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

ORIGINAL DATE 2-2-06
SPONSOR Rawson **LAST UPDATED** **HB**

SHORT TITLE LOWER CERTAIN UNEMPLOYMENT CONTRIBUTION RATES **SB** 19

ANALYST Lucero

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(7,340.0)	(7,340.0)	Recurring	Unemployment Insurance Benefit Trust

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with HB584 titled *ELIMINATE UNEMPLOYMENT BENEFIT WAITING PERIOD*, and HB482 titled *UNEMPLOYMENT CONTINGENCY RATES & DATES*

SOURCES OF INFORMATION
LFC Files

Responses Received From
Labor Department (LD)

SUMMARY

Synopsis of Bill

Senate Bill 19 amends the unemployment compensation law to provide an employer contribution rate of 0.0% for employers with a reserve ratio of 15% or higher, provided the employer has been subject to benefit charges for the 36-month period preceding the contribution date. The 0.0% rate applies only to tax schedules 0, 1, 2, and 3.

The employer's tax rate is determined by calculating the amount of benefits charged to its account relative to the amount of tax payments or deposits the employer has made. The resulting calculation is known as the employer's reserve ratio.

FISCAL IMPLICATIONS

The Labor Department provided the following statement:
The new tax rate will cost the state's unemployment compensation trust fund approximately $7,340,022 annually. Because the fund's structure is dynamic and is designed to automatically increase tax schedules to replace the lost revenue, employers in other tax brackets will subsidize the zero tax rate of these employers.

SIGNIFICANT ISSUES

There are several unemployment compensation bills this legislative session which affect the balance of the unemployment compensation trust fund.

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 and job growth among the highest in the nation and one of the most solvent unemployment trust funds in the nation New Mexico seems well poised to consider statutory changes.

Last legislative session, certain enhanced benefits and reduced employer tax rates where passed into law with a contingency or sunset clause. The contingency stated in effect that if the unemployment compensation fund is less than two and one-half percent of total payrolls then the enhanced benefits and reduced tax rates would expire. The effective date for benefits and reduced tax rates to expire is the January 1st following the certification that the unemployment compensation fund fell below the contingency of less than two and one-half percent of total payrolls.

This bill and HB584 could "trigger" the sunset clause. If the unemployment trust fund falls below two and one-half percent of total payrolls, then the reduced tax rates may expire.

The Labor Department provided the following statement:

During the 2005 legislative session, tax schedule 0 and the 2.0% tax rate for new employers were passed into law. According to that legislation, those provisions would sunset in 2008 or when the trust fund reserve ratio fell below 2.5 SB 19 appears to make permanent these changes, as no sunset language is included in the bill.

PERFORMANCE IMPLICATIONS

None

ADMINISTRATIVE IMPLICATIONS

Modifications to the Department's computer systems to implement the new tax rate would have a significant cost, as well as a modification to the form mailed to employers for reporting purposes would have to be reengineered. No federal funds are available to the state for this purpose; therefore, a state general fund appropriation would be necessary.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Conflicts with HB584 titled ELIMINATE *UNEMPLOYMENT BENEFIT WAITING PERIOD*, which 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.

Conflicts with HB482 titled *UNEMPLOYMENT CONTINGENCY RATES & DATES.* HB482 amends Laws of 2005, Chapter 3, Section 11 to remove the contingency and effective date for certain enhanced unemployment benefits and replaces it with an effective date of January 1, 2008. The contingency stated in effect that if the unemployment compensation fund is less than two and one-half percent of total payrolls then the enhanced benefits would expire. The effective date for benefits to expire is the January 1st following the certification that the unemployment compensation fund fell below the contingency of less than two and one-half percent of total payrolls.

TECHNICAL ISSUES

The Labor Department should determine the cumulative effect on the trust fund balance if all unemployment legislation introduced this session passed.

This bill may make permanent the reduced tax rates, while the enhanced benefits may still be subject to the sunset clause. Should HB482 pass, which eliminates the sunset, then the reduced taxes and enhanced benefits become permanent. Finally, the Labor Department should determine if the effect of this bill reducing the trust fund $7,300.0 per year combined with HB584 reducing the trust fund another $5,084.0 per year. Will the trust be fiscally sound if it loses over $12,000.0 per year hereafter.

OTHER SUBSTANTIVE ISSUES

Employers with a reserve ratio of 15% or greater, have few if any claims against their unemployment compensation account, should be rewarded for having a good experience rating; however certain enhance benefits may be jeopardized.

ALTERNATIVES

Combine HB482, 584 and SB19 into one bill.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Certain employers who have high reserve ratios may have to continue to pay unemployment taxes in certain circumstances.

DL/yr