

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 6885 S SB	<b>Title:</b> Unemployment insurance	<b>Agency:</b> 540-Employment Security Department
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## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

FUND	FY 2006	FY 2007	2005-07	2007-09	2009-11
Unemployment Compensation Account-Non-Appropriated 620-6		(41,522,662)	(41,522,662)	(341,299,774)	
Total \$		(41,522,662)	(41,522,662)	(341,299,774)	

### Estimated Expenditures from:

FUND	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.8	0.3	0.5	0.0	0.0
Fund					
Unemployment Compensation Administration Account-Federal 119-2	81,884	24,123	106,007	0	0
Total \$	81,884	24,123	106,007	0	0

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

### Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

<b>Legislative Contact:</b>	<b>Phone:</b>	<b>Date:</b> 02/06/2006
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## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

**NOTE:** ESD has asked for three technical amendments to Section 3 to be able to properly implement the bill. The estimates in this fiscal note assume that those amendments are included in the bill.

**NOTE:** Cash receipts impacts on the unemployment trust fund for FYs 2010 and 2011 are indeterminate due to unavailability of reliable forecasted employment and unemployment data that far into the future.

**Section 1. Weekly Benefit Amount Calculation (amends RCW 50.20.120) - Retains 2 quarter averaging at 3.85% permanently.**

**Section 2. Taxable Wage Base (amends RCW 50.24.010) - Modifies the calculation of the Taxable Wage Base to 75% of average annual wage beginning with rate year 2007.**

**Section 3. Taxes (amends RCW 50.29.025):**

- Sets variable minimum rate and reduction limit on flat social tax rate based on how much more than 10 months (per ESD-proposed technical amendment) of benefits are available in the trust fund beginning with rate year 2007:
  - over 10 months; .6% minimum and .2 limit on reduction.
  - over 12 months; .55% minimum and .3 limit on reduction.
  - over 14 months; .5% minimum and .4 limit on reduction.
- Smooths social tax rate by using annualized average (per ESD-proposed technical amendment) of 16 quarters of taxable wages, benefits and charges beginning with rate year 2007.
- Sets 5.7% ceiling on total tax for targeted industries beginning with rate year 2007.
- Removes special calculation of flat social cost rate for 2007.
- Removes special calculation of ineffective charges in 2007 due to zero social cost rate.
- Removes zero social cost rate for targeted industries as of 12/31/06 (per ESD-proposed technical amendment).

**Section 4. Solvency surcharge (amends RCW 50.29.041) - Changes threshold that initiates solvency surcharge from 6 to 8 months beginning with rate year 2007.**

**Section 5. Reed Act (amends RCW 50.16.030) - Ends Reed Act appropriation effective July 1, 2006 for ineffective charges due to zero social tax rate. Removes completely any Reed Act appropriation for the difference in benefits resulting from paying at 2 quarter average while charging at 4 quarter average.**

**Section 6. Benefit Charge Relief (amends RCW 50.29.021) - Stops benefit charge relief of paying at 2 quarters but charging at 4 quarters; effective for claims started after July 1, 2006.**

**Section 7. Voluntary Quit Study - Continues Voluntary Quit Study from 1/1/04 through 9/30/06 and report to Legislature by 12/15/06.**

**Section 8. Liberal Construction and Intent of EHB 2255 - Repeals the sunset on liberal construction reinstatement in EHB 2255 and also repeals the intent to reinstate 2EHB 6097 when EHB 2255 sunsets.**

**Section 9. Effective Date - Makes tax and solvency surcharge changes (sect. 3, 4) apply to Rate Years beginning 2007.**

**Section 10. State Severability Clause and Section 11. Federal Severability Clause have no cash or expenditure impacts.**

**Section 12. Emergency Effective Date - upon signature.**

**II. B - Cash receipts Impact**

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

**NOTES:**

**-Indeterminate cash receipts impact for FYs 2010 and 2011 due to unavailability of forecasted employment and unemployment data that far into the future.**

**-The amounts in cash receipts have been extrapolated from calendar year forecast data into fiscal years by dividing each calendar year's amounts in half and allocating half into each appropriate fiscal year, except for benefits impacts for calendar 2007, which are all during the second half of the calendar year (FY08).**

**-The amounts in cash receipts include the impacts due to the changes in both benefit and tax calculations in Sections 1, 2, 3, and 6 of the bill. These amounts are based on forecasts of benefits to be paid from and taxes to be paid into the UI Trust Fund, as well as interest earned on the amounts in the fund.**

**Section 5 of the bill limits the offset for benefits that are ineffectively charged due to other sections of the bill by using Reed Act Funds, which are a subset of the UI Trust Fund. Therefore, there is no net impact to the Trust Fund.**

**CASH RECEIPTS SPECIFICS:**

**Benefits payout impacts to UI Trust Fund due to Section 1 of the bill (permanent WBA change to 2-quarter averaging) are as follows:**

- FY 2006: \$0**
- FY 2007: \$0**
- FY 2008: - \$ 38,429,538 (adding benefits out plus reimbursables in)**
- FY 2009: - \$ 92,465,135**
- FYS 2010 & 2011: indeterminate – see note above.**
- TOTAL benefits impact (decrease) for FYs 2006-2009: - \$130,894,673**

**Experience Tax revenue impact to UI Trust Fund due to Sections 2 and 6 of the bill (permanent WBA and benefit charging change to 2-quarter averaging) are as follows:**

- FY 2006: \$0**
- FY 2007: - \$17,420,852**
- FY 2008: - \$36,046,102**
- FY 2009: - \$31,315,757**
- FYs 2010 & 2011: indeterminate - see note above.**
- TOTAL Regular Tax impact (decrease) for FYs 2006-2009: - \$84,782,711**

**Social Tax revenue impact to UI Trust Fund due to Section 3 of the bill (social tax rate calculation changes) are as follows:**

- FY 2006: \$0**
- FY 2007: - \$23,363,489**
- FY 2008: - \$58,372,237**
- FY 2009: - \$64,335,202**
- FYs 2010 & 2011: indeterminate - see note above.**
- TOTAL Social Tax impact (decrease) for FYs 2006-2009: - \$146,070,928**

**Interest revenue impact to UI Trust Fund due to Sections 1-3 and 6 of the bill are as follows:**

- FY 2006: \$0**
- FY 2007: - \$ 738,321**
- FY 2008: - \$ 5,303,692**

**FY 2009: - \$15,032,111**

**FYs 2010 & 2011: indeterminate - see note above.**

**TOTAL Interest revenue impact (decrease) for FYs 2006-2009: - \$21,074,124**

## **II. C - Expenditures**

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

### **ADMINISTRATIVE COSTS**

The bill would require changing both the unemployment insurance benefits and tax computer systems, as well as communicating with and training staff.

**FY06 COSTS – must be done before effective date of benefit charging provisions:**

**Benefits Computer System - analyze, program, test, and document changes to weekly benefit amount calculations for claims effective after 6/30/07 (currently programmed to return to 4 quarter averaging at that time) and changes to benefit charging calculations:**

**.17 FTE IT Specialist 6 - step K (260 hours)**

**.56 FTE IT Specialist 4 - step K (800 hours)**

**.02 FTE IT Specialist 3 - step K (30 hours)**

**\$13,600 - Contractor 160 hours @ \$85/hr**

**FY07 COSTS:**

**Tax Computer System - analyze, program, test, and document changes to maximum tax rates for employers with specified NAICS codes; make screen and reporting changes.**

**.08 FTE IT Specialist 5 - step K (120 hours)**

**.03 FTE IT Specialist 4 - step K (40 hours)**

**.02 FTE IT Specialist 3 - step K (30 hours)**

**Staff Training and Communication:**

**.01 FTE ES Program Coordinator 3 - step K (15 hours)**

**.02 FTE ES Program Coordinator 2 - step K (40 hours)**

**.01 FTE Tax Specialist 4 - step K (15 hours)**

**Voluntary Quit Study:**

**.11 FTE Research Investigator 3**

**NOTE: ESD has asked for three technical amendments to Section 3 to be able to properly implement the bill. The estimates in this fiscal note assume that those amendments are included in the bill. If the amendments are not included in the final bill, the following additional administrative costs would be incurred. Most of these costs would result from a mid-year date for the end of the zero social tax rate for specified industries. This would cause approximately 8,000 employers in those industries to be assigned two different tax rates for the same rate year (2006); requiring the department to calculate new rates and send notifications to employers by July, 2006. We also estimate this would result in additional phone calls to the department and appeal hearings because all 8,000 employers would see an increase in their tax rates for the second half of 2006.**

**Additional Administrative Costs if ESD-proposed technical amendments not approved:**

**.14 FTE IT Specialist 5 - step K (200 hours)**

**.06 FTE IT Specialist 4 - step K (100 hours)**

**.08 FTE IT Specialist 3 - step K (120 hours)**

**.03 FTE ES Program Coordinator 3 - step K (45 hours)**

**.03 FTE Tax Specialist 4 - step K (45 hours)**

**.11 FTE Tax Specialist 3 - step K (200 hours)**

**\$28,900 - Contractor 340 hours @ \$85/hr**

**\$800 - Mailings to employers**

\$19,000 - Additional appeal hearings (100 hearings @ \$190/hearing)

TOTAL ADDITIONAL COSTS WITHOUT TECHNICAL AMENDMENTS: \$87,286

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.8	0.3	0.5		
A-Salaries and Wages	45,918	16,368	62,286		
B-Employee Benefits	13,298	4,740	18,038		
C-Personal Service Contracts	13,600		13,600		
E-Goods and Services	9,031	3,002	12,033		
G-Travel	37	13	50		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
<b>Total:</b>	<b>\$81,884</b>	<b>\$24,123</b>	<b>\$106,007</b>	<b>\$0</b>	<b>\$0</b>

#### III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2006	FY 2007	2005-07	2007-09	2009-11
ES Program Coordinator 2	47,280		0.0	0.0		
ES Program Coordinator 3	52,212		0.0	0.0		
IT Specialist 3 - GUIDE	53,520	0.0		0.0		
IT Specialist 3 - TAXIS	53,520		0.0	0.0		
IT Specialist 4 - GUIDE	59,088	0.6		0.3		
IT Specialist 4 - TAXIS	59,088		0.0	0.0		
IT Specialist 5 - TAXIS	65,220		0.1	0.0		
IT Specialist 6 - GUIDE	71,988	0.2		0.1		
Research Investigator 3	62,100		0.1	0.1		
Tax Specialist 4	47,280		0.0	0.0		
<b>Total FTE's</b>		<b>0.8</b>	<b>0.3</b>	<b>0.5</b>		<b>0.0</b>

### Part IV: Capital Budget Impact

No capital budget impacts.

### Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No rule changes.