# F I S C A L   I M P A C T   R E P O R T

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|---|---|---|---|---|---|
| | | **ORIGINAL DATE** | 1/31/06 | | |
| **SPONSOR** | Stewart | **LAST UPDATED** | 2-7-06 | **HB** | 584/a HLC |
| **SHORT TITLE** | Eliminate Unemployment Benefit Waiting Period | | | **SB** | |
| | | | | **ANALYST** | Lucero |

## ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY06 | FY07 | FY08 | 3 Year Total Cost | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|---|---|
| **Total** | | (5,084.0) | (5,084.0) | (15,252.0) | Recurring | Unemployment Compensation Trust Fund |

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SM19, HB482

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Department of Labor (DOL)

**SUMMARY**

Synopsis of HLC Amendment

The House Labor and Human Resources Committee amendment changes the effective date of the legislation to January 1, 2007, from July 1, 2006. As mentioned under significant issues below, this amended date will give the Department sufficient time to modify its computer systems to address the elimination of the waiting week.

Synopsis of Original Bill

Eliminates the one-week waiting period before individuals seeking unemployment insurance benefits are entitled to payment. Presently, individuals claiming unemployment insurance benefits (claimants) are entitled to a maximum of 26 weeks of benefit payments. Before the first payment is made, however, a claimant must "wait out" one week. Claimants who exhaust benefits by claiming all 26 weeks of payments are ultimately compensated for the waiting week because that week is paid out at the end of the claim, rather than at the beginning. A large percentage of claimants, however, do not exhaust their claim and are consequently never compensated for the waiting week at the end of the claim. Accordingly, an individual employer's account is not charged for that week of benefits. This bill makes the first week compensable at the beginning of the claim, rather than at the end of the claim.
The bill contains no appropriation.

The employer's tax rate is determined by calculating the amount of benefits charged to its account relative to the amount of tax payments. This results in the employer's reserve ratio. If the waiting week becomes compensable, more charges will be made to employer accounts, lessening the employer's reserve ratio and potentially triggering a higher tax rate for that particular employer.

**FISCAL IMPLICATIONS**

The Department estimates the annual cost to the unemployment insurance trust fund will be $5,084,097.

The unemployment compensation trust fund has a sunset clause or "trigger" for certain enhanced benefits and employer taxes which is tied to the balance of the trust fund. Currently, if the trust balance falls to less than two and one-half percent of total payrolls then the enhanced benefits and reduced tax rate expire. Eliminated the one week waiting period may have an effect on the trigger, which may cause the enhanced benefits and reduced tax rates to expire; however, recent economic data is worth noting:

> New Mexico's seasonally adjusted unemployment rate dropped to 4.8 percent in December 2005, which is below the national average of 4.9 percent and is down from 5.1 percent in November. This is the lowest the state's unemployment rate has been since the summer of 2001.
>
> New Mexico's rate of over-the-year job growth was 2.2 percent in December. Jobs have been added in all 13 of the state's industries and overall, the state has added 17,500 jobs over the last year. New Mexico ranks among the 10 highest states for job growth.

With the lowest unemployment rate in years, job growth among the highest in the nation, and having one of the most solvent unemployment trust funds in the nation; New Mexico seems well poised to consider statutory changes.

**SIGNIFICANT ISSUES**

This bill may increase tax rates of some employers, with the most significant impact on small business owners.

The Labor Department sampled employers from each tax rate and estimated the impact of eliminating the waiting week. An average of 8.3% of employers in each tax bracket would experience a tax rate increase.

The Labor Department recommends amending the effective date of the legislation to January 1, 2007, to provide sufficient time to modify its claims processing computer software.

**ADMINISTRATIVE IMPLICATIONS**

The Department's computer system would have to be modified at an estimated cost of between $150,000 and $200,000.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Conflict with SB19 titled "LOWER CERTAIN UNEMPLOYMENT CONTRIBUTION RATES" which seeks to make permanent certain reduced employer tax rates expiring either on January 1, 2008 or if a sunset or "trigger" is reached.

Conflicts with HB482 which seeks to eliminate the sunset or "trigger" clause for certain enhanced benefits and reduced employer tax rates.

**TECHNICAL ISSUES**

Some employers may experience an unemployment tax rate increase due to the elimination of the waiting period. Employers' tax rate is a function of their reserve ratio. NMDOL has estimated that by paying benefits without the wait period will affect slightly less than 10% of the reserve ratios.

Some employers may experience an additional unemployment tax rate increase should the cumulative $5 million annual impact reduce the overall trust fund balance below the trigger, then certain reduced tax rates will expire.

**OTHER SUBSTANTIVE ISSUES**

If the unemployment compensation trust fund falls below two and one-half percent of total payrolls then the enhanced benefits and reduced tax rate expire. While the trust fund is among the most financial sound in the country, a severe economic downturn could affect the soundness of the fund. With the enhanced benefits, reduced employer taxes, and this bills elimination of the waiting period, the fund could slip to a less sound state.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Status Quo

DL/yr:mt