SB12-177

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 12-0796	**Date:**	April 25, 2012
Prime Sponsor(s):	Sen. Jahn Rep. Liston; Pabon	**Bill Status:**	Senate Business, Labor and Technology
		Fiscal Analyst:	Clare Pramuk (303-866-2677)

TITLE: CONCERNING ADMINISTRATION OF THE UNEMPLOYMENT INSURANCE PROGRAM IN ORDER TO STABILIZE UNEMPLOYMENT INSURANCE RATES, AND, IN CONNECTION THEREWITH, FACILITATING THE ISSUANCE OF UNEMPLOYMENT REVENUE BONDS AND ACCELERATING THE CREATION OF THE DIVISION OF UNEMPLOYMENT INSURANCE IN THE DEPARTMENT OF LABOR AND EMPLOYMENT.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
State Revenue Unemployment Insurance Trust Fund Unemployment Bond Repayment Account	See State Revenue section.	
State Transfers or Diversions Transfer from the Employment Support Fund to Unemployment Bond Repayment Account	See State Transfers or Diversions section.	
State Expenditures	See State Expenditures section.	
FTE Position Change		
Effective Date: June 1, 2012.		
Appropriation Summary for FY 2012-2013: None required.		
Local Government Impact: None.		

Summary of Legislation

Under current law, the Colorado Housing and Finance Authority (CHFA) has the authority to issue revenue bonds on behalf of the unemployment insurance (UI) program in the Colorado Department of Labor and Employment (CDLE). In the event of a bond issuance, Senate Bill 12-177 allows special assessments charged to employers for bond principal repayment to be deposited in the UI Trust Fund rather than paid directly to CHFA, thus allowing these assessments to count toward improving the experience rating of employers. The bill also authorizes assessments for interest and bond costs, conforms UI bonding statutes with CHFA bonding statutes, and accelerates the date for the creation of the Division of Unemployment Insurance to June 1, 2012.

The bill requires that the Governor, State Treasurer, and the Executive Director of the CDLE certify that:

- the issuance of bonds is the most cost-effective means for the division to maintain adequate balances in the UI Trust Fund or to repay loan balances;
- the amount of money required to maintain adequate balances in the UI Trust Fund or to repay loan balances; and
- the amount of bonds to be issued.

In addition, the Executive Director must certify that the issuance of bonds will not:

- result in decertification of Colorado's UI program;
- impact any cap application; affect the receipt of emergency UI compensation funds;
- create an ineligibility for receipt of federal funds; or
- result in other penalties or sanctions under the Federal "Social Security Act", or the Federal Unemployment Tax Act.

Background

The Colorado UI program provides temporary and partial wage replacement to workers who have become unemployed through no fault of their own. UI benefits are paid from the UI Trust Fund, which is funded through premium and surcharge rates charged to employers on the first $11,000 of each employee's wages each year. Each individual employers' premium rate is dependent on two things:

- The level of the fund balance in the UI Trust Fund. Rates are higher when the fund balance is low or in deficit. Premium rates increased to their highest level in 2011 and 2012 because of insolvency in the UI Trust Fund.

- The employers' experience rating in the UI program. Employers who have laid off few or no employees in recent years have high positive ratings and pay lower rates. Employers who have laid off a large portion of their employees have negative ratings and pay higher rates. Premiums paid to the UI Trust Fund are included in the calculation of an employers's experience rating; when an employer pays more premiums the rating improves.

As a result of high levels of unemployment and layoffs during the 2007-2009 recession, the UI Trust Fund became insolvent in January 2010 and has not yet regained solvency. To continue to meet UI benefit payment obligations, the state began borrowing from the federal Unemployment Trust Fund in mid-January 2010. The federal government waived interest payments in 2010. In 2011, an interest payment of $11.4 million was funded via a special assessment on employers. According to the U.S. Department of the Treasury, the state was paying an interest rate of 2.94 percent on over $435 million in outstanding federal UI loans as of April 23, 2012.

Under federal law, Colorado's loans must be fully repaid by November 10, 2012. If they are not repaid by that date, the federal government will increase the effective federal UI tax rate paid by employers in Colorado beginning January 2013, from 0.6 percent to 0.9 percent of the first $7,000 of wages per employee per year (or from $42 currently to $63 per employee per year). The effective federal UI tax rate will increase an additional 0.3 percent each year until the loan is repaid.

State Revenue

This bill will change revenue to the UI program but the amounts are contingent upon a number of factors and cannot be determined. These factors include, but are not limited to whether bonds are issued, the amount of bonding, and economic conditions. In the event of a bond issuance, revenue to the UI program will increase if a special assessment to repay the bonds is charged to employers by the amount of the assessment. Under current law, such assessments are paid to CHFA.

In addition, UI premium revenue to the UI Trust Fund will decrease by an indeterminate amount following a special assessment to repay bond principal. Because the assessment will count toward employers' experience ratings, these ratings will be more favorable and, on average, premium rates will be lower than under current law.

State Transfers or Diversions

If revenues to pay nonprincipal-related bond costs are added to amounts deposited into the Employment Support Fund, the bill requires that those funds be transferred to the Unemployment Bond Repayment Account. As no amounts are expected at this time, no amounts are estimated for transfers.

State Expenditures

This bill will change expenditures from the UI program but these amounts cannot be determined. Rather than going directly to CHFA, revenue collected for bond costs from a special assessment on employers will go either to the UI Trust Fund or to the Unemployment Bond Repayment Account depending on whether the revenue is for repayment of principal or other bond costs. The bill will not change the amounts required for repayment of bonds but will make the UI Trust Fund and the Unemployment Bond Repayment Account the sources for those expenditures.

Departments Contacted

Governor	Labor and Employment
Treasury	Personnel and Administration