

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE  
 Revised

House Bill 1182 (Delegate Harrison)

Economic Matters

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**Unemployment Insurance Benefits - Adjustment**

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This bill extends the schedule of maximum weekly unemployment insurance benefits from \$250 to \$310 over three years.

The bill places a one-year moratorium on the imposition of a surtax.

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**Fiscal Summary**

**State Effect:** No direct effect.

**Local Effect:** No direct effect.

**Unemployment Insurance Trust Fund Effect:** Trust fund expenditures could increase by \$13.37 million in FY 2000. Trust fund revenues could decline \$23.77 million due to the one-year moratorium on the surtax. Out-year projections reflect a three-year phase-in period.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
UITF Revenues	(\$23.77)	\$15.57	\$50.86	\$41.23	\$24.27
UITF Expenditures	13.37	24.65	32.51	26.63	27.99
Net Effect	(\$37.14)	(\$9.08)	\$18.35	\$14.60	(\$3.72)

*Note: ( ) = decrease; UITF = Unemployment Insurance Trust Fund*

**Small Business Effect:** Indeterminate.

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## **Fiscal Analysis**

**Background:** Eligibility for unemployment insurance benefits is determined by the circumstances of an individual's dismissal, employment history, and participation in the workforce. The amount of weekly benefits an individual is entitled to receive is calculated according to a formula based on the amount of earnings paid to an individual in the previous three months. Currently, the maximum weekly benefit that an individual is eligible to receive is \$250.

**Unemployment Insurance Trust Fund:** The bill extends the schedule of weekly unemployment insurance benefits from a maximum of \$250 to a maximum of \$310. Covered employees with quarterly earnings greater than \$6,000 and total annual earnings of at least \$9,000 would be entitled to increased weekly benefits that are proportional to their earnings.

It is difficult to extrapolate the potential increase in Unemployment Insurance Trust Fund expenditures based on historical data because the Office of Unemployment Insurance treats all persons earning an annual salary of at least \$24,000 the same. However, because unemployment insurance benefits are considered taxable income, it is possible to estimate the effect on the Unemployment Insurance Trust Fund based on information provided by the Comptroller's Office. The expenditure and revenue estimates are based on a computer model developed by the Office of Unemployment Insurance. The information generated in the model makes two primary assumptions relating to the number of weeks claimed and the average weekly benefit amounts paid out. First, the model assumes that weeks claimed increase by 10% from fiscal 1998 to 1999 and remains constant from fiscal 1999 to 2005. Second, the average weekly benefit amount as a percentage of maximum had been rising at a regular rate until 1998 when the percentage rose significantly higher. The estimates assume that the average weekly benefit amount would continue to rise under the \$250 maximum because of the increase in minimum hourly wage and the general rise in income levels. Moreover, the estimated effect on the trust fund assumes that the unemployment rate will remain constant at 5%, that the number of claims will not increase significantly as a result of the bill, and the duration of benefits is 15.75 weeks.

Based on these assumptions, the Office of Unemployment Insurance expects the trust fund expenditures to increase by \$13.37 million in fiscal 2000, \$24.65 million in fiscal 2001, \$32.51 million in fiscal 2002, and approximately \$27 million annually thereafter. The bill places a moratorium on the surtax in fiscal 2000 thereby causing revenues to decline by \$23.77 million. However, the increased expenditures would trigger an increase in the surtax as shown in the chart below. In periods of high unemployment, additional surtaxes would be assessed.

### **Effect of HB 1182 on the Surtax**

<u>Year</u>	<u>Surtax Under Current Law</u>	<u>Surtax Under Amended Bill</u>
2000	.2	0
2001	.4	.7
2002	.3	.6
2003	.3	.5
2004	.3	.4

During the first year, trust fund revenues would not decrease as much as in subsequent years because once a person begins to draw unemployment insurance benefits, the weekly rate is locked in for one year. Thus, individuals who are eligible for payments greater than \$250/week under the bill, but who have already begun to receive the maximum rate of \$250/week under current law, would not receive an adjustment.

**Small Business Effect:** Small businesses account for approximately 36% of total employment. The Unemployment Insurance Trust Fund is funded by employer payments. Employer experience rating would increase as the tax rating process resulted in higher benefits costs being divided by relatively fixed taxable wages. To the extent that a surtax is applied as a result of this bill, small businesses would incur increased expenditures.

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

**Fiscal Note History:** First Reader - March 15, 1999  
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