



## Fiscal Estimate Narratives

DWD 2/6/2008

LRB Number 07-3937/1	Introduction Number SB-431	Estimate Type Original
<b>Description</b> Relating to: various changes in unemployment insurance law and making an appropriation.		

### Assumptions Used in Arriving at Fiscal Estimate

The bill changes the wage base from its present \$10,500 to \$12,000 for 2009 and 2010, \$13,000 for 2011 and 2012, and \$14,000 for 2013 and until further legislative action. Each thousand dollar increase in the wage base increases revenue in approximately the following pattern.

#### Wage Base Effect

(All Amounts in million\$)

Year Added Revenue

Year 1 \$39

Year 2 \$58

Year 3 \$48

Year 4 \$38

Year 5 \$26

Year 6 & later \$20

During the first five years about half of the revenue will reduce a deficit that arises when more benefits are paid from employers' accounts than is supported by their tax payments. All of the amount shown for Year 6 and later will continue to serve that purpose. The other half of the revenue during the first five years provides for a one time increase in the reserves of all other employers over the five year period, at the end of which they will have lower tax rates, assuming the same experience with employment and unemployment throughout the period. No increase in revenue is expected in state fiscal year 2007-2008 because the wage base does not change in that period. The increase for 2008-2009 is an estimated \$22 million.

Beginning in 2009, the bill reallocates revenue between accounts within the Fund by subtracting .2% from the basic tax rate of each employer with a positive account balance and adding a corresponding amount to that employer's solvency tax rate. The bill also subtracts .4% from the basic rate of each overdrawn account and adds .4% to that employer's solvency rate. The changes provide for a better match between revenue and expenditure in each account. The present imbalance has resulted in a decrease in reserves in each year since the recession that began and ended in 2001 even though reserves ordinarily increase during recovery from a recession. No change in revenue will occur in 2007-2008. The estimated increase for 2008-2009 is \$700,000.

Under the bill the threshold for allowing employers to defer first quarter taxes to later quarters will be reduced from \$5,000 to \$1,000 beginning in 2009. The change will not affect revenue in 2007-2008 and will reduce it in 2008-2009 by an estimated \$.1 million due to loss of interest that would otherwise be received during the six months the provision is in effect in the 2008-2009 biennium. The effect of the change for a full year would be a loss of approximately \$.2 million, assuming that the percentage of employers electing to defer is the same as the six percent of currently eligible employers that defer and that one third of those that defer do so for only one calendar quarter as currently occurs.

Changes to the law affecting forfeitures imposed after concealment of information relating to a benefit claim are anticipated to increase revenue to the Fund by \$.2 million on an ongoing basis. Due to implementation for less than a full year, it is estimated that \$.1 million will be forfeited in the 2007-2008 state fiscal year. When fully implemented, these changes will also reduce benefit expenditures by \$100,000 annually by disallowing any benefits that might otherwise be paid in a week in which concealment of wages occurs. The amount estimated for 2007-2008 would be \$23,200.

To qualify for benefits under current law, a claimant must have total wages equal to thirty times the weekly benefit rate. Under the bill the requirement will increase to thirty-five times the weekly benefit rate. The change is expected to reduce benefits by \$5.4 million annually, of which \$1.3 million will be realized in the 2007-2008 and the full amount in 2008-2009.

There will be no increase in the maximum weekly benefit rate for 2008. For 2009 the maximum weekly benefit rate will increase by \$8. The change is estimated to increase annual expenditures by \$8.8 million

beginning in 2009. Of this amount it is estimated that \$5.4 million will be expended in state fiscal year 2008-2009.

At present, adult children who by themselves or in combination with their parents have limited ownership interests in family corporations are allowed benefits without having their entitlement reduced when otherwise eligible; but, parents who by themselves or in combination with their children have limited ownership interests in family corporations have benefit entitlement reduced to four weeks when otherwise eligible. The bill provides that parents with limited ownership interests in family corporations will not have their benefit entitlement reduced when otherwise eligible. The provisions also apply to extending benefits to parents in similar situations involving limited ownership interests in partnerships and limited liability companies. The change is expected to increase benefits by \$100,000 annually, assuming no new claims from parents who do not claim any benefits at present. For state fiscal year 2007-2008 the increase is expected to be \$23,800.

The net effect of provisions affecting Unemployment Insurance benefits is a decrease in state expenditures of \$16,900 in 2007-2008 and \$1,300 in 2008-2009. Local expenditures are projected to decrease by \$22,100 in 2007-2008 and \$1,700 in 2008-2009. The annualized fiscal impact on the accompanying worksheet represents the cost of these provisions to all state and local agencies for calendar year 2009. State costs have been divided among fund sources on the basis of their proportions in the adjusted base used in constructing the biennial budget.

The bill continues the present administrative fee on taxable employers for technology improvements. Estimated revenue from the fee is \$2.4 million for calendar year 2008 and \$2.7 million for 2009. The anticipated result will be revenue from the fee of \$2.4 million in state fiscal year 2008 and \$2.6 million in state fiscal year 2009.

The bill appropriates \$1 million for each year of the biennium for unemployment insurance administration. Funds available from a special grant from the United States Department of Labor would be utilized for this purpose in case of any shortfall that might occur in annual grants for ongoing Department of Labor funding.

All estimates are based on the official state forecast on which the state biennial budget was constructed. In this forecast the insured unemployment rate applicable to workers covered by the Unemployment Insurance program remains in a narrow range between 2.7% and 2.9%.

### **Long-Range Fiscal Implications**

Raising the wage base and reallocating revenue between accounts in the Reserve Fund will have long range effects. After changes in the wage base are fully implemented in 2013, ongoing annual revenue will be approximately \$60 million more than under current law. Reallocating revenue between accounts within the Fund will add approximately \$55 million annually beginning in 2013. The interaction of these two provisions adds \$15 million to amount expected from the reallocation alone.

## Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 07-3937/1		<b>Introduction Number</b> SB-431	
<b>Description</b> Relating to: various changes in unemployment insurance law and making an appropriation.			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$116,800	\$-73,000	
(FTE Position Changes)	(0.0 FTE)	(0.0 FTE)	
State Operations - Other Costs	0	0	
Local Assistance	0	0	
Aids to Individuals or Organizations	0	0	
<b>TOTAL State Costs by Category</b>	<b>\$116,800</b>	<b>\$-73,000</b>	
<b>B. State Costs by Source of Funds</b>			
GPR	58,100	-36,300	
FED	30,100	-18,800	
PRO/PRS	16,800	-10,500	
SEG/SEG-S	11,800	-7,400	
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
	Increased Rev	Decreased Rev	
GPR Taxes	\$	\$	
GPR Earned			
FED			
PRO/PRS	300,000		
SEG/SEG-S			
<b>TOTAL State Revenues</b>	<b>\$300,000</b>	<b>\$</b>	
<b>NET ANNUALIZED FISCAL IMPACT</b>			
	State	Local	
NET CHANGE IN COSTS	\$43,800	\$57,400	
NET CHANGE IN REVENUE	\$300,000	\$0	
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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