Individual State Agency Fiscal Note

Bill Number: 5286 SB	Title: Paid leave premiums	Agency: 540-Employment Security Department

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2024	FY 2025	2023-25	2025-27	2027-29
Family and Medical Leave Insurance Account-State 22F-1	35,000,000	178,000,000	213,000,000	264,000,000	10,000,000
Total $	35,000,000	178,000,000	213,000,000	264,000,000	10,000,000

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
Account					
Family and Medical Leave Insurance Account-State 22F-1	30,000	0	30,000	0	0
Total $	30,000	0	30,000	0	0

Estimated Capital Budget Impact:

NONE

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

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

SB 5286 makes significant changes to how Washington Paid Family and Medical Leave (PFML) calculates the annual premium rate paid by employers and employees.

Section 1
The new calculation specifically incorporates agency expenditures as well as benefit payments over the prior fiscal year. The total figure is then multiplied by 1.4 and then reduced by the balance of the PFML account as it exists on September 30. That figure is then divided by the prior fiscal year's taxable wages. The resulting quotient is rounded up to the fourth decimal figure, which ultimately becomes the next year's rate.

If the commissioner determines that the new rate would result in a balance that exceeds that which would be necessary to maintain a three-month reserve for expenditures, the commissioner must reduce the premium accordingly.

The bill also effectively abolishes the "solvency surcharge," instead incorporating it into the base rate.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

See attached Cash Receipt Narrative

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

SB 5286 changes how the annual premium rate is calculated. The new calculation specifically incorporates agency expenditures as well as benefit payments over the prior fiscal year. Administrative impacts include communicating the new rate structure to stakeholders, training customer care staff , minor rulemaking, and minor tech updates to allow for more flexibility in setting the rate within program systems.

To implement this bill the following needs to occur in fiscal year 2024:
- Minor rulemaking and policy work - 4 months
- Modifications to internal technology systems
- Update Employment Security Department (ESD) websites and email communications
- Update training and reference materials
- Staff Training

One Time Cost

Rulemaking and Policy related cost (one time cost)
- Minor rulemaking cost = $30,000

Total One-Time cost during FY2024: $30,000

The following can be absorbed within existing resources:

Communications:
Communication of the change to external stakeholders will occur on the website and by email as the calculations occur pursuant to the timeline mandated by the bill. These costs can be absorbed with existing resources.

Training/Operations:
This bill will require Operations to complete updates to training and reference materials in order for staff to understand the new calculations and be able to assist customers who have questions on how the programs and rates are calculated. There will be a need to train all staff within Operations on the changes. Training will begin when the bill is signed and continue throughout the remainder of the year. These costs can be absorbed with existing resources.

IT
Modifications to internal technology systems to allow for a manual entry of the new premium rate will occur within existing resources. Once the bill is signed, planning for development and implementation would occur over several weeks, followed by a two-week sprint to develop, test, and deploy the update.

Attorney General's Office:
If enacted, the bill would require ESD to amend or promulgate related rules that would require legal review, and may generate questions related to the interpretation of some of the bill's provisions. The bill is not likely to generate administrative appeals or litigation. While the bill may generate the need for some legal services, any legal advice would be limited (60 hours or less) and can be absorbed within existing services.

Total cost for FY2024: $30,000

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
22F-1	Family and Medical Leave Insurance Account	State	30,000	0	30,000	0	0
		Total $	30,000	0	30,000	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Professional Service Contracts					
E-Goods and Other Services	30,000		30,000		
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					
9-					
Total $	30,000	0	30,000	0	0

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Minor rulemaking will be needed to implement this bill

Section 1

Change to how Washington Paid Family and Medical Leave calculates the annual premium rate paid by employers and employees - WACs 192-510-090 and 192-510-095

Cash Receipt Impact

Projection Methodology
The projections found in the following tables include key inputs impacting the Paid Leave account balance and premium rate setting are based on standard forecasting approaches to fiscal projections. In addition to revenue from premium collections and benefit payments on approved claims, projections incorporate small business assistance grants and operating expenses.

Estimates provided in the baseline are based on the Paid Leave account projections. Revenue estimates are based on historical Paid Leave administrative data, wage forecasts published by the Economic and Revenue Forecast Council (ERFC), and the projected premium rates. Revenue is then adjusted to account for small employers not subject to the employer portion of the premiums, voluntary plan employers offering their own paid leave program, and reported wages over the social security wage cap (non-taxable wages).

Projections of benefit payments impact the account balance and, in turn, the premium rate. Projected benefits consider historical Paid Leave administrative data on the number of paid claims, average lengths of leave per claim, and average weekly benefits of claims. These projections also incorporate average annual wage growth and employment forecasts from ERFC.

Methods used to estimate SB 5286 are identical in all aspects of revenue collection and benefit projections. They only differ in how the premium rates are calculated. Baseline premium rate estimates are based on current statute regarding the account balance ratio, account balance ratio premium rate table, and solvency surcharge. SB 5286 revises this calculation, by removing the account balance ratio and solvency surcharge and incorporating 140% of the prior fiscal year's expenses into the calculation itself. SB 5286 does not change the underlying methodology regarding projections of premium revenue, benefit payments, or operating expenses. As a result of this legislation, the premium rate in the first few years of enacting this bill will increase in order to build up the targeted 3-month reserve to help offset the high variability with regards to premium collections. The rate will then stabilize around 0.86% once the initial build of the 3-month reserve is achieved. This is slightly higher than the baseline projections that targets account solvency where solvency is defined as any projected positive account balance.

Values depicted in millions.

Assessed Premium Revenue
This table depicts the assessed premiums based on the forecasted premium rate from the new calculation provided in SB 5286 alongside the current Paid Leave projected assessed premiums. This includes any funding allocated in ESSB 5693 to cover the estimated negative balance at the end of the biennium 21-23.

Premium Revenue	Baseline Projection	SB 5286	Revenue Delta between SB 5286 and Baseline
FY 23	$1,311	$1,311	$0
FY 24	$1,711	$1,746	$35
FY 25	$1,804	$1,982	$178
FY 26	$1,886	$2,119	$233
FY 27	$1,992	$2,022	$31
FY 28	$2,093	$2,121	$29
FY 29	$2,254	$2,235	-$19
FY 30	$2,351	$2,382	$31
FY 31	$2,435	$2,518	$83
FY 32	$2,570	$2,587	$17

Premium Rate Calculation

This table depicts the baseline projected premium rates calculated as our current statute stands. This total premium rate includes any solvency surcharges. The premium rates provided by SB 5286 include both the standard rate, as given by the calculation laid out in the bill along with any years a reduction in the premium rate could be utilized. This would occur when the rate calculated in SB 5286 results in an account balance higher than the target 3-month reserve. This occurs in years 2025, 2026, 2030, and 2032. The SB 5286 final rate incorporates any years with those downward adjustments.

Rate Year	Baseline Projection	SB 5286 Calculated Rate	SB 5286 Excess Account Balance Rate Reduction	SB 5286 Final Rate
2023	0.80%			0.80%
2024	0.84%	0.90%		0.90%
2025	0.83%	0.98%	-0.01%	0.97%
2026	0.84%	0.89%	-0.04%	0.85%
2027	0.83%	0.85%		0.85%
2028	0.86%	0.85%		0.85%
2029	0.86%	0.86%		0.86%
2030	0.84%	0.90%	-0.02%	0.88%
2031	0.85%	0.89%	-0.04%	0.85%
2032	0.84%	0.86%		0.86%

Account Balance and Target 3-Month Reserve

This table depicts the account balance as of the end of each rate collection year (quarter 1 of each calendar year), the estimated target 3-month reserve (calculated as the 3-month average of the prior 12 months to calculation of the premium rate), and the differences between those two values. A negative value in the difference between these two estimates does not reflect a cash deficit but rather a period in which the account balance fails to reach the targeted 3-month reserve.

Year	3-Month Reserve Target	Baseline Account Balance	Delta between Baseline Account Balance and Reserve	SB 5286 Account Balance	SB 5286 Delta between Account Balance and Reserve
2023	$297.4	-$114.6	-$412.0	-$114.6	-$412.0
2024	$366.5	-$45.6	-$412.1	-$45.6	-$412.1
2025	$416.7	$19.6	-$397.1	$147.1	-$269.6
2026	$449.3	$10.6	-$438.8	$450.5	$1.2
2027	$478.1	$19.7	-$458.4	$483.1	$5.0
2028	$502.4	$4.5	-$497.9	$517.2	$14.8
2029	$535.1	$6.7	-$528.4	$493.6	-$41.5
2030	$569.9	$4.2	-$565.7	$491.0	-$78.9
2031	$592.0	$0.2	-$591.9	$601.1	$9.0
2032	$615.4	$20.5	-$594.8	$621.4	$6.1