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**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date : 4/3/86

REQUEST

Bill/Resolution No. : CSHB 681 (L&C)
 Title : "An Act relating to
unemployment insurance..."
 Sponsor : Governor
 Requestor : Labor and Commerce
 Date of Request : 4/3/86

FISCAL DETAIL

Agency Affected : Labor
 BRU : Employment Security
 Components : Unemployment Insurance

EXPENDITURES/REVENUES : (Thousands of Dollars)

| OPERATING | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 | FY 91 |
|------------------------|----------|--------------|--------------|--------------|--------------|--------------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | 150.0 | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | 60.0 | 180.0 | 180.0 | 180.0 | 180.0 |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0 | 210.0 | 180.0 | 180.0 | 180.0 | 180.0 |

| | | | | | | |
|----------------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|----------------|--|--|--|--|--|--|

| | | | | | | |
|------------------|----------|--------------|--------------|--------------|--------------|--------------|
| REVENUE * | 0 | 150.0 | 170.0 | 177.0 | 184.0 | 191.0 |
|------------------|----------|--------------|--------------|--------------|--------------|--------------|

FUNDING : (Thousands of Dollars)

| | | | | | | |
|---------------|----------|--------------|--------------|--------------|--------------|--------------|
| GENERAL FUND | 0 | 60.0 | 180.0 | 180.0 | 180.0 | 180.0 |
| FEDERAL FUNDS | | 150.0 | | | | |
| OTHER | | | | | | |
| TOTAL | 0 | 210.0 | 180.0 | 180.0 | 180.0 | 180.0 |

POSITIONS :

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS : Attach a separate page if necessary

* Training and Building Fund

Prepared by : John W. Shay, Jr. Phone : 465-2712
 Division : Employment Security Division Date : 4/3/86

Approved by Commissioner : Jim Robison Date : 4/3/86
 Agency : Labor

Distribution (by Agency preparing fiscal note) :

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

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CSHB 681 (L&C)

This bill proposes to provide for an automatic adjustment of the weekly unemployment insurance (UI) amount. The adjustment will be based on fluctuations in the annual average weekly wage. It is expected that this adjustment will result in an increase in the weekly benefit amount. This will impact our UI trust fund balance as well as the State Interim Benefit (SIB) grant payments.

The law change will require modifications to our computer programs, which is estimated at \$150,000 in contractual monies (one-time expense). These modifications will be paid for out of federal funds.

The increase in general funds is anticipated in the SIB grant payments. This was determined by calculating the amount of benefits each 1985 SIB claimant would have received had the proposed schedule been in effect and multiplying the increase from the old schedule by the number of weeks that claimant was paid SIB benefits. The proposed change in the dependent allowance was then added. All variables are assumed to remain the same through FY 1991. The supplemental interim benefits are paid from late May to early September. Since the effective date of this legislation is October 1, 1986, the FY 1987 funding request will only cover anticipated costs for May and June 1987, and is estimated at \$60,000.

In addition to the increased costs associated with this bill there would be additional revenues to the Training and Building Fund (T & B Fund).

The bill also provides for a specific penalty on individuals who fraudulently receive unemployment insurance benefits. The penalty of 50% of the fraudulently obtained benefits would be transferred to the T & B fund upon collection.

We estimate \$150,000 would be collected in FY 87, \$170,000 in 1988, and a 4% increase per year beyond 1988.

Assumptions:

1. Based on actual recovery of \$250,000 in FY 85, 50% or \$125,000 would have been deposited to the T & B fund that year. With an estimated 30% increase in benefits effective October 1, 1986 if this bill passes, we estimate \$300,000 would be recovered, so \$150,000 deposited to the T & B fund in FY 87.
2. Benefits and hence penalty recoveries would increase 4% per year from 1988 to 1991.
3. The bill would be effective July 1, 1986.

Committee Substitute for
House Bill 681
Section-by-Section Analysis

OVERVIEW

The Department of Labor, Employment Security Division, Unemployment Insurance Section, operating under AS 23.20 pays temporary unemployment insurance benefits to qualified individuals and collects contributions to support the level of benefits. Both employers and employees pay contributions into the trust fund, similar to paying insurance premiums.

HB 681 provides certain enhancements and housekeeping changes to AS 23.20, as follows:

- increases current unemployment insurance benefits
- ties weekly benefit amounts to wages in the state
- liberalizes the dependent's allowance
- establishes an employee surcharge so that employers do not bear the costs of the increase in the unemployment insurance weekly benefit amount.
- imposes a penalty on claimants who defraud the benefit system and improves the department's ability to collect delinquent employer contributions and to recover from claimants benefits which were fraudulently obtained.
- provides relief to claimants who presently are not eligible for full benefits because their employer has gone bankrupt and has not reported any earnings for them.

SECTION-BY-SECTION ANALYSIS

SECTION 1:

This section provides that a fish processor's surety bond, required under AS 16.10.290(a), may be attached for unpaid unemployment insurance taxes. Under this proposal, wages and payment for raw fish would continue to have first priority on any action against a bond. One fourth of the fish processors in the state are delinquent in paying their unemployment taxes. This resulted in a loss to the UI Trust Fund of about \$545,000 in calendar year 1984.

SECTION 2:

This section provides for deposit of the penalty imposed under AS 23.20.390(f) into the Training and Building Fund where other penalties and interest are deposited.

SECTION 3:

Section 3 is a housekeeping measure to provide for the 10% penalty on delinquent employer reports and taxes to be optional instead of mandatory. This provision is not presently enforced.

SECTIONS 4, 5, 6, 7, AND 8:

Sections 4, 6, 7, and 8 provide the funding mechanism for the adjustment to the benefit formula and schedule in Section 9. Section 8, provides for a surcharge on all employees to pay for the cost of the difference in benefits between the current schedule and the schedule that will be generated by the benefit formula on October 1, 1986. Employees will bear the cost of this one-time increase in benefits on an ongoing basis. Any subsequent increases in benefits that the formula generates will be financed under the rate determination methodology in current statute.

Sections 4 & 5 of the bill provides for nonprofit organizations, who reimburse the U.I. Trust Fund for payments made to their former employees, to continue to pay the full state share of extended benefits. Under current law nonprofit organizations pay 50% (the state share) with the federal share being 50% also. Under the Gramm-Rudman-Hollings Act, the federal share of extended benefit payments will decrease because it is subject to sequester. Sections 4 and 5 therefore, provide for nonprofits to continue to pay the full state share which may fluctuate as a result of fluctuation in the federal share.

SECTION 9:

This section modifies the unemployment insurance benefit schedule by providing a formula to define the amount of benefits to be paid. The formula ties the level of weekly benefits to the wages paid in Alaska. Benefits would adjust upward or downward annually as a result of changes in annual wages. The schedule is also expanded to provide higher benefits to higher wage earners as well as a modest increase for all recipients. This formula results in an increase in the maximum weekly benefit amount to \$246 the first year.

This section also liberalizes the provisions covering dependents allowance payments. Presently a dependent claimed by one parent cannot be claimed by the other parent until the first person's benefit year has expired (even if they have no remaining benefits to receive). This proposal allows both parent to claim the same dependents. Three dependents is the most that can be claimed by any one claimant.

SECTION 10:

This section provides for a penalty to be assessed on individuals who are disqualified for fraudulent receipt of benefits. Currently persons who fraudulently receive benefits are disqualified from receiving benefits for a specified period of time and must repay the benefits fraudulently received (similar to an interest-free loan). As a further disincentive for fraud, the department's proposal would provide for the same disqualification period and restitution requirement and add a penalty of 50% of the amount overpaid.

SECTIONS 11 AND 12:

Sections 11 and 12 establish provisions for liens and attachment of property to facilitate the collection of overpayments that are caused by fraudulent receipt of benefits.

SECTION 13:

Section 13 is a housekeeping measure that moves the definition of employer, as it relates to corporate officers, members or employees, from AS 23.20.240 to AS 23.20.520(13). This places the definition of employer all in one place in the statute. This definition of employer would now apply throughout AS 23.20.

SECTION 15:

Section 15 expands the definition of wages to include earnings for work that an employee performs but is not paid because the employer files for bankruptcy. Under current law, an individual's eligibility for unemployment insurance cannot be based on this work because the wages were not paid.

SECTIONS 14, 16, AND 17:

These sections are housekeeping measures. Section 14 references AS 23.20.351, the section that now contains the benefit eligibility criteria. Section 16 and 17 repeal statutes that are either outdated or repetitive.

SECTION 18:

Provides for estimating collected surcharge in Section 6 of this act for 1987 and 1988.

SECTIONS 19, 20, AND 21:

These sections establish effective dates.

Position Paper
HB 681
An Act Relating to Unemployment Insurance

This bill adds a new section AS 23.20.351 which establishes a formula for computing unemployment insurance benefits which would be tied to State average weekly wage and would be adjusted annually. The proposed formula raises benefits from their current levels.

The bill establishes an employee surcharge (proposed AS 23.20.290(g)) to finance the initial increase in benefits under the proposed formula. Two options are provided for nonprofit organizations and government entities who have chosen to reimburse the Department of Labor for benefits paid. These are: (1) they can collect the surcharge and pay an amount determined by the formula in proposed AS 23.20.277(m) or (2) under proposed AS 23.20.277(m), reimburse the Department of Labor the full amount of their respective shares and forego collection of the surcharge.

Additional penalties are assessed individuals fraudulently obtaining benefits and additional facilities are provided for their collection. Proposed amendments also enhance the Department of Labor's ability to collect contributions from delinquent employers. Also included are housekeeping amendments.

Summary

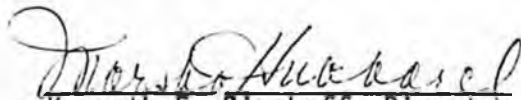
Section 6 of this act provides for an employee surcharge to assist the employer in the cost of the additional unemployment insurance benefits. Section 5 of the act allows the employer the option of collecting or not collecting the surcharge from employers. If surcharge is not collected the employer would need to pay 100% of the cost.

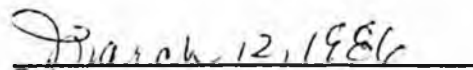
In order for the State to collect the surcharge from covered employees, major changes to the statewide payroll will be required. The one time cost to change the payroll system, forms, procedures, etc., is estimated at \$115.0. Ongoing annual cost will be \$20.0 per year.

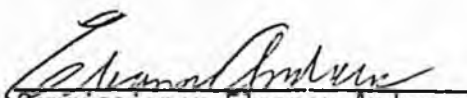
Position

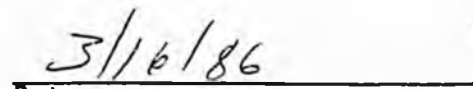
The State would select the option of collecting the surcharge from employees in order to keep employer cost for unemployment insurance to a minimum.

If gross wages for covered employees were \$500 million, the surcharge at 0.2% would be \$1.0 million.


Kenneth E. Bischoff, Director
Division of Finance


Date


Commissioner Eleanor Andrews
Department of Administration


Date

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
Bill/Resolution No.: HB 681
Title: An act relating to unemployment insurance.

FISCAL DETAIL
Agency Affected: Administration
BRU: Finance

Sponsor: Rules Committee
Requestor: Governor
Date of Request: 2-17-86

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

| | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 | FY 91 |
|------------------------|----------|--------------|-------------|-------------|-------------|-------------|
| OPERATING | | | | | | |
| PERSONAL SERVICES | 0 | 125.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| TRAVEL | 0 | 0 | 0 | 0 | 0 | 0 |
| CONTRACTUAL | 0 | 0 | 0 | 0 | 0 | 0 |
| SUPPLIES | 0 | 0 | 0 | 0 | 0 | 0 |
| EQUIPMENT | 0 | 0 | 0 | 0 | 0 | 0 |
| LAND & STRUCTURES | 0 | 0 | 0 | 0 | 0 | 0 |
| GRANTS, CLAIMS | 0 | 0 | 0 | 0 | 0 | 0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 0 | 125.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 0 | 0 | 0 | 0 | 0 | 0 |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|----------|--------------|-------------|-------------|-------------|-------------|
| GENERAL FUND | 0 | 125.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| FEDERAL FUNDS | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 0 | 125.0 | 20.0 | 20.0 | 20.0 | 20.0 |

POSITIONS:

| | | | | | | |
|-----------|---|------|-----|-----|-----|-----|
| FULL-TIME | 0 | 2.25 | 0.5 | 0.5 | 0.5 | 0.5 |
| PART-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY | 0 | 0 | 0 | 0 | 0 | 0 |

ANALYSIS: Attach a separate page if necessary See Attached

Prepared By: Kenneth E. Bischoff *KCB*
Division: Finance

Phone: 465-2240
Date: 3-5-86

Approved by Commissioner: Eleanor Andrews *Eleanor Andrews*
Agency: Department of Administration

Date: 3/16/86

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

CONTINUATION of FISCAL NOTE ANALYSIS

For HB 681

The operation of the automated payroll system and associated manual processes involved in paying employee salaries, assessing employer charges, and the taking of employee contributions is a daily function of the Division of Finance, Department of Administration (DOA).

Section 6 of this act (HB 681) provides for a surcharge to be deducted from individual employee's wages and held in trust until needed for payment [AS 23.23.165(c)].

The bill allows the State two options for collecting the surcharge:

1. The employer may assume the surcharge as an employer cost and not assess the employee in accordance with Section 5(n) of the bill.

This option would not require payroll system changes but employer costs would increase based on a formula defined by Section 5(m) of the bill. If the formula resulted in a cost of .2 percent of gross wages paid by the State, and gross wages were \$500 million, then the increase in employer costs would be \$1.0 million.

2. The employer may assess the employee in accordance with Section 6(g) of the bill.

We assume that the State would choose this second option as it would be less costly in terms of employer costs. The dollars reflected on the front page and in the following analysis reflect the impact of this employee surcharge option.

The impact of the second option on the automated payroll system, reports, forms, and manual processes of having to assess, maintain records, report and transmit surcharge contributions is very significant.

Each type of employee contribution requires additional data fields for the amounts. These fields must be established in numerous files, on numerous forms, and in numerous reports as well as the addition of computer program logic to calculate, pass, and record amounts collected.

One-time costs to implement this new employee surcharge are as follows:

1. Programming efforts that would be required to process changed forms, process expanded payroll files, and make changes to calculation programs and reporting programs are estimated at three programmers full-time for six months, for a cost of approximately \$100,000.
2. One-time efforts of approximately 500 hours would be required by Payroll Section technicians in order to make Administrative Manual changes, procedure changes, forms changes, and to train agencies prior to implementation.

On-going additional effort that would be required in the Payroll Section, DOA, is estimated at 775 hours per year. This new employee tax or surcharge would affect nearly every payroll warrant we write. New reporting, adjusting, calculating, and account balancing efforts would all be required.

In summary, the impact on the Division of Finance is as follows:

| | |
|----------------------------------------------------------------------------------------------------------------|---------------|
| Cost of programming changes to the payroll and affected subsystems - (18 months at \$5,550/mo) | \$100,000 |
| One-time cost to change forms, procedures, etc. (500 hours at an average of \$30/hour) | <u>15,000</u> |
| TOTAL ONE-TIME COST | \$115,000 |
| Additional on-going annual cost (755 hours at \$26.50/hour) | \$ 20,000 |

APPROPRIATION/CO/AC
 APPROPRIATION EXPENDITURES BY ACCOUNT
 1-15 STATE OF ALASKA ORIG:85
 COA:1985 IN MILLIONS
 ENTITY NUMBER - DESCRIPTION

RSN:0011115 PSN:00429 01/10/86
 STATE OF ALASKA
 HISTORICAL
 FN:
 AUTHORIZED DISBURSE ENCUMBER UNOBLIG.

| ENTITY NUMBER | DESCRIPTION | | | | |
|---------------|----------------------|-----|------|---|------|
| S** 71000 | PERSONAL SERVICES | 884 | 786- | 0 | 146 |
| S** 71100 | WAGES | 0 | 534- | 0 | 534- |
| S** 71150 | REGULAR DUTY | 0 | 511- | 0 | 512- |
| S** 71170 | REGULAR COMPENSATION | 0 | 511- | 0 | 512- |
| S** 71200 | ADDITIONAL REGULAR | 0 | 0 | 0 | 0 |
| S** 71200 | PREMIUM PAY | 0 | 23- | 0 | 23- |
| S** 71300 | OVERTIME | 0 | 21- | 0 | 21- |
| S** 71360 | SHIFT DIFFERENTIAL | 0 | 2- | 0 | 2- |
| S** 71390 | STANDBY PAY | 0 | 0 | 0 | 0 |
| S** 71450 | PENALTY PAY | 0 | 0 | 0 | 0 |
| S** 71480 | DOUBLE TIME PAY | 0 | 0 | 0 | 0 |
| S** 71550 | OTHER TAXABLE COMP | 0 | 0 | 0 | 0 |
| S** 71560 | RETROACTIVE PAY | 0 | 0 | 0 | 0 |
| S** 71580 | TOOLS/UNIFORMS | 0 | 0 | 0 | 0 |
| S** 71600 | BENEFITS | 0 | 166- | 0 | 166- |

FOR NEXT SECTION ENTER== NUMBER _____ YEAR _____ LEVEL LIMIT ____
 PF1=MENU PF3=PAGE FORWARD PF6=REQ REQUEST MAINTENANCE