COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2232-01
Bill No.: HB 1010
Subject: Unemployment Compensation; Employment - Employers
Type: Original
Date: March 3, 2015

Bill Summary: This proposal modifies the law relating to unemployment compensation benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Special Employment Security Fund	($631,000)	($631,000)	($631,000)
Unemployment Compensation Trust Fund	$631,000	$631,000	$631,000
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on Other State Funds	**0**	**0**	**0**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any Of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials from the **Missouri Department of Conservation**, the **Office of Administration** and the **Department of Revenue** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a proposal from 2013 (HB 611), officials from the **Department of Labor and Industrial Relations** (**DOLIR)** stated section 288.380, would bring Missouri law into compliance with federal law. Pub. L. 112-40 requires states to impose a monetary penalty of no less than 15% for fraud overpayments. Current Missouri law mandates a 25% penalty for fraud overpayments for the first offense and a 100% penalty for subsequent offenses. Thus, Missouri law is already compliant with this requirement.

However, this public law also requires states to deposit this 15% penalty into the unemployment compensation trust fund immediately. The unemployment compensation trust fund is used to pay unemployment benefits. Current Missouri law requires that these penalties be deposited in the special employment security (ES) fund, which is used for administrative expenses by the Division of Employment Security (DES). This proposal deposits the 15% penalty into the trust fund, as required by federal law, and the remaining amount of the penalty continues to be deposited into the special ES fund.

Pub. L. 112-40 also requires that states assess this penalty on fraud overpayments on all federal unemployment programs, such as unemployment benefits for federal civilian and military employees. The Department of Elementary and Secondary Education currently assesses penalties on fraud overpayments on these claims. The change made to subdivision (1) of subsection 9 of section 288.380 clarifies that the DES must assess fraud penalties on all state and federal unemployment claims. This change must be applied to overpayments established after October 21, 2013.

ASSUMPTION (continued)

These changes impose no additional penalties, but rather they change the funds into which those penalty amounts are deposited. As a result, this bill would increase monies in the unemployment compensation trust fund, which is used to pay unemployment benefits, and will decrease monies deposited in the special employment security (ES) trust fund, which is used for administrative expenditures by the Division of Employment Security (DES). In state fiscal year 2012, the DES deposited approximately $1.3 million into the special ES fund from fraud penalties. Assuming that 75% of this amount recovered was for 25% penalty balances and 25% was for 100% penalty balances, an estimated $631,000 would have been deposited into the trust fund and an estimated $664,000 would have been deposited into the special ES fund under this proposal.

Failure to Pass this bill

Per DOLIR failure to make the above changes to Section 285.300 may cause a conformity issue if the Secretary of Health and Human Services (HHS) determines these changes are required for the state to report these new hires. Failure to make the above changes to Sections 288.100 and 288.380 within the allotted time frame (applicable to overpayments established after October 21, 2013) will cause Missouri's unemployment compensation (UC) system to be out of compliance with federal law.

Non-conformity with federal law could jeopardize the certification of Missouri's UI program. If the program fails to be certified, Missouri would lose approximately $46 million in federal funds the state receives each year to administer the UI program. Additionally, Missouri would lose the approximately $13 million in federal funds each year the Department of Economic Development-Division of Workforce Development uses for Wagner-Peyser re-employment services.

The FUTA imposes a 6.0% payroll tax on employers. Most employers never actually pay the total 6.0% due to credits they receive for the payment of state unemployment taxes and for paying reduced rates under an approved experience rating plan. FUTA allows employers tax credits up to a maximum of 5.4% against the FUTA payroll tax if the state UI law is approved by the Secretary of Labor. However, if this bill causes Missouri's program to be out of compliance or out of conformity, Missouri employers would pay the full 6.0%, or approximately an additional $859 million per year.

ASSUMPTION (continued)

Oversight assumes the proposed language may result in conformity issues with federal law, however, Oversight will assume for fiscal note purposes only, Missouri will become compliant and will not show the loss of federal funds

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
SPECIAL EMPLOYMENT SECURITY FUND			
Loss - law requires penalty money be deposited into UC fund	($631,000)	($631,000)	($631,000)
ESTIMATED NET EFFECT ON SPECIAL EMPLOYMENT SECURITY FUND	**($631,000)**	**($631,000)**	**($631,000)**
UNEMPLOYMENT COMPENSATION TRUST FUND			
Revenue - penalty money	$631,000	$631,000	$631,000
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	**$631,000**	**$631,000**	**$631,000**

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Currently, when an individual or employer repays the state for overpayment of unemployment compensation benefits, payments made toward the penalty amount due are credited to the Special Employment Security Fund. This bill requires 15% of the total amount of benefits fraudulently obtained to be deposited into the state's Unemployment Compensation Fund and the remaining penalty amount must be credited to the Special Employment Security Fund.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Missouri Department of Conservation
Office of Administration
Department of Revenue

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March 3, 2015

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March 3, 2015

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