STORAGE NAME: h0031.bdt
DATE: February 5, 1999

HOUSE OF REPRESENTATIVES
COMMITTEE ON
BUSINESS DEVELOPMENT & INTERNATIONAL TRADE
ANALYSIS

BILL #: HB 31

RELATING TO: Unemployment Compensation

SPONSOR(S): Representative Starks

COMPANION BILL(S): SB 108(s), HB 109(s)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) BUSINESS DEVELOPMENT & INTERNATIONAL TRADE
(2) INSURANCE
(3) TRANSPORTATION & ECONOMIC DEVELOPMENT APPROPRIATIONS
(4)
(5)

I. SUMMARY:

The bill proposes to create an "alternative base period" for individuals with benefit years beginning on or after July 1, 1999, who do not qualify monetarily under the standard base period. The bill would also continue the current tax reduction through calendar years 1999 and 2000. Finally, the bill would increase weekly benefits by 5 percent for the first 8 compensable weeks for claims with benefit years beginning July 1, 1999, through June 30, 2000. This bill has a significant fiscal impact (see fiscal analysis sections 111.A&D.) The bill provides for an effective date of July 1 of the year enacted.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Base Period

To establish eligibility for unemployment benefits, an unemployed individual must have earned sufficient wages over a period of time known as the "base period." Section 443.036, Florida Statutes, defines base period as "the first four of the last five completed calendar quarters immediately preceding the first day of an individual's benefit year." The 5th completed calendar quarter--or lag quarter--has historically not been used to determine monetary eligibility because the Division of Unemployment Compensation lacks the necessary data to verify earned wages. Currently, base period wages are verified by checking wage information furnished by employers on a quarterly basis. Employers have until the last day of the month following the end of the calendar quarter to submit their quarterly wage and tax reports. Because the lag quarter is not used to determine eligibility, some low wage or seasonal workers may not qualify for benefits.

Unemployment Contributions (Taxes)

Chapter 443, Florida Statutes, the Unemployment Compensation Law, is administered by the Florida Department of Labor and Employment Security, Division of Unemployment Compensation. One of the division's primary responsibilities is collecting state unemployment compensation taxes. These tax collections are immediately deposited into the U.S. Treasury where they are held in trust solely for the payment of unemployment benefits.

The standard tax rate is set at 5.4 percent for the first $7,000 in wages paid to each employee. New employers, however, are taxed at the initial rate of 2.7 percent until they have been in existence for a sufficient time period and have met the other requirements for experience rating. Tax rates for experience-rated employers may be reduced from the standard rate based on their experience with unemployment. Generally, the more benefits paid to an employer's former workers, the higher the employer's tax rates, and vice versa. The minimum tax rate is statutorily set at 0.1 percent.

The 1997 Legislature enacted a one-year tax reduction (Chapter 97-29, Laws of Florida) to be applied during the 1998 calendar year. The legislation called for a 0.5 percent reduction for experience-rated employers except those having an assigned rate of 5.4 percent or greater for more than 36 months. New employer tax rates were also reduced from 2.7 percent to 2.0 percent. The tax cut was projected to reduce state unemployment tax collections by roughly $162 million.

Weekly Benefits

Unemployment benefits are available to eligible workers who become unemployed through no fault of their own. Weekly benefits are calculated by dividing the individual's highest quarter earnings by 26. The minimum weekly benefit amount is statutorily set at $32 and is capped at $275. Depending on the individual's work history, he/she may collect regular unemployment benefits for a maximum of 26 weeks (six months). This yields a pre-tax wage replacement rate of 50 percent for individuals with annual wages up to $28,600.

B. EFFECT OF PROPOSED CHANGES:

Alternative Base Period
This bill would require the Division of Unemployment Compensation to designate an alternative base period for individuals who are not monetarily eligible for benefits using the standard base period. The bill defines “alternative base period” as the last 4 completed calendar quarters immediately preceding the individual’s benefit year. The bill also authorizes the division to base the monetary eligibility determination on an affidavit from the individual claiming benefits if the necessary wage information is not available to the division. Finally, when the division receives the quarterly wage report from the former employer of an individual who was awarded benefits based on an alternative base period, the division must adjust the benefits if information provided in the wage report causes a change in the original benefit determination.

Tax Reduction
The bill proposes to continue the current unemployment tax reduction through calendar years 1999 and 2000. New employer tax rates would be reduced from the initial rate of 2.7 percent to 2.0 percent. Rated employer tax rates would be reduced by 0.5 percent, with the exception of those employers who have been assigned a tax rate of 5.4 percent or higher for more than 36 months.

Benefit Increase
The bill would provide a 5 percent increase in weekly benefits for the first 8 weeks of a claim with benefit years beginning July 1, 1999, through June 30, 2000.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

N/A

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

N/A

(3) any entitlement to a government service or benefit?

N/A

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

Yes.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

N/A

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. <u>Individual Freedom:</u>

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. <u>Family Empowerment:</u>

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Sections 443.036 and 443.111, F.S.

E. SECTION-BY-SECTION ANALYSIS:

Section 1 Amends section 443.036, F.S., to create an “alternative base period” consisting of the last four completed calendar quarters immediately preceding an individual’s benefit year.

Section 2 Provides that, notwithstanding s. 443.131(3), F.S., for the 1999 and 2000 calendar years, the division will subtract 0.5 percent from each employer’s assigned tax rate except for those employers who are assigned the initial rate or who have been assigned a contribution rate of 5.4 percent or higher for more than 36 months. Employers who are charged at the initial rate of 2.7 percent will have their tax rates reduced to 2 percent.

Section 3 Amends subsection (3) and paragraph (a) of subsection (5) of section 443.111, F.S., to increase weekly benefits by an additional 5 percent for the first 8 compensable weeks for claims with benefit years beginning July 1, 1999, through June 30, 2000. Increases total benefits to reflect the 5 percent increase.

Section 4 Provides for an effective date of July 1 of the year enacted.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

	FY 98-99	FY 99-00	FY 00-01
Unemployment Compensation TF			
Two-year tax reduction	$138m	$182m	$44m
Benefit Increase	16m	15m	*
Employment Security Administration TF			
Alternative Base Period (Programming)		$250,000	
Total Non-recurring Expenditures	$154m	$197,250,000	$44m

* Expenditures relating to the 5 percent benefit increase will extend into FY 2000-01. The actual dollar amount however, is indeterminate at this time.

2. Recurring Effects:

	FY 99-00	FY 00-01
Unemployment Compensation TF		
Alternative Base Period	$4m	$4m
Employment Security Administration TF		
Alternative Base Period	$450,000	$450,000
Total Recurring Expenditures	$4,450,000	$4,450,000

3. Long Run Effects Other Than Normal Growth:

Extending the tax reduction through calendar year 2000 could adversely affect the benefit trust fund's ability to pay benefits during an economic downturn. The combined impact of the tax reduction, benefit increase, and alternate base period may also negatively impact the trust fund balance trigger, which would automatically result in higher tax rates.

4. Total Revenues and Expenditures:

	FY 98-99	FY 99-00	FY 00-01
Unemployment Compensation TF			
Two-year tax reduction	$138m	$182m	$44m
Benefit increase	16m	15m	*
Alternative Base Period		4m	4m
Employment Security Administration TF			
Alternative Base Period		700,000	450,000
Total Expenditures	$154m	$201,700,000	$48,450,000

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   N/A

2. Recurring Effects:

   N/A

3. Long Run Effects Other Than Normal Growth:

   N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   None.

2. Direct Private Sector Benefits:

   Employers will benefit by a reduction in the Unemployment Compensation tax. The unemployed worker will benefit by an increase in benefits.

3. Effects on Competition, Private Enterprise and Employment Markets:

   N/A

D. FISCAL COMMENTS:

Unemployment tax rates are generally computed annually with rate notices mailed to employers in late-November. Taxes are payable on a quarterly basis with the bulk of the taxes being paid during the first and second quarters. Because the effective date of the bill is July 1, 1999, a tax reduction for calendar year 1999 would take the form of refunds for most employers. The Division of Unemployment Compensation estimates that $138 million would have to be refunded to employers. This figure does not include other costs such as programming, printing, and mailing a revised rate notice to roughly 365,000 employers.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority of municipalities and counties to raise revenues, and the bill is therefore exempt from the provisions of Article VII, Section 18(b), Florida Constitution.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

The bill will not reduce the amount of the local Government half cent sales tax shared with municipalities and counties, and it does not reduce the percentage of a state tax shared with municipalities and counties. Therefore, Article VII, Section 18(b), Florida Constitution does not apply.

V. COMMENTS:

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON BUSINESS DEVELOPMENT & INTERNATIONAL TRADE:

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