



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill # SB0134

Title: Optional unemployment insurance participation

Primary Sponsor: Essmann, J.

Status: As Introduced

- Significant Local Gov Impact
 Include in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
UI Trust Fund	(\$6,003,944)	(\$6,214,028)	(\$6,431,694)	(\$6,656,663)
Revenue:				
UI Trust Fund	(\$14,723,244)	(\$15,238,552)	(\$15,771,959)	(\$16,323,465)
Net Impact-General Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of Fiscal Impact:

SB 134 allows certain corporate officers, LLC managers, and select relatives to elect to opt out of state unemployment insurance coverage. Depending upon the number of officers, managers, or relatives who elect to opt out, there would be a loss of UI tax revenues. There would also be no receipt of wage replacement benefits during periods of unemployment experienced by those individuals who opt out of UI coverage.

FISCAL ANALYSIS

Assumptions:

1. There are currently 21,440 corporations and 3,697 LLC's identified by the Montana Unemployment Insurance Division. Member-managed and manager-managed LLC's are not differentiated by the database system. The number of corporate officers, LLC managers, and associated relatives of corporate officers and LLC managers of the registered corporations and LLC's is unknown.
2. For purposes of this fiscal note, the department assumes that all LLC's are manager-managed, and that there are two individuals per corporation or LLC identified by the Montana Unemployment Insurance Division, or 50,274 individuals, who would be eligible to opt out of unemployment insurance coverage under SB 134.

3. The FY 2006 average tax rate of all Montana businesses registered with the Unemployment Insurance Division is 1.37%. For purposes of this fiscal note, the same average tax rate will apply to FY 2008, 2009, 2010, and 2011.
4. The FY 2006 average annual wage for all benefit recipients was \$20,654. Using a 3.5% growth rate, the average annual benefit recipient wage for FY 2008, 2009, 2010, and 2011 will be \$21,377, \$22,125, \$22,899, and \$23,700, respectively.
5. For FY 2008, 2009, 2010, and 2011, employers will pay \$292.86, \$303.11, \$313.72, and \$324.69 respectively in unemployment insurance contributions for each person impacted by SB 134 (average annual benefit recipient wage for each year x 1.37%).
6. Assuming two individuals per corporation or LLC identified by the Montana Unemployment Insurance Division opt out of the unemployment insurance program, FY 2008 Unemployment Insurance Trust Fund revenues would be reduced by \$14,723,244 (\$292.86 x 50,274). FY 2009 Trust Fund revenues would be reduced by \$15,238,552 (\$303.11 x 50,274). FY 2010 Trust Fund revenues would be reduced by \$15,771,959 (\$313.72 x 50,274). FY 2011 Trust Fund revenues would be reduced by \$16,323,465 (\$324.69 x 50,274).
7. In FY 2006, the average benefit recipient received \$206.54 per week for 15.1 weeks. Using a 3.5% growth factor, the average benefit recipient will receive \$213.77, \$221.25, \$229, and \$237.01 benefits per week for FY 2008, 2009, 2010, and 2011, respectively.
8. The state unemployment rate is currently 3.7%. For purposes of this fiscal note, the department assumes that 3.7% of 50,274 individuals, or 1,860, would have experienced unemployment, and would have been entitled to draw benefits had they not opted out of coverage.
9. Assuming that 1,860 individuals would have drawn 15.1 weeks of benefits per year, benefits paid to formerly eligible recipients in FY 2008 would be reduced by \$6,003,944 (\$213.77 x 1,860 x 15.1 weeks). The benefit reduction in FY 2009 would be \$6,214,028 (\$221.25 x 1,860 x 15.1 weeks). The benefit reduction in FY 2010 would be \$6,431,694 (\$229 x 1,860 x 15.1 weeks). The benefit reduction in FY 2011 would be \$6,656,663 (\$237.01 x 1,860 x 15.1 weeks).
10. The department assumes it will be able to absorb any staffing, operational, or programming costs associated with bill implementation.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Benefits	(\$6,003,944)	(\$6,214,028)	(\$6,431,694)	(\$6,656,663)
<u>Funding of Expenditures:</u>				
UI Trust Fund (06069)	(\$6,003,944)	(\$6,214,028)	(\$6,431,694)	(\$6,656,663)
<u>Revenues:</u>				
UI Trust Fund (06069)	(\$14,723,244)	(\$15,238,552)	(\$15,771,959)	(\$16,323,465)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
UI Trust Fund (06069)	(\$8,719,300)	(\$9,024,524)	(\$9,340,265)	(\$9,666,802)

Technical Notes:

1. The Federal Unemployment Tax Act (FUTA) has no provision allowing exemption of corporate officers, LLC managers, or relatives, as outlined in SB134, from state unemployment insurance coverage. If a corporation or LLC fails to pay state UI tax on an officer's or manager's wages, the corporation or LLC cannot receive the 5.4% offsetting credit against the federal tax, thus paying the full FUTA of 6.2%. The lack of offsetting credit applies to the entity's entire payroll.

Sponsor's Initials

Date

Budget Director's Initials

Date