OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 382 of the 132nd G.A. **Status:** As Introduced

Sponsor: Rep. Schuring **Local Impact Statement Procedure Required:** No

Subject: Changes to Ohio's Unemployment Compensation Law

State Fiscal Highlights

- The bill will reduce unemployment benefit payments reimbursed by the state.
- The bill establishes a 10% employee premium and is projected to result in increases in employer premiums paid to, and decreases in benefits paid from, the state's Unemployment Compensation Insurance Fund, thus increasing the solvency of the Fund.

Local Fiscal Highlights

- The bill will reduce unemployment benefit payments reimbursed by political subdivisions.

Detailed Fiscal Analysis

Summary of fiscal effects on state and local governments

The bill modifies Ohio's Unemployment Compensation Law and is projected to lower benefit payments to unemployed workers; as public employers, the state and local governments reimburse the Fund for any benefits paid to their workers. The bill, therefore, will likely reduce the governments' expenditures for these reimbursements.

The bill also will improve the solvency of the state's Unemployment Compensation Insurance Fund (the Fund). The Fund receives premiums from the state's employers and pays benefits to the state's unemployed workers. If the balance in the Fund drops to zero, the state must borrow from the federal government to pay benefits. The federal government charges interest on the moneys borrowed. During the last recession, the Fund's balance dropped to zero in January 2009. Ohio borrowed a total of $3.39 billion from the federal government in 2009 through 2014 and the state paid interest on the loan totaling $257.7 million. By improving the solvency of the Fund, the bill will decrease any potential interest paid in future years. In the event interest is paid in the future, continuing law[1] requires the Director of the Ohio Department of Job and

[1] R.C. 4141.251.

Family Services (ODJFS) to collect a surcharge on premium paying employers to repay the state for the interest.

Summary of the bill's changes

Terminology

The bill makes changes to the terms used to describe Ohio's unemployment compensation system. Most notably, this includes changing references to the terms "contributions" and "taxes" to "premiums." For consistency, this Fiscal Note will use the terminology as included in the bill.

Unemployment Compensation Program

The bill makes a number of changes to the Unemployment Compensation Program; the bill:

- Lowers the minimum safe level (MSL) by setting it at 0.75 of the average high cost multiple (AHCM);
- Increases the premium wage base to $11,000;[2]
- Increases the top MSL premium rate from 0.2% to 0.3% when the Fund is below the MSL;
- Establishes an employee coinsurance payment equal to 10% of the amount paid by the respective employer;
- Freezes the maximum weekly benefit amount (MWBA) for ten years;[3]
- Modifies benefits for dependents; and
- Limits benefits to 24 to 26 weeks, based on whether unemployment in the industry is caused by weather (in contrast to the current maximum of 26 weeks).

Taken together, these changes are projected to increase premiums paid to and decrease benefits paid from the Fund, thus improving its solvency. Fiscal data and projections to 2030 were provided by ODJFS, which administers the Fund, assuming these provisions take effect on January 1, 2019.[4] ODJFS completed two sets of projections, one which assumes no recession and one which factors in a moderate recession that increases the unemployment rate from 2019 to 2023. The recession length and severity is comparable to the moderate recession that occurred from July 1990 to March 1991; this recession was more severe than the 2001 recession, but less severe than the Great Recession that began in 2008. Table 1 summarizes the results of these projections aggregated over the 13 years covered by the projection (2018-2030).

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[2] S.B. 235 of the 131st General Assembly increases the premium wage base from $9,000 to $9,500 for calendar years (CYs) 2018 and 2019.

[3] S.B. 235 of the 131st General Assembly freezes the MWBA at the 2017 level for CYs 2018 and 2019.

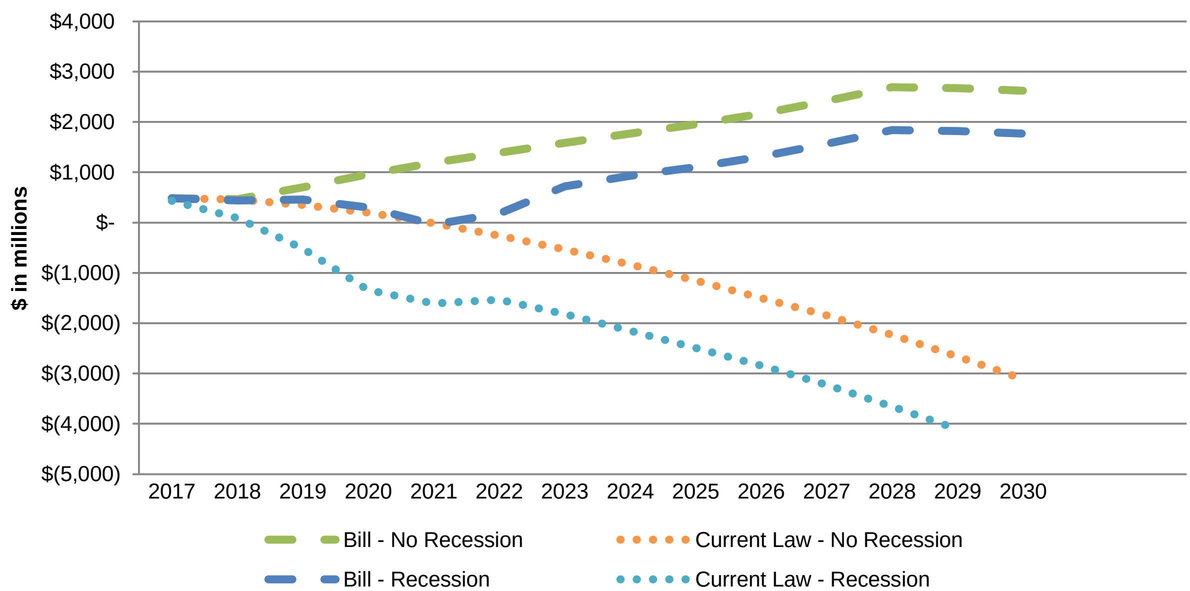
[4] The bill's provisions will take effect beginning the following January 1 after the effective date of the bill.

Table 1. Projected Premiums and Benefits from 2017 to 2030 and Ending Trust Fund Balance Bill versus Current Law ($ in millions)								
	No Recession				Recession			
	Bill	Current Law	Difference	% Difference	Bill	Current Law	Difference	% Difference
Total Premiums	$20,042.5	$15,596.0	$4,446.5	28.5%	$20,624.2	$16,109.2	$4,515.0	28.0%
Total Benefits	$17,643.9	$18,928.1	($1,284.2)	-6.8%	$19,077.5	$20,437.4	($1,359.9)	-6.7%
Fund Balance 2030*	$2,620.3	($3,110.3)	$5,730.6	--	$1,768.5	($4,106.5)	$5,875.0	--

*The Trust Fund Balance includes projected interest payments for months when the balance is positive.

As seen in Table 1, under current law the Fund balance is projected to be negative in 2030 with or without a recession. Chart 1 shows the projected Fund balance in each year under current law and under the bill, with and without a recession. Under current law the Fund is projected to become insolvent in 2021 with no recession and in 2020 with a moderate recession. Under the bill, the Fund will remain solvent through 2030 without a recession and is projected to become insolvent in 2021 with a moderate recession, but will recover and then remain solvent through 2030. After the MWBA unfreezes at the end of 2028, the balance of the Fund begins to drop gradually due to benefits exceeding premiums, with or without a recession.

Chart 1: Projected Unemployment Compensation Fund Balance



The sections below will explain the fiscal impacts of the changes included in the bill at a more detailed level.

Background

Ohio's Unemployment Program is funded by two taxes at the federal and state level. The Federal Unemployment Tax Act (FUTA) applies a 6% tax to the first $7,000 in wages paid to covered employees in order to pay for administration costs. If a state's program has good credit, 5.4% of that tax is offset leaving a 0.6% tax for employers. Following the recession in 2008, the Fund was insolvent due, in part, to the sharp rise in claims, requiring the state to borrow over $3 billion from the federal government, reducing the offset for employers by 0.3% annually after the first two years of carrying the balance. This debt was repaid on August 30, 2016, following the passage of H.B. 390 of the 131st General Assembly, which allowed the Fund to borrow from Unclaimed Funds, in the care of the Ohio Department of Commerce.

The State Unemployment Tax Act (SUTA) applies a varying tax to the wages paid to covered employees up to the premium wage base in order to finance unemployment benefits. The tax rate varies both based on the experience rate of employers as well as changes to the MSL. Information regarding the range of SUTA rates can be found in Table 2. In 2017, the mutualized rate is not in effect. However, ODJFS is including a 0.6% additional rate in the Mutual Rate portion of the rate notice that will be used to repay the loaned amount from Unclaimed Funds.

Table 2. State Unemployment Tax Act (SUTA) Premium Rates, by Fiscal Year

	2015	2016	2017
Lowest Experience Rate	0.3%	0.3%	0.3%
Highest Experience Rate	8.6%	8.7%	8.8%
Mutualized Rate/H.B. 390 Repayment	0.0%	0.0%	0.6%
New Employer Rate (excludes construction)	2.7%	2.7%	2.7%
Construction Industry New Employer Rate	6.5%	6.4%	6.2%

Minimum safe level

The MSL is the lowest level of moneys available in the Fund that would allow it to remain solvent during a moderate recession. Under current law, the MSL is equal to two standard deviations above the average of the adjusted annual average unemployment compensation benefit paid from 1970 to the most recent calendar year.

The bill changes the MSL calculation to be equal to 0.75 of the average high cost multiple (AHCM). The AHCM is calculated as follows:

$$\text{AHCM} = \frac{\text{Reserve ratio}}{\text{Average high cost rate}}$$

The reserve ratio is calculated by dividing the Fund balance as of December 31 by the total remuneration paid to workers in all employment for the most recent 12 months. The average high cost rate is the average of the three highest calendar year benefit cost ratios in the longer of the last 20 years or the period including the last three completed national recessions (for Ohio, 1991, 2009, and 2010). The AHCM provides an estimate of the length of time (in years) the Fund could pay out benefits in the event of a recession. For example, if a state's AHCM is 0.75, it means that the state has enough money to disburse unemployment benefits for about nine months in the event of a moderate recession (without factoring in future revenue). A projection of the MSL under current law and with the change made in the bill is detailed in Table 3.

Table 3. Projected Minimum Safe Level, by Fiscal Year ($ in millions)			
Year	**Bill (0.75 AHCM)**	**Current Law (MSL)**	**Difference**
2017	$2,058.6	$3,021.6	($963.0)
2018	$2,130.3	$3,003.3	($873.0)
2019	$2,216.3	$3,037.9	($821.6)
2020	$2,301.4	$3,091.0	($789.6)
2021	$2,381.6	$3,144.0	($762.4)
2022	$2,464.5	$3,214.8	($750.3)
2023	$2,547.5	$3,283.3	($735.8)
2024	$2,631.3	$3,341.8	($710.5)
2025	$2,715.3	$3,406.3	($691.0)
2026	$2,801.4	$3,477.7	($676.3)
2027	$2,889.6	$3,552.3	($662.7)
2028	$2,980.7	$3,616.8	($636.1)
2029	$3,076.6	$3,689.5	($612.9)
2030	$3,175.4	$3,769.5	($594.1)

Premiums

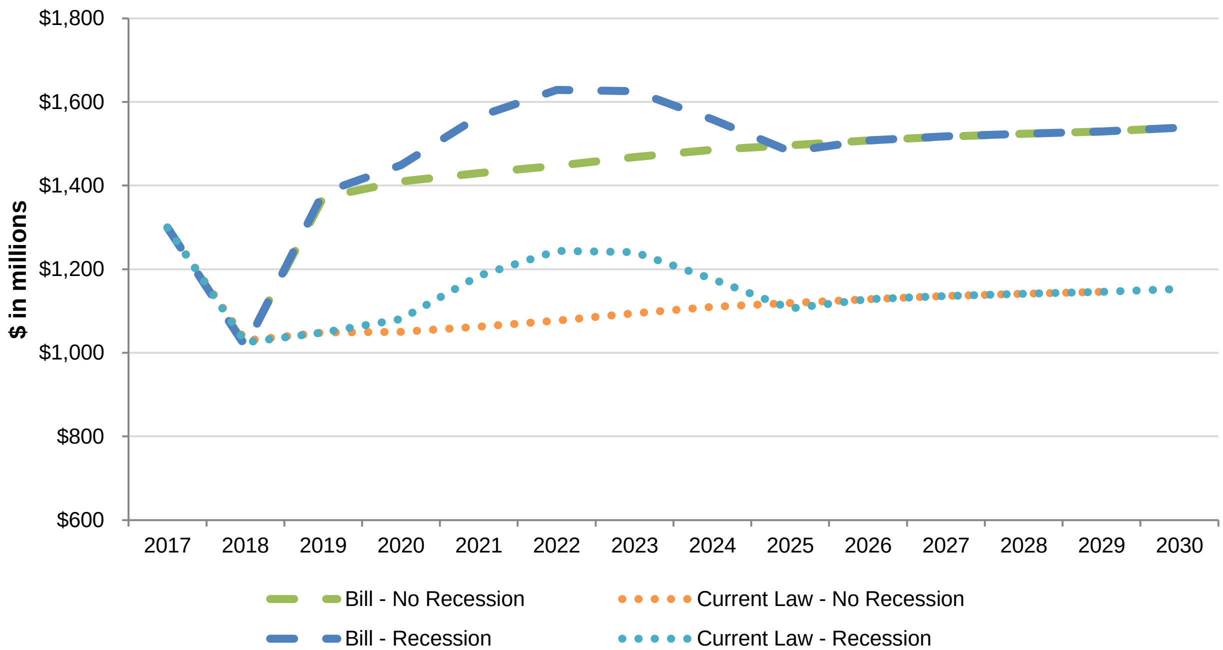
The bill expands the SUTA premium wage base to $11,000,[5] increases the top rate of the MSL flat rate tax from 0.2% to 0.3%, and establishes employee coinsurance premiums. As seen in Table 4 (no recession), Table 5 (recession), and Chart 2, the bill is projected to increase employer premiums in addition to establishing employee premiums. With these changes, the Fund does not reach the MSL by 2030 under the bill, with or without a recession.

[5] S.B. 235 of the 131st General Assembly increases the premium wage base from $9,000 to $9,500 for CYs 2018 and 2019; the bill will increase the premium wage base from $9,500 to $11,000, assuming the bill's provisions go into effect on January 1, 2019.

Table 4. Projected Unemployment Compensation Total Premiums – No Recession ($ in millions)					
Year	Bill			Current Law	Difference
	Employer Premiums	Employee Premiums	Total Premiums		
2017	$1,299.4	$0.0	$1,299.4	$1,299.4	$0.0
2018	$1,017.8	$0.0	$1,017.8	$1,029.6	($11.8)
2019	$1,247.0	$124.7	$1,371.7	$1,049.0	$322.7
2020	$1,281.5	$128.1	$1,409.6	$1,049.9	$359.7
2021	$1,299.8	$130.0	$1,429.7	$1,062.5	$367.2
2022	$1,315.9	$131.6	$1,447.5	$1,077.0	$370.5
2023	$1,334.5	$133.4	$1,467.9	$1,094.8	$373.1
2024	$1,350.4	$135.0	$1,485.4	$1,109.9	$375.5
2025	$1,360.6	$136.1	$1,496.6	$1,119.1	$377.5
2026	$1,370.8	$137.1	$1,507.9	$1,128.6	$379.3
2027	$1,379.1	$137.9	$1,517.0	$1,135.9	$381.1
2028	$1,385.2	$138.5	$1,523.7	$1,141.3	$382.4
2029	$1,390.5	$139.1	$1,529.6	$1,146.1	$383.5
2030	$1,398.7	$139.9	$1,538.5	$1,153.0	$385.5

Table 5. Projected Unemployment Compensation Total Premiums – Recession ($ in millions)					
Year	Bill			Current Law	Difference
	Employer Premiums	Employee Premiums	Total Premiums		
2017	$1,299.4	$0.0	$1,299.4	$1,299.4	$0.0
2018	$1,015.2	$0.0	$1,015.2	$1,024.8	($9.6)
2019	$1,257.6	$125.8	$1,383.4	$1,048.4	$335.0
2020	$1,317.5	$131.7	$1,449.2	$1,080.5	$368.7
2021	$1,422.8	$142.3	$1,565.1	$1,184.2	$380.9
2022	$1,480.4	$148.0	$1,628.5	$1,243.8	$384.7
2023	$1,477.8	$147.8	$1,625.6	$1,241.0	$384.6
2024	$1,417.0	$141.7	$1,558.7	$1,176.6	$382.1
2025	$1,347.3	$134.7	$1,482.0	$1,106.0	$376.0
2026	$1,370.7	$137.1	$1,507.8	$1,128.2	$379.6
2027	$1,379.5	$138.0	$1,517.5	$1,136.0	$381.5
2028	$1,385.2	$138.5	$1,523.7	$1,141.3	$382.4
2029	$1,390.5	$139.1	$1,529.6	$1,146.1	$383.5
2030	$1,398.7	$139.9	$1,538.5	$1,153.0	$385.5

Chart 2: Projected Total Premiums



MSL flat rate tax

In addition to the increase in the premium wage base, the bill increases the top rate of the MSL flat rate tax by 0.1% when the Fund is below the MSL. Premium paying employers see an increase or a decrease in their rates depending on how far below or above the Fund is of the MSL. Currently, since the Fund is more than 60% below the MSL, employers pay an additional 0.2% in flat rate tax plus an additional amount determined by the average of all employers' experience rates; the bill will increase this rate to 0.3%, resulting in employers paying more until the balance of the Fund is less than 60% below the MSL at the end of the year. Table 6 shows the impact of this change on rates.

Table 6. Changes to MSL Flat Rate Tax

Conditions		Current MSL Base Rate	Bill Change	Bill MSL Base Rate
Trust Fund is above MSL	Trust Fund is 30% or more above MSL	Rates reduced – 0.2%	–	No Change
	Trust Fund is more than 15% but less than 30% above MSL	Rates reduced – 0.1%	–	No Change
Trust Fund is below MSL	Trust Fund is more than 15% but less than 30% below MSL	0.025%	–	No Change
	Trust Fund is more than 30% but less than 45% below MSL	0.075%	–	No Change
	Trust Fund is more than 45% but less than 60% below MSL	0.125%	–	No Change
	Trust Fund is 60% or more below MSL	0.2%	+ 0.1%	0.3%

Employee coinsurance

The bill requires employees that are eligible to claim a benefit year to pay 10% of what the employer pays for the employee in coinsurance payments. In order to be eligible to claim a benefit year, an employee must have had enough earnings during 20 weeks with the employer. While some employees will work for an employer for fewer than 20 weeks and thus not be required to pay the premium, this projection in the Fiscal Note assumes that this provision will increase revenue into the Fund by 10% each year beginning in FY 2019. Additionally, employees of reimbursing employers will be required to pay premiums totaling 10% of what the employer paid to reimburse the Fund in the previous year, which could pose an administrative cost to reimbursing employers and ODJFS.

Benefits

In total, the fiscal impact of freezing the MWBA for ten years,[6] modifying dependent benefit eligibility, and reducing the number of eligible weeks will reduce the amount of benefits disbursed. The projections in this fiscal analysis pertain to premium paying employers. Ohio's unemployment compensation system consists of two types of employers: premium paying employers, who are mostly private sector employers who pay premiums into the Fund, and reimbursing employers, who are mostly public sector employers and certain nonprofits who reimburse the Fund when benefits are paid. The state and local government entities, including counties, municipalities, townships, and school districts, are not included in ODJFS's projection. However, the provisions in the bill will still impact these entities by requiring them to pay less in unemployment benefits to claimants who qualify.

As seen in Table 7 (no recession), Table 8 (recession), and Chart 3, the bill is projected to reduce benefits. As previously stated, the Fund does not reach the MSL by 2030 under the bill, regardless of whether there is a recession.

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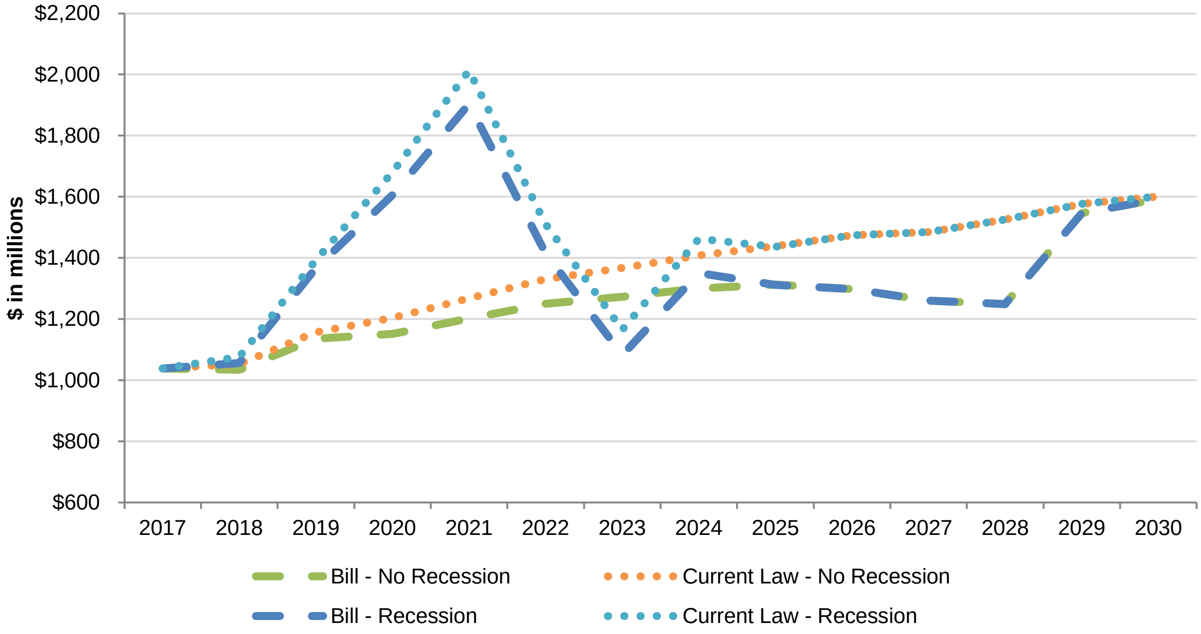
[6] S.B. 235 of the 131st General Assembly temporarily freezes the MWBA at the 2017 level for CYs 2018 and 2019; the bill will extend the freeze through the end of 2028, assuming the bill's provisions go into effect on January 1, 2019.

Table 7. Projected Unemployment Compensation Total Benefits – No Recession ($ in millions)			
Year	**Bill**	**Current Law**	**Difference**
2017	$1,038.6	$1,038.6	$0.0
2018	$1,034.1	$1,053.5	($19.4)
2019	$1,135.4	$1,157.2	($21.8)
2020	$1,151.3	$1,203.7	($52.4)
2021	$1,201.9	$1,268.2	($66.3)
2022	$1,249.5	$1,330.5	($81.0)
2023	$1,272.6	$1,366.9	($94.3)
2024	$1,300.2	$1,408.0	($107.8)
2025	$1,313.2	$1,439.0	($125.8)
2026	$1,298.1	$1,474.0	($175.9)
2027	$1,260.6	$1,484.7	($224.1)
2028	$1,249.3	$1,525.2	($275.9)
2029	$1,546.7	$1,577.2	($30.5)
2030	$1,592.4	$1,601.3	($8.9)

Table 8. Projected Unemployment Compensation Total Benefits – Recession ($ in million)			
Year	**Bill**	**Current Law**	**Difference**
2017	$1,038.6	$1,038.6	$0.0
2018	$1,056.5	$1,076.5	($20.0)
2019	$1,366.1	$1,392.3	($26.2)
2020	$1,606.5	$1,680.6	($74.1)
2021	$1,903.2	$2,012.5	($109.3)
2022	$1,415.0	$1,510.9	($95.9)
2023	$1,082.5	$1,164.6	($82.1)
2024	$1,350.4	$1,462.5	($112.1)
2025	$1,311.3	$1,436.5	($125.2)
2026	$1,298.3	$1,473.9	($175.6)
2027	$1,260.6	$1,484.7	($224.1)
2028	$1,249.3	$1,525.2	($275.9)
2029	$1,546.7	$1,577.2	($30.5)
2030	$1,592.4	$1,601.3	($8.9)

Chart 3: Projected Benefits



Maximum weekly benefit amount

The bill will freeze the MWBA, keeping the MWBA at a projected $443 for ten years.[7] After the freeze ends, the MWBA is projected to increase to $662 in 2029.

Dependent benefits

Under current law, claimants can have a higher MWBA based on the number of dependents in the household. The bill requires ODJFS to develop rules that will allow the reduction of benefits a person with dependents can receive if the claimant's household has other sources of income that eliminates or reduces the need to have the increased available benefit amount. While this provision will likely reduce the amount of benefits disbursed, it is not possible to estimate the fiscal impact until ODJFS promulgates rules.

Maximum weeks

Currently, claimants can receive benefits for up to 26 weeks. The bill will reduce the maximum number of weeks to no more than 24 to 26 weeks based on whether the unemployment is due to the weather. Under the bill, ODJFS projects the average duration of benefits will be about half a week shorter on average compared to the status quo.

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[7] S.B. 235 of the 131st General Assembly temporarily freezes the MWBA at the 2017 level for CYs 2018 and 2019; the bill will extend the freeze through the end of 2028, assuming the bill's provisions go into effect on January 1, 2019.

Provisions that will not affect solvency of the Fund

Supplemental premiums and benefits

The bill allows employers and groups of employers to establish a risk pool to award supplemental benefits. The benefits may be supported by employer premiums, employee premiums, or a combination of both. This provision will not impact the solvency of the Fund. Additionally, since it is permissive, it will pose no costs to the state or political subdivisions.

Unemployment Compensation Advisory Council

The bill will require that all appointments be made to the Unemployment Compensation Advisory Council (UCAC) within 30 days after the effective date of the bill and that the group begin meeting within 30 days after all appointments are made. This group has not met since 2010 and currently has no members. Reconvening the UCAC could result in minimal administrative costs.

Bonding of unemployment compensation debt

The bill includes a provision stating that it is the intent of the General Assembly to adopt a joint resolution to put a constitutional amendment on the ballot that would permit the state to issue bonds in order to repay any future debt to the federal governments. Ohio currently cannot issue bonds for this purpose. Such a constitutional amendment, if approved, will not contribute to the solvency of the Fund but rather will provide a mechanism for addressing insolvency in the event that Ohio is forced to borrow again. The fiscal effect of issuing bonds versus borrowing from the federal government will depend on the interest charged under the two methods.

If both houses of the General Assembly approve the resolution and the issue is placed on the statewide ballot, the Secretary of State will incur costs for ballot advertising under Section 1 of Article XVI of the Ohio Constitution. Section 1 requires that the ballot language, the explanations, and arguments, if any, be published once a week for three consecutive weeks preceding the election in at least one newspaper of general circulation in each county of the state where a newspaper is published.

The ballot advertising costs that the Secretary of State incurs are paid for on a reimbursement basis from GRF moneys appropriated to the Controlling Board, specifically GRF line item 911441, Ballot Advertising Costs. Once authorized, the reimbursable amounts are transferred by the Controlling Board to the Statewide Ballot Advertising Fund (Fund 5FH0) under the Secretary of State's budget. Ballot advertising expenses depend on the length of the ballot language. As a guide, the Secretary of State spent $447,473 in ballot advertising costs for statewide issues that appeared on the ballot during FY 2014.

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