



STATE FISCAL IMPACT

Drafting Number: LLS 12B-2007**Date:** May 14, 2012**Prime Sponsor(s):** Rep. Liston; Pabon
Sen. Jahn**Bill Status:** House Economic & Business Development
Fiscal Analyst: Alex Schatz (303-866-4375)

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, ACCELERATING THE CREATION OF THE DIVISION OF UNEMPLOYMENT INSURANCE IN THE DEPARTMENT OF LABOR AND EMPLOYMENT, AND MAKING TECHNICAL CHANGES TO PROVISIONS ENACTED AS PART OF HOUSE BILL 11-1288 TO ENSURE APPROPRIATE TRANSITION TO THE NEW UNEMPLOYMENT INSURANCE PREMIUM RATE STRUCTURE.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
State Revenue Unemployment Compensation Fund (UI Trust Fund) Unemployment Bond Repayment Fund	See State Revenue section.	
State Transfers or Diversions Transfer from the Employment Support Fund to the Unemployment Bond Repayment Account	See State Transfers 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) is authorized to issue revenue bonds on behalf of the unemployment insurance (UI) program in the Colorado Department of Labor and Employment (CDLE), to stabilize unemployment insurance rates paid by employers. This bill authorizes the Division of Unemployment Insurance (the UI division) in CDLE to issue these bonds as an alternative to CHFA. In the event of a bond issuance, this bill also allows special assessments charged to employers for bond principal repayment to be deposited in the UI Trust Fund (i.e., the Unemployment Compensation Fund). By crediting employer assessments to the UI Trust Fund, the experience rating of employers paying the assessment may be improved. Assessments for interest and other bond costs are authorized, and the bill conforms UI bonding statutes with CHFA bonding statutes.

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.

The bill accelerates the date for the creation of the UI division under House Bill 12-1120, and also incorporates technical changes related to the implementation of House Bill 11-1288 (UI premium rates) as previously recommended by the Revisor of Statutes and the Committee on Legal Services.

The UI program in CDLE is designated an enterprise under current law. The status of the UI division as an enterprise is confirmed in the bill for the purposes of issuing revenue bonds.

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 less favorable 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 May 10, 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 changes revenue to the UI program, but these amounts are contingent upon a number of factors and cannot be determined for this analysis. 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.

In addition, UI premium revenue to the UI Trust Fund will decrease by an indeterminate amount following a special assessment to repay bond principal. This is the result of the assessment counting toward employers' experience ratings—as these ratings improve, average premium rates will be lower than under current law.

State Transfers

If revenues to pay bond costs other than payments toward principal are deposited into the Employment Support Fund, the bill requires that those funds be transferred to the Unemployment Bond Repayment Account. As no such deposits are expected at this time, no transfer amounts are estimated.

State Expenditures

In the event that the UI division issues bonds under its own authority, the fiscal note assumes that the division will contract with bond counsel and other necessary advisors, with administrative costs covered through the bond financing (as under current law).

Relative to current law, this bill changes the source for certain expenditures from the UI program by amounts that 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
Treasury

Labor and Employment

Personnel and Administration