LEGISLATIVE FISCAL ESTIMATE TO

SENATE, No. 1139

STATE OF NEW JERSEY

DATED: May 24, 1996

Senate Bill No. 1139 of 1996 establishes an Emergency Unemployment Benefits Program and provides up to 13 weeks of additional unemployment benefits to claimants who have exhausted their entitlement to regular unemployment benefits. The bill is intended to assist a growing number of unemployed workers who have exhausted their claims for regular unemployment and have remained unemployed, in light of the more restrictive trigger mechanism under the amended "Federal-State Extended Unemployment Compensation Act of 1970," (26 U.S.C. §3304 fn.). The emergency unemployment benefit period begins on June 2, 1996 and extends through December 1, 1996, except that it will terminate automatically if the Federal-State Extended Benefits Program or any federally funded supplemental benefits program is triggered, or if the Total Unemployment Rate falls below 6 percent. Total expenditure on emergency unemployment benefits is capped at $350 million.

The bill also makes changes in the funding of the unemployment compensation fund as follows:

1. Starting on July 1, 1997, the fund reserve ratios used to determine which tax rate schedule is applied to employers are reduced. The fund reserve ratio that "triggers" use of tax schedule "A," which provides the lowest tax rates, is reduced from the current rate of 10 percent to 6 percent. The trigger for schedule "B" is reduced from 7 percent to 4 percent, the trigger for schedule "C" is reduced from 4 percent to 3 percent. The trigger for schedule "D," currently 2.5 percent, is unchanged. However, the fund reserve ratio which triggers a 10 percent tax surcharge is increased from 0 to 1.0 percent.

2. If the fund reserve ratio declines to a level below 3 percent on March 31 of either 1997 or 1998, the Treasurer will transfer from the General Fund the amount necessary to raise the reserve ratio to a level of 3 percent, thereby making impossible the imposition of tax schedule "D" on employers during those years.

3. No payroll taxes for the unemployment compensation fund are collected from workers starting April 1, 1996 and ending December 31, 1997. (During this period, pursuant to P.L.1996, c. , now pending before the Legislature as Senate Bill No. 1137, employee payroll tax contributions will be dedicated to the Health Care Subsidy Fund.) Beginning on January 1, 1998, worker contributions to the unemployment compensation fund will begin again, however, the worker contribution rate for the unemployment compensation fund is reduced from 0.6 percent to 0.4 percent.

4. The cost of administering the provisions of the bill is paid from contributions made to the Health Care Subsidy Fund.

IMPACT ON THE UNEMPLOYMENT COMPENSATION FUND

As outlined above, the fiscal impact of the bill on the unemployment compensation fund is threefold: first, with certain restrictions, the bill provides for up to $350 million in emergency unemployment benefits to individuals who exhaust their regular unemployment benefits between December 2, 1995 and December 1, 1996; second, the bill changes the fund reserve ratios used to determine the tax rate schedule applied to employers such that, given the current fund reserve ratio, employer contributions would be reduced by approximately 15 percent beginning July 1, 1997; and third: the bill eliminates employee contributions to the unemployment compensation fund between April 1, 1996 and December 31, 1997, and beginning January 1, 1998 reduces the payroll tax rate paid by employees by approximately 33 percent, from .6 percent to .4 percent.

At the outset, the Office of Legislative Services (OLS) notes that it is reasonable to assume that most, if not all, of the $350 million cap established for the emergency benefits program will be expended. This assumption is based upon State unemployment compensation data available through the U.S. Department of Labor (USDOL) which indicates that there have been approximately 139,592 "exhaustions" in this State over the last 12 months (an increase over the prior 12 month period), the current average weekly benefit amount, and the average number of extended benefit weeks likely to be claimed by exhaustees in this State as calculated by the USDOL.

The OLS further notes, based upon information provided by the State Department of Labor, that given the current unemployment compensation fund balance of approximately $2.4 billion and projected total taxable wages, employer and employee payroll tax contributions will be sufficient for the purposes of funding the proposed emergency unemployment benefits program. Additionally, the OLS anticipates that under most foreseeable economic conditions, the impact of the bill would leave unemployment compensation fund balances sufficiently high so that the unemployment compensation fund reserve ratio will remain above 4.0 percent. Thus, assuming only the extension of emergency unemployment benefits, employers can anticipate a shift from the current tax schedule, schedule "C," to a lower-rate employer tax schedule, schedule "B," by fiscal year 1998.

The OLS further acknowledges that pending legislation (see Senate Bill No. 1137 of 1996) would extend the provisions of the "Health Care Reform Act of 1992," P.L.1992, c.160 (C.26:2H-18.51 et seq.), through employer and employee payroll tax contributions to the Health Care Subsidy Fund in lieu of contributions to the unemployment compensation fund. Assuming the enactment of both bills, the State

Department of Labor has projected that the lower rated employer tax schedule, schedule "B," can be anticipated in both calendar years 1997 and 1998. However, the department has further indicated that by 1999, the fund reserve ratio will have decreased such that the higher rates of the employer tax schedule, schedule "C," will be reinstated by July 1, 1999. In contrast, the OLS anticipates that with respect to the cumulative impact of the two bills, a shift to the lower employer tax rate schedule, schedule "B," may not be achieved until July 1, 1998.

Lastly, the OLS is unable to determine the administrative costs associated with the bill, but notes that the bill provides for these costs to be paid from contributions made to the Health Care Subsidy Fund.

IMPACT ON THE GENERAL FUND:

As indicated above, the bill provides that if the fund reserve ratio declines to a level below 3 percent on March 31 of either 1997 or 1998, the Treasurer will transfer the amount necessary to raise the reserve ratio to a level of 3 percent. However, neither the OLS nor the State Department of Labor anticipates that a transfer of General Fund revenues will be necessary to prevent the higher tax schedule "D" from being imposed.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

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