

LEGISLATIVE FISCAL ESTIMATE TO

SENATE COMMITTEE SUBSTITUTE FOR

SENATE, No. 41

STATE OF NEW JERSEY

DATED: April 11, 1996

The Senate Committee Substitute for Senate Bill No. 41 of 1996 provides for the funding of the Health Care Subsidy Fund at \$350 million in calendar years (CY) 1996 and 1997. Of that amount, \$275 million in CY1996, and \$265 million in CY1997, will be allocated for charity care subsidies to hospitals; \$40 million in CY1996 and CY1997 will be allocated for the Health Access New Jersey program; and \$35 million in Fiscal Year (FY)1997, and \$45 million in FY1998, will be allocated to the Hospital Health Care Subsidy account for the State match for Medicaid disproportionate share hospitals.

The Health Care Subsidy Fund, created pursuant to P.L. 1992, c. 160, would receive \$350 million in each of calendar years 1996 and 1997. In 1996, \$325 million would be derived from payroll taxes paid by employers and employees in lieu of contributions to the Unemployment Compensation Fund, and \$25 million would be provided from General Fund revenues. In 1997, \$300 million would be derived from payroll taxes paid by employers and employees in lieu of contributions to the Unemployment Compensation, and \$50 million would be provided from General Fund revenues. The General Fund revenues are subject to future appropriation by the Legislature, and would actually be appropriated on a fiscal year basis: \$25 million in FY 1997 and \$50 million in FY 1998. Tables 1 and 2 display the proposed funding by calendar year and fiscal year, respectively:

TABLE 1
CALENDAR YEAR FUNDING FOR THE
HEALTH CARE SUBSIDY FUND
(\$ millions)

Calendar <u>Year</u>	General Fund <u>Approp.</u>	Employer/ Employee Payroll <u>Contrib.</u>	<u>Total</u>
1996	\$25	\$325	\$350
1997	\$50	\$300	\$350

TABLE 2
FISCAL YEAR FUNDING FOR THE
HEALTH CARE SUBSIDY FUND*
(\$ millions)

Fiscal Year	General Fund Approp.	Employer/ Employee Payroll Contrib.	Total
1996		\$130	\$130
1997	\$25	\$315	\$340
1998 (1/2 year)	\$50	\$180	\$230

*The distribution of employer and employee payroll contributions on a fiscal year basis is estimated.

To mitigate the impact of the bill on the unemployment compensation fund, the bill further provides, that if, during FY 1996 or FY 1997, the unemployment compensation fund reserve ratio, calculated pursuant to R.S.43:21-7(c)(5)(D), decreases to a level of less than four percent, the State Treasurer shall transfer from the General Fund to the Unemployment Compensation Fund such revenues as are required to maintain a fund reserve ratio of at least four percent.

In addition to establishing the source of funding for the Health Care Subsidy Fund, the bill also provides up to \$10 million in FY 1997 and \$20 million in FY 1998, and each succeeding year, for community-based residential and inpatient drug abuse treatment services. Revenues, if any, for these services are to be generated from a series of third-party liability revenue recovery projects.

Lastly, the bill appropriates \$1.5 million from the General Fund to the Department of Health to conduct certain feasibility studies with respect to the delivery of uncompensated health care. The findings of these studies are to be reported to the Governor and the Legislature within specified time periods.

IMPACT ON THE UNEMPLOYMENT COMPENSATION FUND:

As described above, the bill provides for payroll tax contributions to the Health Care Subsidy Fund during calendar years 1996 and 1997. These contributions by employees and employers to the Health Care Subsidy Fund are in lieu of contributions to the Unemployment Compensation Fund, and are retroactive to January 1, 1996. The sum of any employee contributions from the tax on the unemployment

compensation wage base (equal to .12 percent in 1996 and .11 percent in 1997) and any employer contributions, as provided in section 15 of the bill, which are in excess of the amounts required to be deposited in the Health Care Subsidy Fund will revert to the Unemployment Compensation Fund.

The OLS notes, based upon information provided by the Department of Labor, that given projected total taxable wages, employer and employee payroll tax contributions should be more than sufficient for the purposes of funding the Health Care Subsidy Fund. Further, the OLS anticipates that the schedule of employee and employer contributions would, under most foreseeable economic conditions, leave Unemployment Compensation Fund balances sufficiently high so that: (1) the Unemployment Compensation Fund reserve ratio would remain above 4.0 percent and (2) there would be no change in the employer fund reserve tax rate schedule over the next two years. That is, employer tax schedule "C," which is currently in effect, is expected to remain operative during the period covered by the bill. Therefore, the OLS does not anticipate that a transfer of revenues, from the General Fund to the Unemployment Compensation Fund, will be necessary to maintain a fund reserve ratio in excess of the four percent required to avoid a change in the unemployment insurance tax rate schedule.

The OLS, however, further notes that the department has indicated that if the "diversion" of funds from the Unemployment Compensation Fund to the Health Care Subsidy Fund were to have ended on December 31, 1995, pursuant to the "Health Care Reform Act of 1992," P.L. 1992, c.160, the Unemployment Compensation Fund reserves would continue to grow steadily, resulting in a lower-rated employer tax schedule, schedule "B," becoming effective by the year 1999, barring a prolonged recession.

While the unemployment tax rate schedule applied to employers is expected to remain unchanged in the near term, the OLS notes that individual employers may experience "bracket creep," or a higher individual contribution rate as a result of the bill, even if no benefits are paid from the employers' individual accounts. In particular, small businesses and businesses which have recently established an experience rating could be adversely affected in this regard, since their individual experience ratings will reflect disproportionately the reduction in unemployment compensation contributions. Moreover, the OLS notes that any excess funds which revert from the Health Care Subsidy Fund to the Unemployment Compensation Fund will be credited to the overall fund balance but will not be reflected in the accounts of individual employers.

IMPACT ON THE GENERAL FUND:

As outlined in Table 2, the bill authorizes the use of \$75 million

in General Fund revenues over a two year period, fiscal years 1997 and 1998, for the purpose of funding the Health Care Subsidy Fund. The OLS notes that the General Fund contribution of \$25 million in FY 1997 is not currently included in the Governor's Budget Recommendation.

As previously noted, although the bill provides for a transfer of General Fund revenues in the event that the unemployment compensation fund reserve ratio decreases to a level of less than four percent during FY 1996 or FY 1997, the OLS does not anticipate, based upon information provided by the department, that such a transfer will be necessary. In addition, given the same information, the OLS does not anticipate that the added effect of the enactment of Senate Bill No. 986 or Assembly Bill No. 1786, extending emergency unemployment benefits in an amount not to exceed \$250 million, will trigger a General Fund transfer.

The OLS notes that the bill further authorizes the use of revenues recovered from third party liabilities to fund community-based residential and inpatient drug abuse treatment services. While not a direct appropriation of General Fund revenues, the establishment of a dedicated funding source for these programs represents a loss of potential income to the State, since these revenues would otherwise be due to the General Fund.

The bill also appropriates \$1.5 million from the General Fund in the current fiscal year, FY 1996, for feasibility studies to be conducted by the Department of Health.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.