments, a savings of \$0 to \$3,807,341 is estimated for the Unemployment Insurance Trust Fund.

Calculation of UI Trust Fund Savings Estimate	
Average weeks of severance/termination pay	4.9
X Average unemployment payment	\$279.75
Total severance/termination payments per claimant	\$1,370.78
Initial payments – 1 year	55,550
X 5% Claimants receiving severance/termination payments	2,777.5
Total payments per claimant	\$1,370.78
X Claimants receiving severance/termination pay	2,777.5
Estimated highest savings for Unemployment Trust Fund	\$3,807,341

A change in any of the variables used in this calculation will result in an impact higher or lower than the estimate provided in this document.

Oversight notes that DOLIR has stated the proposal would have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect positive fiscal impact to the Unemployment Compensation Trust Fund and reflect the amount of estimated savings (reduction of payments) of \$3,807,341, effective FY 2025.

Oversight, in additional conversation with the DOLIR officials via e-mail, notes the State of Missouri would not be directly impacted by the proposal as the severance pay pre-employment agreements are not part of the conventional practice. Therefore, Oversight will reflect zero impact to the general revenue or other state funds in the fiscal note.

Oversight notes that DOLIR-ITSD stated that a new batch job needs to be written to calculate automation adjustment percentage, amount and post it to employers' accounts. Correspondence needs to be modified to notify the employers regarding automation adjustment amount and due date etc. The annual rate batch needs to be modified to lower down the contribution rate of employers who paid automation adjustment based on business rules. New tables need to be created to store unemployment automation fund and each employer's contribution towards it. It also includes changes to Termination and Severance pay, which is impacting several areas in the application.

Oversight notes **DOLIR/ITSD** estimates the proposal would create one-time expense to finish all necessary database changes in amount of **\$186,956** (1,588 hours x \$117.76) for FY 2025. Therefore, Oversight will reflect the DOLIR-ITSD estimates, to the Unemployment Compensation Administration Fund.

Officials from the **Department of Natural Resources**, the **Missouri Department of Transportation**, the **Office of Administration**, the **Missouri Department of Conservation**, the **Missouri University System**, the **Northwest Missouri State University**, and the **University of Central Missouri** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for above respective organizations.

In response to the similar proposal, SB 845 (2024) officials from the **City of Saint Louis – Budget Division** note:

The propose legislation would seek to create additional limits on the disbursement of unemployment benefits. In recent years, City of St. Louis unemployment expenditures have ranged from as low as \$150k in the last fiscal year to as high as over \$700k in FY20. The proposed legislation would seem to limit the time period over which benefits would be paid based on overall unemployment factors. This would have the potential to reduce the City's unemployment expenditures but would be difficult to put an estimate on impact.

Officials from the **City of Kansas City (CKC)** this proposed legislation has a negative fiscal impact of an indeterminate amount.

Oversight notes that in response to the similar proposals, SB 845 (2024) and HB 1115 (2023), the City of Kansas City indicated that the proposal will have a positive fiscal impact on their organization because it could potentially lower the amount of unemployment benefits the City pays.

Oversight will reflect a positive impact in the fiscal note for local political subdivisions.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
UNEMPLOYMENT COMPENSATION TRUST FUND			
<u>Cost Avoidance – DOLIR- §288.036 & §288.060 - Severance Pay (p.3,4)</u>	\$0 to <u>\$3,807,341</u>	\$0 to <u>\$3,807,341</u>	\$0 to <u>\$3,807,341</u>
ESTIMATED NET EFFECT ON THE UNEMPLOYMENT COMPENSATION TRUST FUND	\$0 to <u>\$3,807,341</u>	\$0 to <u>\$3,807,341</u>	\$0 to <u>\$3,807,341</u>
UNEMPLOYMENT ADMINISTRATION FUND			
<u>Costs – DOLIR – ITSD Changes to the UInteract System (p.4)</u>	<u>(\$186,956)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFECT ON UNEMPLOYMENT ADMINISTRATION FUND	<u>(\$186,956)</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Savings – Section 287.036 - Severance Pay (p.4&5)</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
ESTIMATED NET EFFECT ON THE LOCAL POLITICAL SUBDIVISIONS	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

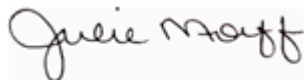
FISCAL DESCRIPTION

This bill modifies the definition of "wages" to include vacation pay, termination pay, severance pay and holiday pay for the week that it is payable. Further, to determine eligibility for unemployment benefits, if the total wages are paid in a lump sum, the wages are prorated on a weekly basis at the rate of pay received by the insured at the time of termination.


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
 Department of Natural Resources
 Missouri Department of Transportation
 Office of Administration
 Missouri Department of Conservation
 City of Kansas City



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 Director
 March 26, 2024



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 Assistant Director
 March 26, 2024