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STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST

Bill/Resolution No.: CS5B 525 (En)
 Title: "An Act relating to Unemployment Insurance"
 Sponsor: Senate Labor/Commerce
 Requestor: Senate Finance
 Date of Request: April 25, 1984

FISCAL DETAIL

Agency Affected: All
 Program Category Affected: All
 BRN, Program or Subprogram(s) Affected: All

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		169.1	463.3	518.6	522.4	526.6
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		169.1	463.3	518.6	522.4	526.6
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		126.8	347.5	389.0	391.8	395.0
FEDERAL FUNDS		11.8	32.4	36.3	36.6	36.9
OTHER		30.5	83.4	93.3	94.0	94.7
TOTAL		169.1	463.3	518.6	522.4	526.6

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Personal Service benefits would increase for all agencies based on the projected increase in unemployment insurance paid to ex-state employees and seasonal employees.

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay, Jr. Phone: 465-2712
 Division: Employment Security Division Date: 4/25/84
 Approved by Commissioner: Jim Robinson Date: 4/25/84
 Agency: Labor

LEG:A:4
 Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

All
12/1/83

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST

Bill/Resolution No.: CS5B 525
 Title: "An Act relating to Unemployment Insurance"
 Sponsor: Senate Labor/Commerce
 Requestor: Senate Finance
 Date of Request: April 25, 1984

FISCAL DETAIL

Agency Affected: Labor
 Program Category Affected: Social Services
 DRU, Program or Subprogram(s) Affected: Employment Security, Unemployment Insurance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		5.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	5.0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS		5.0				
OTHER						
TOTAL	0	5.0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Federal funds will be requested to fund reprogramming of automated programs.
 [125 hours x \$40 per hour.]

ANALYSIS: Attach a separate page for analysis

Prepared by: John M. Shay, Jr. Phone: 465-2712
 Division: Employment Security Division Date: _____

Approved by Commissioner: Jim Robinson Date: 4/25/84
 Agency: Labor

LFG:A:5
 Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget

LABOR

The following assumptions were made in preparing the forecasted costs:

1. State employment will continue to increase through FY 1986. Thereafter, state employment will level off with consolidation of administrative jobs and belt tightening being offset by jobs based on increased population.
2. There is no wage increase for calendar year 1984. The wages through FY 1986 reflect the recent agreement with APEA. A 5 percent yearly increase continues throughout the remainder of the forecast period.
3. As provided in this bill, the maximum weekly benefit amount paid for unemployment insurance claims will increase from \$156 to \$188, effective October 1, 1984.

As a result, the State of Alaska would be required to pay more in its personal service benefit costs for unemployment insurance. The total amount of the increased costs (which would affect all Departments in the State) is projected from past experience and a computerized modeling technique. The estimated increase in the average payment using this method is 12.7%. This increase would not occur immediately in FY '85, because claimants are paid for an entire year at the rates in effect when they first claim benefits. The total effect of the increase would not be felt until FY '87.

RECEIVED

U.S. Department of Labor

MAR 29 1984

Employment Security Division
JUNE 1984
EXECUTIVE ORDER 12674 1984

Employment and Training Administration
909 First Avenue
Seattle, Washington 98101

Reply to the Attention of

TO:	ACTION	INFO	INITIALS
DIR.		✓	
ES		✓	
741			
MSU - <i>Committee</i>		✓	
10TGU LLM 7-1		✓	
<i>U.S. Tech</i>	✓	✓	
REMARKS:			



MEMORANDUM FOR: DESIGNATED EMPLOYMENT SECURITY AGENCY

- Alaska - John W. Shay
- Idaho - Scott B. McDonald
- Oregon - Raymond P. Thorne
- Washington - Norward J. Brooks

SUBJECT: Revision of Between Terms Denial Provisions
Required by P.L. 98-21

This is a follow-up to earlier discussions and correspondence with individual States in this region regarding the provisions of P.L. 98-21. The national office has completed its analysis of current State law provisions and its determination of what States need to do to bring their laws into conformity with P.L. 98-21. They are also requesting our assistance in confirming information pertaining to the grace period allowed by Section 521 (b)(2) of P.L. 98-21.

Section 521(a)(2) of P.L. 98-21 amended Section 3304(a)(6)(A) of FUTA to provide as follows:

"Clauses (ii)(I), (iii), and (iv) of such sections are each amended by striking out "may be denied" and inserting in lieu thereof "shall be denied".

This amendment means that the States no longer have the option of applying these clauses, but instead must do so as a condition for certification of the State law. Accordingly, for consistency with these new requirements in amended Section 3304(a)(6)(A), all States must:

- o Deny benefits based on nonprofessional services performed by employees of educational institutions between terms under clause (ii) (and also provide for retroactive payment for these employees as specified);
- o Deny benefits on any services performed by employees of educational institutions during vacation or holiday periods under clause (iii);
- o Deny benefits based on any services performed by employees of educational service agencies who perform such services in an

educational institution both between terms and during vacation or holiday periods under clause (iv).

In addition, Section 521(a)(1) of P.L. 98-21 amended Section 3304(a)(6)(A), FUTA, by adding new clause (v) as follows:

"(v) with respect to services to which Section 3309(a)(1) applies, if such services are provided to or on behalf of an educational institution, compensation may be denied under the same circumstances as described in clauses (i) thru (iv), and..."

New clause (v) is not mandatory but rather gives States the option to apply the denials in clauses (i) through (iv) to employees of nonprofit organizations or government entities who provide services to or on behalf of educational institutions. However, if adopted by a State clause (v) must be accepted in toto and must be applied equally to both professional and nonprofessional services.

The changes made by Section 521(a)(1) and (2) of P.L. 98-21 will become effective for compensable weeks beginning on or after April 1, 1984. However, there may be an exception to the April 1, 1984, effective date. Certain States, depending on when their legislatures are in session may be allowed additional time after April 1, 1984, to amend their State laws. Specifically, Section 521(b)(2) of P.L. 98-21 provides that:

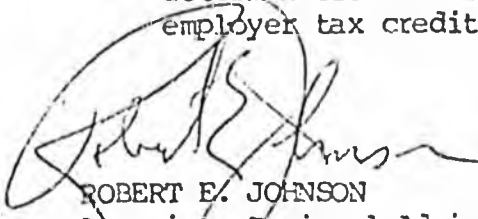
"In the case of a State with respect to which the Secretary of Labor has determined that State legislation is required in order to comply with the amendment made by this section, the amendment made by this section shall apply in the case of compensation paid for weeks which begin on or after April 1, 1984, and after the end of the first session of the State legislature which begins after the date of the enactment of this Act, or which began prior to the date of the enactment of this Act and remained in session for at least twenty five calendar days after such date of enactment. For purposes of the preceding sentence, the term 'session' means a regular, special, budget, or other session of a State legislature."

This means that States have until the end of the first legislative session which begins after April 20, 1983, (the date of enactment of P.L. 98-21), or April 1, 1984, whichever is later, to amend their law. If the State legislature was in session on April 20, 1983, and remained in session for at least 25 calendar days, the State has until the end of that session or April 1, 1984, whichever is later. The term session is defined in P.L. 98-21 as a regular, special, budget or other session of the legislature. It is irrelevant whether the legislature actually meets or whether it is in recess. It is only required that the

legislature be in session.

We request that you:

- (1) Review the attached summary and verify the accuracy of the legislative session dates.
- (2) If corrective legislation is not being sought, summarize how the State intends to remedy the issues described in the summary.
- (3) Provide the information requested above, in writing, within 14 days of receipt of this letter. This information is needed in order for the Secretary of Labor to make the grace period determination and for certification required by the Secretary for employer tax credits and State administrative grants.



ROBERT E. JOHNSON
Associate Regional Administrator
for Unemployment Insurance

Enclosure

ALASKA

Status of Between/Within Terms Denial Provisions Required by P.L.
98-21

Section 521(a)(2) of P.L. 98-21 amended Section 3304(a)(6)(A) of the Federal Unemployment Tax Act to make clauses (ii) through (iv) mandatory rather than optional. Following is the status of the implementation of those clauses in Alaska's employment security law, according to our Commerce Clearing House (CCH) reports.

The Alaska employment security law currently does not implement either of the three clauses that are now mandatory. Consequently, all three clauses must be enacted by April 1, 1984, since Alaska does not have a grace period which extends beyond the April 1, 1984 effective date.

Alaska has no grace period because its legislature convened on January 17, 1983 and adjourned June 27, 1983, more than 25 days after April 20, 1983, the date P.L. 98-21 was enacted.

MEMORANDUM

State of Alaska

TO: Ken Johnson
Administrative Assistant
Representative Cowdery's Office

DATE: May 10, 1984

FILE NO:

TELEPHONE NO: 465-2700

FROM: Eileen Plate
Special Assistant
to the Commissioner
Department of Labor

SUBJECT: CS for SB 525

This will confirm our telephone conversation and your request for additional information.

1. The UI Trust Fund currently has a balance of \$148 million.
2. Sections 10 and 13 of the UI bill, CS for SB 525, are conformity items with the Federal Unemployment Tax Act (FUTA). The additional cost to Alaska for not remaining in conformity with FUTA is the loss of \$21 million in Administrative funds to the State for operation of the Unemployment Insurance (UI) and Job Service programs; \$86.4 million in increased FUTA taxes to all employers in the state; and loss of \$4.8 million in benefit payments for their Extended Benefits program. The total cost would be \$112.2 million.

Attached is a copy of a letter from the U.S. Department of Labor regarding the conformity requirements of Section 10.

3. Sections 2 and 3, which are not strictly conformity items, would cost the employers in this state an additional \$2 million annually if not passed. Attached is a paper that was prepared on this subject in cooperation with the House Research Agency. On page 4 of the paper, the affect on employers is detailed. On page 7 the options are listed--we elected to propose the option that would have the least affect on Alaskan employers.

If Sections 2 and 3 had been in effect for 1984, there would have been no impact on employers. This is because of the requirement that employers with the same payroll decline percentage must be placed in the lower rate class rather than splitting the group. In 1983 there would have been 163 employers affected, for a total of \$2,800 (or \$17 per employer).

If you need any additional information on CS for SB 525, please contact me at 465-2700 or Jack Shay at 465-2712.

Attachments (2)



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 26, 1984

MEMORANDUM

TO: Representative Joe Hayes

FROM: David Teal *DT*
Legislative Analyst

RE: Provisions for Financing Unemployment Compensation
Research Request 84-101

Among other provisions, SB 525 would increase the maximum amount of unemployment compensation from the current level of \$156 per week to a new maximum of \$198.¹ According to the Department of Labor, this change in the benefit schedule would cause Alaska employers to contribute an additional \$21.5 million to the unemployment insurance system during the next four years.

You asked me to review the provisions for financing Alaska's unemployment insurance system in order to determine the possibility of reducing the fiscal impact on employers of implementing SB 525. The result of that review is a proposal that:

- increases current benefits by \$12.1 million per year (i.e., the proposal retains the benefit schedule contained in SB 525);
- decreases employer contributions by \$12.5 million per year without shifting the financing burden to some other group; and
- maintains the adequacy of the trust fund.

Details of the proposal are discussed below. A table is included to aid your comparison of the current law, SB 525 and the proposed revisions to SB 525. The table shows values through 1988 because three years are required to absorb the full impact of a change in the benefit schedule. A shorter period would understate the amount of contributions required to finance an increase in benefits.

¹These benefit amounts do not include allowance for dependents. Additional weekly benefits of \$24 per dependent can be claimed by those who are eligible.

TABLE 1
 Unemployment Insurance Benefits and Contributions
 State of Alaska--1985 through 1988
 (in millions of dollars)

	Benefits Paid By Alaska		Employer Contributions		Reserve Ratio in 1988*
	Amount	Change from Current Amount	Amount	Change from Current Amount	
Current Law	\$342.8	--	\$328.7	--	5.2%
HB 525	391.0	\$48.2	350.2	\$21.5	4.7
Proposal	391.0	48.2	273.5	(50.2)	3.2

*The reserve ratio is defined as the trust fund balance divided by total wages paid in the state. It is often used as a measure of the ability of the trust fund to pay future benefits.

Source: Alaska Department of Labor

* * * * *

The above table shows that the proposed revisions to SB 525 would require employer contributions of \$71.7 million less (over a four-year period) than can be expected under the current version of the bill. The reduced contributions would be the result of two possible revisions to the existing mechanism for financing Alaska's unemployment insurance system.

Revision #1. Classify the interest earnings of the trust fund as income to the fund for the purpose of determining contribution rates.

Revision #2. Alter the solvency tax provisions to reduce employers' contributions when the trust fund is determined to be adequate.

Interest earnings of the trust fund are currently excluded from the formula which determines contribution rates. Because the financing system is designed to recover benefit outlays regardless of the size of the trust fund, the trust fund balance will spiral upward at a compound rate of growth unless this deficiency is corrected. Inclusion of

interest earnings in the rate formula would lower contributions required of employers and employees. This deficiency in the financing mechanism can be corrected by the following amendment to AS 23.20.290(e):

(2) the department shall subtract from the amount determined in (1) of this subsection the amount of any benefits reimbursed to the fund and the amount of interest earned on the trust fund balance during those computation years;

The second proposed revision to the law modifies AS 23.20.290(f) to give employers tax credits when the trust fund is judged to be adequate. Current law assesses additional contributions when the trust fund is judged to be inadequate but has no provision for tax credits.² The figures in Table 1 are based on the following additions to the solvency tax table contained in section 290 (f):³

Reserve Rate		Fund Solvency Contribution (percent)
at least (percent)	but less than (percent)	
3.4		-.4
3.3	3.4	-.3
3.2	3.3	-.2
3.1	3.2	-.1
3.0	3.1	0.0
2.9	3.0	.1

At reserve rates of less than 2.9 percent, the solvency tax table remains as shown in AS 23.20.290(f). (For your convenience, a copy of AS 23.20.290 is attached to this memorandum.) The modifications should cause Alaska's reserve ratio to stabilize at about three percent. The current reserve ratio is about 3.2 percent.

²If the solvency tax table in AS 23.20.290(f) is modified, several references to "solvency contributions" should be changed to refer to "solvency adjustments" in order to eliminate confusion.

³Assuming interest were included in the formula for determining contribution rates, the impact of the solvency tax revision would diminish once the reserve ratio falls to three percent. Because the period of analysis is relatively short (four years), the figures in Table 1 make the solvency tax revision more attractive than it would appear if the period of analysis were longer.

As shown in the attached graph, Alaska's 1982 reserve ratio (i.e., balance to wage ratio) was the highest of any state. Alaska's reserve ratio has increased since that time, and Department of Labor projections show that Alaska's reserve ratio will continue to increase under current law and under SB 525.

As you know, the reserve ratio is often used as a measure of the adequacy of a trust fund to pay future benefits. It is difficult to judge the point at which a trust fund is adequate because there is no accepted standard for reserve ratios. However, it is clear that systems which respond quickly to increases in benefit outlays do not need as large a reserve balance as systems that respond more slowly. Many states use experience of 20 years or more to determine contribution rates. These states respond very slowly and therefore require a larger balance to achieve a given level of adequacy. Alaska's system uses only three years of experience, placing it among those states with the quickest reaction to changes in benefit outlays.

In addition, Alaska's financing system differs from those of other states in that a large trust fund balance does not necessarily have a stabilizing effect on contribution rates when benefit outlays increase. Even if the trust fund were as large as the Permanent Fund, contribution rates under the current law would be determined solely by the level of benefits paid. That is, the system is designed so that the trust fund balance can increase to keep pace with economic growth, but can decrease only under unusual circumstances.

* * *

This subject is extremely complex and, given the time available to complete this request, I have not given adequate coverage to all the issues that deserve to be addressed in this memorandum. Some points you may wish to consider in your deliberation of the proposed revisions to SB 525 are listed below.

- The two tax revisions suggested in this memorandum are independent. Either could be implemented separately, with or without a change in the benefit schedule.
- The solvency tax revision would reduce contributions only for employers, while the inclusion of interest would reduce contributions by both employers and employees.
- "Excess" contributions are a drain on Alaska's economy. However, contributions during a period of economic growth may be preferable to contributions made during a period of economic

Representative Hayes
April 26, 1984
Page 5

decline. A delay in implementing the suggested provisions would increase the trust fund balance. A large trust fund balance would generate interest that could be used to reduce contributions if Alaska experiences an economic downturn in the future.

I would be pleased to expand the scope of this memorandum or to discuss the subject at your convenience. Please call the agency if you would like additional information.

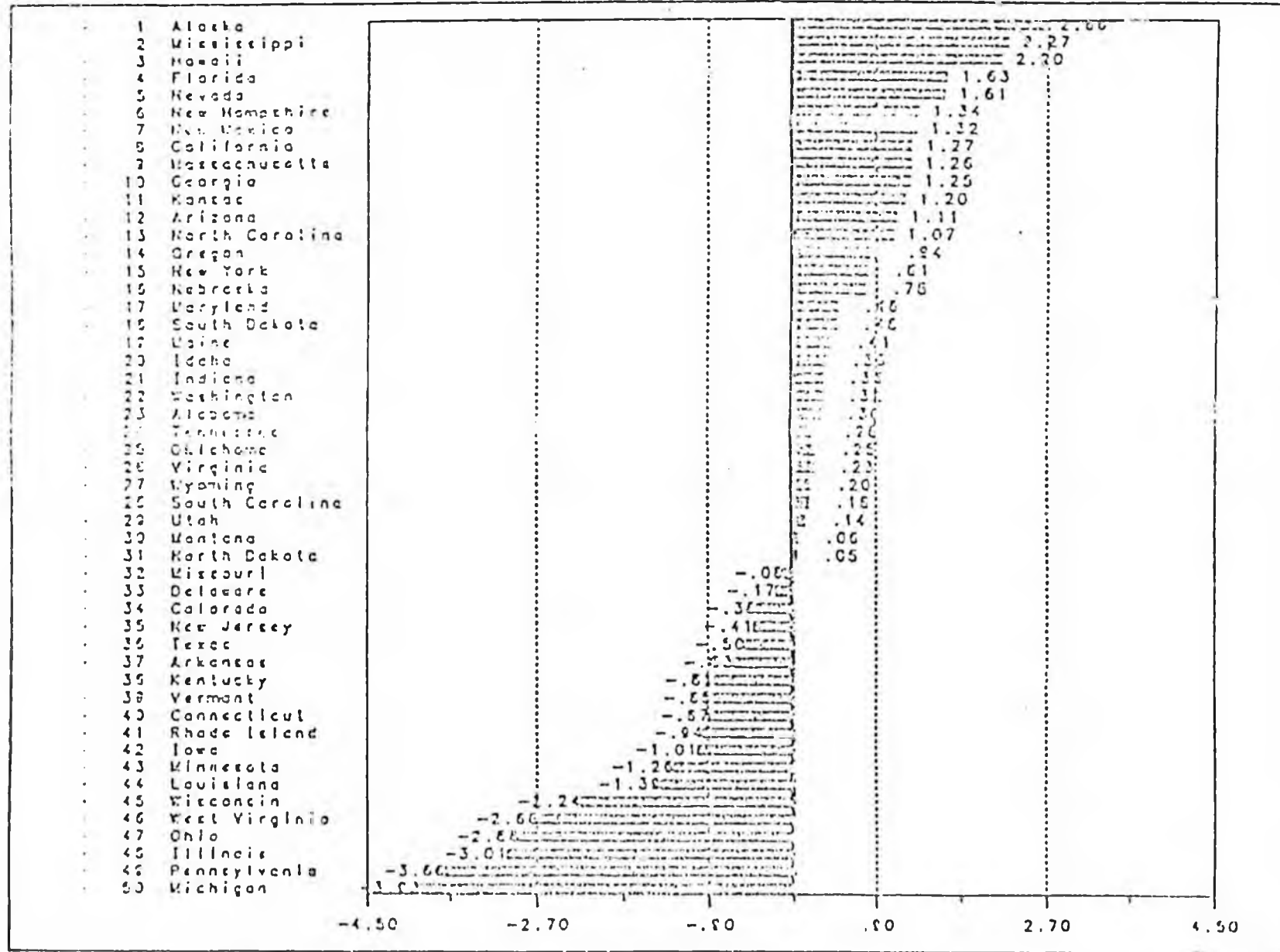
DT

Attachments

Trust Fund Balance As A Percent Of Wages

(Outstanding Loans Deducted)

(Fund As % of Wages)



Source: State of Nevada

(b) This penalty does not attach if within 30 days after mailing or personal delivery of the demand, arrangements for payments are made with the department, and payment is made in accordance with the arrangements.

(c) Penalties collected under this section shall periodically be transferred from the clearing account to the training and building fund. (§ 513 ch 5 ESLA 1955; am § 4 ch 106 SLA 1969; am § 22 ch 9 SLA 1980; am §§ 60, 61 ch 59 SLA 1982)

Effect of amendments. -- The 1982 amendment corrected an error in the designation of subsection (c). As originally enacted in § 4, ch 106, SLA 1969, subsection (c) was designated as subsection (b).

Article 4. Experience Rating.

Section

290. Rate determination

Sec. 23.20.290. Rate determination. (a) The department shall determine each eligible employer's ratable payroll. The department shall then put all eligible employers in the order of their average quarterly decline quotients beginning with the smallest average decline quotient and shall determine, with respect to each employer, the cumulative ratable payroll during the four consecutive quarters ending with the computation date of the employer together with all employers who precede him on the list.

(b) The department shall segregate the employers into groups in accordance with cumulative ratable payroll. The limits of the groups are those set out in column B of the table in (c) of this section. Each of these groups shall be identified by the rate class number in column A which is opposite the figures in column B which represent the percentage limits of each group. An employer shall be assigned the experience factor in column C which is opposite the rate class in which the greater part of the employer's ratable payroll falls. If one-half of the employer's ratable payrolls falls in one class, and one-half in another, he shall be assigned to the lower numbered rate class. No employer may be assigned to a higher numbered rate class than is assigned to another employer with the same average quarterly decline quotient.

(c) Beginning January 1, 1981, the rate of contributions for each employer is 82 percent of the average benefit cost rate multiplied by the employer's experience factor set out in column C of the table in this subsection opposite his applicable rate class set out in column A plus the fund solvency contribution required under (f) of this section. However, the rate of contributions for an employer may not be less than one percent or more than six and one-half percent. The rate of contributions for an employer must be rounded to the nearest one-hundredth of one percent.

After mailing or
payments are made
in accordance with the

shall be trans-
ferring fund,
§ 22 ch 9 SLA

SLA 1969, subsec.
as subsection 6b.

Department shall
the department
their average
highest average
each employer,
three quarters
there with all

to groups in
of the groups
tion. Each of
in column A
present the
assigned the
class in which
one-half of the
if in another,
to employer
assigned to
the quotient
for each
plied by the
rule in this
column A plus
tion. How-
less than one
contributions
width of one

COLUMN A
Rate Class

COLUMN B
Cumulative
Rateable Payroll

COLUMN C
Experience
Factor

	at least (percent)	but less than (percent)	
1		5	40
2	5	10	45
3	10	15	50
4	15	20	55
5	20	25	60
6	25	30	65
7	30	35	70
8	35	40	80
9	40	45	90
10	45	50	1.00
11	50	55	1.00
12	55	60	1.10
13	60	65	1.20
14	65	70	1.30
15	70	75	1.35
16	75	80	1.40
17	80	85	1.45
18	85	90	1.50
19	90	95	1.55
20	95		1.60

(d) Beginning January 1, 1981, and for each succeeding year thereafter, the rate of contributions payable by each employee of an employer who is subject to AS 23.20.165 is 18 percent of the average benefit cost rate as determined in (c) of this section rounded to the nearest one-tenth of one percent. However, the rate of contributions for an employee may not be less than one-half percent or more than one percent.

(e) The department shall determine the average benefit cost rate as follows:

(1) the department shall determine the amount of benefits paid to insured workers during the last three computation years;

(2) the department shall subtract from the amount determined in (1) of this subsection the amount of any benefits reimbursed to the fund during those computation years;

(3) the department shall divide the amount determined in (2) of this subsection by the total wages paid by all employers required to pay contributions under this chapter during the first three of the last four computation years;

(4) the department shall determine the amount of total wages subject to contributions under this chapter paid during the preceding computation years;

CHANGES IN FEDERAL UNEMPLOYMENT TAX CREDITS UNDER THE
TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

PREPARED BY

THE ALASKA DEPARTMENT OF LABOR

and

THE ALASKA HOUSE OF REPRESENTATIVES RESEARCH AGENCY

August 1983

CHANGES IN FEDERAL UNEMPLOYMENT TAX CREDITS UNDER THE
TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

SUMMARY

Since the mid 1970s, this nation's unemployment insurance system has been plagued with shortages of funds for administrative purposes and for payment of unemployment compensation. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) made changes to the unemployment tax system which provided additional administrative funds and which were intended to bolster the state trust funds used for payment of unemployment benefits. The changes which provide additional administrative funds were implemented in 1983. Alaska strongly supports the 1983 TEFRA changes. However, the State cannot support the changes scheduled for implementation in 1985. In that year, states must adopt a maximum tax rate of at least 5.4 percent or face the prospect of employers in the state losing federal tax credits. The loss of tax credits would cause employers to make additional contributions to the federal unemployment insurance system.

If the intent of the 1985 TEFRA revisions was to encourage increased tax collection efforts by those states which have failed to provide collections necessary to finance unemployment compensation, the legislation clearly fails to fulfill its objective. When TEFRA was passed in 1982, only three of the 30 states affected by the revisions had insolvent trust funds, while 13 of the 20 states not affected by the revisions were insolvent. Clearly, the legislated attempt to increase tax collection efforts fails to affect the majority of states that have demonstrated by their insolvency that increased revenue is necessary. In addition to the misdirected encouragement of fiscal responsibility, the 1985 TEFRA revisions are likely to cause some states to reverse fiscally responsible actions of the past.

Although technical problems associated with adopting a 5.4 percent state tax rate are not insurmountable, adoption of that state tax rate may redistribute the burden of financial support of the unemployment insurance system among employers and could upset the program balance that some states have achieved. The cause of the redistribution and imbalance is TEFRA's focus on tax rates rather than tax effort. Tax effort depends on the amount of earnings subject to tax as well as the rate at which those earnings are taxed. Although the State of Alaska mildly objects to the 1985 TEFRA revisions because they fail to encourage fiscal responsibility where a need for such responsibility has been demonstrated, we strongly object to the failure of the law to recognize collection efforts other than increases in tax rates. The treatment (under the 1985 TEFRA revisions) of states that have demonstrated fiscal responsibility adds insult to injury because other tax efforts--such as employee contributions and high tax bases--are recognized under provisions dealing with states that have insolvent trust funds.

As is often the case with federal intervention in the unemployment insurance system, compliance with the revisions is optional. However, the incentive to comply with the 1985 TEFRA revisions is so strong that "mandate" is an accurate description of states' potential courses of action. This paper discusses potential state actions, but the only attractive option is a revision of federal law. A revision need not remove the incentive to increase tax efforts at the state level; it could simply give states the flexibility to demonstrate effort in ways other than tax rates. We urge others to join the campaign to revise the TEFRA provisions so that states have a voice in the determination of tax effort.

CHANGES IN FEDERAL UNEMPLOYMENT TAX CREDITS UNDER THE
TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

Prepared by
The Alaska Department of Labor and
The Alaska House of Representatives Research Agency
August 1983

The unemployment insurance system in the United States is administered as a partnership of the federal and state governments. Employers contribute a portion of their payroll to both the federal and state partners. Contributions to the federal government are used for program administration and for unemployment compensation for which the federal government is liable. Contributions to state governments are used only for payment of unemployment compensation.

In recent years, the federal unemployment insurance tax has been 3.4 percent of the first \$6,000 paid to each employee in each calendar year. However, employers could receive credit for contributions made to an approved state unemployment insurance program. These tax credits could reduce employers' net federal contribution to .7 percent of the first \$6,000 paid to each employee in each year, or \$42 dollars per employee. Each state was free to set a tax base (the amount of earnings subject to state tax) and contribution rates which it deemed sufficient to support the unemployment compensation paid through its own program. However, full federal credit could be obtained by all employers in a state only if the tax base was at least \$6,000 and the highest state contribution rate was at least 2.7 percent. Alaska's tax base in 1983 is \$20,200, and Alaska employers pay state rates that range from 1.0 percent to 3.8 percent.

REVISIONS TO THE CONTRIBUTION SYSTEM UNDER TEFRA

Contributions to the unemployment insurance system in recent years have provided insufficient administrative funds and have seriously underfinanced benefit payments in many states. It was in this context of inadequate federal administrative funds and insolvent state trust funds that system changes were made by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Effective in 1983, the federal unemployment insurance contribution rate was raised to 3.5 percent and the federal tax base was increased to \$7,000. The provision for a federal tax credit of 2.7 percent for contributions to an approved state program was unchanged, so contributions to the federal government by employers eligible for full federal tax credits were increased by \$14 to \$56 per employee per year.

The 1983 TEFRA changes also had an impact on state financing of unemployment compensation. In those states which use the federal tax base as the amount of earnings subject to state tax, the acceptance of a higher tax base can increase revenue to state unemployment insurance programs.

TEFRA also included revisions scheduled for implementation in 1985. In that year, the federal contribution rate will increase from the current 3.5 percent to a rate of 6.2 percent. Simultaneously, the potential federal tax credit for contributions to state programs will be increased to 5.4 percent. These changes appear to leave employers' net rate of contributions to the federal government unchanged (from the 1983 level) at .8 percent of each employee's first \$7,000 of earnings, or \$56 per employee per year.

IMPACT OF REVISIONS EFFECTIVE IN 1985

Although the 1985 TEFRA revisions maintain the \$56 per year net federal unemployment insurance contribution that is currently applicable and therefore appear to have no effect on employers' costs, that appearance is deceptive. The revisions effective in 1985 force states with maximum state contribution rates of less than 5.4 percent to choose between 1) increasing their maximum state contribution rate to at least 5.4 percent or 2) allowing some employers in the state to lose federal tax credits.¹ Loss of federal tax credits would cause affected employers to pay additional federal taxes for support of the unemployment insurance system.

The 1983 TEFRA changes were clearly designed to increase contributions for both administrative purposes and for state benefit trust funds, but the 1985 changes leave the net federal contributions unchanged and are clearly designed to encourage states to take additional action that will increase their tax collection efforts. Alaska supports national efforts to improve the fiscal integrity of the unemployment insurance system, but we strongly object to the way in which the 1985 TEFRA revisions address the problem of insolvent state trust funds.

Although some states or groups of employers may have seen national legislation as an attractive alternative to state action, we do not believe that the 1985 TEFRA revisions will significantly reduce the number of states with insolvent trust funds. Insolvency occurs when benefits exceed contributions. The states themselves have been given--and should retain--the ability to implement a benefit schedule of their own choice. Along with that freedom comes the responsibility to implement an experience rating system that will adequately

¹Section 3302(a) of the Federal Unemployment Tax Act (FUTA) allows credit against federal tax liabilities for amounts actually paid to an approved state unemployment insurance program. Section 3302(b) of FUTA provides an employer with additional credit against the tax for the difference between actual payments to a state system and the amount he would have paid "if throughout the taxable year he had been subject under such State law to the highest rate applied thereunder in such 12-month period to any person having individuals in his employ, or to a rate of 5.4 percent, whichever rate is lower." Unless a state has a tax rate of at least 5.4 percent after 1984, some employers are likely to lose additional credits provided by section 3302(b).

support the chosen level of benefits.² We are convinced that tax collection efforts depend on the amount of earnings subject to tax as well as the rate at which those earnings are taxed. The 1985 TEFRA revisions address tax rates but ignore the equally important function of the tax base. Further, the revisions do not appear to address the problem of solvency where that problem needs to be addressed.

Effect on States

If the intent of the 1985 TEFRA revisions was to encourage increased tax collection efforts by those states which have failed to provide the collections necessary to finance unemployment compensation, the legislation clearly fails to fulfill its objective. If the legislation does encourage increased tax collection efforts, it will do so primarily in those states that have the least need to generate additional collections. In addition, the legislation may have the unintended effect of encouraging states to reverse fiscally responsible acts of the past.

According to figures published by the Nevada Employment Security Department, 20 states already had maximum tax rates greater than 5.4 percent in 1982. If the TEFRA revisions requiring a 5.4 percent tax rate had been effective in that year, only those states with maximum tax rates below 5.4 percent would have been affected. Table 1 shows that Alaska is one of the 30 states affected by the 1985 TEFRA revisions.

The significance of this observation does not lie in the number of states affected by the revisions, but in which states are affected. Thirteen of the 20 states which would not be affected by the federal revisions have insolvent state trust funds. In addition, only one of those 20 states has a

² Experience rating is a system whereby employers are assigned reduced contribution rates if they demonstrate a history of low unemployment risk for their employees. Theoretically, experience rating should increase employers' motivation to stabilize employment and to monitor the claims of the unemployed. When benefit payout is high and there is a need for additional tax collections, states with a low tax base must place more and more employers in higher tax brackets. As employers crowd into the higher tax brackets, the experience rating concept is eroded; a good record of unemployment risk has diminished influence on tax rates when all employers are at or near the top of the tax rate schedule.

We realize that some states may face great difficulty in moving tax increases through state legislatures and that states may therefore passively await federal "mandates" to increase taxes. We also realize that the simple solution to the erosion of experience rating--increasing the tax base--is unpopular in the majority of states which still use the antiquated "reserve ratio" experience rating system. (A mathematical quirk in that rate-making formula causes tax rates to rise when the tax base is increased.) However, we believe that adjustments to experience rating systems should be made by the individual states, not by the federal government.

TABLE 1

Maximum Tax Rate
Percent On Taxable Payroll

1	Kentucky	4.00
2	Michigan	4.00
3	West Virginia	4.00
4	Delaware	4.00
5	South Dakota	4.00
6	Minnesota	4.00
7	Wisconsin	4.00
8	Tennessee	4.00
9	Virginia	4.00
10	Massachusetts	4.00
11	Pennsylvania	4.00
12	New Hampshire	4.00
13	Iowa	4.00
14	New Jersey	4.00
15	Arkansas	4.00
16	Rhode Island	4.00
17	Connecticut	4.00
18	North Carolina	4.00
19	Illinois	4.00
20	Vermont	4.00
21	Georgia	4.00
22	New York	4.00
23	North Dakota	4.00
24	Maryland	4.00
25	Maine	4.00
26	Alaska	4.00
27	Ohio	4.00
28	Hawaii	4.00
29	Florida	4.00
30	Colorado	4.00
31	Montana	4.00
32	Missouri	4.00
33	Kansas	4.00
34	New Mexico	4.00
35	California	4.00
36	Wyoming	4.00
37	South Carolina	4.00
38	Mississippi	4.00
39	Idaho	4.00
40	Oregon	4.00
41	Alabama	4.00
42	Nebraska	4.00
43	Washington	4.00
44	Utah	4.00
45	Arizona	4.00
46	Washington	4.00
47	Oklahoma	4.00
48	Washington	4.00
49	Utah	4.00
50	Arizona	4.00

tax base greater than \$9,000 and only three have a ratio of trust fund balance to total wages that exceeds one percent.³ Of the 30 states that would be affected by the revisions, only three are insolvent, eight have a tax base greater than \$9,000 and 15 have a ratio of trust fund balance to total wages that exceeds one percent.

Clearly, the legislated attempt to increase tax collection efforts fails to affect the majority of states that have demonstrated by their insolvency that increased revenue is necessary. The law does affect many states which have a trust fund of a size that indicates that additional collection efforts are unnecessary. Further, the law affects many states that have responded to the need for increased tax collections by increasing their tax base as an alternative (or supplement) to increased tax rates.

For those states that have already raised their tax base above the federal tax base in order to keep pace with increases in wages and unemployment compensation, the federal revisions are particularly troublesome. The new federal law may be counterproductive because it encourages states to reverse the fiscally responsible act of increasing their tax base. Although we mildly object to the law because it fails to encourage fiscal responsibility where a need for such responsibility has been demonstrated, we believe that the indirect encouragement for states to lower their tax bases is unconscionable. Lower tax bases diminish the ability of states to control total tax revenue and can distort an otherwise equitable distribution of program costs.

Effect on Employers

Adoption of a maximum unemployment tax rate of at least 5.4 percent is a state option. If a state fails to implement a tax rate at or above that level, some employers in that state may lose a portion of the additional credits granted by section 3302(b) of the Federal Unemployment Tax Act (FUTA). The attached table shows the cost to selected Alaska employers under the current contribution rate schedule and under the following scenarios applicable after 1984: 1) Alaska's maximum tax rate remains at 3.8 percent; and 2) Alaska adopts a 5.4 percent maximum tax rate with no change in the tax base. The impact of these scenarios on various groups of employers is summarized below.

Low Wage/Low Rate Employers

Employers who pay annual wages under \$7,000 and contribute at the minimum state tax rate will be strongly affected if the state does not adopt a 5.4 percent maximum tax rate. These employers would lose federal tax credits and thus pay additional federal taxes. The maximum additional federal tax would be \$112 per employee for employers paying annual wages of \$7,000. In Alaska, trade and service employers tend to be in this category.

³The ratio of trust fund balance to total wages is a measure of the adequacy of the trust fund. The one percent level is arbitrary. All figures concerning tax rates and tax bases are for 1982, the latest year for which data are available.

ANNUAL PER EMPLOYEE CONTRIBUTIONS TO THE UNEMPLOYMENT INSURANCE SYSTEM*

	Annual Average Earnings per Employee								
	\$1,000	\$3,000	\$5,000	\$7,000	\$8,000	\$9,000	\$10,000	\$11,000	\$20,000
<u>Alaska Taxes</u>									
<u>Current</u>									
Minimum (1%)	\$10	\$ 30	\$ 50	\$ 70	\$ 80	\$ 90	\$100	\$110	\$ 200
Maximum (3.8%)	38	114	190	266	304	342	380	418	760
After 1984									
Minimum (1%)	10	30	50	70	80	90	100	110	200
Maximum (3.8%)	38	114	190	266	304	342	380	418	760
5.4% After 1984									
Minimum (1%)	10	30	50	70	80	90	100	110	200
Maximum (5.4%)	54	162	270	378	432	486	540	594	1,080
<u>Federal Taxes</u>									
<u>Current</u>									
Normal Tax	8	24	40	56	56	56	56	56	56
Additional Tax	0	0	0	0	0	0	0	0	0
After 1984									
Normal Tax	8	24	40	56	56	56	56	56	56
Additional Tax	16	48	80	112	74	36	0	0	0
5.4% After 1984									
Normal Tax	8	24	40	56	56	56	56	56	56
Additional Tax	0	0	0	0	0	0	0	0	0
<u>Total Taxes</u>									
<u>Minimum Tax Rate</u>									
Current	18	54	90	126	136	146	156	166	256
After 1984	34	102	170	238	210	182	156	166	256
5.4% After 1984	18	54	90	126	136	146	156	166	256
Increase**	(16)	(48)	(80)	(112)	(74)	(36)	0	0	0
<u>Maximum Tax Rate</u>									
Current	46	138	230	322	360	398	436	474	816
After 1984	62	186	310	434	434	434	436	474	816
5.4% After 1984	62	186	310	434	488	542	596	650	1,136
Increase**	0	0	0	0	54	108	160	176	320

*Contributions under current law assume a state tax base of \$20,200 and a maximum state tax rate of 3.8%.

**"Increase" refers to additional taxes owed by employers if the state adopts a maximum tax rate of 5.4% after 1984. Negative numbers show savings associated with adopting a maximum tax rate of 5.4% relative to retaining the current law after 1984.

Low Wage/High Rate Employers

Employers who pay annual wages under \$7,000 but contribute at the maximum state tax rate would pay increased taxes regardless of which alternative is chosen. Contributions to the state by this group of employers would, of course, be higher if the maximum state tax rate were increased to 5.4 percent. However, the increased state contribution under a 5.4 percent state tax rate would be the same amount that would be paid in additional federal taxes if a 5.4 percent state tax rate were not adopted. The sum of federal and state contributions would therefore be the same for this group of employers whether or not the state adopts a 5.4 percent maximum tax rate. Although total contributions would be unchanged, a larger share of total contributions would go to the federal government if the state does not adopt a maximum state tax rate of 5.4 percent. In Alaska, many fish processors are in this group of employers.

High Wage Employers

Under Alaska's current maximum tax rate of 3.8 percent, employers paying annual average wages of at least \$10,000 would earn sufficient federal tax credits to offset the loss of tax credits on wages below \$7,000. That is, there would be no net loss of federal tax credits--and no additional federal taxes owed--by these employers even if the state does not adopt a 5.4 percent maximum tax rate. If the state does adopt a 5.4 percent maximum tax rate, the amount of state contributions owed would depend on the tax base adopted by the state and the tax rate assigned to the employer.

For those employers paying annual average wages between \$7,000 and \$10,000, total contributions can decline as wages increase. Between those levels of earnings, the gain in federal tax credit may exceed the higher taxes owed to the state. (See attached table.)

Impact on the Equity of the State Program

Alaska faces no significant technical problems in adopting a 5.4 percent state tax rate; our objections to the 1985 TEFRA revisions focus on the damage to Alaska's "user pay" philosophy of financial support for unemployment compensation. As the attached table shows, adoption of a 5.4 percent state tax rate will redistribute the tax burden among Alaska employers.

Alaska expended a good deal of effort to develop a contribution system that fits the needs of the state. In Alaska, many high-wage occupations tend to be seasonal, which allows employees in those occupations to collect unemployment compensation despite their high earnings. By raising the tax base while lowering tax rates, Alaska has been able to redistribute program costs so that employers in high-wage, seasonal industries contribute approximately as much as employees in those industries draw in unemployment compensation.

Adoption of a 5.4 percent state tax rate without a corresponding reduction in the tax base would cause Alaska to collect contributions that are un-

necessary. Alaska's benefit payment account is adequate and our contribution system is designed to protect the financial integrity of the fund in the future. Alaska has accepted the responsibility of providing adequate funds for unemployment compensation and currently collects a maximum tax over twice as large as the \$378 annual contribution that the federal revisions attempt to encourage. Unless adoption of a 5.4 percent state tax rate is accompanied by a corresponding reduction in the state tax base, potential employer contributions at the maximum rate would increase by 42 percent to nearly \$1,100 per employee per year. In order to avoid this unnecessary drain on the state economy, Alaska may be forced to reduce its tax base.

A reduced tax base is objectionable not only because it implies acceptance of the federal view that tax effort can be measured by tax rates instead of by tax rates and tax base in combination, but also because a reduced tax base would introduce serious problems of equity. The above discussion mentioned that the tax base can be used to redistribute the tax burden among employers. A lower tax base in Alaska would disturb the balance we have achieved in this area.

In addition, a reduction in the state tax base would disturb the balance between benefit eligibility and taxes paid. Unless the tax base is equal to the amount of wages that are used to compute the amount of weekly compensation a claimant may receive, the system is unbalanced. If the tax base exceeds the earnings used to determine benefit eligibility, taxes are being paid on wages that cannot contribute to claimants' compensation. If the tax base is set at a level below the amount of earnings used to determine benefit eligibility, compensation is being paid on wages that have no corresponding tax liability.

If the Alaska Employment Security Act had been revised to ensure a maximum tax rate of 5.4 percent in 1983 under the current rate formula, adequate collections would have been obtained at a tax base of \$13,400. Alaska's benefit schedule currently reaches a maximum at \$16,000 in annual earnings and the state is preparing legislation to extend the schedule to \$20,200, which is the 1983 state tax base. The options for designing a benefit schedule that peaks at \$13,400 in annual earnings are not attractive to the state.

Impact on Program Costs

The costs associated with the decision to adopt a 5.4 percent state tax rate are difficult to estimate because there are many options and the cost of each option may change over time. One approach is to examine the effects of retaining the current law. Under this approach, it is clear that some employers will lose federal tax credits and will therefore have greater federal tax liability if a 5.4 percent maximum state tax rate is not adopted. This option could drain an additional \$2 million per year from employers in Alaska. The additional contributions would go entirely to the federal government.

If Alaska does adopt a 5.4 percent state tax rate, any additional contributions would go to the state trust fund rather than to the federal govern-

ment. There are several options that could maintain total state collections at the current level, but all of the options redistribute the tax burden among Alaska employers. In summary, failure to adopt a 5.4 percent maximum state tax rate will redistribute the tax burden among employers and increase total contributions, while the impact of adopting a 5.4 percent maximum state tax rate may be limited to a redistribution of the tax burden.

OPTIONS FOR ACTION

Under current federal law a "no action" option would cost Alaska employers an estimated \$2 million per year in increased contributions to the federal government. Unless it can be shown that a "no action" option is preferable to the distortion that would be introduced by adopting a 5.4 percent state tax rate, failure to act is obviously not an economically attractive option.

Another option is to work to enact a change in federal law that will recognize Alaska's tax collection efforts and will revise the criteria for obtaining federal tax credits. This option is clearly preferable to the "no action" alternative, but there is limited time to enact revised legislation before the scheduled implementation date of 1985.

Prior to the implementation date, the state may wish to examine alternatives that meet the requirements of the law to determine which alternative introduces the least amount of distortion to the present system. State action in this direction need not preclude attempts to revise the federal criteria. Some options for state action are discussed below.

Include Employee Contributions in the Definition of Tax Effort

Alaska is one of three states in which employees contribute to the unemployment insurance system. In Alaska, employees provide 18 percent of the contributions to the state trust fund. Despite this significant support, the Federal Unemployment Tax Act does not recognize employee contributions as a part of Alaska's tax effort for purposes of determining normal federal tax credits. The Act does, however, include employee contributions in the definition of "employer contribution rate" for purposes of determining federal tax credits in those states that have insolvent state trust funds and have outstanding advances under Title XII of the Social Security Act.

If employee contributions were included for normal FUTA tax credit purposes, the impact of increasing Alaska's maximum tax rate to 5.4 percent would be diminished by about one-third. State action to consolidate employer and employee contributions might face a legal challenge if the employee contribution were then interpreted as a deduction from employees' paychecks for the purpose of paying employers' taxes. A better approach toward the goal of achieving recognition of employee contributions is to push for a revision of federal law so that the rules concerning employee contributions are applied consistently. Whatever the approach on this issue, action taken to ensure recognition of employee contributions can be used in combination with, rather than as a substitute for, other actions discussed below.

Assign the Maximum Rate only to Delinquent Employers

Federal law may allow full federal tax credits to employers in those states that charge a 5.4 percent rate to some or all delinquent employers, even if no other employers are charged that rate. Section 3302(b) of the Federal Unemployment Tax Act (FUTA) states that all employers in a state may be eligible for full federal tax credits if the maximum state tax rate is at least 5.4 percent (after 1984) and any reduced tax rates meet the criteria of Section 3303. The provision allows employers to claim federal tax credits each year as if they had been subject under state law to "the highest rate applied thereunder in such 12-month period to any person having individuals in his employ, or to a rate of 5.4 percent, whichever rate is lower." (Emphasis added.)

Section 3303 of FUTA discusses criteria for assigning reduced contribution rates. That provision says that for a pooled benefit payment account such as exists in Alaska, a "taxpayer shall be allowed an additional credit under section 3302(b) with respect to any reduced rate of contributions permitted by State law" if reduced tax rates are assigned solely "on the basis of his (or their) experience with respect to unemployment or other factors bearing a direct relation to unemployment risk."

The implication of these provisions is that all employers could be assigned a standard tax rate of 5.4 percent, with reductions from that rate assigned to non-delinquent employers on the same basis as is currently accepted by the Secretary of Labor for rate assignments in Alaska. The 5.4 percent tax rate would then be the standard rate and any reductions from that rate would be based on an accepted experience rating system. The fact that some employers would be ineligible for reduced tax rates because of their delinquent status is irrelevant; the law does not require states to grant reduced rates, it requires only that no reduced rates be granted unless they are based solely on employers' experience with respect to unemployment or other factors bearing a direct relationship to unemployment risk. This option appears to meet the legal criteria for obtaining the additional tax credits allowed under the Federal Unemployment Tax Act.

Add a Rate Class with a 5.4 Percent Rate

Addition of a rate class to Alaska's experience rating system is a potential solution to the problem of assigning a 5.4 percent state tax rate. As an example, rate class 20 could be redefined to include employers whose payroll consists of 4.99 percent of total statewide payroll instead of the current 5 percent.⁴ Employers with the remaining .01 percent of total

⁴Alaska's experience rating system currently includes 20 rate classes, each containing five percent of total statewide payroll. Starting with employers with the best unemployment experience, employers are placed in rate class 1 (lowest tax rate) until five percent of total statewide payroll is accounted for. The next-best-ranked employers are placed in rate class 2 until it also contains employers whose total payroll equals five percent of total statewide payroll. This continues through all 20 rate classes.

statewide payroll would then be assigned to (the new) rate class 21. Employers in that rate class would be assigned a contribution rate of 5.4 percent. This alternative would probably affect fewer employers than the option discussed above, particularly if delinquent employers were no longer assigned the highest tax rate on the rate schedule.

The above options would introduce minimal distortion to the current program, but their legal support should be examined before implementing them. Other options involving adjustments to the state tax base could ensure a state tax rate of 5.4 percent while maintaining secure legal standing. The most attractive option is to work toward a revision of federal law; that option would cause no distortion and would leave no grounds for legal challenge.

RECOMMENDED REVISIONS TO FEDERAL LAW

This paper has shown that tax effort can be measured only by considering both the amount of wages subject to tax and the tax rate applied to those wages. The 1985 TEFRA revisions focus only on tax rates and therefore penalize those states that have increased their tax efforts by increasing the state tax base. Incorporation of provisions similar to those adopted recently in Public Law 98-21 would substantially alleviate this penalty.

Public Law 98-21 revised the formula for computing the tax effort of states that have outstanding advances from the federal government. The revised formula recognizes the role of the state tax base in determining tax effort and may grant additional credit to employers in states which have a tax base higher than the federal tax base.

If a similar provision were applied to the tax credits available to those states without insolvent state trust funds, the penalties (in the form of lost federal tax credits) scheduled to take effect in 1985 would be decreased, but a problem would still exist. The problem relates to the amount of tax effort that is required in a state. States with liberal benefit provisions obviously need a greater tax effort than states with stringent eligibility requirements and/or low levels of unemployment compensation.

The level of tax effort that is adequate for a state is easy to determine; if total revenue to a state trust fund equals or exceeds benefit payments in the long-run, tax effort in that state is adequate. Determination of the tax base and tax rates used to produce the necessary revenue is the responsibility of the states. When states fail to accept that responsibility, federal action should be taken. The number of states with insolvent trust funds indicates that federal action is needed now. This paper has shown, however, that the 1985 TEFRA revisions fail to address the solvency problem where it needs to be addressed.

A provision that bases federal tax credits on adequacy of contributions rather than simply on maximum tax rates would be fair to all states and would allow the flexibility for state action that is necessary in a true partnership. We strongly urge that federal law be revised to reflect the principles of equity and flexibility.

STATE OF ALASKA

DEPARTMENT OF LABOR

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

P.O. BOX 1149
JUNEAU, ALASKA 99802
PHONE: (907) 465-2700

March 14, 1984

The Honorable Richard Eliason
Chairman, Senate Labor and
Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

This is in reply to the questions asked by the Senate Labor and Commerce Committee on March 13 concerning SB 525, the unemployment insurance bill.

Question: What will be the total cost to employers and employees if we raise maximum benefits from \$156 to \$198 per week?

As indicated during the hearing, the employer rates are projected to decline after 1984 (even with an increase in benefits); however, the rates will not go down as fast when benefits are raised. The tax base is also expected to increase somewhat. The projected tax base figures were compiled by the Research and Analysis section of the Department and reflect an approximate increase of 2½ percent annually. The net result is projected as:

Year	Tax Base	Maximum Employer Tax Rate		Employee Tax Rate		Total Cost of Increase To Employers to Employees	
		w/o/incr.	w/incr.	w/o/incr.	w/incr.		
1985	\$22,600	4.08%	4.08%	.6%	.6%	\$ 0	\$ 0
1986	23,000	3.34	4.02	.5	.6	3.7 million	.8 million
1987	23,600	3.70	4.03	.5	.6	7.1 million	1.5 million
1988	24,500	3.42	3.90	.5	.5	10.3 million	2.3 million

Question: What sections of the bill are conformity items with the Federal Government?

Sections 8 and 11 are conformity items. Sections 2 and 3, while not strictly conformity items, are necessary to have our law relate to the federal FUTA law and save employers in this state between \$1.5 and \$2.0 million annually in increased FUTA taxes.

The Honorable Richard Elison

-2-

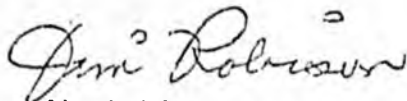
March 14, 1984

Question: Do you have information on firms affected by Sections 2 and 3 of the bill?

Yes, the enclosed listing identifies the industry make-up of the 163 firms potentially eligible for the 21st rate class. If this law change had been in effect currently, it would have affected 163 employers in 1983 for a total increase of \$2,800, or an average of \$17 per employer. In 1984, it would not have affected any employers in the state.

I hope this answers the questions posed by your committee. We will respond to the query from Senator Pettyjohn concerning tax base period calculations in a separate memorandum. If you need additional information, please contact me.

Sincerely,



Jim Robison
Commissioner

Enclosures

FIRMS POTENTIALLY ELIGIBLE FOR A "21ST RATE CLASS"

<u>Major Industry Division</u>	<u>Number of Employers</u>
Agric. Forestry Fisheries	7
Mining	4
Construction	51
Food Processing	4
Wood Products	1
Transp-Commun-Public Util.	9
Wholesale Trade	10
Retail Trade	15
Finance Insur-Real Estate	10
Services	49
Government	1
Unspecified	2
	<u>163</u>

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE
BILL/RESOLUTION NO: HCS CSSB 525 (L&C)
TITLE: "An Act relating to Unemployment Insurance."
AGENCY AFFECTED: Department of Labor
Page 2

The following assumptions were made in preparing the forecasted costs:

1. State employment will continue to increase through FY 1986. Thereafter, state employment will level off with consolidation of administrative jobs and belt tightening being offset by jobs based on increased population.
2. There is no wage increase for calendar year 1984. The wages through FY 1986 reflect the recent agreement with APEA. A 5 percent yearly increase continues throughout the remainder of the forecast period.
3. As provided in this bill, the maximum weekly benefit amount paid for unemployment insurance claims will increase from \$156 to \$188, effective October 1, 1984.

As a result, the State of Alaska would be required to pay more in its personal service benefit costs for unemployment insurance. The total amount of the increased costs (which would affect all Departments in the State) is projected from past experience and a computerized modeling technique. The estimated increase in the average payment using this method is 12.7%. This increase would not occur immediately in FY '85, because claimants are paid for an entire year at the rates in effect when they first claim benefits. The total effect of the increase would not be felt until FY '87.

LEG:A:4

QUESTIONS:

1. HOW MUCH MONEY DOES THE STATE AND EMPLOYERS IN ALASKA STAND TO LOSE IF THIS BILL DOES NOT PASS ? WHY ?

2. HOW DO YOU ARRIVE AT THE 3.3 PERCENT FIGURE ? (THE UNEMPLOYMENT INSURANCE FUND IS 3.3% OF THE STATES TOTAL WAGES)

3. WHY DID THE FED'S DECIDE TO CUT OUT CERTAIN EDUCATIONAL INSTITUTION WORKERS FOR WEEKLY UNEMPLOYMENT BENEFITS ?

4. WILL THIS NEW SECTION CREATING A BENEFIT PROGRAM ALLOW THOSE PEOPLE TO DRAW UNEMPLOYMENT WITHOUT CAUSING FEDERAL CONFORMITY PROBLEMS ?

5. HOW MANY PEOPLE ARE EFFECTED BY THIS CHANGE ?

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST

Bill/Resolution No.: CSFB 525
 Title: "An Act relating to Unemployment Insurance"
 Sponsor: Senate Labor/Commerce
 Requestor: Senate Finance
 Date of Request: April 25, 1984

FISCAL DETAIL

Agency Affected: Labor
 Program Category Affected: Social Services
 BRU, Program or Subprogram(s) Affected: Employment Security, Unemployment Insurance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		5.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	5.0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS		5.0				
OTHER						
TOTAL	0	5.0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Federal funds will be requested to fund reprogramming of automated programs.
 [125 hours x \$40 per hour.]

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay, Jr. Phone: 465-2717
 Division: Employment Security Division Date: _____
 Approved by Commissioner: Jim Robinson Date: 4/25/84
 Agency: Labor

IFG:A.5
 Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget

LABOR

MEMORANDUM

State of Alaska

TO: Ken Johnson
Administrative Assistant
Representative Cowdery's Office

DATE: May 10, 1984

FILE NO:

TELEPHONE NO: 465-2700

FROM: Eileen Plate
Special Assistant
to the Commissioner
Department of Labor

SUBJECT: CS for SB 525

This will confirm our telephone conversation and your request for additional information.

1. The UI Trust Fund currently has a balance of \$148 million.
2. Sections 10 and 13 of the UI bill, CS for SB 525, are conformity items with the Federal Unemployment Tax Act (FUTA). The additional cost to Alaska for not remaining in conformity with FUTA is the loss of \$21 million in Administrative funds to the State for operation of the Unemployment Insurance (UI) and Job Service programs; \$86.4 million in increased FUTA taxes to all employers in the state; and loss of \$4.8 million in benefit payments for their Extended Benefits program. The total cost would be \$112.2 million.

Attached is a copy of a letter from the U.S. Department of Labor regarding the conformity requirements of Section 10.

3. Sections 2 and 3, which are not strictly conformity items, would cost the employers in this state an additional \$2 million annually if not passed. Attached is a paper that was prepared on this subject in cooperation with the House Research Agency. On page 4 of the paper, the affect on employers is detailed. On page 7 the options are listed--we elected to propose the option that would have the least affect on Alaskan employers.

If Sections 2 and 3 had been in effect for 1984, there would have been no impact on employers. This is because of the requirement that employers with the same payroll decline percentage must be placed in the lower rate class rather than splitting the group. In 1983 there would have been 163 employers affected, for a total of \$2,800 (or \$17 per employer).

If you need any additional information on CS for SB 525, please contact me at 465-2700 or Jack Shay at 465-2712.

Attachments (2)

MEMORANDUM

State of Alaska

TO: Ken Johnson
Administrative Assistant
Representative Cowdery's Office

DATE: May 14, 1984

FILE NO:

TELEPHONE NO: 465-2700

FROM: Eileen Plate
Special Assistant
to the Commissioner
Department of Labor

SUBJECT: House CS for
CS for SB 525

This will confirm our telephone conversation and your request for additional information.

1. The UI Trust Fund currently has a balance of \$148 million.
2. Sections 11 and 14 of the UI bill, House CS for CS for SB 525 (L&C), are conformity items with the Federal Unemployment Tax Act (FUTA). The additional cost to Alaska for not remaining in conformity with FUTA is the loss of \$21 million in Administrative funds to the State for operation of the Unemployment Insurance (UI) and Job Service programs; \$85.4 million in benefit payments for their Extended Benefits program. The total cost would be \$112.2 million.

Attached is a copy of a letter from the U.S. Department of Labor regarding the conformity requirements of Section 11.

3. Sections 2 and 3, which are not strictly conformity items, would cost the employers in this state an additional \$2 million annually if not passed. Attached is a paper that was prepared on this subject in cooperation with the House Research Agency. On page 4 of the paper, the affect on employers is detailed. On page 7 the options are listed--we elected to propose the option that would have the least affect on Alaskan employers.

If Sections 2 and 3 had been in effect for 1984, there would have been no impact on employers. This is because of the requirement placed in the lower rate class rather than splitting the group. In 1983 there would have been 163 employers affected, for a total of \$2,800 (or \$17 per employer).

If you need any additional information, please contact me at 465-2700 or Jack Shay at 465-2712.

Attachments (2)

MAY 15, 1984

TO: JOHN
FROM: KEN
RE: L & C COMMITTEE HEARINGS (OPENING REMARKS)

THERE ARE FOUR BILLS ON SCHEDULED TO BE HEARD IN COMMITTEE TODAY. BECAUSE OF THE COMPLEXITY OF THE FIRST BILL TO COME BEFORE THE COMMITTEE, WE MAY NOT BE ABLE TO HEAR ALL THIS LEGISLATION TODAY. IF WE ARE NOT FINISHED WITH THIS LEGISLATION TODAY, IT IS MY INTENTION TO RECESS UNTIL TOMORROW MORNING AT 8:15. WE WILL CONTINUE THE PROCESS UNTIL THE COMMITTEE HAS COMPLETED THE WORK NECESSARY ON THESE BILLS.

THE FIRST PIECE OF LEGISLATION TO BE HEARD IS SB 525, "AN ACT RELATING TO UNEMPLOYMENT INSURANCE." THE MAIN PURPOSE OF THIS BILL IS TO BRING THE STATES UNEMPLOYMENT INSURANCE LAWS INTO CONFORMITY WITH FEDERAL LAWS. IT ALSO WOULD INCREASE WEEKLY UNEMPLOYMENT BENEFITS AND CALLS FOR A NEW METHOD OF CALCULATING THE UNEMPLOYMENT TAX THAT EMPLOYERS PAY. THAT IS JUST A BRIEF OUTLINE FOR A VERY COMPLEX BILL. I WOULD NOW ASK THE DEPARTMENT OF LABOR TO COME FORWARD TO GO THROUGH THIS BILL WITH THE COMMITTEE.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST	HCS	FISCAL DETAIL
Bill/Resolution No.:	CSSB 525 (L&C)	Agency Affected: Labor
Title:	"An Act relating to Unemployment Insurance"	Program Category Affected: Social Services
Sponsor:	Senate Labor/Commerce	BRU, Program or Subprogram(s) Affected:
Requestor:	House Labor & Commerce	Employment Security, Unemployment Insurance
Date of Request:	May 14, 1984	

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		5.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	5.0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
GENERAL FUND						
FEDERAL FUNDS		5.0				
OTHER						
TOTAL	0	5.0	0	0	0	0

POSITIONS:

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Federal funds will be requested to fund reprogramming of automated programs.
[125 hours x \$40 per hour.]

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay, Jr. Phone: 465-2712
 Division: Employment Security Division Date: 5/14/84
 Approved by Commissioner: Robert W. Jordan Date: 5/14/84
 Agency: Labor
 for Jim Robison

LEG:A:5
 Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST HCS for FISCAL DETAIL
 Bill/Resolution No.: CSSB 525 (L&C) Agency Affected: All
 Title: "An Act relating to Unemployment Insurance" Program Category Affected: All
 Sponsor: Senate Labor/Commerce BRU, Program or Subprogram(s) Affected:
 Requestor: House Labor & Commerce All
 Date of Request: May 14, 1984

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		169.1	463.3	518.6	522.4	526.6
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		169.1	463.3	518.6	522.4	526.6
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		126.8	347.5	389.0	391.8	395.0
FEDERAL FUNDS		11.8	32.4	36.3	36.6	36.9
OTHER		30.5	83.4	93.3	94.0	94.7
TOTAL		169.1	463.3	518.6	522.4	526.6

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Personal Service benefits would increase for all agencies based on the projected increase in unemployment insurance paid to ex-state employees and seasonal employees.

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay, Jr. Phone: 465-2712
 Division: Employment Security Division Date: 5/14/84
 Approved by Commissioner: Robert W. Jordan Date: 5/14/84
 Agency: Labor

LEG:A:4
 Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

12/1/83

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE
BILL/RESOLUTION NO: HCS CSSB 525 (L&C)
TITLE: "An Act relating to Unemployment Insurance."
AGENCY AFFECTED: Department of Labor
Page 2

The following assumptions were made in preparing the forecasted costs:

1. State employment will continue to increase through FY 1986. Thereafter, state employment will level off with consolidation of administrative jobs and belt tightening being offset by jobs based on increased population.
2. There is no wage increase for calendar year 1984. The wages through FY 1985 reflect the recent agreement with APEA. A 5 percent yearly increase continues throughout the remainder of the forecast period.
3. As provided in this bill, the maximum weekly benefit amount paid for unemployment insurance claims will increase from \$156 to \$188, effective October 1, 1984.

As a result, the State of Alaska would be required to pay more in its personal service benefit costs for unemployment insurance. The total amount of the increased costs (which would affect all Departments in the State) is projected from past experience and a computerized modeling technique. The estimated increase in the average payment using this method is 12.7%. This increase would not occur immediately in FY '85, because claimants are paid for an entire year at the rates in effect when they first claim benefits. The total effect of the increase would not be felt until FY '87.

LEG:A:4

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST HCS FISCAL DETAIL
 Bill/Resolution No.: CSSB 525 Agency Affected: Labor
 Title: "An Act relating to Unemployment Insurance. . . ." Program Category Affected: Social Services
 Sponsor: Sen. Labor & Commerce BRU, Program or Subprogram(s) Affected:
 Requestor: House Labor & Commerce Employment Security, Unemployment
 Date of Request: 5/14/84 Insurance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES	33.7	89.8	93.9	97.2	102.6	108.4
200 TRAVEL	0	0	0	0	0	0
300 CONTRACTUAL	16.9	57.3	50.1	53.1	56.3	59.7
400 SUPPLIES	1.0	2.8	3.0	3.2	3.4	3.6
500 EQUIPMENT		5.0				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS	600.0	2,000.0	2,100.0	2,100.0	2,100.0	2,100.0
800 MISCELLANEOUS						
TOTAL OPERATING	651.6	2,154.9	2,247.0	2,253.5	2,262.3	2,271.7
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	651.6	2,154.9	2,247.0	2,253.5	2,262.3	2,271.7
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	651.6	2,154.9	2,247.0	2,253.5	2,262.3	2,271.7

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay, Jr. Phone: 465-2712

Division: Employment Security Division Date: _____

Approved by Commissioner: Robert W. Sandan Date: 5/15/84
Jim Robison

Agency: Labor

LEG:B:14

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

12/1/83

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA
 THIRTEENTH LEGISLATURE
 BILL/RESOLUTION NO: HCS CSSB 525 (L&C)
 TITLE: "An Act relating to Unemployment Insurance."
 AGENCY AFFECTED: Department of Labor
 Page 2

This bill would require the Department of Labor to pay unemployment insurance benefits to qualifying persons between school terms. Two costs would be associated with this bill, the actual costs of the benefits paid and the administrative costs to run the program.

The estimated benefits to be paid in Fiscal Year 1985 are calculated as follows:

Number of Eligible Claimants	\$ 1,400
Average Weekly Benefit Amount	x 135
	<u>\$ 189,000</u>
Average Length of Claim	x 10 wks
	<u>\$1,890,000</u>
Adjustment for Increase in Average Weekly Benefit Amount from \$135 to \$150	+ 110,000
Total Benefits Fiscal Year 1985	\$2,000,000

The estimated benefits to be paid in fiscal years 1986 - 1989 are as follows:

Number of Eligible Claimants	\$ 1,400
Average Weekly Benefit Amount	x 150
	<u>\$ 210,000</u>
Average Length of Claim	x 10 wks
Total	\$2,100,000

Administration costs to run this program would include the salaries of eight seasonal Unemployment Insurance Specialist I's for four months each. Contractual and Supply costs associated with these positions would include postage and forms, as well as normal expenses. One-time expenses would include \$10,000 in Contractual in Fiscal Year 1985 to complete automation of the claims processing function, and \$5,000 in Fiscal Year 1985 to purchase equipment for this function.

In preparing the cost estimate for benefits to be paid the following assumptions were made:

1. An effective date of May 22, 1984.
2. The average weekly benefit amount would increase from \$135 to \$150 on October 1, 1984.
3. No increase in claims would be seen from Fiscal Year 1985 - 1989.
4. There would be no further increase in benefit amount from Fiscal Year 1985 - 1989.

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE
BILL/RESOLUTION NO: HCS CSSB 525 (L&C)
TITLE: "An Act relating to Unemployment Insurance."
AGENCY AFFECTED: Department of Labor
Page 3

In preparing the cost estimates for administrative costs the following assumptions were made:

1. An effective date of May 22, 1984.
2. An annual inflation rate of six percent.

LEG:B:14

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST
Bill/Resolution No.: CS5B 525 (En)
Title: "An Act relating to
Unemployment Insurance"
Sponsor: Senate Labor/Commerce
Requestor: Senate Finance
Date of Request: April 25, 1984

FISCAL DETAIL
Agency Affected: All
Program Category Affected: All
BRU, Program or Subprogram(s) Affected:
All

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		169.1	463.3	518.6	522.4	526.6
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CL. INS						
800 MISCELLANEOUS						
TOTAL OPERATING		169.1	463.3	518.6	522.4	526.6
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		126.8	347.5	389.0	391.8	395.0
FEDERAL FUNDS		11.8	32.4	36.3	36.6	36.9
OTHER		30.5	83.4	93.3	94.0	94.7
TOTAL		169.1	463.3	518.6	522.4	526.6

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Personal Service benefits would increase for all agencies based on the projected increase in unemployment insurance paid to ex-state employees and seasonal employees.

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay Phone: 465-2712
Division: Employment Security Division Date: 4/25/84
Approved by Commissioner: John Robinson Date: 4/25/84
Agency: Labor

LEG:A:4
Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

ALL
12/1/83

The following assumptions were made in preparing the forecasted costs:

1. State employment will continue to increase through FY 1986. Thereafter, state employment will level off with consolidation of administrative jobs and belt tightening being offset by jobs based on increased population.
2. There is no wage increase for calendar year 1984. The wages through FY 1986 reflect the recent agreement with APEA. A 5 percent yearly increase continues throughout the remainder of the forecast period.
3. As provided in this bill, the maximum weekly benefit amount paid for unemployment insurance claims will increase from \$156 to \$188, effective October 1, 1984.

As a result, the State of Alaska would be required to pay more in its personal service benefit costs for unemployment insurance. The total amount of the increased costs (which would affect all Departments in the State) is projected from past experience and a computerized modeling technique. The estimated increase in the average payment using this method is 12.7%. This increase would not occur immediately in FY '85, because claimants are paid for an entire year at the rates in effect when they first claim benefits. The total effect of the increase would not be felt until FY '87.

BILL ANALYSIS

Section 1. This is a "housekeeping" amendment which would make a technical change to the training and building fund provision so that unobligated money in the training and building fund could be held an additional 30 days past the end of the fiscal year. The law currently requires that any unobligated money over \$100,000 in the training and building fund must lapse to the unemployment trust fund on the last day of the fiscal year. This money is obligated in appropriations bills prior to the end of the fiscal year, but the bills are often not signed until after the end of the fiscal year. The money is therefore not technically obligated until after the money has already lapsed back to the unemployment trust fund. The proposed amendment solves this "accounting" problem by holding the money in the training and building fund until the appropriation is signed.

Sections 2 and 3. The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) amended the Federal Unemployment Tax Act (FUTA) to increase the gross FUTA tax on employers from 3.5 percent to 6.2 percent. It also increased the additional credit against the FUTA tax for contributions to a state unemployment fund from 2.7 percent to 5.4 percent. These amendments are effective January 1, 1985. Because of the language of the FUTA, all employers in the state cannot be guaranteed the full FUTA credit of 5.4 percent unless the state law includes a maximum (standard) state tax rate of at least 5.4 percent.

Section 2 of the bill amends AS 23.20.170 to enact a standard rate of 5.4 percent. Rates below 5.4 percent would continue to be granted under AS 23.20.290.

Section 3 of the bill amends AS 23.20.290 by adding a 21st rate class comprised of employers with the highest quarterly decline quotients whose cumulative payroll is .01 percent of the total payroll in the state. This small minority of employers would receive a rate not less than 5.4 percent. The FUTA requires that the 5.4 percent rate be actually assessed at least one employer in the state, in order for all employers in the state to be guaranteed the maximum additional FUTA credit of 5.4 percent. This amendment meets the requirements of the FUTA with the least distortion to the present rate structure.

Section 4. This section amends AS 23.20.290(e) to include interest earned on the unemployment trust fund in the benefit cost rate computation. Unemployment tax contributions are computed as a percentage of the benefit cost rate, under a formula designed to recover all outlays from the fund. Interest earnings are not currently shown as income to the fund. Unless corrected, this will continue to cause higher than necessary taxes.

Section 5. This section complements the amendment made to AS 23.20.290(e) under sec. 4 of the bill. It amends AS 23.20.290(f) to provide for a negative fund solvency adjustment (in effect, a fund solvency credit) when the unemployment trust fund reaches a certain level of adequacy, defined as a reserve rate (ratio of fund balance to total state wages) of at least 3.3 percent.

Section 6. This section amends the benefit schedule in AS 23.20.350(d) to provide a maximum UI weekly benefit amount of \$188, not counting dependents allowance. This will provide approximately 60 percent of claimants with replacement of 50 percent of their average weekly wages. Federal benefit adequacy guidelines suggest that a state's benefit schedule should provide 50 percent wage replacement for at least 80 percent of claimants. However, Alaska's liberal eligibility provisions make application of the federal guidelines too costly. The benefit schedule was amended in 1980 to provide a maximum weekly benefit of \$150. This schedule replaced 50 percent of wages for approximately two-thirds of claimants, but wage inflation since 1980 has steadily eroded this level of wage replacement. Although a small increase of \$6 was approved in 1982, only about 56 percent of claimants receive 50 percent wage replacement under the current schedule. The proposed schedule would increase costs to the trust fund by about 12.7 percent.

Sections 7 and 8. These two sections would change the requirements for the receipt of dependents allowance. The amendments do not change the amount of the allowance.

Under the current statute, an individual claiming dependents allowance must certify (and be able to prove) that he or she is providing more than 50 percent of the dependents' support. The dependents must be claimed when the claimant first files for benefits, and the number of dependents cannot be changed during the benefit year unless the claimant acquires an additional dependent by birth or adoption. These two features of the present law -- the "primary support" requirement and the requirement that dependents must be claimed at the beginning of the benefit year -- are not necessary for the administration of the dependents provision, and they may frustrate its purpose.

In households where both parents work, the children are jointly supported. However, under the "primary support" requirement only one parent may claim dependents in the household, even though the other parent may be providing a larger percentage of his or her wages for support of the children. The proposed changes would pay dependents allowance to either parent having physical custody of the child. The same dependent could not be claimed by both parents, but a parent could claim any dependents in the household which are not being claimed by the other parent. The "primary support" requirement has been retained as an alternative, so that a non-custodial parent may qualify for the dependents allowance. In other words, "dependent" has been redefined to mean one who is either in the physical custody of the claimant or dependent on the claimant for more than 50 percent of support. However, to claim a dependent over 18 years of age the claimant would still be required to show primary support, the same as in the current law.

The proposed changes would also allow a claimant to add dependents (up to a limit of three) for any reason while drawing regular benefits during his benefit year. For example, a claimant whose wife is claiming their two children would not be able to claim the children when he first files his claim. However, he would be able to claim the children after his wife's benefit year ends, for the remainder of his own benefit year. Under the current law, this claimant would be unable to claim the dependents for his entire benefit year.

Section 9. This section establishes an interim benefits program to pay benefits to employees of educational institutions who would have their regular unemployment benefits reduced or denied under the changes proposed in sec. 11 of this bill. Section 11 adds a new subsection (h) to AS 23.20.381 to disqualify employees

other than instructional, research, and administrative employees during the period between academic years or terms. This change is required in all state laws by Public Law 98-21. The interim benefits program would pay these employees the difference between their regular amount and the amount they would receive under AS 23.20.381(h). The administrative and benefit costs of interim benefits must be financed from the general fund, because financing the benefits from the unemployment trust fund would constitute noncompliance with Public Law 98-21.

Section 10. This section amends AS 23.20.362(c) by adding severance and termination payments to the list of income which is deducted from UI benefits. Under the provision as it now stands, wages in lieu of dismissal notice and payments for accrued vacation, sick leave, and holidays are deducted dollar for dollar from UI benefits payable. These payments are treated differently from regular wage payments, which are deducted under AS 23.20.360 at the rate of \$.75 for every \$1 earned for the week in excess of \$50. The vacation, sick, and holiday pay, and wages in lieu of notice, unlike regular wage payments, do not show any new attachment to the labor market, but are paid on for these payments is justifiable on the basis that unemployment insurance should not be paid for a week if the claimant is already receiving a "wage replacement" for that week based on his previous work. However, because of the language of the provision, "severance" and "termination" pay are not deductible, even though the rationale for deducting them is the same as for the other "wage replacement" payments.

Section 11. AS 23.20.381(e) currently disqualifies an individual working in an instructional, research, or principal administrative capacity in an educational institution, during the period between two academic years or terms, or during a period of paid sabbatical leave. This provision is required in all state laws for conformity with Sec. 3304 (a)(6)(A) of the Federal Unemployment Tax Act (FUTA).

The FUTA has now been amended by Public Law 98-21 to extend the disqualification to:

1. All employees of educational institutions.
2. Employees of "educational service agencies" serving in educational institutions.
3. Any established vacation period or holiday recess.

These changes are required in all state laws to avoid denial of certification for the FUTA tax offset credit and administrative grants.

Section 12. Section 202 of the Federal State Extended Unemployment Compensation Act previously required the indefinite disqualification of an extended benefit claimant who did not actively engage in seeking work, regardless of the reason the claimant did not seek work. This requirement has been relaxed by P.L. 98-21. A state is now permitted to apply regular state able and available provisions if the extended benefit claimant failed to seek work because he was hospitalized or on jury duty. This is entirely optional, but we recommend enactment of conforming legislation to take advantage of the relaxation of federal requirements.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST	HCS	FISCAL DETAIL
Bill/Resolution No.:	CSSB 525 (L&C)	Agency Affected: Labor
Title:	"An Act relating to Unemployment Insurance"	Program Category Affected: Social Services
Sponsor:	Senate Labor/Commerce	BRU, Program or Subprogram(s) Affected:
Requestor:	House Labor & Commerce	Employment Security, Unemployment Insurance
Date of Request:	May 14, 1984	

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		5.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	5.0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
GENERAL FUND						
FEDERAL FUNDS		5.0				
OTHER						
TOTAL	0	5.0	0	0	0	0

POSITIONS:

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Federal funds will be requested to fund reprogramming of automated programs.
[125 hours x \$40 per hour.]

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay, Jr. Phone: 465-2712
 Division: Employment Security Division Date: 5/14/84
 Approved by Commissioner: Robert W. Jendron Date: 5/14/84
Jim Robison
 Agency: Labor

LEG:A:5
 Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

12/1/83

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST HCS for FISCAL DETAIL
 Bill/Resolution No.: CSSB 525 (L&C) Agency Affected: All
 Title: "An Act relating to Unemployment Insurance" Program Category Affected: All
 Sponsor: Senate Labor/Commerce BRU, Program or Subprogram(s) Affected:
 Requestor: House Labor & Commerce All
 Date of Request: May 14, 1984

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		169.1	463.3	518.6	522.4	526.6
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		169.1	463.3	518.6	522.4	526.6
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		126.8	347.5	389.0	391.8	395.0
FEDERAL FUNDS		11.8	32.4	36.3	36.6	36.9
OTHER		30.5	83.4	93.3	94.0	94.7
TOTAL		169.1	463.3	518.6	522.4	526.6

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Personal Service benefits would increase for all agencies based on the projected increase in unemployment insurance paid to ex-state employees and seasonal employees.

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay Jr. Phone: 465-2712
 Division: Employment Security Division Date: 5/14/84
 Approved by Commissioner: Robert W. Jindan Date: 5/14/84
 Agency: Labor for Jim Robison

LEG:A:4
 Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

BILL ANALYSIS

Section 1. This is a "housekeeping" amendment which would make a technical change to the training and building fund provision so that unobligated money in the training and building fund could be held an additional 30 days past the end of the fiscal year. The law currently requires that any unobligated money over \$100,000 in the training and building fund must lapse to the unemployment trust fund on the last day of the fiscal year. This money is obligated in appropriations bills prior to the end of the fiscal year, but the bills are often not signed until after the end of the fiscal year. The money is therefore not technically obligated after the money has already lapsed back to the unemployment fund. The proposed amendment solves this "accounting" problem by holding the money in the training and building fund until the appropriation is signed.

Sections 2 and 3. The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) amended the Federal Unemployment Tax Act (FUTA) to increase the gross FUTA tax on employers from 3.5 percent to 6.2 percent. It also increased the additional credit against the FUTA tax for contributions to a state unemployment fund from 2.7 percent to 5.4 percent. These amendments are effective January 1, 1985. Because of the language of the FUTA, all employers in the state cannot be guaranteed the full FUTA credit of 5.4 percent unless the state law includes a maximum (standard) state tax rate of at least 5.4 percent.

Section 2 of the bill amends AS 23.20.170 to enact a standard rate of 5.4 percent. Rates below 5.4 percent would continue to be granted under AS 23.20.290.

Section 3 of the bill amends AS 23.20.290 by adding a 21st rate class comprised of employers with the highest quarterly decline quotients whose cumulative payroll is .01 percent of the total payroll in the state. This small minority of employers would receive a rate not less than 5.4 percent. The FUTA requires that the 5.4 percent rate be actually assessed at least one employer in the state, in order for all employers in the state to be guaranteed the maximum additional FUTA credit of 5.4 percent. This amendment meets the requirements of the FUTA with the least distortion to the present rate structure.

Section 4. This section amends AS 23.20.290(e) to include interest earned on the unemployment trust fund in the benefit cost rate computation. Unemployment tax contributions are computed as a percentage of the benefit cost rate, under a formula designed to recover all outlays from the fund. Interest earnings are not currently shown as income to the fund. Unless corrected, this will continue to cause higher than necessary taxes.

Section 5. This section complements the amendment made to AS 23.20.290(e) under sec. 4 of the bill. It amends AS 23.20.290(f) to provide for a negative fund solvency adjustment (in effect, a fund solvency credit) when the unemployment trust fund reaches a certain level of adequacy, defined as a reserve rate (ratio of fund balance to total state wages) of at least 3.3 percent.

Section 6. This section amends the benefit schedule in AS 23.20.350(d) to provide a maximum UI weekly benefit amount of \$188, not counting dependents allowance. This will provide approximately 60 percent of claimants with replacement of 50 percent of their average weekly wages. Federal benefit adequacy guidelines suggest that a state's benefit schedule should provide 50 percent wage replacement for at least 80 percent of claimants. However, Alaska's liberal eligibility provisions make application of the federal guidelines too costly. The benefit schedule was amended in 1980 to provide a maximum weekly benefit of \$150. This schedule replaced 50 percent of wages for approximately two-thirds of claimants, but wage inflation since 1980 has steadily eroded this level of wage replacement. Although a small increase of \$6 was approved in 1982, only about 56 percent of claimants receive 50 percent wage replacement under the current schedule. The proposed schedule would increase costs to the trust fund by about 12.7 percent.

Sections 7 and 8. These two sections would change the requirements for the receipt of dependents allowance. The amendments do not change the amount of the allowance.

Under the current statute, an individual claiming dependents allowance must certify (and be able to prove) that he or she is providing more than 50 percent of the dependents' support. The dependents must be claimed when the claimant first files for benefits, and the number of dependents cannot be changed during the benefit year unless the claimant acquires an additional dependent by birth or adoption. These two features of the present law -- the "primary support" requirement and the requirement that dependents must be claimed at the beginning of the benefit year -- are not necessary for the administration of the dependents provision, and they may frustrate its purpose.

In households where both parents work, the children are jointly supported. However, under the "primary support" requirement only one parent may claim dependents in the household, even though the other parent may be providing a larger percentage of his or her wages for support of the children. The proposed changes would pay dependents allowance to either parent having physical custody of the child. The same dependent could not be claimed by both parents, but a parent could claim any dependents in the household which are not being claimed by the other parent. The "primary support" requirement has been retained as an alternative, so that a non-custodial parent may qualify for the dependents allowance. In other words, "dependent" has been redefined to mean one who is either in the physical custody of the claimant or dependent on the claimant for more than 50 percent of support. However, to claim a dependent over 18 years of age the claimant would still be required to show primary support, the same as in the current law.

The proposed changes would also allow a claimant to add dependents (up to a limit of three) for any reason while drawing regular benefits during his benefit year. For example, a claimant whose wife is claiming their two children would not be able to claim the children when he first files his claim. However, he would be able to claim the children after his wife's benefit year ends, for the remainder of his own benefit year. Under the current law, this claimant would be unable to claim the dependents for his entire benefit year.

Section 9. This section establishes an interim benefits program to pay benefits to employees of educational institutions who would have their regular unemployment benefits reduced or denied under the changes proposed in sec. 11 of this bill. Section 11 adds a new subsection (h) to AS 23.20.381 to disqualify employees

other than instructional, research, and administrative employees during the period between academic years or terms. This change is required in all state laws by Public Law 98-21. The interim benefits program would pay these employees the difference between their regular amount and the amount they would receive under AS 23.20.381(h). The administrative and benefit costs of interim benefits must be financed from the general fund, because financing the benefits from the unemployment trust fund would constitute noncompliance with Public Law 98-21.

Section 10. This section amends AS 23.20.362(c) by adding severance and termination payments to the list of income which is deducted from UI benefits. Under the provision as it now stands, wages in lieu of dismissal notice and payments for accrued vacation, sick leave, and holidays are deducted dollar for dollar from UI benefits payable. These payments are treated differently from regular wage payments, which are deducted under AS 23.20.360 at the rate of \$.75 for every \$1 earned for the week in excess of \$50. The vacation, sick, and holiday pay, and wages in lieu of notice, unlike regular wage payments, do not show any new attachment to the labor market, but are paid on for these payments is justifiable on the basis that unemployment insurance should not be paid for a week if the claimant is already receiving a "wage replacement" for that week based on his previous work. However, because of the language of the provision, "severance" and "termination" pay are not deductible, even though the rationale for deducting them is the same as for the other "wage replacement" payments.

Section 11. AS 23.20.381(e) currently disqualifies an individual working in an instructional, research, or principal administrative capacity in an educational institution, during the period between two academic years or terms, or during a period of paid sabbatical leave. This provision is required in all state laws for conformity with Sec. 3304 (a)(6)(A) of the Federal Unemployment Tax Act (FUTA).

The FUTA has now been amended by Public Law 98-21 to extend the disqualification to:

1. All employees of educational institutions.
2. Employees of "educational service agencies" serving in educational institutions.
3. Any established vacation period or holiday recess.

These changes are required in all state laws to avoid denial of certification for the FUTA tax offset credit and administrative grants.

Section 12. Section 202 of the Federal State Extended Unemployment Compensation Act previously required the indefinite disqualification of an extended benefit claimant who did not actively engage in seeking work, regardless of the reason the claimant did not seek work. This requirement has been relaxed by P.L. 98-21. A state is now permitted to apply regular state able and available provisions if the extended benefit claimant failed to seek work because he was hospitalized or on jury duty. This is entirely optional, but we recommend enactment of conforming legislation to take advantage of the relaxation of federal requirements.

Section 13. This amendment to AS 23.20.505 addresses circumstances under which workers on "R and R" might qualify as "unemployed" and thus be potentially eligible for benefits under the Act. Under current Sec. 505 a person is "unemployed" for a week in which he performs no service and receives no wages. This allows potential abuse by individuals who are fully employed but receive "R and R" for a week (or more) as part of their regular work schedule. For example, an individual may work 60 hours per week for two weeks and then receive a week off. This "two weeks on, one week off" schedule may continue indefinitely. This individual is technically unemployed under Sec. 505 during his week off. But we do not believe it is correct to pay benefits when the employment relationship has not been severed and the individual is actually fully employed, i.e., working an average of at least 40 hours per week.

Section 14. AS 23.20.526(a) was amended in 1982 by adding paragraph (22) to exclude from UI coverage certain corporate officers who control at least 25 percent of corporate stock. Subparagraph (D) of paragraph (22) specifies that the corporate officer must agree to noncoverage. The U.S. Department of Labor now believes that subparagraph (D) constitutes a waiver of benefit rights. This raises an issue of conformity with Sec. 303(a)(1) of the Social Security Act, which is interpreted as forbidding any waiver, assignment, pledge, or encumbrance of a right to unemployment compensation. (Such a waiver would also be contrary to AS 23.20.395).

This conformity issue could result in the withholding of administrative grants to Alaska. The proposed repeal of subparagraph (D) would remove the "waiver", resulting in an outright exclusion of coverage for these corporate officers and resolving the conformity problem.

MAY 15, 1984

TO: JOHN
FROM: KEN
RE: L & C COMMITTEE HEARINGS (OPENING REMARKS)

THERE ARE FOUR BILLS ON SCHEDULED TO BE HEARD IN COMMITTEE TODAY. BECAUSE OF THE COMPLEXITY OF THE FIRST BILL TO COME BEFORE THE COMMITTEE, WE MAY NOT BE ABLE TO HEAR ALL THIS LEGISLATION TODAY. IF WE ARE NOT FINISHED WITH THIS LEGISLATION TODAY, IT IS MY INTENTION TO RECESS UNTIL TOMORROW MORNING AT 8:15. WE WILL CONTINUE THE PROCESS UNTIL THE COMMITTEE HAS COMPLETED THE WORK NECESSARY ON THESE BILLS.

THE FIRST PIECE OF LEGISLATION TO HEARD IS SB 525, "AN ACT RELATING TO UNEMPLOYMENT INSURANCE." THE MAIN PURPOSE OF THIS BILL IS TO BRING THE STATES UNEMPLOYMENT INSURANCE LAWS IN TO CONFORMITY WITH FEDERAL LAWS. IT ALSO WOULD INCREASE WEEKLY UNEMPLOYMENT BENEFITS AND CALLS FOR A NEW METHOD OF CALCULATING THE UNEMPLOYMENT TAX THAT EMPLOYERS PAY. THAT IS JUST A BRIEF OUTLINE FOR A VERY COMPLEX BILL. I WOULD NOW ASK THE DEPARTMENT OF LABOR TO COME FORWARD TO GO THROUGH THIS BILL WITH THE COMMITTEE.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST HCS FISCAL DETAIL
 Bill/Resolution No.: CSSB 525 Agency Affected: Labor
 Title: "An Act relating to Unemployment Insurance. . ."
 Program Category Affected: Social Services
 Sponsor: Sen. Labor & Commerce BRU, Program or Subprogram(s) Affected:
 Requestor: House Labor & Commerce Employment Security, Unemployment
 Date of Request: 5/14/84 Insurance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES	33.7	89.8	93.9	97.2	102.6	108.4
200 TRAVEL	0	0	0	0	0	0
300 CONTRACTUAL	16.9	57.3	50.1	53.1	56.3	59.7
400 SUPPLIES	1.0	2.8	3.0	3.2	3.4	3.5
500 EQUIPMENT		5.0				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS	600.0	2,000.0	2,100.0	2,100.0	2,100.0	2,100.0
800 MISCELLANEOUS						
TOTAL OPERATING	651.6	2,154.9	2,247.0	2,253.5	2,262.3	2,271.7
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	651.6	2,154.9	2,247.0	2,253.5	2,262.3	2,271.7
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	651.6	2,154.9	2,247.0	2,253.5	2,262.3	2,271.7

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: John W. Shay, Jr. Phone: 465-2712
 Division: Employment Security Division Date: _____
 Approved by Commissioner: Robert W. Jandani
Jim Robison Date: 5/15/84
 Agency: Labor

LEG:B:14

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE

BILL/RESOLUTION NO: HCS CSSB 525 (L&C)

TITLE: "An Act relating to Unemployment Insurance."

AGENCY AFFECTED: Department of Labor

Page 2

This bill would require the Department of Labor to pay unemployment insurance benefits to qualifying persons between school terms. Two costs would be associated with this bill, the actual costs of the benefits paid and the administrative costs to run the program.

The estimated benefits to be paid in Fiscal Year 1985 are calculated as follows:

Number of Eligible Claimants	\$ 1,400
Average Weekly Benefit Amount	x 135
	<u>\$ 189,000</u>
Average Length of Claim	x 10 wks
	<u>\$1,890,000</u>
Adjustment for Increase in Average Weekly Benefit Amount from \$135 to \$150	+ 110,000
	<u>\$2,000,000</u>

The estimated benefits to be paid in fiscal years 1986 - 1989 are as follows:

Number of Eligible Claimants	\$ 1,400
Average Weekly Benefit Amount	x 150
	<u>\$ 210,000</u>
Average Length of Claim	x 10 wks
	<u>\$2,100,000</u>

Administration costs to run this program would include the salaries of eight seasonal Unemployment Insurance Specialist I's for four months each. Contractual and Supply costs associated with these positions would include postage and forms, as well as normal expenses. One-time expenses would include \$10,000 in Contractual in Fiscal Year 1985 to complete automation of the claims processing function, and \$5,000 in Fiscal Year 1985 to purchase equipment for this function.

In preparing the cost estimate for benefits to be paid the following assumptions were made:

1. An effective date of May 22, 1984.
2. The average weekly benefit amount would increase from \$135 to \$150 on October 1, 1984.
3. No increase in claims would be seen from Fiscal Year 1985 - 1989.
4. There would be no further increase in benefit amount from Fiscal Year 1985 - 1989.

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE
BILL/RESOLUTION NO: HCS CSSB 525 (L&C)
TITLE: "An Act relating to Unemployment Insurance."
AGENCY AFFECTED: Department of Labor
Page 3

In preparing the cost estimates for administrative costs the following assumptions were made:

1. An effective date of May 22, 1984.
2. An annual inflation rate of six percent.

LEG:B:14

Charges made to School Districts for UI Benefits Paid to Claimants

QTR. ENDING
June 83

QTR. ENDING
Sept 83

Galena City S.D. (503320)	\$14,017.97	7,756.31
St Mary's S.D. (512311)	3,912.71	2,644.08
Bering Strait SD (512320)	20,890.95	51,440.85
Juneau City SD (980340)	11,018.35	18,776.48
Yukon-Koyukuk S.D. (513962)	18,672.47	19,608.47
Fbks North Star (521230)	46,016.65	146,143.02
Tanana City School D. (566942)	10.83	2,5057.76
Craig City S.D. (980153)	5,912.90	4,496.86
Haines Borough SD (980170)	3,695.59	2,246.12
Hydaburg City S.D. (980188)	3,889.60	8,753.42
Kodiak Is. S.D. (980706)	8,060.21	16,330.98
Dillingham City SD (980714)	4,239.41	3,244.52
MatSu Borough Schools (980722)	17,244.09	20,141.01
Lower Kuskokwim SD (980765)	42,973.94	102,619.12
North Slope Boro SD (980773)	24,624.21	30,363.07
KusPuk SD (980838)	7,031.04	17,643.37
Chatkham SD (980846)	8,978.84	14,122.12
Railbelt SD (980854)	3,565.60	6,565.92
Lake & Penn S.D. (980870)	11,005.12	13,971.85
Valdez City Schools (980889)	7,477.83	7,179.50
Iditarod Area SD (980897)	10,397.34	7,985.14
Yakutat City S.D. (980900)	2,524.15	5,962.14
Pribilof S.D. (980927)	568.35	41.92
Bristol Bay Boro SD (980021)	939.61	103.26
Anch School D. (980013)	124,840.65	480,900.63
Kenai Penn SD (980200)	41,569.25	105,753.15
Ketchikan Borough SD (980226)	1,197.05	7,445.95

Nenana City Pub Schools (980269)	2138.08	2339.34
Petersburg SD (980277)	565.03	337.44
Skagway City SD (980285)	1081.97	7331.24
Southwest Region Schools (980293)	2719.56	115.86
Wrangell Public Schools (980307)	4009.11	9091.81
Lower Yukon S.D. (980356)	29478.11	41223.13
Nome Public Schools (980366)	1448.67	1973.08
Hoonah Pub Schools (980374)	3236.71	5923.92
Copper River S.D. (980382)	7418.24	4011.55
NW Arctic SD. (980412)	26,398.27	79,681.70
AK Gateway Schools (980439)	8,012.10	5428.92
Annette Island S.D. (980453)	4458.38	18,270.47
Delta/Greely SD (980480)	6565.55	14,420.96
Sitka Boro SD (980498)	491.01	6163.03
Southeast Is SD (980501)	4431.46	7047.85
Kake City SD		975.97
Alutian Reg Sch. S. (980447)		1309.55

June 30, 1983

Sept 30, 198

Totals. \$536,727.15 \$1,309,963.14

GRAND TOTAL \$1,846,690.29

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