

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 319

PRINTER NO. 2657

AMOUNT

FUND

(\$37 million)-Reserve Ratio Factor
 \$77 million - Income Percentage
 (\$40 million)-Highest Quarterly Wages

 \$0 Net Impact

Unemployment Compensation Trust Fund

\$10,000

Unemployment Compensation Administration Fund

DATE INTRODUCED

PRIME SPONSOR

February 3, 2015

Representative Knowles

DESCRIPTION AND PURPOSE OF BILL

House Bill 319 amends the Unemployment Compensation Law to make the following changes:

Maximum rate of contribution and reserve ratio factor

Amends section 301.1 (a) to increase the maximum rate of contribution payable by an employer for unemployment compensation purposes from 9.2% to 9.6%. Under current law, the maximum rate of contribution payable by an employer for unemployment compensation purposes is 9.2%, and the reserve ratio factor for employers is capped at 2.7 for employers whose reserve account as a percentage of taxable wages is a minus 20% or lower. With the potential increase in the reserve ratio factor to 3.6 (see below), the maximum contribution rate payable by an employer must be increased to 9.6%.

Amends section 301.1 (c)(1) to increase the cap for the reserve ratio factor to as high as 3.6 for employers whose reserve accounts as a percentage of taxable wages are less than minus 20%. The reserve ratio factor for employers is currently capped at 2.7. The reserve ratio measures the contributions paid by an employer into the unemployment compensation system relative to the benefits paid to claimants and charged to the employer's account. The changes are as follows:

Employers Reserve Account as a Percentage of Wages

Reserve Ratio Factor

- 12% to -16%
- 16% to -20%
- 20% to -24%
- 24% to -28%
- 28% to -100%
- 100% or lower

- Increase to 2.6
- Increase to 2.7
- Increase to 2.8
- Increase to 2.9
- Increase to 3.3
- Increase to 3.6

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By increasing an employer's reserve ratio factor, that employer's contribution payable into the unemployment compensation system may also increase.

Income Percentage

Amends section 401 (a)(2) by reducing the percentage that an employee must earn outside of his or her highest quarter to 42%. This change will enable more "seasonal" or "cyclical" workers to become eligible for benefits.

Under current law, to be eligible for benefits, a claimant for unemployment compensation benefits must earn at least 49.5% of his or her total base year wages in a quarter or quarters other than the highest quarter in the employee's base year. Employees who earn less than 49.5% in a quarter(s) other than their highest quarter are not eligible to receive unemployment compensation benefits.

Highest Quarterly Wages

Amends section 404 to change the method used to determine a claimant's highest quarterly wages to a formula which calculates the average of (i) the claimant's wages earned in his or her highest quarter, and (ii) 120% of the amount the claimant earned in his or her second highest quarter. The formula is designed so that the average, thus calculated, can, in no event, exceed the wages of the claimant in his or her highest quarter.

Under current law, a claimant's unemployment compensation benefits are determined, in part, based upon the total wages paid to that claimant in the calendar quarter in which total wages were highest during the base year.

The modification of the formula utilized to determine a claimant's highest quarterly wages will reduce the value of the wages used to determine certain claimants' wages, and thus the amount of benefits paid to those claimants.

The provisions related to the maximum rate of contribution and reserve ratio factor, income percentage, and highest quarterly wages are effective immediately.

Written testimony and audio recordings

Amends section 502 to require that the testimony at any hearing before an unemployment compensation referee be taken by a recording device, and that an unabridged transcript and audio recording of the testimony be made available to any party (and their attorneys or other representative) upon written request. Requires the requesting party to pay for the transcript or recording only if they do not intend to use it for unemployment compensation purposes or to file a subsequent appeal.

Under current law, a memorandum of testimony of any hearing before an unemployment compensation referee must be made and preserved for a 90 day period.

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Amends section 504 by requiring that all testimony at hearings before the Unemployment Compensation Board of Review must be taken by both a reporter and a recording device and that an unabridged transcript and audio recording of the testimony be made available to any party (and their attorneys or other representative) upon written request.

Current law requires that a complete record of any testimony at a hearing before the Unemployment Compensation Board of Review be taken by a reporter or recording device, but need not be transcribed unless the disputed claim is further appealed.

The provisions related to audio recording are effective in 60 days.

FISCAL IMPACT

The increase in the reserve ratio factor for certain employers would increase the premiums paid by employers whose employees received more in Unemployment Compensation benefits than the employer paid into the system in premiums. This change would raise approximately \$37 million for the Unemployment Compensation Trust Fund (Fund).

The percentage of income that an employee has to earn outside of their high quarter to be eligible for Unemployment Compensation benefits reduces from 49.5% to 42%. This restores the eligibility to 31,000 of the 48,000 cyclical workers disqualified by Act 60 of 2012. This change would cost approximately \$77 million to the Fund.

Modifying the wage formula used to determine the amount of benefits paid to an employee by averaging the two highest quarters would save the Fund approximately \$40 million.

This legislation maintains Trust Fund solvency as of 2026, which is the solvency timetable developed through Act 60 of 2012.

According to the Governor's Budget Office, producing audio recordings of the testimony from a hearing before the Unemployment Compensation Board of Review would cost the Unemployment Compensation Administration Fund approximately \$10,000 which could be absorbed by current funding levels. The funds used to cover these costs are federal funds.