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## FISCAL IMPACT REPORT



SPONSOR: Coll DATE TYPED: 02/04/02 HB 348

SHORT TITLE: Unemployment Compensation Expansion SB \_\_\_\_\_

ANALYST: Woodlee

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
		\$440.4		Non-Recurring	General Fund
			\$955.8	Recurring	Federal Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates Senate Bill 324

Relates to House Bill 349

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	(\$4,116.0)		Recurring	Unemployment Insurance Trust Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

New Mexico Labor Department (NMDOL)

U.S. Department of Labor (USDOL)

### SUMMARY

#### Synopsis of Bill

House Bill 348 makes significant changes to the Unemployment Compensation system by providing for payment of benefits for dependents, extending coverage to part-time workers, and providing

for an alternate base period (ABP) for computation of unemployment insurance benefits. The bill has an emergency clause.

The bill provides that individuals may receive fifteen dollars (\$15.00) for each unemancipated child who is dependent upon and wholly or mainly supported by the individual and is:

- Under the age of 18;
- 18 years of age or over and incapable of earning wages because of mental or physical incapacity;
- Under the age of 24 and is a full-time student;
- Under the age of 18 and in the individual's custody pending the adjudication of a petition filed by the individual for the adoption of the child; and
- Under the age of 18 and for whom the individual is under a decree or court order requiring contribution to the child's support.

Dependency benefits are not to exceed fifty percent of the individual's weekly benefit rate. When both parents are eligible to receive unemployment insurance benefits, the Labor Department shall prescribe standards as to who is eligible to receive dependency benefits.

The bill also provides that individuals who seek part-time employment may also seek coverage from unemployment insurance benefits. This is an attempt to assist workers with dependent care obligations and/or other circumstances that prevent them from working full-time.

Finally, the bill provides for an alternate base period (ABP) for computation of unemployment insurance benefits to allow an individual who does not have sufficient benefit wage credits to qualify for unemployment insurance benefits.

### Significant Issues

Currently, New Mexico unemployment insurance claims are based on wages earned in the first four of the previous five quarters. It is argued that this current structure penalizes workers who have limited or interrupted work histories. This could affect such individuals as seasonal workers, temporary workers and workers transitioning off government assistance. The alternative base period (ABP) for those individuals who do not have sufficient wages in the base period to qualify for benefits will be the last four completed calendar quarters immediately preceding the first day of the individual's benefit year, according to this bill.

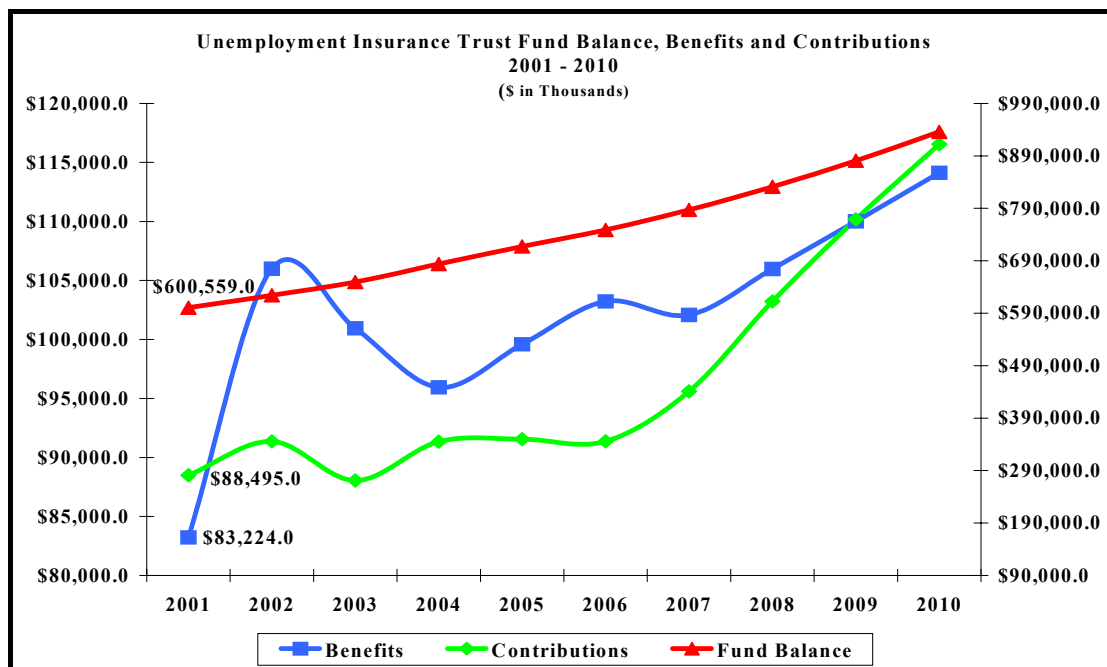
Currently, the New Mexico tax rate is between 0.5 and 5.4 percent. Rates are a function of the number of unemployment insurance claims filed against a firm and the total amount of those claims. Employers are assigned a rate for each calendar year. The Unemployment Trust Fund is the amount of reserves available for payment of unemployment benefits. New Mexico's unemployment insurance trust fund is one of the most solvent in the nation. The following table and chart display the fund balance of the Unemployment Insurance Trust Fund, the projected amount of contributions and the projected amount of benefit payout, given a recession scenario and current rates:

**Labor Department Unemployment Insurance Trust Fund**  
(Recession Scenario)

Fund Balance, Contributions and Benefits (\$ in Thousands)

Year	Fund Balance	Contributions	Benefits	Difference Contribs./Benefits
2001	600,559.0	88,495.0	83,224.0	5,271.0
2002	624,198.0	91,360.0	105,996.0	(14,636.0)
2003	649,497.0	88,048.0	100,950.0	(12,902.0)
2004	683,840.0	91,340.0	95,942.0	(4,602.0)
2005	717,258.0	91,549.0	99,588.0	(8,039.0)
2006	748,856.0	91,365.0	103,227.0	(11,862.0)
2007	787,149.0	95,601.0	102,076.0	(6,475.0)
2008	831,092.0	103,225.0	105,976.0	(2,751.0)
2009	880,747.0	110,180.0	110,013.0	167.0
2010	935,821.0	116,545.0	114,126.0	2,419.0

Source: New Mexico Labor Department



**FISCAL IMPLICATIONS**

House Bill 348 does not contain an appropriation. However, both the U.S. Department of Labor and the New Mexico Labor Department indicate a potential significant fiscal and administrative impact. In a letter to NMDOL, the regional administrator for USDOL indicates that the bill will cause an undetermined amount of administrative cost for NMDOL that must be absorbed within state resources, as federal funds will not be available for such costs.

NMDOL indicates a non-recurring first year cost of \$440.4 which includes such items as reprogramming costs for computer system modifications, furniture and equipment for additional personnel, and costs for facilities for additional personnel. A letter from the USDOL states these costs cannot be covered using federal funds and therefore would require state general fund support. The agency also indicates recurring costs ranging from \$955.8 to \$1,396.2. These recurring costs include ten additional staff to calculate and process wages for the alternate base period and the associated overhead costs for such staffing levels. The Unemployment Insurance bureau within the NMDOL is 100 percent federally funded. The agency would have to absorb the recurring costs within their federal appropriations, which may or may not be available.

Additionally, the NMDOL indicates the effects on the Unemployment Insurance Trust Fund of raising the availability benefits would lead to additional benefit payout costs. With an ABP defined by using the last four completed quarters, the benefit costs are estimated to rise from 4.2 percent to 5.8 percent. This would constitute an additional \$4,116.0 to \$5,684.0 in benefit payments per year. As the above table and chart indicate, the Unemployment Insurance Trust Fund could absorb the additional benefit payouts; however, the growth of the fund would be less than shown above.

#### **ADMINISTRATIVE IMPLICATIONS**

The New Mexico Labor Department indicates that the emergency clause attached to this bill would put a significant time-burden upon the agency. The agency is currently engaged in a project to re-engineer the entire unemployment insurance application and payment system, moving from a paper-based system to an electronic-based one, including a call center. Some portions of this project would have to be stopped and modified if the proposed changes are adopted. The USDOL suggest a cost feasibility study be conducted to ensure there are sufficient funds available for such changes.

#### **DUPLICATION/RELATIONSHIP**

House Bill 348 duplicates Senate Bill 324. Also, House Bill 348 relates to House Bill 349, which also proposes changes to the unemployment insurance system.

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