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FISCAL IMPACT REPORT

SPONSOR:	Cisneros	DATE TYPED:	01/27/00	HB	
SHORT TITLE:	Decrease Unemployment Compensation Tax			SB	3
				ANALYST:	Eaton

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY00	FY2001*			
	\$ (9,000.0)	\$ (22,400.0)	Recurring	Unemp. Comp.

(Parenthesis () Indicate Revenue Decreases)

*FY2001 reflects one quarter of proposed tax reduction.

Duplicates HB176

SOURCES OF INFORMATION

New Mexico Department of Labor (NMDOL)

SUMMARY

Synopsis of Bill

This bill, endorsed by the Revenue Stabilization and Tax Policy Committee, amends several sections of the unemployment compensation law. The proposed changes include:

1. Changing the monetary requirement for eligibility for low-wage workers from one and one-quarter times high quarter wages to only meet the minimum qualifying wage in the high quarter (\$1,218.00) and have wages in at least one other quarter of the base period. The current formula tends to exclude part-time and low paid workers in sectors such as construction and seasonal agricultural as well as part time workers. This reduction in monetary requirements is estimated to extend benefits to 1,100 persons (\$800.0-\$1.3 million) currently excluded from eligibility.
2. Reducing the requalifying wage requirement to make it easier for long-term unemployed and dislocated workers to qualify on a transitional claim. Federal law requires the state to have a requalifying wage requirement but allows the state to set that amount. This proposed amendment would lower the qualifying standard that the applicant have earned 3/13th of high quarter wages, or 6x weekly benefits, to 5x weekly benefits to qualify for a transitional claim. Approximately 3,000 persons apply for transitional claims annually. This amendment would benefit approximately 10 percent (300 persons) with an estimated fiscal impact of \$640.0 - \$1.1 million.
3. Changing the tax schedule "triggers"; applying reductions in rate changes the schedules 1 and 2; and extending the rate "cram-down" another two years.

Trigger Changes - The six contribution schedules are a function of the solvency of the fund. Schedules 1 and 2 are usually in effect when the economy is experiencing a growth cycle: interest rates are healthy,

unemployment is moderate, and the economy is growing. Schedule 3 is a rebuilding schedule -applied when the fund balances need to be built-up to remain solvent during recessionary periods. Schedules 4 through 6 are applied when the economy is in recession. The changes (p.24-25 of SB 3) will accelerate the "trigger" in schedules 1, 2 and 3 to allow these schedules to more closely track the maximum level of fund liability.

Rate Changes & Rate "Cram-Down" Extension - The New Mexico Department of Labor recommends a reduction in the rates for schedule 1 and 2 (p. 25-25 SB3) as well as an extension of rate "cram-down" for schedule 1 for an additional two years (2001-2002). Some reasons why these changes are recommended are:

a. Federal solvency recommendations are that fund balances be at a sufficient level to pay benefits at recessionary levels for twenty-four months. Current fund balances are at 30.8 months of coverage.

b. The industrial make-up of the New Mexico economy has changed. As a result, the amount of reserves necessary to meet recessionary benefit obligations has declined.

c. Rate reductions in schedules 1 and 2 are possible due to strong earnings on fund balances. In effect, the change proposed is substituting employer taxes for interest earned on U.S. Treasury securities on deposit with the Comptroller General of the United States.

d. Not extending the rate "cram-down" another two years, would trigger a schedule change from schedule 1, to schedule 2, raising the effective tax rate in 2002 for employers by approximately \$25 million -at a time when fund balances exceed federal recommendations.

NMDOL reports that the United States Department of Labor approves of the proposed changes.

4. Changing the coverage requirements for services performed by an inmate of a custodial or penal institution. Currently, "employment" defined does not include "services performed by an inmate of a custodial or penal institution for a governmental entity or non-profit organization". The proposed change would make this true for "any" employer. From a cost standpoint, an employer would find it advantageous to hire an inmate of a custodial or penal institution because hiring such a person would not be defined as employment with respect to unemployment compensation law and would not therefore be required to make contributions on that person's behalf. Additionally, an inmate would not be eligible for any unemployment benefits.

FISCAL IMPLICATIONS

This bill will reduce unemployment taxes by \$20-30 million in calendar year 2001 and \$20-30 million in calendar year 2002, depending on the state of the economy, and increase benefit outlays by approximately \$2.4 million per year. This bill would have no impact on the General Fund.

ADMINISTRATIVE IMPLICATIONS

None. Non-recurring costs for computer reprogramming can be absorbed by the agency.

DUPLICATION

House Bill 176 (Sandel)

JE/njw:gm