

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Revised

House Bill 1325 (Delegate Gordon)
(Chairman, Unemployment Insurance Subcommittee)
Economic Matters

Unemployment Insurance - Amendments - Balanced Budget Act of 1997

This bill aligns State unemployment insurance laws with the Federal Unemployment Tax Act by exempting from unemployment insurance coverage: (1) an election official or election worker if the individual is paid less than \$1,000 per year; and (2) employment that an inmate performs for a private, for-profit employer unless the inmate continues to be employed by that employer after being released from the penal institution.

Pursuant to the federal Balanced Budget Act of 1997 (P.L. 105-33), the bill requires that the transfer of Reed Act funds under §903 of the Social Security Act for federal fiscal years 1999, 2000, and 2001 be used exclusively for the administration of the unemployment insurance program.

Fiscal Summary

State Effect: None.

Local Effect: None.

Unemployment Insurance Trust Fund Effect: Minimal effect. Due primarily to the limited number of employers affected by the bill, it is expected that the bill would not have a significant impact on the Unemployment Insurance Trust Fund.

Small Business Effect: Potential minimal effect.

Fiscal Analysis

Unemployment Insurance Trust Fund Effect: The Balanced Budget Act of 1997 amended portions of the Federal Unemployment Tax Act (FUTA) in the areas of employee coverage for unemployment insurance purposes and provided for the distribution of Reed Act funds to the states.

Reed Act Distributions: There are three accounts in the National Unemployment Trust Fund: (1) the Employment Security Administration Account; (2) the Extended Unemployment Compensation Account; and (3) the Federal Unemployment Account. Under §903 of the Social Security Act, “Reed Act” distributions occur when these three accounts reach their statutory limits. The Balanced Budget Act of 1997 raised the statutory limits for the accounts and provided for Reed Act distributions to the states for federal fiscal years 1999, 2000, and 2001. However, the act provided that the distributions must be used to administer the state’s Unemployment Insurance (UI) program. Thus, states are prohibited from using the Reed Act funds to pay UI benefits or administer the state’s public employment offices. Likewise, the bill requires Reed Act funds for fiscal 1999, 2000, and 2001 to be used for the administration of the State’s UI program. Because the Office of Unemployment Insurance is already required to use Reed Act funds to administer the State’s UI program under the Balanced Budget Act of 1997, this requirement would not affect State operations or finances.

Exemptions from Unemployment Insurance Coverage: Under the Balanced Budget Act of 1997 amendments to FUTA, election workers and inmates are exempt from unemployment insurance coverage.

Election Workers: States may not exempt government employees from coverage, unless they are exempt under FUTA. Now that FUTA has an exemption for election workers, Maryland may also exempt election workers. This exemption would not have a significant effect on the trust fund balance because of the limited number of employers affected by this exemption. Further, government entities do not pay unemployment insurance taxes. Instead, they reimburse the trust fund for any benefits chargeable to their accounts.

Inmates: Under current law, employment of an inmate by a not-for-profit or governmental entity is not covered employment for unemployment insurance purposes. However, employment of an inmate by a for-profit non-governmental entity is covered employment for unemployment insurance purposes. Thus, prisoners working in a work release program in the private sector are currently eligible to receive unemployment insurance benefits under certain circumstances.

The bill would exempt employment that an inmate performs for a private, for-profit employer unless the inmate continues to be employed by that employer after being released from incarceration. Approximately 400 inmates per month participate in work release programs.

Thus, the subset of these inmates affected by the bill would be small. Further, it is assumed that an insignificant number of the inmates who participate in work release programs claim unemployment insurance benefits. As a result, exempting inmates from unemployment insurance coverage should not significantly affect the trust fund balance.

Information Source: Department of Labor, Licensing, and Regulation (Office of Unemployment Insurance)

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