

Department of Planning and Budget

2014 Fiscal Impact Statement

1. **Bill Number:** SB110-ER

House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute X Enrolled

2. **Patron:** Stanley

3. **Committee:** Passed Both Houses

4. **Title:** Unemployment compensation; short-time compensation program.

5. **Summary:** Establishes a short-time compensation program that provides employers with the option of reducing the hours worked by employees, while permitting the employees whose hours are reduced to receive partial compensation for lost wages. Program participation requires Virginia Employment Commission (VEC) approval of a plan, which must provide that the reduction in hours of work is in lieu of a layoff of an equivalent percentage of employees and that employees' health and retirement benefits cannot be reduced or eliminated under the plan. The measure requires the Commission to submit reports on the program's implementation and accomplishments, with recommendations to improve its effectiveness. The measure becomes effective January 1, 2015.

The enrolled bill also includes provisions whereby employers are ineligible to participate in the program if the employer has negative unemployment experience, the employer is assigned the maximum experience rating tax rate of 6.2 percent, the employer is assigned the tax rate for an employer newly subject to this bill, or the employer reduced its workforce in the affected unit by not less than 20 percent during the six months preceding the date the employer applies to participate in the Program.

This bill also adds a provision for a "sunset clause."

6. **Budget Amendment Necessary:** Yes, Item 121 (HB30/SB30). A nongeneral fund budget amendment in the amount of \$1.3 million in FY 2015 and \$1.4 million in FY 2016 is necessary.

7. **Fiscal Impact Estimates:** Final, see Item 8.

7a. **Expenditure Impact:** Unemployment Trust Fund (benefits paid)

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2014			
2015	\$700,000	N/A	NGF
2016	\$1,400,000	N/A	NGF
2017	\$1,300,000	N/A	NGF
2018	\$1,300,000	N/A	NGF
2019	\$1,400,000	N/A	NGF
2020	\$1,400,000	N/A	NGF

7a. Expenditure Impact: Start-up Costs

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2014			
2015	\$628,776	N/A	NGF
2016	\$0	N/A	N/A
2017	\$0	N/A	N/A
2018	\$0	N/A	N/A
2019	\$0	N/A	N/A
2020	\$0	N/A	N/A

7c. Revenue Impact: Unemployment Taxes

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2014	\$0	N/A
2015	\$0	N/A
2016	\$0	N/A
2017	\$200,000	NGF
2018	\$200,000	NGF
2019	\$500,000	NGF
2020	\$700,000	NGF

- 8. Fiscal Implications:** This bill could have a significant fiscal impact on employers in the Commonwealth since this bill does not conform to federal law. The result of state law not conforming is twofold: the Commonwealth will not be eligible for federal UI and Workforce administrative grants and Virginia employers would have to begin paying the full Federal Unemployment Tax Rate (FUTA). The loss in federal UI and Workforce administrative grants could total \$77.1 million annually, which is used by VEC to administer the program. In addition, not being in compliance also results in the loss of the 90 percent Federal Unemployment Tax Rate (FUTA) credit for Virginia employers, which means that Virginia employers would no longer pay 0.6 percent (\$42 per employee) on the first \$7,000 wages to each employee, but would instead pay the full 6.0 percent (\$420 per employee). Virginia employers currently pay FUTA on approximately 2.85 million employees in the state. The loss of the tax credit could result in an approximately \$1.075 billion tax increase per year for Virginia employers. The State fiscal impact of this bill cannot be determined since it would depend on how the U.S. Department of Labor and the Commonwealth ultimately decide what action to take in response to losing federal administrative grants.

The number of employers that may be eligible and choose to participate in the program cannot be determined at this time, but the estimates are based on data provided from the U.S. Department of Labor for similar programs in other states.

The start-up cost is based on \$465,600 for information technology upgrades (vendor changes in design and implementation of the new automated unemployment insurance system), \$38,176 for training, and \$125,000 for publicity and marketing, for a total cost of \$628,776. VEC notes that they would not be eligible for a federal grant to cover the start-up costs of the program since there is a provision of a sunset clause.

VEC estimates that providing unemployment benefits to claimants participating in the State's short-time compensation program could increase the unemployment tax cost per employee by an average of \$0.19 over an eight-year (2016-2023) average.

9. Specific Agency or Political Subdivisions Affected: Virginia Employment Commission, and employers in the Commonwealth.

10. Technical Amendment Necessary: Yes, line 224, strike \$0.36 and insert \$0.19.

11. Other Comments: None.

Date 03/25/2014
SB110ER.doc/jlm

cc: Secretary of Commerce and Trade