Individual State Agency Fiscal Note

Bill Number: 1278 S HB	Title: Unemployment	Agency: 540-Employment Security Department

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND	FY 2008	FY 2009	2007-09	2009-11	2011-13
Unemployment Compensation Account-Non-Appropriated 620-6	(3,150,000)	(10,000,000)	(13,150,000)	(20,000,000)	(20,000,000)
Total $	(3,150,000)	(10,000,000)	(13,150,000)	(20,000,000)	(20,000,000)

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
Total $					

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.

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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.

This bill would change the rate that is assigned to employers who do not have enough experience for an earned rate. Effective with rate year 2008, new employers would pay an experience-rated tax and a social tax, both computed using historical information on new employers. The history factor would be either 90 percent, 100 percent, or 115 percent of the average industry tax rate. Which percent would be paid would be based on the ratio of the total benefits paid to the total taxes paid in a three-year period prior to the tax rate computation date by a cohort of employers that were first subject to Unemployment Insurance (UI) contributions three years prior to the computation date.

Currently, new employers — or employers who do not have enough experience for an earned rate — are assigned the tax rate of the average for their industry, plus fifteen percent (or 115 percent of the average industry tax rate). This bill would impact the Unemployment Insurance (UI) Trust Fund because, depending on the history factor that is used, employers assigned these rates may no longer be paying the additional fifteen percent added to industry-average rates. The policy effect of this bill is a reduction in the amount of the Trust Fund.

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.

There would be an impact to the UI Trust Fund. This bill could lower the tax rate for employers who do not have enough experience for an earned rate. Based on data from existing employers:
- If assigned 90% of the industry average, the Employment Security Department (ESD) would collect an estimated $10 million less from employers paying taxes;
- If assigned 100% of the industry average, ESD would collect an estimated $9 million less;
- If assigned 115% of the industry average, then ESD would collect the amount currently collected;

ESD has estimated that reducing the multiplier to 90 percent is the foreseeable scenario for the next several years. This scenario would reduce total tax paid by about $10 million per year for 2009 through 2013.

For Fiscal Year 2008 (FY08), the decrease would be $3.15 million because the effective date would be January 1, 2008 and because there is a quarterly lag time that affects cash receipts. The first quarter in which taxes paid at the lower rate would be received would be the last quarter of FY08. The highest percent of taxes in any year (31.5%) are received from the March 31st reports, due April 30th, so the estimate of the first year decrease = $10 million x 31.5% = $3.15 million.

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.

* Section one – Would reduce the rate from 115 percent to a variable rate computed each year beginning rate year January, 2008.

Staff expenditures would be negligible and would probably occur in FY07:
- Additional calls from employers are not anticipated due to the rate being lower rather than higher.
- Notification to employers would occur through the existing quarterly Business Update.
- Computer and employer tax handbook changes, notification to staff, and a housekeeping rule change would be minimal, and current federal administrative grant appropriations provide funding for these activities as part of the program's base budget.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

None.

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.

WAC 192-320-020 would need to be revised to remove the fifteen-percent reference.