HB12-1127

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 12-0493	**Date:**	January 30, 2012
Prime Sponsor(s):	Rep. Liston	**Bill Status:**	House Economic & Business Development
		Fiscal Analyst:	Clare Pramuk (303-866-2677)

TITLE: CONCERNING ELIMINATION OF AN INCREASE IN THE UNEMPLOYMENT INSURANCE PREMIUM RATE FOR NEW EMPLOYERS.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014	FY 2014- 2015
State Revenue Cash Funds Unemployment Insurance Trust Fund	($8.3 million)	($13.5 million)	($14.8 million)
State Expenditures			
FTE Position Change			
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2012-2013: None required.			
Local Government Impact: None.			

Summary of Legislation

House Bill 11-1288 changed the way the unemployment insurance (UI) system is financed. It created a new premium rate schedule that becomes effective once the UI Trust Fund becomes solvent. Premium rates for new employers will range from 2.96 percent to 4.65 percent of the first $11,000 of an employee's wages. The rate depends on the reserve ratio of the UI Trust Fund, with a lower rate applied when the fund's reserves are high and a higher rate applied when the fund's reserves are low or the fund is insolvent. This bill reduces the rate for new employers to a 1.7 percent default rate. Prior to the new schedule taking effect, new employers are charged a 1.7 percent rate unless they have benefits charged against them from involvement in an earlier business entity. In that situation they are charged a computed rate that takes those charges into account.

Table 1 compares current law and HB12-1127 on UI rates for new employers depending on whether the UI Trust Fund reaches solvency in FY 2012-13.

Table 1. Comparison of UI Rates for New Employers		
Options	**Current Law**	**HB12-1127**
FY 2011-12	Maximum of 1.7% or computed rate	Not Effective
FY 2012-13 - UI Trust Fund Solvent (LCS Forecast)	4.34 %	1.7%
2013 - UI Trust Fund in Deficit	Maximum of 1.7% or computed rate	1.7%

Background

The UI program provides temporary and partial wage replacement to workers who have become unemployed through no fault of their own. The program is administered by the Unemployment Compensation Section in the Division of Employment and Training within the Colorado Department of Labor and Employment (CDLE). HB09-1363 established the section as an enterprise. As a result, most of the revenue collected for UI is not subject to the TABOR limit.

UI benefits for the first 26 weeks of unemployment are paid from the fund, which is funded through state UI premiums and surcharges, and federal UI taxes paid by Colorado employers. The fund became insolvent in January 2010 due to sustained levels of high unemployment as a result of the 2007-2009 recession. To continue to meet UI benefit payment obligations, the state began borrowing from the federal Unemployment Trust Fund in mid-January 2010. According to the Legislative Council December 2011 Forecast (forecast), the fund is expected to be solvent with a small reserve ratio on June 30, 2012. If this does occur, employers will begin paying increased rates January 1, 2013.

State Revenue

This bill is expected to reduce revenue to the UI Trust Fund by $8.3 million in FY 2012-13, $13.5 million in FY 2013-14 and $14.8 million in FY 2014-15. Based on the forecast, new employers will be charged a rate of 4.34 percent beginning January 1, 2013. For FY 2012-13 the rate will only apply for six months so the revenue at 4.34 percent would be $13.6 million. Under this bill new employers will pay a rate of 1.7 percent for total revenue of $5.3 million in FY 2012-13. Table 2 shows revenues assuming the UI Trust Fund is solvent under current law and the bill.

Table 2. Revenues Under HB12-1127 ($ millions)				
Fiscal Year	**Wages**	**Current Law (4.34%)**	**HB12-1127 (1.7%)**	**Difference**
2012-13	$471.6*	$13.6	$5.3	($8.3)
2013-14	508.5	22.1	8.6	(13.5)
2014-15	562.9	24.4	9.6	(14.8)

**Partial year.*

Departments Contacted

Labor and Employment