



## Fiscal Note Request HB0237, As Introduced

(continued)

5. The department estimates 12 weeks of benefits paid to 6,781 non-certified employees would cost the unemployment insurance trust fund \$17,169,492 in each year of the 2007 biennium (\$211 X 6,781 employees X 12 weeks).
6. The department estimates a 15 percent workload increase as a result of HB 237, which would require an additional 10.00 FTE at a total annual cost of \$460,425. The department would require the following positions: 6.00 Grade 12 customer service representative FTE, \$277,896 (\$38,874 salary and benefits, \$4,186 rent, computer connection, telephone and CAP, and \$3,256 OTO equipment, computer, and installation fees per FTE); 1.50 grade 13 claims adjudicator FTE, \$74,536 (\$42,033 salary and benefits, \$4,401 rent, computer connection, telephone and CAP, and \$3,256 OTO equipment, computer, and installations fees per FTE); 1.00 grade 10 claims assistant FTE, \$40,465 (\$33,395 salary and benefits, \$3,814 rent, computer connection, telephone and CAP, and \$3,256 OTO equipment, computer, and installation fees per FTE); 0.50 grade 8 administrative assistant FTE, \$17,838 (\$28,910 salary and benefits, \$3,510 rent, computer connection, telephone and CAP, and \$3,256 OTO equipment, computer, and installation fees per FTE); and 1.0 grade 13 trainer FTE, \$49,690 (\$42,033 salary and benefits, \$4,401 rent, computer connection, telephone and CAP, and \$3,256 OTO equipment, computer and installations fees).
7. Expenditure of claims is recorded against the trust in the year the benefit is paid.
8. Education employers may provide unemployment insurance in one of three ways, each of these ways has a different immediate impact on school costs related to this bill:

*Governmental:* There will be no effect on the governmental employer rates in the first six months of FY 2006 due to the time lag incurred for additional benefits to affect the rating structure.

Governmental accounts are experienced rated. For the purposes of this fiscal note it is assumed that no other changes in unemployment insurance are reflected in the rates structure and the full effect of this change will occur January 1, 2006. It is also assumed that the Department of Labor can isolate school accounts in this rate increase and will not apply the increase to all governmental accounts. (Note - It is impossible to predict whether the increase in rates will affect individual accounts' rating or the entire rate schedule for governmental accounts.)

*Reimbursable:* School districts that have chosen the reimbursable status with the Department of Labor, will see increased costs immediately. These schools are charged dollar for dollar for their benefit charges. The pools that they contribute to will dramatically increase rates in order to pay for the first two years of anticipated cost. See MSUIP discussion below.

*Experienced rated:* Similar to Governmental except for private entities. There will be no effect on the experience rated employer rates in the first six months of FY 2006 due to the time lag incurred for additional benefits to affect the rating structure. For the purposes of this fiscal note is assumed that no other changes in unemployment insurance are reflected in the rates structure and the full effect of this change will occur January 1, 2006.

9. Approximately 66 percent of school employers are set up as "reimbursable" accounts. Each reimbursable employer is charged dollar for dollar for the benefit charges related to employees. The unemployment insurance trust fund recovers charges monthly or quarterly. The department estimates it will recover \$11,381,340 of benefits paid in each year of the 2007 biennium.
10. Approximately 29 percent of school employers are set up as "governmental" accounts. Governmental employers pay an average tax of 0.25 percent of total wages. Governmental rates would not be impacted until the charges in 2005 have an effect on the 2006 rate.
11. Approximately 5 percent of school employers are set up as "experience rated" accounts. As more benefits are charged to a particular experienced rated employer, the tax rate increases. However, experience ratings are only recalculated annually. The immediate impact of the charges is a draw on the trust fund. In following years, HB 237 could result in a possible schedule shift upwards for all rates.

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**Montana Schools Unemployment Insurance Program (MSUIP).**

12. The Montana School Boards Association is the third party administrator for the self-insured schools unemployment insurance pool. MSUIP is governed by a seven member board of directors. The pool has been in existence since 1994.
13. In FY 2005, the program has 217 public K-12 school districts as members, which employ approximately 29,000 employees. The school districts in the pool are "reimbursable" and thus any claim benefits paid by the department of labor on a quarterly basis is reimbursed to DOL from MSUIP quarterly.
14. The pool calculates individual member rates annually on a fiscal year basis using its own internal rating system for the pool's total expected claim benefits, AFT tax, and administrative expenses. Each member's individual rate may change as their loss experience changes from year to year.
15. MSUIP is then responsible for paying all unemployment insurance claims of the member school districts as billed by DOL. MSUIP members report actual payroll to MSUIP on a quarterly basis. The pool payroll data is then compiled by MSUIP and reported to DOL as of the last day of month following each quarter end.

**Office of Public Instruction**

16. The additional costs to districts outlined in 20 below, will be charged to the school district retirement fund, which is funded with a state guaranteed tax base aid and county mills. Under current law, the state and the county share the funding of the retirement account. The state guarantee ratio for counties varies from 0 percent to 56 percent depending on the taxable value of the county relative to its number of students. The average state share of new retirement expenses is 27 percent.
17. Assumes school districts can predict and budget accurately these costs in the district retirement fund.

**Office of Budget and Program Planning (OBPP)**

18. OBPP estimated the number of employees and the general fund share for unemployment insurance cost the Montana School and Deaf and Blind in the table below.
19. Private schools and colleges are estimated at 5 percent of the education employment and are assumed to be experienced rated.
20. Costs by type of unemployment insurance account and impact on the general fund:

Type of Program	Educational Employees	Non-Certified 31%	Will Apply 50%	FY 2006 Benefits \$211 @ 12 Weeks	FY 2007 Benefits \$211 @ 12 Weeks	Est. G.F. Share	FY 2006 G.F. Costs	FY 2007 G.F. Costs
<b>Governmental</b>								
MT University System	7,250	2,248	1,124	2,845,968	2,845,968	20%	569,194	569,194
MSDB	98	30	15	37,980	37,980	100%	37,980	37,980
K-12	5,212	1,616	808	2,045,856	2,045,856	27%	552,381	552,381
<b>Reimbursable</b>								
K-12 (MSUIP)	29,000	8,990	4,495	11,381,340	11,381,340	27%	3,072,962	3,072,962
<b>Experience Rated</b>								
Private Schools/Other	2,187	678	339	858,348	858,348	NA	-	-
<b>Total</b>	<b>43,747</b>	<b>13,562</b>	<b>6,781</b>	<b>17,169,492</b>	<b>17,169,492</b>		<b>4,232,517</b>	<b>4,232,517</b>

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<u>FISCAL IMPACT:</u>	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
FTE	10.00	10.00
<u>Expenditures:</u>		
Personal Services UI costs (See above table)	\$4,232,517	\$4,232,517
Personal Services -DoL	386,177	\$386,177
Operating Expenses - DoL	41,688	41,688
Equipment (OTO) - DoL	32,560	0
UI Benefits paid to non-certified claimants	<u>17,169,492</u>	<u>17,169,492</u>
TOTAL	\$21,862,434	\$21,829,874

### Funding of Expenditures:

General Fund (01)	4,232,517	4,232,517
Federal Special Revenue (03) - DoL	460,425	427,865
Other (Unemployment Insurance Trust Fund)	<u>25,755,504</u>	<u>25,755,504</u>
TOTAL	\$21,862,434	\$21,829,874

### Revenues:

Other (UI trust Reimbursable Accounts Only)	\$10,481,094	\$10,448,534
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### Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$4,232,517)	(\$4,232,517)
Federal Special Revenue (03)	(\$460,425)	(\$427,865)
Other (Unemployment Insurance Trust Fund)	(\$5,788,152)	(\$5,788,152)

### EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

School districts that are reimbursable employers will experience an increase in benefit charges, and a corresponding increase in reimbursements due the trust fund beginning June 2005. School districts that are governmental or experienced rated will not see an immediate impact. However, as more benefit charges are paid out, ratings will increase beginning with calendar year 2006. The county retirement levy will increase in response to the increased retirement cost of this proposal. The county levy will increase by 73 percent of the K-12 cost or about \$9,801,853 in each fiscal year of the 2007 biennium.

### LONG-RANGE IMPACTS:

The increased ratio of total benefit charges to total wages may trigger higher tax rates for the governmental and experienced rating school employers in future years. There is a high probability that all employers would experience an increased tax rate.

### TECHNICAL NOTES:

1. HB 237 defines "instructional capacity" as services performed by a certified teacher or specialist. HB 237 allows benefits to be paid to any non-certified teacher or specialist between school terms.
2. Section 3304(a)(6)(A)(i), USC, requires that all personnel with instructional duties or employed in an instructional capacity, whether or not certified, be denied benefits between school terms. Thus, HB 237 is out of compliance with federal law.
3. Non-conformity with federal law means that all Montana employers could lose the 5.4 percent Federal Unemployment Tax Act credit against the federal unemployment tax of 6.2 percent.
4. The U.S. Department of Labor has the ability to withdraw or decrease the amount of federal administrative funds, necessary to operate the Montana unemployment administration, if the state remains out of compliance with federal law.