BILL # SB 1327		**TITLE:** benefits; unemployment insurance
SPONSOR: Mead		**STATUS:** As Introduced
REQUESTED BY: Senate		**PREPARED BY:** Stefan Shepherd

	FISCAL YEAR		
	2003	**2004**	**2005**
EXPENDITURES [1/]			
General Fund	$-0-	$9,800	$13,000
Other Funds	-0-	3,300	4,400
Total	$-0-	$13,100	$17,400

1/ The bill has a potential direct impact to state expenditures as an employer, as well as potential indirect and/or secondary impacts on state economic activity and revenues – see "Estimated Impact" section below.

FISCAL ANALYSIS

Description

The bill makes a series of changes to the Unemployment Insurance (UI) program. Changes to UI benefits include:

- Permitting claimants to calculate their base earnings on the last four completed calendar quarters rather than the first four of the last five calendar quarters.
- Reducing the amount, to $750 from $1,000, that an individual must earn in one calendar quarter of the individual's base period to be eligible for benefits.
- Changing the benefit amount from 1/25th of total insured wages to 1/24th of insured wages.

In addition, the bill eliminates payments to the UI Trust Fund or the Job Training Fund if the quarterly amount of any employer's contribution is less than $2.

Estimated Impact

The bill potentially has a direct impact on state expenditures. JLBC Staff estimates that this bill will increase the state's UI claims as an employer by $9,800 General Fund in FY 2004 and by $13,000 General Fund in FY 2005. DES does not have a cost estimate for the impact of the bill on the state as an employer.

The bill also potentially has an indirect impact on state revenue collections by increasing the average statewide UI effective tax rate and by increasing UI benefits.

In addition, the average statewide UI effective tax rate will be higher in calendar years 2006 and 2007 than otherwise estimated under current law. Based on DES' estimates, the increase in benefits will require additional UI payments from employers totaling an estimated $6.6 million by FY 2007. The estimated effective UI tax rate reflects changes from the benefit adjustments, as shown in the following table. For example, in FY 2007, the effective UI rate is projected to be 1.28%, whereas SB1327 would increase the effective rate to 1.29%.

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Estimated Impact (Cont'd)

Effective UI Tax Rate (in percent)		
Calendar Year	Base	Benefit Changes
2003	0.80	0.00
2004	1.06	0.00
2005	1.29	0.00
2006	1.29	0.01
2007	1.28	0.01

Any increase to the taxes paid by employers translates directly into an increased cost of doing business. As such, this change could generate a less favorable business environment, resulting in a reduction in business activity that could potentially lead to a reduction in General Fund revenue collections. These secondary, or dynamic, impacts are difficult to estimate in terms of how individual firms would translate the increased UI rate into higher product prices, lower corporate profits, or reduced employee wages.

The increase in UI benefits could generate additional individual income tax revenue. JLBC Staff does not know at what rates these additional benefits will be taxed. The bill could increase General Fund revenues from $0 to $150,000 in FY 2004 and from $0 to $270,000 in FY 2005. At the lower end of the range, the recipients' income level would not be sufficient to generate an individual income tax liability. The upper end of the range assumes that UI benefits are taxed at a 3.55% rate, which reflects the average individual income tax rate. The benefits increase could also have an indeterminate positive impact on state sales tax collections, as the disposable incomes of benefit recipients increase.

Finally, the JLBC Staff cannot estimate the impact of eliminating quarterly payments to the UI Trust Fund or the Job Training Fund of less than $2. DES did not provide information on how many payments currently meet that definition.

Analysis

Changes in the UI system affect both the state as an employer as well as the statewide UI tax system. The state does not participate in the regular UI tax system; rather, it pays for claims on a "pay-as-you-go" basis. To determine the impact of benefit and eligibility changes on the state, therefore, one must calculate increases in benefits paid. The vast majority of employers, however, participate in the statewide UI tax system, which produces a statewide effective tax rate.

Based on DES' estimates, the assorted benefit changes in the table below will also increase the amount of UI benefits paid statewide. This increase will affect both the direct state costs as well as the effective UI tax rate. Because it will take several years for the full impact of the benefit increase to take effect, the table below displays the effective UI tax rate increase for CY 2007.

Provision	**Benefit Increase**	**Effective UI Tax Rate Increase (CY 07)**
Changing base period to last 4 calendar quarters	2.25%	0.01%
Decreasing to $750 minimum quarterly earnings	0.04%	0.00%
Changing benefit level to 1/24 of highest quarterly earnings	0.63%	0.00%
TOTAL	**2.94%**	**0.01%**

The total benefit increases shown above are based on DES estimates. A 2.94% increase in the estimated $224.5 million of UI benefits in FY 2007 projected under current law would result in total benefit increases of $6.6 million in FY 2007.

The state as an employer paid approximately $1,386,000 total funds (appropriated and non-appropriated) in UI benefits in FY 2002. Combining all increases discussed above, JLBC Staff estimates claims will rise by 2.94% in FY 2004. Because the state pays for claims occurring in one calendar quarter in the following quarter, the actual FY 2004 impact will only be ¾ of the figures presented above; the full effect will be felt in FY 2005 and subsequent fiscal years, adjusted for the one-quarter delay in payments. The FY 2004 impact, therefore, is estimated to be $9,800 General Fund and the FY 2005 impact is estimated to be $13,000 General Fund. The state as an employer pays for benefit changes sooner than UI Trust Fund employers because the state pays those increased benefits 3 months after implementation while UI Trust Fund changes effective at the beginning of one fiscal year cannot affect tax rates until the calendar year 18 months later.

Analysis (Cont'd)

The JLBC Staff cannot estimate the impact of eliminating quarterly payments to the UI Trust Fund or the Job Training Fund of less than $2. DES did not provide information on how many payments currently meet that definition. Taxable payrolls of employers currently paying 0.05%, the lowest possible UI tax rate, make up about 7% of total taxable payrolls, but at that rate, only 1- or 2-person companies would be exempt from payments.

Local Government Impact

Because local governments also pay for UI claims on behalf of their employees, this bill could also affect local governments starting in FY 2004. JLBC Staff does not have information on the cost impacts on any particular local government entity. For FY 2003 and FY 2004, incorporated cities and towns receive 14.8% of individual and corporate income taxes as urban revenue sharing. The distribution percentage will increase to 15% beginning in FY 2005. Urban revenue sharing is distributed two years after it is collected by the state. Accounting for the two-year lag, the impact from higher individual income tax collections could be $0 to $20,000 in FY 2006 and $0 to $40,000 in FY 2007.

3/25/03