SB 675

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 675 (Senator Gladden, *et al.*)
Finance

Labor and Employment - Unemployment Insurance - Weekly Benefits Calculation

This bill provides an alternative base period for determining eligibility for unemployment insurance (UI) benefits.

Fiscal Summary

State Effect: FY 2004 general fund expenditures could increase by $293,500. Out-year expenditures would be covered by federal funds. Revenues would be unaffected.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
GF Expenditure	293,500	0	0	0	0
Net Effect	($293,500)	($0)	($0)	($0)	($0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Unemployment Insurance Trust Fund (UITF): FY 2004 expenditures could increase by $75.8 million. Out-years reflect projected increases in weekly benefits and employer charge backs.

($ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
NonBud Rev.	$0	$16.1	$33.1	$51.0	$53.6
NonBud Exp.	75.8	79.8	83.7	88.0	92.3
Net Effect	($75.8)	($63.7)	($50.6)	($37.0)	($38.7)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: To the extent that employees of local governments use the benefits available under the bill, those governments would have to reimburse the UITF for 100% of benefits paid.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill provides that if an individual does not have sufficient wages in the base period to qualify for benefits, then an alternative base period will be the last four complete calendar quarters immediately preceding the first day of the individual's benefit year. Wages used in the alternative base period calculation may not be used in qualifying for a subsequent benefit year.

Current Law: Eligibility for benefits is based on the first four of the last five completed calendar quarters prior to filing a claim. The quarter immediately prior to filing a claim is not used because employers don't report those earnings until the following quarter (the quarter in which the claim is filed).

Background: The State UITF is partially funded by the federal government through the unemployment taxes paid by employers. The U.S. Department of Labor (DOL) funds and approves the budget of the State Office of Unemployment Insurance (OUI), and any increases to its approved budget cannot be passed through to the federal government in the first year and must be absorbed by the State. Future year increases are reimbursed through DOL.

If, on September 30 of a given year, the State's UITF balance is below a certain level, a surtax is triggered on employers starting the following January 1. The trigger balance as of September 30, 2002 was $837 million, and the actual balance was $832 million – $5 million above the trigger. Although there has been no surtax in the past few years, since 1998 the UITF has fluctuated from $3 million to $70 million above the surtax trigger.

Unemployment Insurance Trust Fund: Unemployment benefits could increase significantly if the alternative base period were used. OUI estimates that trust fund expenditures could increase by $75.8 million in fiscal 2004 based on the assumption that approximately 75% of the 25,701 claimants that were monetarily ineligible in fiscal 2002 would be eligible using the alternative base period.

OUI advises that in fiscal 2002, 19,147 claimants were ineligible for UI benefits who would be eligible under this bill. OUI projects an additional 6,701 individuals may become eligible and pursue claims either on their own or through public assistance programs administered through the Department of Human Resources. OUI also assumes that all 25,848 individuals would be eligible for a weekly benefit equaling 50% of the average weekly wage ($193 in 2004, and 5% annual increases each year thereafter) and would receive benefits for the actual 2002 average duration of 15.2 weeks. Thus, in fiscal 2004 the impact on UITF expenditures would be $75,827,693.

Charge backs to employers are assumed to remain at the current experience rate of 63.89% (charged back over a three-year period to one or more previous employers beginning the year after benefits are paid). Fiscal 2005 revenues from charge backs of $16,148,771 would be received by UITF. The amount that cannot be charged back to employers is, ultimately, recovered through premiums paid by all employers.

Out-years assume the same number of individuals (25,848) and the same duration of benefits (15.2 weeks) with 5% annual increases in the average weekly benefit amounts.

The Department of Legislative Services cannot independently verify whether 75% of those claimants now ineligible for benefits would be eligible under the bill's provisions; however, more reliable information is not available on which to base an estimate. Industry reports of increased costs in other states that have implemented an alternative base period indicate that benefit costs increased approximately 4-6%. If a 6% increase in OUI benefit payments were to result, costs would increase by approximately $28.5 million in fiscal 2004.

State Fiscal Effect: General fund expenditures could increase by an estimated $293,500 in fiscal 2004, which accounts for the bill's October 1, 2003 effective date. This estimate reflects the cost of hiring three and a half employment and training associates to process the additional claims. It includes salaries, fringe benefits ($82,000), initial comprehensive reprogramming of UI computer software ($153,000), and ongoing operating expenses for computer processing ($12,600) and maintenance programming ($45,900). Out-year expenditures can be funded with federal funds.

Small Business Effect: In addition to higher charge backs affecting their UI rates, small businesses would be exposed to the increased likelihood that the surtax will be triggered. For every $18 million that the UITF fund balance goes under the trigger amount, there is a .1% increase levied on all employers in addition to their current experience ratings.

Additional Information

Prior Introductions: HB 918 of 2002, an identical bill, received an unfavorable report from the House Economic Matters Committee.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 14, 2003
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