

Fiscal Estimate Narratives

DWD 10/29/2013

LRB Number	13-2622/1	Introduction Number	AB-0366	Estimate Type	Original
Description Various changes in the unemployment insurance law					

Assumptions Used in Arriving at Fiscal Estimate

The impact to the UI Trust Fund is based upon projecting Unemployment Insurance benefits and contributions over a five-year business cycle which includes expansionary and recessionary periods. This provides the best average annual forecast of the expected costs and/or savings to the UI Trust Fund when the change is fully implemented.

These proposed law changes are expected to result in a UI Trust Fund decrease (cost) by approximately \$36,450,000 annually. This net cost is a combination of a \$20 million annual increase in benefits paid (\$18.5 million affecting taxable employers), a \$5.55 million annual increase in UI contributions due to the increased benefit entitlement, and a \$23.5 million annual decrease in UI employer tax revenue due to the repeal to the change in tax brackets.

The cost to state government reimbursable employers is \$105,840 annually and the cost to local government reimbursable employers is \$398,160 annually. The increase in benefit entitlement increases the cost for state and local government reimbursable employers by approximately \$504,000 annually, affecting all state and local appropriations funding FTE's.

*Since this law proposal may negatively impact UI Trust Fund solvency, it could lead to accelerated FUTA credit reductions if this law were to pass while Wisconsin is borrowing from the Federal government.

Specific assumptions are enumerated below.

Changes to the definition of misconduct, repealing substantial fault and reinstating (5g) with modification:

Repealing substantial fault, modifying what misconduct includes and recreating (5g), absenteeism and tardiness without proper notice, is expected to increase benefit entitlement by a net total of approximately \$17 million annually*.

- The repeal of the newly enacted substantial fault standard will result in an estimated increase in benefit entitlement of approximately \$19.3 million annually.
- Substantial fault and misconduct disqualifications both suspend benefits for 7 weeks after the week of the discharge and until the claimant earns at least 14 times their weekly benefit rate in covered employment. However, a discharge under misconduct excludes wages earned from that employer from future benefit entitlement. If substantial fault is repealed, there will be determinations that would have denied benefits under substantial fault that will now be denied due to misconduct. Since these claimants would be eligible for little or no benefits after requalification, this results in a decrease in benefit entitlement by approximately \$2.3 million annually.

These figures were determined by taking the outcome of random case samples, projecting to the 2011 populations affected by current law changes, and averaging future benefit claiming activity to determine the effect of repealing and modifying current law. This equates to a UI Trust Fund net decrease (cost) by approximately \$16 million annually*.

*The difference between the benefit entitlement (\$17 million) and the UI Trust Fund decrease (\$16 million) represents the benefits charged to reimbursable employers, which do not affect the Trust Fund.

Though this proposal will result in a reallocation of adjudication workload totaling approximately \$218,516 annually, these resources will be absorbed with other workload activities.

Reinstating quit exceptions and modification of a quit exception:

Reinstating 7 quit exceptions and modifying one will result in an estimated increase in benefit payments by approximately \$3 million annually*. This figure was obtained by verifying the number of cases ruled under these quit exceptions in 2011, and averaging for future benefit claiming activity to determine the fiscal effect of repealing current law and reinstating these quit exceptions. This equates to a UI Trust Fund decrease (cost) of approximately \$2.5 million annually*.

*The difference between the benefit entitlement (\$3 million) and the UI Trust Fund decrease (\$2.5 million) represents the benefits charged to reimbursable employers, which do not affect the Trust Fund.

Repeal of FUTA Tax Credit payoff:

FUTA is the federal UI tax, which is subject to a 5.4% credits if employers are in good standing and a state's UI trust fund balance is positive. However, if a state's UI Trust Fund balance is negative for two consecutive years, these credits are subject to mandatory reductions. Under the current law, DOA has the authorization to extend to the UI Trust Fund a short term loan of up to \$50 million to bring the UI trust fund to a positive balance and avoid a FUTA credit reduction due to a negative balance.

If Wisconsin has a negative UI Trust Fund balance on November 9, 2014 of less than \$50 million, current law provides for a short-term loan for the purposes of ensuring a positive balance, preventing a FUTA credit reduction. If this authority is repealed, employers would be subject to increased FUTA taxes of approximately \$191 million, which would increase the UI trust fund balance by the same amount.

Repeal of Temporary Agency work search:

The proposal repeals current law that states that if a claimant's last employer is a temporary help agency, and if that employer had the claimant sign an agreement upon hire, then the temporary agency must be contacted weekly as a part of the claimant's work search effort. A repeal of this section could result in an increased cost to the UI Trust Fund due to a longer period of unemployment for those drawing UI benefits.

Repeal of increasing work search actions from 2 to at least 4 per week:

This proposal repeals the work search action requirement of at least 4 per week for claimants required to perform a work search. It reverts back to 2 work search actions per week. It also deletes the requirement that a claimant register for work in the manner directed by DWD and removes added work search efforts. When the requirement was changed to at least 4 work search actions per week, there was a general assumption that additional work searches could lessen the duration of claimed weeks, but there was no proposed change to how work search violations would be detected. A decrease in work search actions could result in an increased cost to the UI Trust Fund due to a longer period of unemployment for those drawing UI benefits.

Repeal of increase of the lowest reserve percent and add three higher tax brackets:

This proposal repeals adding three new tax brackets for employers lower than the -6% reserve percentage: a -7% to -8%, -8% to -9% and below -9% and reverting back to -6% or less as lowest bracket. This is expected to decrease tax revenue and thus decrease (cost) the UI Trust Fund by approximately \$23.5 million annually.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Various changes in the unemployment insurance law		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):		
This assumes current law has been fully implemented. Repeal Substantial Fault, changes to Misconduct and reinstatement/modification of previous (5g): The IT and administrative one-time cost estimate is 1,552 hours or \$96,540. Changes to Quit exceptions: The IT and administrative one-time cost estimate is 797 hours or \$47,732. Repeal FUTA: State and local reimbursable employers do not pay FUTA, thus there is no one-time cost to state and local government. There is no one-time IT or administrative impacts to implement or repeal. Repeal temporary agency work search: The IT and administrative one-time cost estimate is 242 hours or \$18,226. Repeal increase in work search actions from 2 to at least 4 per week: The IT and administrative one-time cost estimate is 235 hours or \$13,360. Repeal increase lowest reserve percentage: The IT and administrative one-time cost estimate is 200 hours or \$12,008. The total IT and administrative one-time cost to implement proposed law is estimated at 3,026 hours or \$187,866.		
II. Annualized Costs:	Annualized Fiscal Impact on funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs	105,840	
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$105,840	\$
B. State Costs by Source of Funds		
GPR	61,387	
FED	10,584	
PRO/PRS	23,285	
SEG/SEG-S	10,584	
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$105,840	\$398,160

NET CHANGE IN REVENUE		\$	\$
Agency/Prepared By	Authorized Signature	Date	
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