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

		ORIGINAL DATE	03/05/21		
SPONSOR	Brandt	**LAST UPDATED**		**HB**	
SHORT TITLE	Unemployment Calculation Dates			**SB**	428
				ANALYST	Bachechi

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY21	**FY22**	**FY23**		
	($44,546.6)	($92,091.1)	Recurring	Unemployment Trust Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$3,000.0	$3,000.0	$6,000.0	Recurring until loan is paid off	General Fund or WSD P&I Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB44, HB148, SB52
Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION
LFC Files

Responses Received From
Workforce Solutions Department (WSD)

SUMMARY

Synopsis of Bill

Senate Bill 428 proposes to extend the omission of certain data through June 30, 2022, from the calculation for employer's unemployment contribution tax rates, which includes excess claims premiums and excess claims rates, and proposes to extend the use of the 2019 computed reserve factor through June 30, 2022.

There is no effective date of this bill. It is assumed the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

WSD estimates the changes in the bill will result in a loss of revenue to the unemployment trust fund of approximately $44.5 million in FY22 and $92.1 million in FY23. Because the calculation for employer's unemployment contribution tax rates includes a three year "look back" provision, WSD reports a loss of revenue totaling over $600 million by FY26.

In September 2020, the unemployment trust fund reached insolvency due the unprecedented volume of unemployment claims related to the Covid-19 public health emergency. To continue paying claims, WSD applied for a loan from the U.S. Department of Labor under Title XII of the Social Security Act to support the fund until it can be replenished through employer contributions. As of March 3, 2021, the outstanding loan balance was $221 million. Funds borrowed from the federal government are currently interest free through August 2021. Unless Congress acts to extend this provision, WSD will be required to begin paying interest on the loan balance. State funds must be used to pay the interest owed. WSD estimates interest payment to be around $3 million per year. By freezing the tax rate at the 2019 computed reserve factor, and effectively lowering employer's unemployment contribution tax rates, it will take longer to replenish the trust fund and WSD will be required to continue making interest payments.

SIGNIFICANT ISSUES

Due to the unprecedented increase in unemployment claims beginning in March 2020 related to the Covid-19 pandemic, New Mexico's unemployment compensation fund declined rapidly, and the fund currently is insolvent. To continue paying unemployment benefits, WSD began borrowing from the federal government in September 2020 and, as of March 3, 2021, has borrowed $221 million. At the present time, interest on federal loans owed by the states is being waived, but principle amounts remain and are increasing.

In the first 2020 special legislative session, the Legislature directed WSD to omit certain data from the calculation of employer contributions tax rates into the unemployment compensation fund and to use the 2019 computed reserve factor for the 2020 employer tax rate calculations. Those changes have been implemented and will result in significantly reduced collections for all of 2021, leaving WSD with no other option but to continue borrowing from the federal government to issue timely benefit payments to eligible, unemployed New Mexicans.

SB428 proposes to extend even further the period of time in which the omission of data from rate calculations should occur and requires a fixed rate reserve factor from years prior will be inserted into the multi-factor formula. Such significant modifications in this complex formula essentially nullifies the intended purpose of ensuring consistency in the methodology for computing employer contribution rates. Most significantly, while this provision would keep employer's unemployment tax rates stable through the end of 2022, it would reduce income into the unemployment insurance trust fund, thwarting efforts to replenish the trust fund and make principal payments on the loan from the Department of Labor under Title XII of the Social Security Act.

Furthermore, SB428 does not differentiate as to what data is to be omitted from a formula, which has multiple factors.

ADMINISTRATIVE IMPLICATIONS

WSD will have to continue borrowing from the federal government to issue timely payments to claimants for the foreseeable future. WSD will also have to modify its existing technology and employer related correspondence to accomplish the provisions of SB428.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB44, Unemployment Compensation Restriction Changes; HB148, Unemployment Contribution Rate Change; and SB52, Extended Unemployment Benefits.

TECHNICAL ISSUES

As previously stated, SB428 does not define what specific data is to be omitted from the calculation of employer contribution rates, leaving WSD to interpret legislative intent.

OTHER SUBSTANTIVE ISSUES

WSD has no knowledge as to the long-term loan requirements that will be determined by Congress and U.S. Department of Labor. The state may be required to begin making payments on the interest from the Title XII loan even while the temporary provisions of SB428 are in place. If Title XII loans are not repaid by second year, after the year of the first loan, the federal unemployment tax reduction offset (currently 0.6 percent) will increase by 0.3 percent each year, at a minimum. Additional successive years of outstanding loans will significantly increase the federal tax on employers.

CLB/sb