LEGISLATIVE FISCAL ESTIMATE TO

SENATE, No. 2358

STATE OF NEW JERSEY

DATED: JANUARY 6, 1998

Senate Bill No. 2358 of 1997 provides a total of $244.6 million in the remaining six months of fiscal year 1998, and $489.1 million in each subsequent fiscal year, for charity and other health care programs. These amounts are to be deposited in the Health Care Subsidy Fund for use as follows (see also Table 1):

! $320 million per year is allocated to the Department of Health and Senior Services for charity care subsidies to hospitals. Funds will be distributed pursuant to the methodology and requirements established in P.L.1996, c.28, except that the program will now be budgeted on the basis of the State fiscal year, rather than by calendar year;

! $101.5 million per year is allocated to the Hospital Relief Fund in the Division of Medical Assistance and Health Services in the Department of Human Services for subsidies to hospitals which deliver a high percentage of their care to patients with HIV, mental illness, tuberculosis, substance abuse and addiction or neonatal complexity. These funds will be matched annually by $101.5 million in federal Medicaid funds.

! $20 million per year is allocated to Health Access New Jersey, a subsidized health insurance program; and

! $47.6 million per year is allocated for children's health care coverage provided pursuant to Title XXI of the federal Social Security Act. These funds will be matched annually by $88 million in federal funds. The bill requires that an amount be appropriated for each succeeding fiscal year that is sufficient to provide the State match for the maximum amount of federal funding available to New Jersey for this purpose.

TABLE 1
FISCAL YEAR FUNDING
BY PROGRAM
($ millions)

Program	FY 1998*	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Hospital Charity Care	$160.0	$320.0	$320.0	$320.0	$320.0	$320.0
Hospital Relief Fund	$50.8	$101.5	$101.5	$101.5	$101.5	$101.5
Health Access NJ	$10.0	$20.0	$20.0	$20.0	$20.0	$20.0
Children's Health	$23.8	$47.6	$47.6	$47.6	$47.6	$47.6
TOTAL	$244.6	$489.1	$489.1	$489.1	$489.1	$489.1

*Note that FY 1998 represents six months of funding, January 1 - June 30, 1998.

Funding for these health care programs will come from a combination of sources: employer and employee payroll taxes; General Fund appropriations; and revenue from increased cigarette and tobacco products taxes pursuant to companion legislation (Assembly Bill No. 2157 of 1997). This bill provides for decreasing amounts from the payroll taxes paid by employers and employees in lieu of contributions to the Unemployment Compensation Fund. Employer payroll taxes for charity care will be phased out during FY 2001 (first half of CY 2001), while employee payroll contributions for charity care are phased-out during FY 2003 (first half of CY 2003). An amount equal to $155 million per year is provided by higher cigarette and tobacco taxes. The remainder will be provided by gradually increasing General Fund contributions, subject to future appropriations. Table 2 summarizes these funding sources by fiscal year:

TABLE 2
FISCAL YEAR FUNDING
BY SOURCE OF FUNDING
($ millions)

Revenues	FY 1998*	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Employer/ Employee Payroll Contributions	$201.7	$250.0	$195.5	$120.0	$95.0	$0.0
General Fund	$42.9	$84.1	$138.6	$214.1	$239.1	$334.1
Cigarette & Tobacco**	$0.0	$155.0	$155.0	$155.0	$155.0	$155.0
TOTAL	$244.6	$489.1	$489.1	$489.1	$489.1	$489.1

*Note that FY 1998 represents six months of funding, January 1 - June 30, 1998.
**Funding from this source is provided in a companion bill, A-2157 of 1997.

Lastly, the bill revises the experience rating tax table upon which employer contributions to the Unemployment Compensation Fund are based, such that: employer tax schedule "A" is applied whenever the fund reserve ratio is equal to or exceeds 4.50 percent (compared to 6.00 percent currently); employer tax schedule "B" is applied whenever the fund reserve ratio falls within the range of 3.50 to 4.49 percent (compared to 4.00 to 5.99 percent currently); and employer tax schedule "C" is applied whenever the fund reserve ratio falls within the range of 3.00 to 3.49 percent (compared to 3.00 to 3.99 percent currently). The fund reserve ratios applicable to employer tax schedules "D" and "E" are unchanged.

IMPACT ON THE UNEMPLOYMENT COMPENSATION FUND:

As described above, the bill provides for a declining schedule of payroll tax contributions for charity care during fiscal years 1998-2003. These contributions by employees and employers to the Health Care Subsidy Fund are in lieu of contributions to the Unemployment Compensation Fund. On a calendar year (CY) basis, employer and employee payroll tax contributions for charity care are capped at: $288.0 million in CY 1998; $233.9 million CY in 1999; $178.6 million in CY 2000; $94.9 million in CY 2001; and $66.5 million in CY 2002, for a total of $861.9 million over a five-year period. By contrast, payroll tax contributions to the Health Care Subsidy Fund during CY 1996 and 1997 were $330 million annually.

Any employee contributions from the tax on the unemployment compensation wage base (equal to 0.30 percent in CY 1998; 0.25 percent in CY 1999; and 0.20 percent in CY's 2000 -- 2002) and any employer contributions, as provided in section 12 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 as provided by the bill.

Further, the OLS anticipates that the declining schedule of employee and employer contributions would, under most foreseeable economic conditions, leave Unemployment Compensation Fund balances sufficiently high so that the fund reserve ratio can be expected to remain above 4.5 percent in the short-term, resulting in an initial lowering of the employer tax rate schedule. That is, it is anticipated that there would be a shift from employer tax rate schedule "B," which is currently in effect, to schedule "A," which has lower employer tax rates, effective July 1, 1998. However, the OLS is unable to accurately project whether tax rate schedule "A" will remain operative following July 1, 2000, given the combined effect on payroll tax contributions to the Unemployment Compensation Fund from both the diversion for charity care and the reduction in employer tax rates, as well as uncertain future economic conditions.

Despite the near-term decrease in rates anticipated as a result of a change in the applicable employer tax rate schedule, 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, 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. However, it is noted that under the provisions of the bill, the employer contributions for charity care are phased-out in the beginning of CY 2001, whereas employee contributions extend through CY 2002.

IMPACT ON THE GENERAL FUND:

As outlined in Table 2 (see above), the bill authorizes the use of $1.053 billion in General Fund revenues through the year 2003 for the purpose of funding charity and other health care programs, including $42.9 million to be appropriated in the current fiscal year. These General Fund contributions are intended to gradually increase, offsetting the decrease in funds from employer and employee payroll tax contributions for health care purposes.

In addition, that the bill provides that, should the Unemployment Compensation Fund reserve ratio decrease to a level of less than 3.0 percent through March 31, 2000, the State Treasurer shall transfer from the General Fund to the Unemployment Compensation Fund such revenues as would be sufficient to obtain a reserve ratio equal to 3.0 percent. However, given projected taxable wages and most foreseeable conditions, such a transfer from the General Fund is not anticipated.

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.