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## FISCAL IMPACT REPORT



SPONSOR: Stewart DATE TYPED: 02/05/02 HB 349

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

ANALYST: Woodlee

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
		\$1,340.4		Non-Recurring	General Fund
			\$955.8	Recurring	Federal Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to House Bill 348

### SOURCES OF INFORMATION

New Mexico Labor Department (NMDOL)

U.S. Department of Labor (USDOL)

### SUMMARY

#### Synopsis of Bill

House Bill 349 makes significant changes to the Unemployment Compensation system by paying benefits from an “administration” fund, increasing the average weekly benefit and extending the benefit period, eliminating the one week waiting period before an individual is eligible for benefits, expanding the definition of what constitutes good cause for voluntarily leaving work, and providing for deposit of benefits into a solvency fund.

#### Significant Issues

The bill amends statute to read that all benefits are payable from the unemployment compensation administration fund. According to USDOL, the Federal Unemployment Tax Act defines the three parts of a state’s unemployment funds as 1) a Clearing Account into which employer remittances are deposited, 2) the State’s account in the Unemployment Trust Fund, and 3) a Benefit Payment Account which contains amounts drawn down from the Unemployment Trust Fund for the payment

of unemployment compensation. The “administration” account of a state may not be considered a special “Benefit Payment Account.” Instead, this account is used by states to deposit and hold federal grant monies such as funds for salaries. Federal grant monies may not be used to pay unemployment compensation benefits nor may they be co-mingled with unemployment compensation benefits in the Benefit Payment Account. Therefore, if benefits are paid from the federal grant monies set aside for administrative costs, federal conformity hearings could be brought against the state for violating federal statutory requirements.

The bill also amends statute to increase the individual’s weekly benefits. The bill provides that the weekly benefit amount is equal to one twenty-third of the total wages for insured work paid to him or her in that quarter of the base period in which total wages were highest. Currently, the amount is equal to one twenty-sixth. Also, the bill provides that no benefit may be less than fifteen percent or more than sixty percent of the state’s average weekly wage for all insured work. Currently, the threshold is no less than ten percent or more than fifty-two and one-half percent.

The proposed bill removes the waiting week for unemployment compensation purposes. According to the U.S. Department of Labor, UIPL 14-81 contains provisions made under P.L. 96-499 that if the State does not provide for a waiting week for regular benefits, the state will not be entitled to reimbursement for the first week of extended benefits paid to any claimant; that is, the first week of what otherwise would be sharable between the State and the U.S. Department of Labor. Accordingly, New Mexico would have to bear 100 percent of the benefit costs for the first week of extended benefits paid if this bill is enacted.

HB 349 adds a provision that states no one will be denied benefits because of compelling domestic circumstances for leaving work, which is defined as:

- a. Having child care conflicts;
- b. Domestic abuse and the individual: 1) reasonably fears future domestic abuse at or en route to or from the individual’s place of employment, 2) wishes to relocate to another geographic area in order to avoid future abuse against the individual, the individual’s family, or co-workers, 3) reasonably believes that termination of employment is necessary for the safety of the individual, the individual’s family, or co-workers, or 4) is required to leave employment as a condition of receiving services or shelter from an agency that provides services to victims of domestic abuse; or
- c. Sick dependents

Section 51-1-48 NMSA 1978 is proposed to be amended by adding Section D to establish a State “trigger” for extended benefits and sets the benefit amount payable. Section E, establishes a total benefit amount payable based on a “high-unemployment period” and sets forth conditions and the benefit amount payable. Section G provides that the benefits paid under Section D or E shall not be charged to the employer’s account but shall be charged to the solvency account. New Mexico does not have a “solvency account.” New legislation would be needed to create such a fund.

The New Mexico unemployment 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

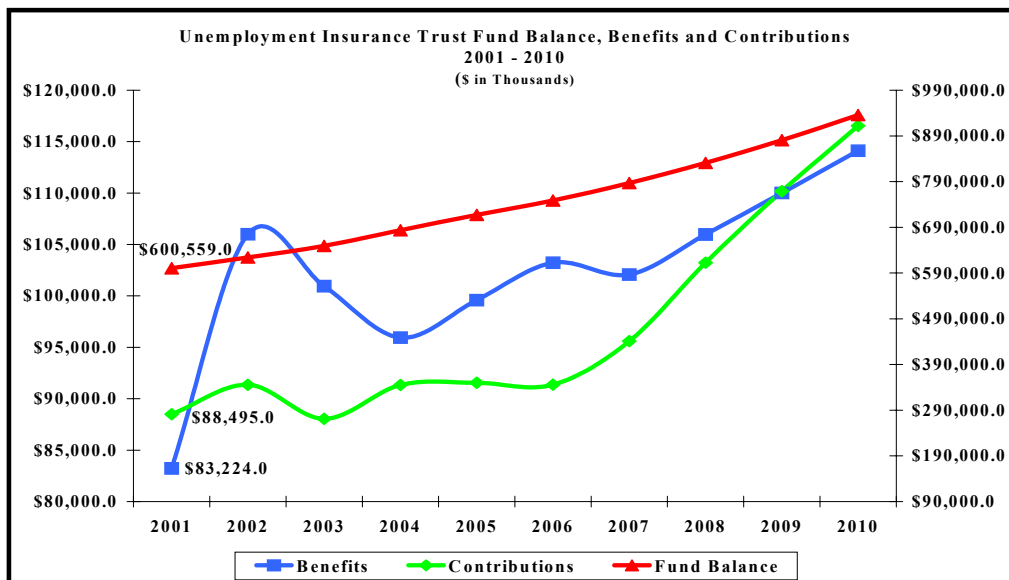
and the projected amount of benefit payout, given a recession scenario and current rates:

**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 349 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 cost of \$1,340.4 which includes such items as reprogramming costs for computer system modifications, professional services contracts for development of the system, furniture and equipment for additional personnel, and costs for facilities for additional personnel. A letter from the USDOL states that these costs cannot be covered using federal funds and

therefore would require state general fund support. The agency also indicates recurring costs from \$955.8. These recurring costs include ten additional staff, eight for State Office Claims and two for the Unemployment Insurance Tax Section, 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 suggests that the extended benefits could increase the payout of benefits to individuals, thus reducing the balance in the trust fund. This will lead to higher unemployment tax rates charged to employers in order to maintain the solvency of the Unemployment Insurance Trust Fund.

#### **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.

#### **RELATIONSHIP**

House Bill 349 relates to House Bill 348 and Senate Bill 324 which also propose significant changes to the unemployment insurance system.

MW/njw