# SB 20-207

Legislative Council Staff

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# FINAL FISCAL NOTE

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| **Drafting Number:** | LLS 20-1279 | **Date:** | August 11, 2020 |
| **Prime Sponsors:** | Sen. Hansen; Winter<br>Rep. Gray; Sullivan | **Bill Status:** | Signed into Law |
| | | **Fiscal Analyst:** | Clare Pramuk \| 303-866-2677<br>clare.pramuk@state.co.us |

**Bill Topic:** **UNEMPLOYMENT INSURANCE**

**Summary of Fiscal Impact:**

- ☒ State Revenue
- ☒ State Expenditure
- ☐ State Transfer
- ☐ TABOR Refund
- ☒ Local Government
- ☐ Statutory Public Entity

This bill amends the Colorado Employment Security Act to increase the chargeable wage base for unemployment insurance premiums, suspend the solvency surcharge, address public health emergencies, and increase the amount a person can earn while receiving benefits. It also requires a study of unemployment assistance and the transfer of unexpended money from the CARES Act to the Unemployment Compensation Fund. It will increase unemployment insurance benefits paid on an ongoing basis beginning in FY 2020-21, reduce revenue to the Unemployment Insurance Trust Fund in FY 2020-21 and FY 2021-22, and increase revenue to the trust fund beginning in FY 2022-23.

**Appropriation Summary:** No appropriation is required. See State Appropriations Section.

**Fiscal Note Status:** The fiscal note reflects the enacted bill.

**Table 1**
**State Fiscal Impacts Under SB 20-207**

| | | FY 2020-21 | FY 2021-22 | FY 2022-23 |
|---|---|---|---|---|
| **Revenue** | Unemployment Insurance Trust Fund | ($76.0 million) | ($91.7 million) | $79.8 million |
| **Expenditures** | Unemployment Insurance Trust Fund | $18.0 million | $18.0 million | $18.0 million |
| **Transfers** | | - | - | - |
| **TABOR Refund** | | - | - | - |

## Summary of Legislation

This bill amends the Colorado Employment Security Act to:

- freeze the unemployment insurance (UI) chargeable wage base at $13,600 for calendar year 2021;
- increase the UI chargeable wage base to:
  - $17,000 for 2022
  - $20,400 for 2023
  - $23,800 for 2024
  - $27,200 for 2025 and
  - $30,600 for 2026, adjusted thereafter by changes in average weekly earnings rounded to the nearest $100;
- suspend the solvency surcharge for calendar years 2021 and 2022;
- increase the amount of wages someone can earn before their weekly UI benefit is reduced until September 1, 2022;
- exclude payments made to an election judge from the definition of wages unless the payment exceeds the maximum permissible under federal law;
- direct the Division of Unemployment Insurance (division) in the Department of Labor and Employment (CDLE) to consider whether the individual has separated from employment or refused to accept new employment due to factors related to a public health emergency;
- modify the terms of work share plans to match federal rules;
- reduce the time for interested parties to respond to a notice of claim from 12 to 7 calendar days; and
- remove the cap on funds deposited into and retained in the Employment Support Fund.

The Office of Future of Work in the CDLE is required to study unemployment assistance as part of its study on the modernization of worker benefits and protections. The office will submit an initial report to the Governor and the General Assembly by January 15, 2021.

Finally, the bill requires any unexpended money the state received through the CARES Act, to be transferred to the Unemployment Compensation Fund on December 30, 2020.

## Background

UI premiums are paid by Colorado employers. The division in the CDLE administers the UI program. UI benefits are paid to individuals unemployed through no fault of their own from the UI Trust Fund, which resides in the federal treasury. The division constitutes an enterprise for purposes of TABOR.

The balance of the UI Trust Fund is expected to become negative during the 2020 calendar year and will be insufficient to pay all UI claims. The division is required to borrow from the federal government whenever the trust fund balance drops below $0, and can do so at 0 percent interest until the end of the year. Whenever the fund balance falls below 0.5 percent of total private wages, a solvency surcharge is assessed in order to help restore the fund balance. In addition, a lower fund balance shifts employers to a higher premium rate schedule. According to the current LCS forecast, these measures are not expected to restore the fund to solvency within the forecast period.

During the Great Recession, the UI Trust Fund became insolvent in January 2010, and the division began borrowing from the federal government, ultimately borrowing a total of $1.1 billion. The federal government began charging interest on these loans in 2011, and businesses were charged a special interest assessment to pay for this. In order to restore the fund to solvency and repay outstanding federal loans, $640 million in bonds were issued in 2012. Employers were assessed a bond principal surcharge to repay these bonds from 2013 to 2017.

## State Revenue

By freezing the chargeable wage base and suspending the solvency surcharge, the bill will reduce revenue to the UI Trust Fund by $76.0 million in FY 2020-21 and $91.7 million in FY 2021-22. By increasing the chargeable wage from $13,600 to $17,000 in 2022 and to $20,400 in 2023 and restoring the solvency surcharge in FY 2022-23, revenue to the UI Trust Fund will increase by $79.8 million and continue increasing going forward. These funds are not subject to TABOR. Other actions by the division to address the solvency of the UI Trust Fund may alter these estimates.

## State Expenditures

The bill impacts the state as an employer and as the administrator of the UI program. As an employer, the state will see an increase in premiums over time to fund its participation in the program. This amount has not been estimated. The bill impacts the CDLE as discussed below.

**Weekly benefit.** The bill is expected to increase the amount of benefits paid to unemployed individuals by at least $18.0 million per year from the UI Trust Fund. This is due to increasing the amount of wages a claimant can earn before their weekly UI benefit is reduced, from 25 percent to 50 percent of the weekly benefit amount. This estimate is based on data from calendar year 2019, and may be higher due to the uniquely high number of UI claims currently resulting from the current public health emergency.

**Public health considerations.** By allowing for UI benefit awards related to a separation from employment due to issues related to a public health emergency, the bill is expected to increase benefit payments. This amount has not been estimated.

**Workshare.** By changing the terms for workshare plans, the bill is expected to result in an increase in the use of workshare plans and a reduction in benefit payments. This amount has not been estimated.

**Unemployment study.** The bill will increase the workload for the Future of Work Office to study unemployment assistance. This office is already working on this project and has the resources necessary to complete the study within existing appropriations.

## Local Government

The bill may result in an increase in UI premiums for local government employers. These impacts will vary and cannot be determined.

## Effective Date

The bill was signed by the Governor and took effect on July 14, 2020. Section 1 is effective January 1, 2021.

## State Appropriations

The funds used to pay UI benefits are not subject to appropriation by the General Assembly and do not appear in the Long Bill.

## State and Local Government Contacts

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