Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill:	H.B. 46 of the 128th G.A.	**Date**:	May 12, 2009
Status:	As Introduced	**Sponsor**:	Rep. Ujvagi

Local Impact Statement Procedure Required: Yes

Contents: Extends unemployment eligibility to spouses of military members who are transferred

State Fiscal Highlights

	FY 2010 - FUTURE YEARS
Unemployment Compensation Trust Fund	
Revenues	Potential gain from reimbursement of benefits paid on behalf of public employers and in state unemployment tax receipts from private employers
Expenditures	Potential increase to pay benefits and to pay back principle on borrowing

STATE FUNDS	FY 2010	FY 2011	FUTURE YEARS
Unemployment Compensation Review Commission Fund (Fund 3V40)			
Revenues	Potential gain in federal dollars for administrative costs		
Expenditures	Potential increase to process additional unemployment claims		
Various State Funds used by the Department of Job and Family Services			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Potential increase to pay interest on borrowing
Various Funds used by State Agencies that Employ Spouses of Active-Duty Military Members			
Revenues	- 0 -		
Expenditures	Potential increase to reimburse the trust fund for benefits paid		

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill may increase expenditures from Ohio's Unemployment Compensation Trust Fund to pay benefits to the spouse of an active-duty member of the military who is transferred and may result in additional borrowing from the federal government to pay other unemployment benefits. Any additional borrowing that results from this bill, that is not paid back by September 30, 2010, will increase the amount of trust fund dollars that will be utilized to pay back the principle and state resources that will be needed to pay interest on those amounts.

- The bill may increase the amount of unemployment compensation that the state will have to reimburse to the trust fund if an employee quits work to accompany the individual's active-duty military spouse who is transferred.
- If the employee of a private employer quits work to accompany the individual's active-duty military spouse who is transferred, the employer's experience rate may increase, resulting in an increase in the state's unemployment tax receipts deposited into Ohio's trust fund.
- The bill may increase administrative costs to process additional unemployment claims for eligible individuals. Administrative funds for unemployment programs are provided to the state from the federal unemployment tax on employers and are deposited into the Unemployment Compensation Review Commission Fund (Fund 3V40) used by the Ohio Department of Job and Family Services (ODJFS). The additional amount ODJFS may receive as a result of this bill will depend on the actual increase in the workload to process additional claims.

Local Fiscal Highlights

- The bill may increase the amount of unemployment compensation that local governments will have to reimburse to the trust fund if an employee quits work to accompany the individual's active-duty military spouse who is transferred.

Detailed Fiscal Analysis

Spousal Unemployment Benefits – Military Transfer

The bill extends eligibility for unemployment compensation benefits to an individual who quits work to accompany the individual's active-duty military spouse who is transferred. According to a spokesperson with the U.S. Department of Defense (USDOD), there were 4,432 spouses of active duty military members in Ohio as of June 2008. Of that number, the Defense Manpower Data Center, a statistics agency within the USDOD, estimates 2,283 of those spouses were employed. Based on the average weekly unemployment benefit ($308.47) and the average number of weeks of unemployment (14.6 weeks),[1] the cost for each individual who would be eligible for benefits under the bill will be $4,504 per year. The actual cost per individual may be lower, because according to a spokesperson at the USDOD, individuals married to active-duty members tend to make less than the average wage and usually find employment shortly after relocating. The total cost of extending eligibility will depend on the actual number of spouses eligible to receive benefits, the number of weeks spouses receive benefit payments, and the amount of weekly benefits for those spouses.

Impact on Ohio's Unemployment Compensation Trust Fund

Unemployment benefits are paid from state unemployment taxes that are paid by employers. The Ohio Department of Job and Family Services (ODJFS) collects the tax and deposits the revenue into a clearing account which is then transferred to a federal bank account (the Unemployment Compensation Trust Fund). On January 12, 2009, Ohio's trust fund balance was depleted and the state began borrowing from the federal government to pay unemployment benefits. To date, ODJFS has borrowed $862.5 million from the federal government and has collected $723.2 million in unemployment taxes. According to ODJFS, when the state is in a borrowing situation, new or increased benefits must be paid from the state's current unemployment tax receipts. The benefits extended to individuals under the bill may reduce the amount available to pay current benefits and increase the amount the state must borrow to pay other unemployment benefits.

The principle on amounts borrowed must be paid from Ohio's trust fund once a balance is restored; interest must be paid from state resources. The American Recovery and Reinvestment Act waived interest on federal borrowing for unemployment compensation benefit payments through September 30, 2010. Effective October 1, 2010, interest on these loans will begin to accrue, with the first interest payment due on September 30, 2011. Any additional borrowing that results from this bill, that is not paid back by September 30, 2010, will increase the amount of trust fund dollars that will

[1] Source: Ohio Department of Job and Family Services, Ohio Labor Market Information. (http://ohiolmi.com/uc/UCReports.htm)

be utilized to pay back the principle and state resources that will be needed to pay interest on those amounts.

Federal Unemployment Tax Act credit

Employers in the state currently receive a 5.4% Federal Unemployment Tax Act (FUTA) credit. The FUTA credit is affected by the state's borrowing from the federal government. After two years of borrowing, the state will begin to lose 0.3% of the credit each year. After the third year, U.S. Department of Labor (USDOL) may accelerate the tax credit rescission and reduce the credit by up to 1.3% each year until the credit is fully rescinded.

Federal restrictions

Federal guidelines prohibit states that borrow funds to pay unemployment benefits from taking actions that will reduce the state's unemployment tax effort or decrease the state's unemployment compensation system's net solvency. Actions that fall under these restrictions include, but are not limited to, reducing the taxable wage base, tax rate schedules, tax rates, or taxes payable as well as increasing benefits without at least an equal increase in taxes or decreasing benefits without at least an equal decrease in taxes.[2] It is possible that the Secretary of Labor will determine that the bill results in a net decrease in the state's trust fund's solvency.

Fiscal implications on employers

State and local government

State law classifies employers into one of two categories – a "reimbursing" employer or a "contributory" employer. Reimbursing employers generally include most public employers and nonprofit organizations that have elected to be reimbursing employers instead of contributory employers. Reimbursing employers are billed once a month, after the fact, for the amount of benefits paid to the employer's former employees from the trust fund. The bill may increase the amount of unemployment compensation that the state or local government will have to reimburse to the trust fund if an employee quits work to accompany the individual's active-duty military spouse who is transferred.

Private Employers

Most private employers are contributory employers. Thus, if a contributory employer must pay on a claim, payment of the unemployment compensation benefit is paid from the employer's account in the trust fund. Depending on an employer's "experience" of unemployment claims paid from the employer's account, the state tax rate ranges from 0.7% to 9.4%, paid on the first $9,000 of each employee's taxable wage. If the employee of a private employer quits work to accompany the individual's active-duty military spouse who is transferred, the employer's experience rate may increase,

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[2] 20 CFR § 606.21(a) and (b).

resulting in an increase in the state's unemployment tax receipts deposited into Ohio's trust fund.

Administrative costs

Extending eligibility to individuals married to active-duty military members may increase administrative costs. Administrative funds for unemployment programs are provided to the state from the federal unemployment tax on employers. According to ODJFS, Ohio receives a set grant based on USDOL workload estimates. Each quarter, USDOL provides "above-base funding" for costs that exceed the estimated costs to administer unemployment programs. The additional amount the state would receive as a result of this bill will depend on the actual increase in ODJFS's workload to process additional claims. ODJFS deposits administrative funds received from the federal government into the Unemployment Compensation Review Commission Fund (Fund 3V40).

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