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FISCAL IMPACT REPORT

ORIGINAL DATE 02/10/11

SPONSOR Beffort LAST UPDATED _____ HB _____

SHORT TITLE Suspend Unemployment Benefit Expansion SB 279

ANALYST Peery-Galon

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	\$27,800.0	\$13,900.0	Recurring	New Mexico's UI Trust Fund
	\$28,000.0		Nonrecurring	New Mexico's UI Trust Fund
	\$4,800.0	\$4,800.0	Recurring	New Mexico's UI Trust Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		\$136.0		\$136.0	Nonrecurring	Federal Funds

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Workforce Solutions Department (WSD)
 Economic Development Department (EDD)
 General Services Department (GSD)
 New Mexico Corrections Department (NMCD)

No Responses Received From

Governor's Office
 Municipal League

SUMMARY

Synopsis of Bill

Senate Bill 279 amends Section 51-1-11 (I) NMSA 1978 to implement unemployment insurance contribution schedule 2 from July 1, 2011 through December 31, 2012. The proposed legislation will suspend the following unemployment insurance benefits for FY12:

- Dependent Allowance – provides an additional \$25 of weekly unemployment insurance benefits for each child under the age of 18, up to a maximum of \$100 per week;
- Part-Time Work – a person looking only for part-time employment may be eligible for partial unemployment insurance benefits if the part-time work is at least 20 hours; and
- Full-Time Student – if a person is in training or attending school full-time they do not have to certify that they are looking for work.

Also, the proposed legislation revises the definition of “base period”, which is used to calculate unemployment insurance benefit payment, to eliminate the alternative definition for individuals who do not have sufficient base period wages.

FISCAL IMPLICATIONS

The change to contribution schedule 2 will occur during the 4th quarter of 2011. WSD reported the change will increase annual employer contributions by \$32.7 million, or 12.2 percent, from the 4th quarter of 2011 through the 4th quarter of 2012. The estimated total annual contribution received during the same time frame would be \$268.3 million under schedule 1 and \$301 million under schedule 2.

WSD noted the major assumption underlying the fiscal impact is that the 2011 and 2012 forecasted total unemployment rates used to project the annual level of benefits paid to claimants will not be substantially different from actual total unemployment rates. In November 2010, University of New Mexico Bureau of Business and Economic Research projected the total unemployment rates to be 8.8 percent in 2011, 8.5 percent in 2012, and 8.1 percent in 2013.

WSD reported the proposed legislation will require the department to reprogram its unemployment insurance tax system to implement contribution schedule 2, at a cost of approximately \$60 thousand. Also, the department will be required to print and distribute revised wage and contribution reports to all contributing employers in the state at an approximate cost of \$76 thousand. WSD reported it should be able to cover these costs with federal funds.

If New Mexico’s unemployment insurance trust fund becomes insolvent, the state will be required to take out a loan from the U.S. Department of Labor and pursuant to Section 51-1-11 NMSA 1978 employer taxes will automatically go from schedule 1 to schedule 6 at an estimated average yearly cost of \$512 per employee, an increase of \$298 per employee from schedule 1. While the principal for the U.S. Department of Labor loan can be paid from future tax revenue, the interest earned must be repaid by non-federal funding. If no action is taken to address the declining fund balance during the 2011 legislative session, WSD may be required to implement contribution schedule 6 early on in 2012. Also, if the New Mexico unemployment insurance trust fund becomes insolvent, all New Mexico contributing employers will lose Federal Unemployment Tax Act (FUTA) credit in accordance with 26 U.S.C. 3302 (c). This will result in New Mexico employers facing increased federal unemployment taxes.

Unemployment Insurance Tax Schedules

Schedule 0 to 6	UI Tax Rate	2010 Estimated Average Contributions Per Employee
Schedule 0	0.03-5.4%	\$185.13
Schedule 1	0.05-5.4%	\$214.50
Schedule 2	0.1%-5.4%	\$250.04
Schedule 3	0.6%-5.4%	\$369.80
Schedule 4	0.9%-5.4%	\$409.52
Schedule 5	1.2%-5.4%	\$449.43
Schedule 6	2.7%-5.4%	\$512.21

Source: WSD

Based on information provided by WSD, the following are the estimated savings from temporarily suspending unemployment insurance benefits: \$10.7 million from full-time students, \$10 million from dependent allowance, and \$7.3 million from part-time work. This totals a savings a \$28 million in FY12. The estimated savings is based on only new claimants filing for the suspended benefits. Also, eliminating the alternative definition for individuals who do not have sufficient base period wages it projected to have a recurring savings of \$4.8 million annually.

SIGNIFICANT ISSUES

Employer taxes are collected by WSD and deposited in the federal treasury in the New Mexico unemployment insurance trust fund. Three years ago the fund was among the most solvent in the United States, with a balance of \$553.3 million. Due to high unemployment rates over the past two years, WSD has experienced an unprecedented demand for unemployment insurance benefits, paying out \$375.9 million in FY10. On November 1, 2010, the New Mexico unemployment insurance trust fund had a balance of \$201.5 million. WSD reported the fund is declining at a rate of \$750 thousand a day.

New Mexico Unemployment Insurance Trust Fund Revenue and Benefits: FY07-FY11 (in millions)

	Revenue	Benefits
FY07	\$111.9	\$130.3
FY08	\$94.9	\$156.0
FY09	\$86.1	\$386.6
FY10	\$127.4	\$375.9
FY11 projection	\$209.0	\$429.0

Source: WSD

In the 2010 legislative session, the Legislature enacted the following changes to address the declining New Mexico unemployment insurance trust fund:

- Increase the employer tax rate from schedule 0 to schedule 1 effective from January 1, 2011, through December 31, 2011;
- Eliminate the state unemployment insurance trust fund and transfer the balance to New Mexico’s unemployment insurance trust fund; and
- Discontinue temporary increases to weekly benefit amounts.

The estimated net increase in revenues from the changes is approximately \$133 million for

FY11. However, WSD still projects the trust fund will have a negative fund balance early on in 2012.

In the 2007 legislative session, the Legislature increased the average weekly unemployment benefit by \$4 to \$242 and increased the dependence allowance benefit by \$10 to \$25 for each qualifying child under the age of 18. Also, certain enhancements benefits enacted in 2003 were made permanent, including benefits for victims of domestic violence, full-time students, part-time workers, and military spouses.

Alternative base period is another method of calculating the base period used to determine whether a person is monetarily eligible for unemployment insurance benefits. This monetary eligibility requires a minimum amount earned and wages earned in at least two quarters during the base period as defined in Section 51-1-4 (B) (1) NMSA 1978. The alternative base period examines the wages paid during the last four completed calendar quarters prior to claimant losing their job. The alternative base period can capture wages paid that have not yet been reported to WSD. The regular base period examines the wage earned during the first four of the last five completed calendar quarters prior to the claimant losing their job.

EDD reported the increase in employer contributions will put a burden on employers who are already struggling with issue of profitability. There is a chance this burden will discourage business growth, particularly growth in the number of jobs. EDD noted small businesses may be disproportionately affected by the proposed legislation.

GSD reported the change to unemployment insurance contribution schedule 2 from July 1, 2011 through December 31, 2012, will not impact the department since the schedules do not apply to the State of New Mexico which has a reimbursing account at WSD.

ADMINISTRATIVE IMPLICATIONS

WSD reported the proposed legislation would likely cause an increase in volume of calls by both unemployment insurance claimants regarding benefit payment issues and employers regarding unemployment insurance tax issues. WSD adjudication and appeals staff may face an increased workload in connection with an increased number of challenges asserted by claimants regarding benefit modifications and by employers regarding tax rate changes.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 279 has a relationship with House Bill 59 which also proposes to implement insurance contribution schedule 2 from July 1, 2011 through December 31, 2012.

OTHER SUBSTANTIVE ISSUES

WSD has determined that a provision allowing for the enactment of the state extended benefits program only if such benefits are 100 percent federally-funded would address New Mexico's unemployment insurance trust fund solvency concerns while still maintaining low employer contribution rates.

There are 30 states that owe about \$41 billion to the federal government due to borrowing money to sustain their unemployment insurance programs. The National Association of State

Workforce Agencies reported that 35 states raised their unemployment taxes on employers in 2010.

New Mexico's seasonally adjusted unemployment rate was 8.5 percent in December 2010, unchanged from the rate in November but up from 8.2 percent a year ago. The rate of over-the-year job growth, comparing December 2010 with December 2009, was negative 0.4 percent, representing a loss of 3,400 jobs.

ALTERNATIVES

The following are some additional options for consideration in addressing the solvency of the New Mexico unemployment insurance trust fund:

- Surcharge Fee - Nineteen states have instituted an additional solvency fee, or surcharge fee, to build up the balance of their unemployment insurance trust funds. This is a one-time surcharge fee assessed to employers. The fee generates immediate revenue and helps to offset the need to increase the tax schedule. A 0.5 percent surcharge would generate an estimated \$36.7 million in revenue.
- New Employer Tax Rate - In 2005, the new employer tax rate was changed from 2.7 percent to 2 percent. Changing the new employer tax rate back to 2.7 percent would provide needed revenue. To modify in the new employer tax rate would require statutory change. It is estimated the revenue generated in FY12 would be \$3.4 million and in FY13 would be \$12.7 million. The difference in revenue between FY12 and FY13 is due to the employer taxes being collected on a quarterly basis causing delay in generating revenue. A downside to this option is the effect on economic development.

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