Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 91 (The Speaker)(By Request - Administration)
Economic Matters

Labor and Employment - Unemployment Insurance - Modernization and Tax Relief Act

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This emergency Administration bill reduces the unemployment insurance (UI) tax rate charged to employers if the taxable wage base decreased by more than $1.0 billion during the previous calendar year and the Unemployment Insurance Trust Fund (UITF) receives at least a specified amount of additional revenues from other sources. The monthly interest rate penalty on unpaid UI contributions and reimbursements is decreased from 1.5% to 1.0%. The bill also alters the base period used to determine eligibility for UI benefits by allowing an "alternative base period" and expands eligibility for UI benefits to include individuals enrolled in a qualifying job training program. Additionally, the bill alters eligibility for UI benefits for individuals seeking part-time employment. The modifications to Maryland UI law provided in the bill make Maryland eligible for a one-time payment of $126.8 million in federal incentive funds.

Provisions in the bill affecting the alternative base period and job training take effect March 1, 2011, and apply to new benefit claims and all approved training claims made after March 6, 2011.

Fiscal Summary

Unemployment Insurance Trust Fund: UITF revenues increase by $83.8 million in FY 2010 and decrease by $43.0 million in FY 2011 as a result of federal stimulus payments, a reduction in employer contribution tax rates, and reduced interest penalties. UITF expenditures increase for additional benefit payments by up to $5.9 million in FY 2011. Future years reflect increases in weekly benefits and annualization.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
UITF FF Revenues	$126,800,000	$0	$0	$0	$0
UITF Revenues	(43,000,000)	(42,700,000)	1,700,000	5,600,000	9,400,000
UITF Expenditures	0	5,900,000	18,300,000	18,900,000	19,400,000
Net Effect	$83,800,000	($48,600,000)	($16,600,000)	($13,200,000)	($10,000,000)

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

State Effect: State expenditures to reimburse UITF increase by $57,600 in FY 2011 and $250,800 in FY 2014. Potential increase in general fund expenditures in FY 2011 to pay interest on outstanding federal loans to UITF. No effect on revenues.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	0	57,600	197,800	243,500	250,800
Net Effect	$0	($57,600)	($197,800)	($243,500)	($250,800)

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

Local Effect: Local jurisdictional expenditures to reimburse UITF increase by approximately $75,400 in FY 2011 and $327,900 in FY 2014.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary:

Unemployment Insurance Contribution Rates

For any calendar year in which the taxable wage base decreased by more than $1.0 billion in the preceding calendar year and UITF receives revenues from specified sources, Table E, instead of Table F, must be used to calculate the employer contribution (or tax) rates for UI. UITF must receive additional funds from sources other than employer contributions, employer reimbursements, investment income, or money received from the Federal Unemployment Account in UITF in accordance with Title XII of the Social Security Act. The additional amount received from an alternative source must be greater than the difference in total revenues that would be collected between tax rate Table F and Table E.

Interest Penalty Charged for Late Employer Payments

The bill reduces the interest rate charged to businesses that fail to make employer contributions or reimbursement when payment is due. The monthly interest rate is reduced from 1.5% to 1.0% of the outstanding balance. This equates to reducing the interest penalty from 18% to 12% on an annualized basis.

Alternative Base Period

If an individual does not qualify for UI benefits under the currently defined “base period,” an alternative base period consisting of the four most recently completed calendar quarters preceding the start of the benefit year may be used for calculation of benefits.

Expansion of Unemployment Benefits for Employment Training

Individuals who are unemployed and have exhausted all rights to UI benefits under State and federal law may seek the equivalent of 26 times the individual’s average weekly benefit amount by enrolling in an employment training program authorized by the Workforce Investment Act of 1998, as amended, that prepares the individual for entry into a demand occupation. The individual must be separated from a declining occupation or must have been involuntarily terminated from employment as a result of a permanent reduction of operations at the individual’s former place of employment. An individual must enroll in training before the end of the benefit year established for the employment separation that made the individual eligible for the training benefit. Training benefits may not be payable for more than one year following the end of the benefit year established. Additionally, an individual may not receive UI training benefits if that individual is receiving similar stipends or other allowances for nontraining costs. An individual cannot be denied additional training benefits if the individual is unavailable to work or not actively seek work.

Part-time Unemployment Insurance Benefits

The bill requires that, in order for an individual seeking part-time work to be eligible for UI benefits, the individual must be seeking hours that are comparable to the individual’s work at the time of the most recent separation from part-time employment and must be at least 20 hours per week. The bill removes the requirement that an individual be available for *at least* the number of hours worked at the part-time worker’s previous employment. The bill also removes the prohibition from a part-time worker imposing any other restrictions on the part-time worker’s ability or availability to work. A part-time worker must have worked for a majority of weeks in the base period in order to qualify for benefits. The bill does not substantively alter eligibility for part-time UI benefits. The changes are needed to comply with federal requirements to receive stimulus funds.

Current Law: Unemployment benefits are funded through Maryland employers' State unemployment insurance taxes. All private business employers and nonprofit employers employing one or more persons, at any time, are subject to the Maryland Unemployment Insurance Law. Legislation enacted in Maryland in 2005 (Chapter 169) altered Maryland's UI charging and taxation system by creating a series of experience tax rate tables that are based on the balance in the Maryland UITF. An employer's unemployment experience determines the rate charged within each of the six tables.

If the balance of UITF exceeds 5.0% of total taxable wages in the State (as measured on September 30 of the current year), the lowest tax rate table (Table A) is used to calculate employer rates for the following calendar year. When UITF is depleted to the point the balance is less than 3.0% of the taxable wages, the highest rate table (Table F) is used to determine employer rates. State and local governments and some nonprofit organizations reimburse UITF dollar-for-dollar in lieu of paying State and federal UI taxes. **Exhibit 1** shows the six rate tables that determine the amount charged to each employer. Taxable wages are defined as the first $8,500 earned by each covered employee in a calendar year.

Employers that fail to make a contribution or reimbursement when payment is due must pay a monthly interest penalty of 1.5% until the contribution or payment in lieu of contributions and interest is paid.

Exhibit 1
Unemployment Insurance Tax Rates

Table	Ratio of UITF to Taxable Wages	Minimum Rate	Maximum Rate	Taxes Per Employee Minimum	Taxes Per Employee Maximum
A	UITF exceeds 5%	0.3%	7.5%	$25.50	$637.50
B	UITF exceeds 4.5%, but not in excess of 5%	0.6%	9.0%	51.00	765.00
C	UITF exceeds 4%, but not in excess of 4.5%	1.0%	10.5%	85.00	892.50
D	UITF exceeds 3.5%, but not in excess of 4%	1.4%	11.8%	119.00	1,003.00
E	UITF exceeds 3%, but not in excess of 3.5%	1.8%	12.9%	153.00	1,096.50
F	UITF is 3% or less	2.2%	13.5%	187.00	1,147.50

Source: Department of Legislative Services

On September 30, 2009, the UITF balance was $301.7 million and taxable wages were $17.8 billion, a decline of over $1.0 billion from the prior year. The resulting 1.7% ratio of UITF balance to taxable wages requires Table F be used in the computation of employer contribution rates in calendar 2010.

In order to qualify for UI benefits an individual must be able to work, available for work, and actively seeking work. UI benefits are calculated based on wages during the first four of the last five completed calendar quarters preceding when an individual makes a first claim for UI benefits. The most recently worked quarter is not considered when determining a UI benefit payment. A benefit year is defined in current law as beginning the first day of the first week which an individual first files a claim for UI benefits. If an individual already has had a benefit year, the benefit year begins on the first day of the first week for which the individual files a claim for benefits after the termination of the preceding benefit year.

Maryland does not currently offer extended State UI benefits to individuals enrolled in employment training, although federal payments are available under certain conditions.

Chapters 5 and 6 of 2009 expanded UI benefits to individuals seeking part-time employment. To be eligible for UI benefits, an individual must be predominantly seeking part-time work; must be available for part-time work at least the number of hours worked at that part-time worker's pervious employment; cannot impose any other restrictions on the part-time worker's ability or availability to work; and must be in a labor market in which a reasonable demand exists for part-time work.

Background: The balance of UITF has fluctuated historically, growing in strong economic times to over $1.0 billion in each of calendar 2007 and 2008 and diminishing in weak economic times to $95.9 million as of January 14, 2010. During any calendar year, the UITF balance is at the highest level after the second quarter when most of the employer taxes are paid (UI taxes are paid on the first $8,500 earned by each covered worker).

On September 30, 2009, the balance in UITF fell to $301.7 million. This significant decline combined with a recent decline of over $1.0 billion of the taxable wage base to $17.8 billion, places the State and Maryland employers in the highest tax table beginning in January 2010. Table F requires employers to pay a minimum of 2.2% and a maximum of 13.5% ($187 to $1,147.50 per employee) depending on their UI experience rating.

The main driver of the decline of UITF is the increased claims for UI benefits resulting from the economic downturn. The State's unemployment rate increased from 5.4% in December 2008 to 7.5% by December 2009. Average monthly payouts from UITF grew from $36 million in 2007 to $89 million in 2009. Benefit payouts reached a peak in March 2009 of $24 million per week. Initial claims grew from about 203,000 in calendar 2006 to about 362,000 in calendar 2008 and over 416,000 in calendar 2009. Unemployment benefits remain an important factor in the decline of UITF balances, as payment rates have been slow to decrease. For the weeks ending January 9, 2010, and January 16, 2010, weekly UI benefits paid were $21.8 million and $23.5 million, respectively.

Exhibit 2 shows for each year since 2004 the balance of UITF on September 30, the annual benefit payout amounts, and Maryland's seasonally adjusted unemployment rate. The historic high unemployment rate for Maryland was 8.3% in August 1982, and the historical low was 3.3% in March 2000. Also shown in Exhibit 2 are the tax tables employers paid from during calendar 2006 to 2009 and will pay from during calendar 2010.

Exhibit 2
Maryland's Unemployment Rate, UI Trust Fund Balance, and Annual Benefit Payouts
2004-2010

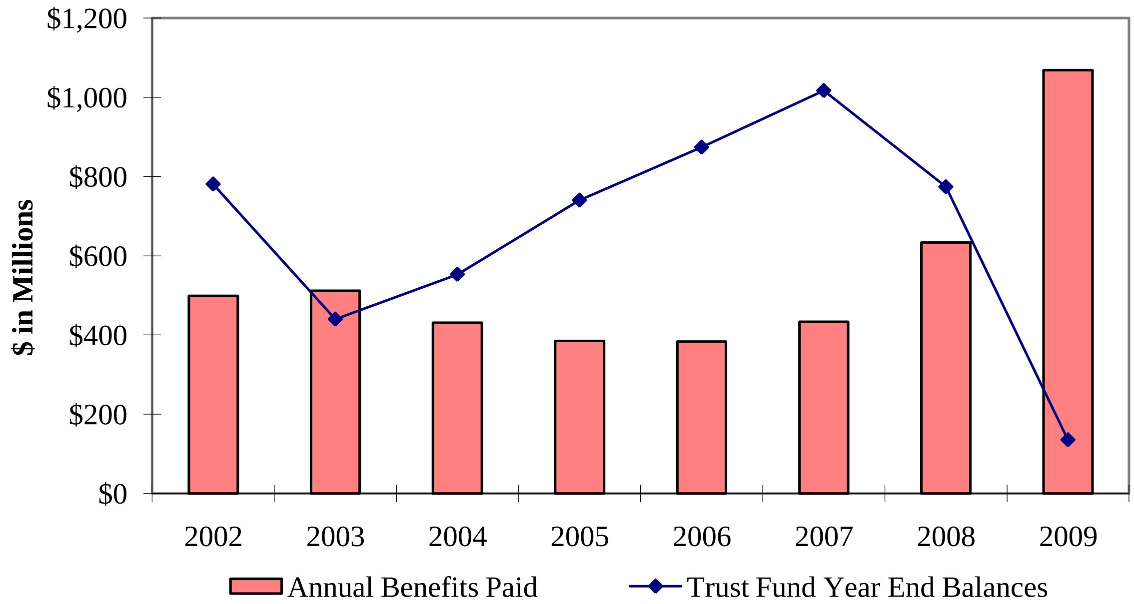
Tax Calendar Year	Percentage Unemployment Rate at End of Year	UITF Balance as of Prior September 30 ($ in Millions)	Tax Rate Table in Effect	Annual Benefit Payouts ($ in Millions)	Average Taxes Per Employee
2004	4.2	$638.5		$430.8	N/A
2005	3.9	703.6		384.7	$231
2006	3.6	883.1	B	383.5	191
2007	3.6	1,032.5	A	433.3	149
2008	5.4	1,057.8	A	633.5	155
2009	7.5	895.4	B	1,069	212
2010 est.*	N/A	301.7	F	N/A	442
2010 est. under the bill			E		400

*Estimate assumes average employer experience rating increases by .0027.

Source: U.S. Department of Labor; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Exhibit 3 is an alternative presentation of UITF activity since the infusion of the federal Reed Act funds in 2002. In the two-year aftermath of September 11, withdrawals from the trust fund significantly outpaced deposits, resulting in a 10-year low in the first quarter of 2004. Conversely, in healthier economic times from calendar 2004 to 2006, deposits to UITF were greater than withdrawals leading to a steady climb in the trust fund balance. The recent economic downturn has manifested itself in the fluctuations in the trust fund balance in calendar 2007, 2008, and 2009. In general, withdrawals have significantly outpaced deposits, driving down the balance, and triggering a move from Table B in 2009 to Table F in calendar 2010.

Exhibit 3
Annual Benefits Paid as Compared to Year-end
Unemployment Insurance Trust Fund Balances in Maryland



Source: U.S. Department of Labor; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Depletion of UITF is not isolated to Maryland. As of January 20, 2010, 27 states have borrowed money from the federal government to pay benefits. **Exhibit 4** lists the states that have received loans from the federal government. In February 2010 it is expected that Maryland will require a $250 million loan from the federal government to ensure solvency of UITF until UI taxes for the first quarter are received. In order to prevent interest from accruing, loans must be repaid by January 2011.

Exhibit 4
Outstanding Loans from the Federal Unemployment Account
Balances as of January 20, 2010
($ in Millions)

State	Loan Balance	State	Loan Balance
Alabama	$175.2	Nevada	$183.0
Arkansas	253.5	New Jersey	1,116.5
California	6,609.8	New York	2,390.3
Colorado	3.3	North Carolina	1,723.1
Connecticut	235.4	Ohio	1,857.3
Florida	1,137.0	Pennsylvania	2,130.5
Georgia	139.0	Rhode Island	146.2
Idaho	130.6	South Carolina	735.3
Illinois	1,382.1	South Dakota	11.7
Indiana	1,571.5	Texas	1,518.6
Kentucky	619.0	Virgin Islands	9.9
Michigan	3,326.4	Virginia	170.0
Minnesota	372.9	Wisconsin	1,025.6
Missouri	514.5	**Total**	**$29,488.2**

Source: U.S. Department of Labor

The American Recovery and Reinvestment Act of 2009 (ARRA) included $7 billion in federal incentives to be provided to states that enact specified UI system alterations. Maryland’s allotment of the total funding is estimated at $126.8 million if the State accepts additional Reed Act funds that would only be available if UI benefits are expanded in the specified ways. This is in addition to the additional federal emergency compensation that added $25 in weekly benefits and up to 33 weeks of additional benefits. In order for a state to access its additional federal funds, the required benefit expansions must be in place by August 31, 2011, and the effective date of the legislation must be on or before September 21, 2012.

In order to qualify for the full $126.8 million in federal stimulus funds, Maryland must adopt an alternative base period. Adopting an alternative base period will qualify the State for one-third of the $126.8 million allotment. Once a state adopts the alternative base period into law, two-thirds of the remaining allotment would be awarded if the state adopts at least two of four additional changes specified by the legislation. These changes include (1) making part-time workers eligible for benefits; (2) providing coverage to individuals who separate from work for compelling family reasons (illness of a family member, safety reasons due to domestic violence, change in spouse's employment location); (3) providing Workforce Investment Act (WIA) training benefits for at least 26 weeks in high demand industries; or (4) adding a $15 weekly allowance to UI payments for dependents.

Many states have taken action to secure the federal incentive funds for UI modernization. Currently, 36 states have qualified for the initial one-third federal funds by adopting an alternative base period either before or after ARRA. Additionally, 22 of these states have qualified for the other two-thirds of incentive funds by adopting additional benefits eligibility. **Exhibit 5** summarizes legislative action taken by states. This exhibit does not identify states currently offering a form of these benefits that does not conform to the requirements to receive federal stimulus funds. For example, Maryland currently offers part-time benefits, compelling family reasons for military spouses, and a dependents allowance for certain claimants but does not qualify for federal incentives. The U.S. Department of Labor has notified the Department of Labor, Licensing, and Regulation (DLLR) that Maryland's part-time benefit law (enacted as Chapter 5 and 6 of 2009) does not conform to federal guidelines required to receive federal incentive funds.

Exhibit 5
UI Modernization
State Legislative Activity

States	Alternative Base Period	Part-time Benefits	Employment Training	Compelling Family Reasons	Dependents Allowance
With Qualifying Benefits Prior to ARRA	18	2	0	0	1
With Qualifying Benefits Since ARRA	18	15	13	14	2
Total	**36**	**17**	**13**	**14**	**3**

Source: National Association of State Workforce Agencies

As a result of work by the Committee on Unemployment Insurance Oversight, Maryland has enacted legislation expanding UI benefits in recent legislative sessions. Chapter 298 of 2007 increased the maximum weekly benefit amount from $340 to $380. Chapters 287 and 288 of 2009 increased the maximum weekly benefit amount from $380 to $410 in October 2009 and will increase it further to $430 in October 2010. UI benefits were also expanded in 2009 through Chapters 5 and Chapters 6 of 2009, which provided UI benefits to part-time employees.

Alternative Base Period

The base period is the time period during which a claimant's wages earned are examined to determine a claimant's eligibility for UI benefits. In Maryland, and most states historically, the first four of the last five calendar quarters preceding the claim are considered the base period. Using the traditional base period, a lag of up to six months between the end of the base period and the date on which an individual becomes unemployed and files an unemployment claim may occur. As a result, the worker's most recent employment history is not considered when determining eligibility for UI benefits. Adoption of an alternative base period, considering the most recent four quarters of employment, increases eligibility for UI benefits by including individuals who are not currently eligible because they do not meet the minimum duration of employment or the minimum wage earnings during the established base period.

State Expenditures: UI benefits are chargeable to the State and reimbursed on a quarterly basis. Approximately 1.3% of UI benefits are charged to the State. In fiscal 2011, payments for approximately one quarter are collected. Thus, total State expenditures (general funds, special funds, and federal funds) due to the expansion of UI benefits increase by $57,600 in fiscal 2011. In fiscal 2012, benefits paid in one quarter of fiscal 2011 and three quarters of fiscal 2012 are collected, thus expenditures increase by $197,800 in fiscal 2012 and by $243,500 in fiscal 2013.

General fund expenditures may increase in fiscal 2011 to pay interest expenses on outstanding federal loans to UITF at the end of calendar 2010. If a special assessment is charged to employers to pay interest expenses on the loan, general fund expenditures will not increase.

The fiscal impact provided by DLLR for this bill assumes that the trust fund will remain solvent through fiscal 2014. The Department of Legislative Services (DLS) advises that, at current levels of UI claims, without a significant increase in employer contribution rates or a significant decrease in benefits paid over 2009 levels, UITF will be forced to borrow federal funds, in addition to any funds borrowed in February 2010, for UITF to remain solvent. Currently, weekly UI benefit payments are approximately $20.0 million, similar to the average weekly benefit paid in 2009 ($20.1 million).

Using revenue projections provided by DLLR, DLS has prepared **Exhibit 6** to estimate the net difference in UI tax revenues between rate Table E and Table F at various claim levels in 2010. *For illustrative purposes*, UI benefits paid in 2010 must decrease from 2009 levels by at least 8% for the trust fund to remain structurally solvent through 2010. Revenues and expenditures from governmental and nonprofit employers that reimburse the trust fund dollar-for-dollar are excluded from this estimate. This estimate also assumes the taxable wage base will remain constant

Exhibit 6
Calendar 2010 UITF

	Under the Bill	Current Law
UITF Revenues ($ in Millions)	**Table E**	**Table F**
UI Employer Contributions	$786.4	$870.1
Federal Incentive Payment	126.8	126.8
Total	**$913.2**	**$996.9**
UITF Expenditures ($ in Millions)		
Benefits Paid (at 2009 Claim Levels)	$994.0	$994.0
Net Difference ($ in Millions)		
Net Difference at 2009 Claim Levels	($80.8)	$2.9
Net Difference at 5% Reduced Claims	(31.1)	52.6
Net Difference at 10% Reduced Claims	18.6	102.3
Net Difference at 20% Reduced Claims	118.0	201.7

*Benefits paid excludes benefits paid to reimbursable entities (7% of 2009 total).

Source: Department of Labor, Licensing, and Regulation; Department of Legislative Services

Unemployment Insurance Trust Fund: Expanding UI benefits through creation of an alternative base period will increase the number of individuals eligible for UI benefits. According to data collected by DLLR, in 2009 approximately 1,971 individuals were monetarily ineligible for UI benefits due to wages paid in only one quarter and would likely have been eligible for UI benefits under an alternative base period. Additionally, approximately 2,802 individuals who were ineligible due to insufficient total wages in 2009 would be eligible to receive UI benefits under an alternative base period. Assuming that 75% of claimants eligible for UI benefits actually receive benefits, DLLR estimates that adopting an alternative base period will result in up to 3,580 additional individuals receiving UI benefits each year. DLLR estimates that 342 people annually will qualify for additional UI benefits by enrolling in qualifying job training. There are 116 WIA-approved occupational training providers in Maryland for which eligible claimants may receive qualifying training. The bill will not affect the number of individuals qualifying for part-time UI benefits.

Trust Fund Expenditures

Adopting an alternative base period and extending UI benefits for individuals attending qualified employee training programs increase UITF expenditures by $18.3 million in the first 12 months of enactment. On an annualized basis, $16.5 million is attributed to adopting an alternative base period and $1.8 million is attributed to employee training.

UITF expenditures increase by an estimated $5.9 million in fiscal 2011, reflecting the March 1, 2011 effective date of the affected provisions in the bill. UITF expenditures increase by $18.3 million in fiscal 2012 and continue to increase based on an annual 3% increase in average weekly benefits received. In fiscal 2014, UITF expenditures are expected to increase by $19.4 million. The following facts and assumptions were used in determining the increase in UITF expenditures.

- The total number of individuals receiving new weekly benefits from an alternative base period uses 2009 actual claim data. DLS acknowledges that 2009 claim data reflects a period of significantly higher than average unemployment. However, data for prior periods were not made available for purposes of this estimate.
- Each benefit recipient receives on average 17 weeks of unemployment benefits. To the extent this estimate varies, UITF expenditures may increase/decrease by approximately $1.0 million per each week of variation in the average duration of benefits.
- The average weekly benefit amount is $310 and increases by 3% each year. Individuals receiving UI benefits through an alternative base period receive 15% less in weekly benefits than the average benefit under a traditional base period.

Since the expansion of UI benefits to individuals seeking part-time work through Chapters 5 and 6 of 2009, DLLR has limited information on the number of eligible claimants due to implementation of automated systems. From April to August 2009, the department has been able to document a $500,000 impact to UITF due to part-time UI benefit payments. DLLR estimates that modifications to part-time UI eligibility, as specified in this bill, will not increase UITF expenditures.

Trust Fund Revenues

By enacting the UI modernization provided in the bill, Maryland will qualify for $126.8 million in federal stimulus funds in fiscal 2011. This increase in revenues will be offset by shifting the UI rate table from “Table F” to “Table E.” Moving from rate Table F to E will reduce the median contribution rate per employee by $42.50, resulting in an $85.0 million reduction of revenue to UITF in calendar 2010. This estimate is based on an estimated 2.0 million taxable employees. Because only the first $8,500 of an employee's earnings are taxable for UI purposes, approximately 50% of UI tax revenues are collected prior to June 30 of each calendar year. As a result, UITF tax revenues will be reduced by $42.5 million in fiscal 2010 and by $42.5 million in fiscal 2011.

DLLR estimates that reducing the interest penalties for employers that do not make quarterly contributions and reimbursements on time will result in a decrease in interest revenues of $500,000 annually. This estimate does not take into account the amount of total revenues that may be reduced quarterly, as some employers are likely to remit payments later as a result of a reduction in interest rate penalties. A reduction in the amount of timely payments received each quarter will negatively affect the balance of UITF.

Of the amount of UI benefits paid to individuals, approximately 64.1% of the benefits paid are charged back to one or more employers over a three-year period, beginning the year following benefits payment. The difference that cannot be charged back to private-sector employers is, ultimately, recovered through premiums paid by all employers. Payments made for State, local government, and nonprofit employers are charged in the same year and reimbursement is made on a quarterly basis. For example, in fiscal 2011 one quarter is collected; annually thereafter payments for one quarter for the previous year and three quarters for the current year are collected.

UITF revenues increase from employer contributions and reimbursements by $2.2 million in fiscal 2012, by $6.1 million in fiscal 2013, and by $9.9 million in fiscal 2014. Reimbursements from federal, State, and local governments and other reimbursing employers increase revenues to UITF by $310,000 in fiscal 2011, offset by a reduction of $4.3 million due to a decrease in tax revenues and interest rate subsidies.

Local Fiscal Effect: UI benefits are chargeable to local governments and reimbursed on a quarterly basis. Approximately 1.7% of UI benefits are charged to local governments. In the first year, payments for only one quarter are collected. Thus, local jurisdictional expenditures increase by $75,400 in fiscal 2011 and $258,700 in fiscal 2012, $318,400 in fiscal 2013 and by $327,900 in fiscal 2014 due to increased eligibility for UI benefits.

Additional Information

Prior Introductions: None.

Cross File: SB 107 (The President)(By Request - Administration) - Finance.

Information Source(s): Department of Labor, Licensing, and Regulation; U.S. Department of Labor; National Association of State Workforce Agencies; Department of Legislative Services

Fiscal Note History: First Reader - January 25, 2010
ncs/rhh

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: *Labor and Employment - Unemployment Insurance - Modernization and Tax Relief Act*

BILL NUMBER: **HB 91**

PREPARED BY:

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

XX WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This bill will have a substantial net positive impact on small businesses in Maryland. Businesses will receive $83 million in unemployment insurance rate relief immediately upon passage of the bill. On an individual employer basis, moving from Table F to Table E will save employers at the lowest experience rating $34 per employee in Unemployment Insurance taxes, and $51 per employee at the highest experience rating. Approximately 50% of Maryland employers are in the lowest end of the table, because they have the best experience rating.

In addition, the Unemployment Insurance Fund into which small businesses must make contributions will receive $126.8 million in federal modernization incentive funds within 45 days of enactment. These funds will shore up the solvency of the Fund. The modernization provisions will increase payments out of the Fund beginning in 2011 by $20 million, but these payments will not constitute a net cost to the Fund until 2017. These costs are shared by all employees, not just the small business community.