

HB

58

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 58
(H) Publish Date: 1/16/01

Revision Date/Time (Note if correction): _____ Dept. Affected: Labor
Title: "An Act relating to the calculation and BRU: Employment Security
payment of unemployment compensation..."
Sponsor: Rules Committee Component: Unemployment Ins
Requestor: Governor Component Number: 2276

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
New# Bldg Safety Acct						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: None

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation increases the maximum unemployment compensation weekly benefit amount (WBA) from \$249.00 to \$284.00 and increases the qualifying wages in the existing statutory table. There is no fiscal impact to the department as a result of this legislation.

Prepared by: Rebecca Gamez, Director Phone: 465-2711
Division: Employment Security Date/Time: 1/10/01 10:38 AM
Approved by: Ed Flanagan, Commissioner Date: 1/10/2001
Agency: Department of Labor and Workforce Development

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FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSHB 58(L&C)
(H) Publish Date: 4/10/01

Revision Date/Time (Note if correction): (Cor. 3/16/01) Dept. Affected: Various
Title: "An Act relating to the calculation and payment of unemployment compensation benefits..." BRU: Various
Sponsor: Rules Committee Component: Various
Requester: (H)L&C Component Number: _____

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Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
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Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	95.6	257.4	323.7	325.0	325.0	325.0

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Other (Specify Type) <u>various</u>	95.6	257.4	323.7	325.0	325.0	325.0
TOTAL	95.6	257.4	323.7	325.0	325.0	325.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
This legislation has a fiscal impact on the employer charge percentage charged all state agencies using the working reserves for unemployment insurance. The Fund Source is all funding sources that include Personal Services. The costs are based on a 3-year average annual usage (\$3,932,804 for FY 98 through FY 00).

The Alaska Department of Labor conducted an analysis of affected claimants to determine the estimates reflected above. Their analysis is attached. The methodology has been provided to the University of Alaska for their use in preparing a fiscal note on this proposed legislation.

Prepared by: Kim Gamero Phone 465-3435
Division: Finance Date/Time 03/26/01
Approved by: Jim Duncan, Commissioner Date 3/22/01
Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

Dept. of Administration's Fiscal Note

The original fiscal note for HB 58 was prepared by Dept. of Administration with the following estimates:

FY 2002	\$295 (Thousands)
FY 2003	\$590
FY 2004	\$590
FY 2005	\$590
FY 2006	\$590
FY 2007	\$590

The estimate of increased cost of HB 58 was based on the value of a working reserve fund for reimbursable state UI costs during the last three fiscal years. The reserves covered State Agencies, Courts, and Legislative Agencies, but not the University. The first part of the legislation raises the Maximum Weekly Benefit Amount (MWBA) from \$248 to \$284, which calculates to an increase of 15 percent. The fiscal note was prepared with an assumed 15 percent cost increase. In the note cost for the first year, FY2002, assumed 15% for half the year, since the new WBA would be in effect for only 6 months of the state fiscal year. The 15% for each full year after was then applied for FY 2003 - 2007.

Some basic facts about HB 58 are that the Maximum WBA would rise from the current \$248 to \$284 during the calendar year 2002. In the following calendar year, 2003, the MWBA would be determined by a formula based on the prevailing state average wage. Current data indicate that the resulting WBA would be set at approximately \$320.

The cost increase for state FY 2002 would include the increase for one-half of calendar year 2002, in which a MWBA of \$284 would be in place. The cost for state FY 2003 would include the increase for the second half of CY 2002, with a MWBA of \$284, PLUS the increase for the first half of CY 2003, in which a MWBA of roughly \$320 would be in place. The following state fiscal years, starting with FY 2004 would be impacted by the increases associated with the MWBA of roughly \$320.

The actual costs of the proposed legislation will be determined by the payment of benefits under the new benefit schedule, to qualified unemployed state employees. We know that most of the current state employee benefit recipients are not receiving the maximum benefit amount, and will not qualify for the new proposed maximum WBA's.

The fiscal note assumption of a 15% increase in cost, based on a 15% increase MWBA, is a conservative approach, but probably overstates the cost for the first year or two. The preparation of the fiscal note did not seem to take into account the second change in MWBA, from \$284 to roughly \$320, another 13 percent increase. These two factors together have a somewhat self-canceling effect, and the resulting estimates in the later fiscal years are not unreasonable.

Dept. of Labor & WD, R&A's estimates

A. R&A's initial estimates include costs beyond those covered by the Fiscal Note

To generate its taxable employer cost estimates for HB 58, research and analysis used a special claimant file which stratifies claim payment activity by the qualifying wages of claimants. We have used CY 1998 as a representative year. The costs for 1998 were lower than 1999, and a bit higher than 2000, and are a reasonable representative of our current economy. In looking at state of Alaska reimbursable costs for the fiscal note, we followed the same approach, limiting our data to claimants with a state "ownership" code. Unlike the Department of Administration fiscal note, our original estimate included the University of

Alaska, The Alaska Railroad, Etc. Running the state claimant data through our model gave us the following rough results:

The annual cost increase resulting from a new Max WBA of \$284 would be approximately \$ 293,000.
The annual cost increase resulting from a new Max WBA of \$320 would be approximately \$ 498,000.

The claimants covered in the state data include every state entity, including the university, railroad, legislative branch, courts, etc. These estimates, therefore, cover a larger group than the DOA was considering in its fiscal note. Using these inclusive numbers we generated the following FY estimates, calculating the FY costs according to the effective WBA in place (see paragraph 4 above): FY 02 - \$147,000, FY 03 - \$396,000, FY 04 - \$498,000, FY 05 to 07 - \$500,000.

B. R&A adjusts its estimates to conform to the same parameters of coverage in the fiscal note developed by the Department of Administration

When we examine the reported amount of state total reimbursable costs, for the same group covered by the DOA's fiscal note, during the last three fiscal years (source ETA 2112 report), the average figure is \$ 3.9 million. These costs were predominantly State Administration, with minor costs for academic, fee agents, and elections.

When we estimated the total cost of benefits paid to all "state" claimants (the "larger" group), in our special claimant file, we came up with a figure of \$ 6.3 Million.

Using the two estimates, we calculated the ratio between the two data sets as approximately 65%. We then applied a 0.65 factor to the raw FY figures above to get the following estimates:

FY 2002	\$ 095,550
FY 2003	\$ 257,400
FY 2004	\$ 323,700
FY 2005	\$ 325,000
FY 2006	\$ 325,000
FY 2007	\$ 325,000

Looking at the various data sources, all created for different purposes, was a classic attempt to compare apples and oranges and get a simple definitive result. The cost figures we have created are as much a product of measured logic as they are of accounting and forecasting, which in the end is how most estimates are generated

James Wilson
Asst. UI Actuary
Alaska Dept. of Labor and Workforce Development
465 4520

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSHB 58(L&C)
 (H) Publish Date: 4/10/01

Revision Date/Time (Note if correction): _____ Dept. Affected: University of Alaska
 Title: An Act relating to the calculation and payment of unemployment compensation benefits; and providing an effective date BRU: various
 Sponsor: Rules Committee Component: various
 Requester: Governor Component Number: _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	15.8	46.5	61.3	63.4	65.3	67.2
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	15.8	46.5	61.3	63.4	65.3	67.2

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)	15.8	46.5	61.3	63.4	65.3	67.2
TOTAL	15.8	46.5	61.3	63.4	65.3	67.2

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation has a fiscal impact on the employer charge percentage and thus the amount the University of Alaska pays for unemployment insurance. The Fund Source is all funding sources that include Personal Services. The costs are based on a 3-year average annual usage (\$640,000 FY99 thru FY01).

The University of Alaska used the estimates and methodology supplied by the Alaska Department of Labor from their analysis of affected claimants to prepare this fiscal note on the proposed legislation.

Prepared by: Pat Pitney Phone 474-5889
 Division: University of Alaska Date/Time 4/3/01 1:00 PM
 Approved by: _____ Date _____
 Agency: _____

For distribution information, call the Governor's Legislative Office

Failed 2-8

CSHB 58(L&C)

Proposed Amendment

I

Amendment No. _____

By _____

CSHB 58(L&C) is amended by:

Page 5 Line 23, Delete Sec. 2

Page 10 Line 6, Delete Sec. 3

Page 15 Line 2, Delete Sec 5

Page 15 Line 3, Delete Sec 6

Renumber sections and pages

Becca

Mr. Chairman _____ and members of the House Finance Committee --

The legislation before you relates to the effectiveness of Alaska's Unemployment Insurance program. As you may be aware, the national Unemployment Insurance system was originally created in 1935 as one of the programs ~~fostered by~~ ^{under} the Social Security Act. Congress chose at that time to create a national system for compensation of unemployed workers composed of programs administered by each state and territory with broad federal oversight. The decision was made to create this system on an insurance model, rather than as a ~~straightforward~~ ^{an} entitlement program.

This insurance model has worked well for over sixty-five years. As with any insurance program, the object is to underwrite an identified potential loss incurred by a small percentage of the insured through accumulation of funds collected from the group as a whole. The loss insured by this program is the loss of wages by unemployed workers. The "premiums" required to cover this potential loss are, in ~~most~~ ^{all} states ~~paid solely by the employer,~~ ^{except Alaska and New Jersey,} ~~although in~~ Alaska the cost is shared between the employer and the worker. Alaskan employers carry 80% of the direct costs and the workers pay 20% of these costs through payroll taxes.

New Jersey capped @ about \$42-1/yr.
AK EE's contrib. via @ about \$133-1/yr.

With any program that compensates individuals while they are not working, there has always been a concern that the goal of providing temporary, partial wage replacement not inadvertently provide a disincentive to returning to work. In striving to provide sufficient temporary income to enable the

worker to "bridge the gap" between jobs while meeting non-deferrable expenses ^(such as food, shelter and fuel) a target of 50% wage replacement has been used most frequently.

According to figures provided by the US Department of Labor, Alaska ranks not only below all other states in the adequacy of wage replacement provided by its Unemployment Insurance program, but also below the District of Columbia and Puerto Rico.

Benefit amounts are based on the amount of wages a worker earns during a prescribed "base period". Workers with higher earnings, whose loss of work has a higher financial impact, generally receive a higher weekly benefit amount.

Under our current statute, the maximum benefit amount that can be paid to workers who have earned over \$26,750 is \$248 a week, regardless of whether the amount wages the worker lost was \$26,750 or \$50,000 a year. The maximum amount currently represents approximately 38% of the average weekly wage in the state.

The proposed legislation seeks to raise the maximum weekly benefit amount in Alaska in three steps to an amount roughly equal to one half of the current average weekly wage in the state, \$320. The first increase, to be effective January 1, 2002 would raise the amount to \$272. A second increase, to be effective January 1, 2003 would raise the amount to \$296 with the third increment effective January 1, 2003.

Clearly, there is a cost associated with increasing the wage replacement for Alaska's workers. The goal of closing the gap between our current maximum benefit amount and the target of 50% of the current average weekly wage is the largest financial hurdle. The total additional cost to the fund is anticipated to be approximately \$10 million. ^{\$8.0 by ERS \$2.0 by workers} This will result in an increase in taxes to the average employer of 9.6%. ^{over six years} However, as the costs used as the foundation of determining tax rates are derived from the average of the benefit outlays from the previous three state fiscal years, the increase resulting from this legislation will not impact taxes until 2003. The increases will be phased in during the following years, with the full impact being included in the tax calculations for 2008.

I appreciate your consideration of this legislation and remain available to answer any questions you may have.

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ascjuno@ptialaska.net



Regional Office:
P.O. Box 91896
Anchorage, Alaska 99509
(907) 278-2722 FAX 278-6643
ascanch@ptialaska.net

ALASKA STATE CHAMBER OF COMMERCE

Position Statement

CSHB 58 (L&C) - Unemployment Compensation Benefits

CSHB 58 (L&C) proposes to increase the maximum weekly benefit amount (MWBA) for unemployment compensation by 29% above the present level. Alaska's employers would pay the cost of the increase, which is \$10 million. The Alaska State Chamber of Commerce believes this increase to be exorbitant.

Under CSHB 58, the increase would occur in three increments: from the current \$248 per week to \$272 in 2002; to \$290 in 2003; and to \$320 in 2004. Alaska is one of 12 states that also provide a supplemental weekly benefit of \$24 per dependent, up to 3 dependents, or \$72. Therefore, the maximum weekly benefit amount under current law ranges between \$248-\$320.

The stated goal of the Alaska Department of Labor is to have the MWBA be 50% of Alaska's average weekly wage, which they say is \$640. Under current law, the MWBA ranges between \$248 and \$320, or between 39% and 50% of the average weekly wage. With the proposed increase, the MWBA would range between 50% and 61% of the average weekly wage.

Alaska State Chamber of Commerce members responding to a survey on HB 58 said the following:

- 60% wanted no increase in the MWBA
- 12% supported an increase in the MWBA to \$284 (proposed in the original bill)
- 2% supported an increase in the MWBA to \$320
- 26% said the increase should be less than either of these amounts

86% of the respondents opposed the increases proposed in HB 58.

Recognizing that the last increase in the MWBA occurred 4 years ago and that some increase in the MWBA may be appropriate, the Alaska State Chamber is willing to support the increase to \$272 proposed in Section 1 of CSHB 58 (L&C). This is an increase of 10% and sets the MWBA in a range of between \$272-\$344, or between 43% and 54% of the average weekly wage.

We are opposed to the further increases proposed in Sections 2 and 3 of the bill.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 58
(H) Publish Date: 1/16/01

Revision Date/Time (Note if correction): _____ Dept. Affected: Labor
Title: "An Act relating to the calculation and BRU: Employment Security
payment of unemployment compensation..."
Sponsor: Rules Committee Component: Unemployment Ins
Requester: Governor Component Number: 2276

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

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Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

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1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
New/Bldg Safety Acct						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: None

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation increases the maximum unemployment compensation weekly benefit amount (WBA) from \$248.00 to \$284.00 and increases the qualifying wages in the existing statutory table. There is no fiscal impact to the department as a result of this legislation.

Prepared by: Rebecca Gomez, Director Phone 465-2711
Division: Employment Security Date/Time 1/10/01 10:38 AM
Approved by: Ed Flanagan, Commissioner Date 1/10/2001
Agency: Department of Labor and Workforce Development

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FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSHB 58(L&C)
 (H) Publish Date: 4/10/01

Revision Date/Time (Note if correction): (Cor. 3/16/01) Dept. Affected: Various
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of unemployment compensation benefits..." Component: Various
 Sponsor: Rules Committee
 Requester: (H)L&C Component Number: _____

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Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

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Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation has a fiscal impact on the employer charge percentage charged all state agencies using the working reserves for unemployment insurance. The Fund Source is all funding sources that include Personal Services. The costs are based on a 3-year average annual usage (\$3,932,804 for FY 98 through FY 00).

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Prepared by: Kim Ganiaro Phone: 465-3435
 Division: Finance Date/Time: 03/20/01
 Approved by: Jim Duncan, Commissioner Date: 3/22/01
 Agency: Department of Administration

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Dept. of Administration's Fiscal Note

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465 4520

FISCAL NOTE

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2001 LEGISLATIVE SESSION**

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Prepared by: Pat Pitney Phone 474-5889
 Division: University of Alaska Date/Time 4/3/01 1:00 PM
 Approved by: _____ Date _____
 Agency: _____

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