

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3956-01
BILL NO.: SB 864
SUBJECT: Employment Security
TYPE: Original
DATE: February 7, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Special Employment Security Fund	(Could Exceed \$100,000)	(Could Exceed \$100,000)	(Could Exceed \$100,000)
Total Estimated Net Effect on <u>All</u> State Funds	(Could Exceed \$100,000)	(Could Exceed \$100,000)	(Could Exceed \$100,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Federal Funds *	(Unknown)*	(Unknown)*	(Unknown)*
Total Estimated Net Effect on <u>All</u> Federal Funds *	(Unknown)*	(Unknown)*	(Unknown)*

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government*	(Unknown)*	(Unknown)*	(Unknown)*

***Negative fiscal impact depends upon determination of noncompliance with federal law.**

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Labor and Industrial Relations (DOLIR)** assume the proposal would exempt third and fourth class counties from being assessed a penalty for failing to timely file quarterly wage reports to DOLIR and would provide the counties full refund of penalties imposed after January 1, 1999. DOLIR officials note that the U.S. Department of Labor has informally responded to the proposed legislation. Under 3304(a)(6)(A) and 3309(a)(1), Federal Unemployment Tax Act (FUTA), state and local governments cannot be treated differently than other employers subject to state law and are required to be treated equally on the same terms and subject to the same conditions. Exempting counties from the penalty provisions assessed to other employers appears to violate federal standards. DOLIR officials assume that if Missouri's Employment Security Law is found to be out of conformity with federal law, the consequence would be a loss of certification for FUTA credits. This could result in all contributing employers losing credits against the federal tax (estimated to be as much as \$970 million annually) and the loss of over \$40 million annually in administrative funds for DOLIR.

For fiscal note purposes, **Oversight** assumes any loss of federal funds would be dependent upon determination of noncompliance by the U.S. Department of Labor, and therefore the amounts are indeterminable.

In addition, **Oversight** assumes that third and fourth class counties would experience cost savings as a result of being exempted from penalty provisions. According to estimates provided by DOLIR based on prior year penalties, annual penalties assessed to all counties in Missouri for late filing of quarterly wage reports exceeded \$500,000. DOLIR notes that penalties have since increased. Oversight assumes that since the majority of Missouri counties are third class, it is likely that annual penalties assessed to third and fourth class counties could exceed \$100,000. DOLIR did not have data available showing the breakdown of penalties by class of county. Therefore, Oversight has reflected a loss of revenues which could exceed \$100,000 annually to the Special Employment Security Fund and corresponding savings to local governments (third and fourth class counties). Oversight also assumes that refunds required by the proposal for any penalties imposed after January 1, 1999 could exceed \$100,000 based on the above data. The refunds are assumed to be issued in FY 2001.

Oversight notes that DOLIR also assumed a loss of tax credits for Missouri employers if the legislation were found to be in noncompliance with federal law. This would also include local government employers. The state, however, should not be affected based on information from DOLIR due to its status as a reimbursable employer. The fiscal note reflects potential unknown costs to local governments, dependent upon determination of noncompliance with federal law.

	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>			
SPECIAL EMPLOYMENT SECURITY FUND			
<u>Loss-DOLIR</u>			
Decreased penalties	(Could Exceed \$100,000)	(Could Exceed \$100,000)	(Could Exceed \$100,000)
<u>Costs-DOLIR</u>			
Refunds for penalties collected since January 1, 1999	(Could Exceed \$100,000)	\$0	\$0
ESTIMATED NET EFFECT ON SPECIAL EMPLOYMENT SECURITY FUND	(Could Exceed \$100,000)	(Could Exceed \$100,000)	(Could Exceed \$100,000)
FEDERAL FUNDS			
<u>Loss-DOLIR</u>			
Federal administrative funds *	(Unknown)*	(Unknown)*	(Unknown)*
	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - Local Government</u>			
LOCAL GOVERNMENTS			
<u>Income</u> - refunds of penalties imposed since January 1, 1999 on third and fourth class counties			
	Could Exceed \$100,000	\$0	\$0
<u>Savings</u> - decreased penalties for third and fourth class counties			
	Could Exceed \$100,000	Could Exceed \$100,000	Could Exceed \$100,000
<u>Costs</u> - loss of tax credits for state unemployment contributions *			
	(Unknown)*	(Unknown)*	(Unknown)*
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS *	(Unknown)*	(Unknown)*	(Unknown)*

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FISCAL IMPACT - Small Business

If the proposal is determined to be in noncompliance with federal law, small businesses could be impacted in the event of the loss of tax credits against federal unemployment taxes.

DESCRIPTION

The proposal would exempt township forms of government (third and fourth class counties) from being assessed penalties for late filing of quarterly wage reports. Any penalties imposed after January 1, 1999 would be refunded.

The proposal has an emergency clause.

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



Jeanne Jarrett, CPA
Director
February 7, 2000