

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1305-05  
Bill No.: HCS for SCS for SB 319  
Subject: Business and Commerce; Taxation and Revenue-Property; State Tax Commission; Property, Real and Personal; Employees-Employers; Drugs and Controlled Substances  
Type: Original  
Date: April 18, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Unemployment Compensation Trust Fund	\$43,279,973	\$92,002,537	\$92,174,677
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$43,279,973</b>	<b>\$92,002,537</b>	<b>\$92,174,677</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government</b>	<b>\$942,787</b>	<b>\$1,981,064</b>	<b>\$1,995,482</b>

**FISCAL ANALYSIS**

**ASSUMPTIONS**

Officials from the **Department of Economic Development, Division of Professional Registration, the Office of State Courts Administrator, the Office of Administration, Division of Budget and Planning, the Office of Administration, Division of Facilities Management/Design and Construction, and the Department of Public Safety, Office of the Director**, assume the proposal would have no fiscal impact on their organizations.

In response to a previous version of the proposal, officials from the **Department of Conservation, the Department of Public Safety, State Highway Patrol, and the Department of Transportation** assumed the proposal would have no fiscal impact on their organizations.

ASSUMPTIONS (continued)

Officials from the **Department of Labor and Industrial Relations** (DOLIR) assumed the proposal would make changes in the state's unemployment system.

The Unemployment Compensation Trust Fund (UCTF) is funded by employer contributions and reimbursements for benefit payments. The UCTF is strictly for the payment of unemployment insurance (UI) benefits. Private employers make quarterly contributions to the UCTF based on their payroll expenditures and a rate determined by DOLIR. Governmental agencies and not-for-profit organizations have the option to reimburse the trust fund in lieu of making quarterly contributions. To more clearly define the impact, costs are distributed among: (1) cost to local government and (2) cost to the UCTF. It is the Department's understanding that the Office of Administration is responding to the impact of this proposal on state government.

The proposal would eliminate scheduled increases in the Maximum Weekly Benefit Amount (MWBA). The current MWBA of \$250 is set to increase under existing law to \$270 in 2006, \$280 in 2007, \$300 in 2008, \$310 in 2009 and \$320 for 2010 and each year thereafter. The proposal would eliminate the proposed increases until the September 30th balance of the trust fund, including any outstanding Title XII advances and/or alternative financing instruments, exceeds \$400 million. At such time, the MWBA would increase to \$270 the following calendar year. For each subsequent year that the September 30th trust fund balance, less any outstanding Title XII advances and/or alternative financing instruments, remains in excess of \$400 million the MWBA would increase by \$10, but in no case would the MWBA increase beyond \$320. DOLIR estimates indicate that under this formula the MWBA would remain at \$250 through CY 2009.

In addition, the proposal would reduce benefits paid. Among the reductions are: changes made to the formula used to calculate a claimant's weekly benefit amount (approx. \$52 million in CY 2006, \$48.5 million in CY 2007, \$8.4 million in CY 2008, \$6.5 million in CY 2009 and \$4.7 million in CY 2010); changes made regarding pre-employment drug testing (estimated at \$661,582.35 annually based upon an analysis of calendar year 2003 data); changes to misconduct penalties (approximately \$6.9 million annually), changes to the language defining what constitutes a detectable amount of alcohol or nonprescription drugs (unknown), changes to the language regarding refusal to take a drug test (unknown) and changes to the language regarding absenteeism and tardiness (unknown).

ASSUMPTIONS (continued)

Based on an analysis of the recent claims data, and using an October 1st effective date for purposes of this fiscal note response (the legislation as drafted, has an effective date of 8/28/05), the estimated decrease in paid benefits for the provisions listed above would be a savings to the UCTF of \$44,294,016 for the last nine months of FY 2006; \$93,094,647.50 FY 2007; and \$93,245,485 for FY 2008. Included in these amounts is a savings to local government of \$931,591.74 for the last nine months of FY 2006; \$1,957,966.63 for FY 2007; and \$1,983,660.28 for FY 2008.

Under current law, the DES projects UI benefits would be paid in the amount of \$482,203,737 for 2006; \$512,303,343 for 2007; and \$525,106,674 for 2008. Based on the current contributions rate schedule, CRA and TWB of \$11,000 for 2006 & 2007, and \$12,000 for 2008, it is projected the DES would receive approximately \$516,481,830 in contributions for 2006, \$527,778,185 for 2007 and \$573,961,330 for 2008. This would leave UCTF balances (including outstanding Title XII advances) of (\$110,739,210) for 2006, \$145,821,302 for 2007 and \$203,570,332 for 2008. The amounts include a loss of \$62,877,693 in FUTA offset credits in 2005 and \$235,912,521 in 2006.

The proposal would also change the Taxable Wage Base (TWB). The current law sets the TWB at \$11,000 in 2006 and 2007, \$12,000 in 2008, \$12,500 in 2009 and then, beginning in 2010 the TWB would be determined based on the trust fund balance levels (current estimates indicate it would increase to \$13,000 in 2010). The proposal would increase the TWB by \$1,000 annually, beginning in 2008, if the September 30th balance of the fund less any outstanding Title XII advances and/or alternative financing is less than or equal to \$350 million, up to a maximum level of \$13,000. The proposal goes on to state that after first year in which the September 30th balance of the fund less any outstanding Title XII advances and/or alternative financing is greater than or equal to \$400 million, the TWB cap for the next calendar year and each calendar year thereafter would be \$11,000. Current estimates indicate that under this proposals formula the TWB would remain at \$11,000 through 2007 and increase to \$12,000 for CY 2008, \$13,000 for CY 2009 and CY 2010, and revert to \$11,000 for CY 2011 and CY 2012.

ASSUMPTIONS (continued)

Based on the proposed TWB and eliminating the forty percent contribution rate adjustment on maximum rated deficit employers and assuming all other factors remain unchanged, it is projected the DES would receive approximately \$514,740,683 for 2006, \$525,600,308 for 2007 and \$571,258,762 for 2008. (The legislation as drafted has an effective date of 8/28/05 - however, for fiscal note calculation purposes the DOLIR is assuming that the change to the contribution rate adjustment would take effect 1/1/06). Assuming that \$378.2 million in level debt service annual appropriation bonds are competitively sold and are repaid in 15 equal installments using a 100% assessment calculation, this would leave trust fund balances including outstanding bonded indebtedness of (\$213,180,598) for 2006, (\$81,934,633) for 2007 and \$47,117,479 for 2008.

The estimated decrease in contributions to the UCTF for the provisions listed above would be \$1,014,043.09 for the last nine months of FY 2006; \$2,092,110.68 FY 2007; and \$1,070,808.07 for FY 2008. Included in these amounts is a reduction in local government cost of \$11,195.03 for the last nine months of FY 2006; \$23,096.90 for FY 2007; and \$11,821.72 for FY 2008.

The combined fiscal impact of the various provisions of this proposal would create a net income to the UCTF of \$45,308,059.09 for the last nine months of FY 2006; \$95,186,758.18 FY 2007 and \$94,316,293.07 for FY 2008. These totals do not take into account differences in estimated interest charges Missouri employers would be assessed for outstanding Title XII loans, amounts employers would be assessed to repay bonded indebtedness, or the amount of any FUTA credit reductions. Implementation of these provisions would result an estimated savings on Title XII interest charges totaling \$2,597,346 in 2005, \$11,761,490 in 2006 and \$2,090,278 in 2007.

Employers would avoid FUTA reductions of \$62,877,693 in 2005 and \$235,912,521 in 2006. The annual debt service for the \$378.2 million in bonds would be \$34,017,910.72, and would be incurred annually for fifteen years beginning in CY 2006 to repay the bonded indebtedness. The principal portion of the annual debt service would be paid for out of the trust fund. Interest and administrative expenses would be paid from an annual employer assessment. The first year the interest portion would be approximately \$15,128,972. This amount would gradually decrease over the life of the debt service. The estimated total interest cost, assuming no early redemption and a 4 percent rate would be approximately \$132,044,350.

Because the proposed legislation directly affects the operation of the UI program, the costs for programming these changes would be absorbed through DOLIR operations paid by Federal administration funds.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>UNEMPLOYMENT COMPENSATION TRUST FUND</b>			
<u>Cost reduction</u> - Division of Employment Security			
Benefit reductions	\$44,294,016	\$93,094,648	\$93,245,485
<u>Revenue reduction</u> - Division of Employment Security			
Employer contributions	(\$1,014,043)	(\$2,092,111)	(\$1,070,808)
<b>ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND</b>	<b><u>\$43,279,973</u></b>	<b><u>\$92,002,537</u></b>	<b><u>\$92,174,677</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>LOCAL GOVERNMENTS</b>			
<u>Cost reduction</u> - benefit reductions	\$931,592	\$1,957,967	\$1,983,660
<u>Cost reduction</u> - contributions	\$11,195	\$23,097	\$11,822
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<b><u>\$942,787</u></b>	<b><u>\$1,981,064</u></b>	<b><u>\$1,995,482</u></b>
<u>FISCAL IMPACT - Small Business</u>			

This proposal could have a direct fiscal impact to small businesses which purchase or sell part or all of a trade or business, or which have employees subject to the state unemployment compensation system.

## DESCRIPTION

This proposal would make changes to the state's unemployment compensation system:

- If an employer transfers its trade or business, or a portion thereof, to another employer and, at the time of the transfer, there is substantially common ownership, management, or control of the two employers, then the unemployment experience attributable to the transferred trade or business shall be transferred to the employer to whom such business is so transferred. The rates and liabilities of both employers shall be recalculated and made effective pursuant to this section.
- If an individual, organization, or employing unit is not an employer when it acquires the trade or business of an employer, the unemployment experience of the acquired business would not be transferred to the new employer if the division finds that such employer acquired the business solely or primarily for the purpose of obtaining a lower rate of contributions. Instead, such individual, organization, or employing unit would be assigned the applicable new employer rate.
- If an employer knowingly violates or attempts to violate this section related to determining the assignment of a contribution rate, or knowingly advises another employer in a way that results in a violation of such provision, the individual, organization, or employing unit shall be subject to penalties including increased contribution rates or a civil money penalty of not more than five thousand dollars.
- The proposal would eliminate scheduled increases in the Maximum Weekly Benefit Amount (MWBA) until the September 30th balance of the Unemployment Compensation Trust Fund (UCTF), including any outstanding Title XII advances and/or alternative financing instruments, exceeds \$400 million. At such time, the MWBA would increase to \$270 the following calendar year. For each subsequent year that the September 30th trust fund balance, less any outstanding Title XII advances and/or alternative financing instruments, remains in excess of \$400 million the MWBA would increase by \$10, but in no case would the MWBA increase beyond \$320.

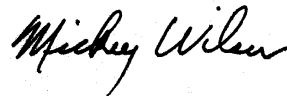
DESCRIPTION (continued)

- The proposal would also reduce benefits paid. Among the reductions are: changes made to the formula used to calculate a claimant's weekly benefit amount; changes made regarding pre-employment drug testing; changes to misconduct penalties; changes to the language regarding alcohol or nonprescription drugs; changes to the language regarding refusal to take a drug test; and changes to the language regarding absenteeism and tardiness.
- The proposal would change the Taxable Wage Base (TWB). The current law sets the TWB at \$11,000 in 2006 and 2007, \$12,000 in 2008, \$12,500 in 2009 and then, beginning in 2010 the TWB would be determined based on UCTF balance levels.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of State Courts Administrator  
Office of Administration  
    Division of Budget and Planning  
    Division of Facilities Management/Design and Construction  
Department of Conservation  
Department of Economic Development  
    Division of Professional Registration  
Department of Public Safety  
    Office of the Director  
    State Highway Patrol  
Department of Transportation



Mickey Wilson, CPA  
Director  
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