

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1963-01
Bill No.: SB 406
Subject: Unemployment Compensation
Type: Original
Date: March 16, 2015

Bill Summary: This proposal modifies the laws relating to unemployment compensation benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Unemployment Insurance Trust Fund	\$1,890,000	\$1,890,000	\$1,890,000
Total Estimated Net Effect on <u>All</u> Federal Funds	\$1,890,000	\$1,890,000	\$1,890,000

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume this bill amends Sections 288.380 and 288.381 to permit both fraudulent and non-fraudulent unemployment benefit overpayments to be recovered in the same manner.

DOLIR officials assume Section 288.380.9(3) adds language specifically allowing for fraud overpayment and penalty recovery in accordance with Section 288.380.14. In addition, this section is updated to add language included in 8 CSR 10-3.150 that specifies to which fund recovered penalty amounts are to be deposited. Regarding the recovery of fraud penalties, this change sets forth in statute that an amount equal to 15 percent of the benefits fraudulently obtained shall be deposited in the Unemployment Insurance (UI) Trust Fund in compliance with P.L. 112-40. Missouri has been in compliance with this federal requirement by rule since October 2013.

DOLIR officials assume Section 288.380.12 adds language that allows the Division of Employment Security (DES) to use the collection methods in Section 288.380.14 to recover fraud overpayments.

Section 288.380.13 will permit DES to use active collection methods, such as federal and state income tax intercepts (including the Treasury Offset Program) and wage garnishments to collect non-fraud overpayments. This will allow the DES to recover additional debt, which will improve the solvency of the UI Trust Fund and the integrity of Missouri's Unemployment Program.

DES estimates that this bill will allow for the recovery of approximately \$1.0 million annually in non-fraud debt through state income tax and lottery intercepts. In addition, DES estimates that ten percent of the approximately \$8.9 million in non-fraud overpayments now eligible for TOP will be recovered annually through federal tax intercepts. This calculates to \$890,000 per year. Together, these intercept methods would result in the collection of \$1,890,000 annually for the UI Trust Fund.

The changes to this bill will also allow Missouri's unemployment insurance program to remain in conformity with federal law.

ASSUMPTION (continued)

The federal and state governments are jointly responsible for administering the unemployment insurance (UI) system. State laws must meet certain federal requirements for the state agency to receive the administrative grants needed to operate its UI program and for employers to qualify for certain tax credits.

Non-conformity with federal law could jeopardize the certification of Missouri's UI program. If the program fails to be certified, Missouri would lose approximately \$38 million in federal funds the state receives each year to administer the UI program. Additionally, Missouri would lose the approximately \$12 million in federal funds each year the Department of Economic Development - Division of Workforce Development uses for Wagner-Peyser reemployment services.

The Federal Unemployment Tax Act (FUTA) imposes a 6.0 percent payroll tax on employers. Most employers never actually pay the total 6.0 percent due to credits they receive for the payment of state unemployment taxes and for paying reduced rates under an approved experience rating plan. FUTA allows employers tax credits up to a maximum of 5.4 percent against the FUTA payroll tax if the USDOL's Secretary of Labor approves the state's UI law. However, if this bill causes Missouri's program to be out of compliance or out of conformity, Missouri employers would pay the full 6.0 percent, or approximately an additional \$889 million per year.

Officials from the **Missouri Department of Conservation**, the **Office of Administration** and the **Department of Revenue** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **Department of Transportation** did not respond to our request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
UNEMPLOYMENT INSURANCE TRUST FUND			
Revenue - DES Recovery of fraudulent and non-fraudulent benefits	<u>\$1,890,000</u>	<u>\$1,890,000</u>	<u>\$1,890,000</u>
ESTIMATED NET EFFECT TO THE UNEMPLOYMENT INSURANCE TRUST FUND	<u>\$1,890,000</u>	<u>\$1,890,000</u>	<u>\$1,890,000</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act permits the recovery of:

- Overpaid unemployment compensation benefits;
- Benefits obtained by reason of nondisclosure or misrepresentation of a material fact; or
- Benefits obtained by reason of error, omission, or lack of knowledge of a material fact on the part of the Division of Employment Security through billing, setoffs against state and federal tax refunds, intercepts of lottery winnings, and collection efforts as provided under current law.

The act further requires 15% of payments made toward a penalty assessed for benefits fraudulently received to be immediately deposited into the state unemployment compensation fund. The remaining penalty amount due is credited to the special employment security fund.

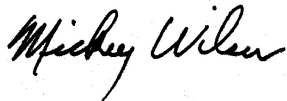
FISCAL DESCRIPTION (continued)

Current law states that any person who receives unemployment compensation benefits as a result of error or lack of knowledge of material fact on the part of the Division, shall have such sums of benefits deducted from future benefits, after an opportunity for a fair hearing. This act gives the Division the discretion, after an opportunity for a fair hearing, to either deduct the sums of wrongfully paid benefits from future benefits payable to the individual or require repayment to the Division the amount of benefits wrongfully received.

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

Department of Labor and Industrial Relations
Missouri Department of Conservation
Office of Administration
Department of Revenue



Mickey Wilson, CPA
Director
March 16, 2015

Ross Strobe
Assistant Director
March 16, 2015