

*Colorado Legislative Council Staff*

**STATE**

**REVISED FISCAL IMPACT**

*No State General Fund Impact*  
(replaces fiscal impact dated January 24, 2005)

**Drafting Number:** LLS 05-0457

**Date:** January 27, 2005

**Prime Sponsor(s):** Rep. Cerbo

**Bill Status:** House Business Affairs

**Fiscal Analyst:** Amy Larsen (303-866-3488)

**TITLE:** CONCERNING THE CREATION OF AN ALTERNATIVE BASE PERIOD FOR THE PURPOSE OF QUALIFYING WORKERS FOR UNEMPLOYMENT INSURANCE BENEFITS.

<b>Fiscal Impact Summary</b>	<b>FY 2005/2006</b>	<b>FY 2006/2007</b>
<b>State Revenues</b>		
Cash Fund - Unemployment Insurance Trust Fund	(\$75,010)	\$564,574
<b>State Expenditures</b>		
Cash Fund - Unemployment Insurance Trust Fund	\$3,059,177	\$3,255,171
Cash Fund - Employment Support Fund	250,000	
Federal Funds	83,752	77,176
<b>FTE Position Change</b>	2.0 FTE	2.0 FTE
<b>Other State Impact:</b> TABOR Impact, see Table 2 on page 4.		
<b>Effective Date:</b> August 10, unless a referendum is filed.		
<b>Appropriation Summary for FY 2005/2006:</b>		
Department of Labor and Employment, Employment Support Fund:		\$250,000 CF
Department of Labor and Employment, Federal Funds:		\$ 83,752 and 2.0 FTE
Note: The General Assembly does not appropriate the Unemployment Insurance Trust Fund.		
<b>Local Government Impact:</b> None.		

**Summary of Legislation**

*This fiscal note is revised based on new information received after the preparation of the original fiscal note.* The bill creates an alternative base period for the purposes of qualifying workers for unemployment insurance benefits and simplifies documentation requirements for eligibility.

**State Revenues**

The net revenue impact is estimated to be a loss of \$75,010 in the Unemployment Trust Fund for FY 2005-06. Revenues are estimated to increase by \$564,574 in FY 2006-07 as UI taxes respond to the higher benefit payments. Over the next three years, the net impact will decrease over time as the loss in interest increases. The revenue to the UI Trust Fund is shown in Table 1.

**Table 1.**  
**TABOR Revenue Change Resulting From HB05-1020**  
Based on the December 2004 Legislative Council Staff Forecast

	Change in UI Taxes			Change in Interest	Total Revenue Change
	Base UI Taxes	Solvency UI Taxes	Total UI Taxes		
FY 2005-06	\$0	\$0	\$0	(\$75,010)	(\$75,010)
FY 2006-07	\$485,743	\$361,668	\$847,411	(\$285,837)	\$564,574
FY 2007-08	\$801,165	\$113,457	\$914,623	(\$420,567)	\$494,056
FY 2008-09	\$883,934	\$0	\$883,934	(\$581,009)	\$302,925
FY 2009-10	\$941,474	\$0	\$941,474	(\$775,360)	\$166,114

**Unemployment Insurance taxes will increase.** The base UI tax rate ranges from zero to 5.4% of the first \$10,000 paid to each worker during a calendar year. In addition, a solvency tax is expected to be charged through calendar year 2007. Each individual employer's base and solvency tax rates vary depending on the employer's experience in the UI program. The tax rate increases for both the base tax and the solvency tax when additional benefits are claimed by workers seeking benefits. Thus, HB05-1020 will cause tax rates to increase for employers whose former employees receive higher benefits, beginning in January 2007. The first three columns of Table 1 show the increase in UI taxes on an annual basis. These figures assume that the increase in benefits would not be enough to trigger a higher tax rate schedule for the base UI tax in 2007. In total, UI taxes will increase by \$0.8 million in FY 2006-07 and about \$0.9 million each year thereafter through at least FY 2009-10.

**Loss in interest earned on the UI Trust Fund.** Table 1 also shows the change in interest expected as a result of House Bill 05-1020. Currently, the UI Trust Fund earns 6.5% interest. Since an increase of benefit payments will cause a decrease in the fund balance, the interest or revenue earned on the fund will decrease. The total decrease in interest for FY 2005-06 is \$75,010. This amount is less than 6.5% of the total increase in benefits for that year because it is assumed that the increase in benefits would occur throughout the year. Because the increase in benefits is greater than the resulting increase in UI taxes, and because the fund balance is a cumulative amount, the fund balance will decrease each year by an amount greater than the annual increase in benefits relative to current law each year. Thus, the loss in interest earnings will increase over time.

## **State Expenditures**

The net expenditure impact is estimated to be \$3,392,929 in FY 2005-06. Of that amount, \$3,059,177 is from the UI Trust Fund, \$250,000 is from the Employment Support Fund, and \$83,752 is from federal funds. Expenditures are estimated to be \$3,332,347 in FY 2006-07. Of that amount, \$3,255,171 is from the UI Trust Fund, and \$77,171 is from federal funds.

***Increased payments from the UI Trust Fund.*** The bill creates an alternative base period to be used (consisting of the last four completed calendar quarters immediately preceding the first day of a person's benefit year) when the regular base period (the first four of the last five completed calendar quarters) does not qualify a person for unemployment benefits. The addition of an alternative base period will enable more people to qualify for unemployment benefits as it now takes into consideration the calendar quarter immediately preceding a person's benefit period.

The increase in benefit payments from the UI Trust Fund are estimated to be \$3,059,177 in FY 2005-06. In 2003-04, UI monetary ineligible determinations were made in 3,077 cases. The fiscal note assumes that one-half, or 1,539 of the previously ineligible individuals would have been monetarily eligible in FY 2003-04 under this bill. Due to anticipated positive economic conditions in FY 2005-06, the number of UI claims that will be paid is estimated to decrease by 16%, or 1,293 estimated monetarily eligible claims. Taking into consideration the effective date of the bill and entitlement eligibility factors, the fiscal note assumes 877 claimants will be paid an average of 15 additional weeks in FY 2005-06. The average weekly benefit amount for this group is estimated to be \$232.68. Therefore, the increase in UI payments is estimated to be \$3,059,177 in FY2005-06 and \$3,255,171 in FY 2006-07.

***Increased Expenditure for the Genesis Project.*** The Department of Labor and Employment, Division of Employment and Training is in the process of developing a new computer system known as the Genesis Project. Accenture, the contractor, estimates that programming costs to add the alternative base period will be \$250,000 in FY 2005-06. This one-time expense will be paid from the Employment Support Fund (ESF).

***Increased Administrative Costs.*** In FY 2005-006, the Department of Labor and Employment, Division of Employment and Training requires \$83,752 and 2.0 FTE federal funds. Under current employer wage filing requirements, wage verification information is not available to Unemployment Insurance workers for 45 to 60 days after the end of the quarter. Therefore, this bill requires the division to manually calculate benefits, to gather wage information from employers and to review potential benefit over/under payments for those applicants found to be monetarily ineligible using the traditional base period. In FY 2006-07, these costs are reduced to \$77,176.

## **Other State Impact**

***HB05-1020 on the TABOR Surplus and the General Fund.*** During years in which there is a TABOR surplus, the surplus increases by a dollar for each dollar in additional UI revenue. Because the refund is paid out of the General Fund, UI revenue increases reduce the amount of

money available for spending out of the General Fund. Table 2 shows the net impact on the TABOR surplus and General Fund appropriations and it assumes that the increase in benefits would not be enough to trigger a higher tax rate schedule in 2007. The TABOR surplus would increase by a total of \$1.3 million and General Fund appropriations would be reduced by a total of \$1.6 million between FY 2005-06 and FY 2009-10.

**Table 2.**  
**The Net Impact of HB05-1020 on the**  
**TABOR Surplus and GF Appropriations**  
Based on the December 2004 Forecast

	2005-06	2006-07	2007-08	2008-09	2009-10	TOTAL
<b>Change in TABOR Surplus</b>	(\$75,010)	\$564,574	\$494,056	\$302,925	\$166,114	<b>\$1,286,545</b>
<b>Change in GF available for Appropriations</b>	\$72,010	(\$524,175)	(\$555,625)	(\$588,963)	(\$624,300)	<b>(\$1,596,753)</b>

### **State Appropriations**

For FY 2005-06, the fiscal note indicates that the Department of Labor and Employment should receive an appropriation for \$250,000 from the Employment Support Cash Fund, and \$83,752 and 2.0 FTE federal funds.

### **Departments Contacted**

Labor and Employment