LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 841** HLS 09RS 1401

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: June 9, 2009 10:23 AM **Author:** HONEY

Dept./Agy.: Workforce Commission

Subject: Imposes requirements for ARRA UI incentive payments **Analyst:** Deborah Vivien

LABOR RE +$35,400,000 OF EX See Note

Provides relative to workers

Current law calculates unemployment benefits based on wages earned in the first four of the last five quarters prior to application. Current law allows claimants to be eligible for unemployment based on part-time wages but not if the claimant is seeking only part-time employment when on unemployment due to termination from full-time employment. Proposed law retains current law but allows for an alternate base period (ABP) calculation of the most recent four of the last five quarters for applicants not qualifying under the current base period. Proposed law also allows for 26 additional weeks of unemployment coverage if an employee participates in an approved training program under the Workforce Investment Act. Proposed law allows claimants to remain eligible if they are seeking only part-time employment when on unemployment due to termination from full-time employment. Proposed law is anticipated to deem the state eligible for certification for incentive payments under the Unemployment Insurance Modernization component of the American Recovery and Reinvestment Act (ARRA). Other components of the bill have no fiscal impact. Effective upon governor's signature.

EXPENDITURES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$17,700,000	$35,400,000	$35,400,000	$35,400,000	$35,400,000	**$159,300,000**
Federal Funds	$737,000	$536,000	$536,000	$536,000	$536,000	**$2,881,000**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$18,437,000**	**$35,936,000**	**$35,936,000**	**$35,936,000**	**$35,936,000**	**$162,181,000**

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$98,400,000	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	**$98,400,000**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$98,400,000**	**$0**	**$0**	**$0**	**$0**	**$98,400,000**

EXPENDITURE EXPLANATION

This bill will expand eligibility for unemployment compensation which will increase expenditures for unemployment benefits by an estimated $17.7 million in FY 09/10 as the programs are implemented and $35.4 million in the subsequent fiscal years as expanded eligibility provisions become fully operational. At the same time, adopting these measures will make the state eligible for a one-time $98.4 million infusion of incentive payments to the Unemployment Trust Fund available through the American Recovery and Reinvestment Act (ARRA). The Unemployment Trust Fund is filled with premiums paid by employers for unemployment insurance and the amount of the premium is dependent, in part, upon the balance of the Unemployment Trust Fund and the experience rating of the employer. **The expenditure and revenue impacts signified in the "Other" category in the box above are funds drawn from or deposited to the Unemployment Trust Fund and are not considered a part of the state budget.**

The primary impacts of this bill are related to additional unemployment benefits to be paid due to expanded eligibility requirements. There are three components of eligibility that are impacted by this bill: alternate base period calculations, approved training for extended benefits and part-time work. In the LFO analysis, similar assumptions are used for each category: average claim benefit is $229/week, which incorporates the 10% increase in January, 2009; average duration of claims is 13 weeks for the adjusted base period and 26 weeks for approved training; increase in claimants grows by 100% based on year-to-date withdrawals from the Unemployment Trust Fund compared to the same time last year. The Workforce Commission estimated the impact using year-to-date growth on the draw of the unemployment trust fund. Both methods produced roughly the same result as reflected in the range estimates in the following explanation. The mid-point of those estimates is reflected in the box above.

1) Alternate Base Period

The calculation of the amount of unemployment benefits a claimant receives is currently based on employment experience in the first four of the last five quarters following application. The alternate base period in this bill provides a one quarter lag by using a base period of the last four quarters of the last five quarters following application. This bill allows for use of the

(CONTINUED ON PAGE 2 - EXPENDITURE EXPLANATION)

REVENUE EXPLANATION

This bill will presumably put in place legislation that will allow a one-time incentive payment of $98.4 million in federal dollars through the American Recovery and Reinvestment Act (ARRA) upon certification by the U.S. Department of Labor. The payment will be deposited into the Unemployment Trust Fund for use in paying unemployment benefits to new and existing claimants. These dollars will ultimately be drawn down from the trust fund through unemployment claims and paid out as unemployment benefits. (CONTINUED ON PAGE 2 - REVENUE EXPLANATION)

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $500,000 Annual Fiscal Cost		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost
[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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CONTINUED EXPLANATION from page one:

EXPENDITURE EXPLANATION (CONTINUED)

1) Alternate Base Period (continued)
alternate base period for claimants not eligible under the current base period calculation. With this provision, seasonal workers and those disqualified due to wage minimums may qualify for unemployment benefits. According to the Louisiana Workforce Commission using the latest data available from 2008, the proposed base period would have allowed an estimated 9,400 additional applicants to be eligible for unemployment benefits. **The fiscal impact from using an alternate base period is expected to be $26.5-28.0 million to be drawn from the Unemployment Trust Fund.**

2) Approved Training
The estimate of 26 additional weeks of eligibility for claimants remaining in a training program through the Workforce Investment Act is more difficult to determine since it is not clear how many applicants will opt into the program to extend benefits. Based on the number of applicants in the training program in 2008, 1,400 additional claimants are expected to become eligible. **The fiscal impact of allowing unemployment compensation when an applicant chooses an additional 26 weeks of approved training is $7.7-$8.3 million to be drawn from the Unemployment Trust Fund.**

3) Part Time Workers
The state currently covers part-time workers under unemployment insurance, but this legislation puts into place language that succinctly defines the state's treatment of them to satisfy all requirements of ARRA. Though workers are deemed ineligible for unemployment if it is learned that they are seeking part-time employment after qualifying for unemployment for full-time employment, current practices do not seek out information related to part-time or full-time work preferences, so the effects of this portion of the legislation are not expected to create a significant fiscal impact.

All three of these impacts are expected to recur into subsequent fiscal years. Given the economic climate at the time, the number of additional qualified applicants could fluctuate substantially from these estimates. It is anticipated that adjusting the system to accommodate the base period changes will require 8-12 months, thus the estimates for FY 09/10 are reduced by half.

Administrative expenditures are expected to be $737,000 in FY 09/10 and $536,000 in subsequent fiscal years funded through the budget using Federal dollars available through ARRA and appropriated in HB 1.
According to the Louisiana Workforce Commission, adjusting the base period to include the most recent quarter is highly manual due to lack of timely data. Customer service call volume is also expected to increase substantially. This bill allows the use of the alternative base period only when the applicant fails to qualify under the current base period calculation. The Commission anticipates the need for three computer programmer positions ($201,000) for one-time adjustments to forms, systems, etc., and 8 UI Claim Specialists ($536,000) in recurring expenses to administer the change in base periods and new eligibility criteria for existing and future claimants to be funded with federal dollars received through the ARRA for administrative expenses and currently appropriated through HB 1. These estimates assume $67,000 per position for salaries, related benefits and supplies necessary for job performance.

REVENUE EXPLANATION (CONTINUED)

It has been suggested that the expanded eligibility for unemployment benefits may increase the unemployment tax beginning in January, 2010 for businesses that incur an elevated experience rating as more of their employees receive benefits. To the extent that these taxes increase, the additional collections will be deposited into the Unemployment Trust Fund. There are maximums in place on unemployment premiums with rates ranging from 0.1% to 6.2%. A change in experience ratings will affect the calculation of this rate. Since the unemployment premium is only paid on the first $7,000 of wages, the minimum possible tax is $7 per employee per year and the maximum possible tax is $434 per employee per year. It is expected that the actuarial assessments will lead to tax rates that replenish the unemployment trust fund roughly in the amount of the reduction. Thus, **a simple estimate of expected increased revenue in the form of deposits into the unemployment trust fund as the result of increased unemployment premiums is about $35.4 million per year.**

It has also been suggested that the infusion of federal funds into the Unemployment Trust Fund may help delay a 10% statutory unemployment tax increase and a 10% benefit decrease that will occur if the Unemployment Trust Fund balance falls below $1.4 billion. Using 2008 figures, this 10% change equates to about $17 million in increased premiums and decreased benefits. Any changes to the unemployment premiums will be determined by a forecast of the trust fund balance at the September Revenue Estimating Conference with any associated changes to the tax rate to take place the following January and remain in effect for the year.

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Senate — Dual Referral Rules — House

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