



Ohio Legislative Service Commission

Revised

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Fiscal Note & Local Impact Statement

Bill: H.B. 46 of the 128th G.A. **Date:** December 7, 2010

Status: As Passed by the House **Sponsor:** Rep. Ujvagi

Local Impact Statement Procedure Required: Yes

Contents: Extends unemployment eligibility to spouses of military members who are transferred

State Fiscal Highlights

FY 2011 – FUTURE YEARS

Unemployment Compensation Trust Fund

Revenues	Potential gain from reimbursement of benefits paid on behalf of public employers
Expenditures	Potential increase to pay benefits and to pay back principle on borrowing

STATE FUNDS	FY 2011	FY 2012	FUTURE YEARS
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Unemployment Compensation Review Commission Fund (Fund 3V40)

Revenues	Potential gain in federal dollars for administrative costs		
Expenditures	Potential increase to process additional unemployment claims		

Various State Funds used by the Department of Job and Family Services

Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase to pay interest on borrowing	Potential increase to pay interest on borrowing

Various Funds used by State Agencies that Employ Spouses of Active-Duty Military Members

Revenues	- 0 -		
Expenditures	Potential increase to reimburse the trust fund for benefits paid		

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill may increase expenditures from Ohio's Unemployment Compensation Trust Fund's mutualized account to pay benefits to the spouse of an active-duty member of the military who is transferred and may result in additional borrowing from the federal government to pay other unemployment benefits. Any additional borrowing that results from this bill will increase the amount of trust fund dollars that will be utilized to pay back the principle and state resources that will be needed to pay interest on those amounts.

- The bill may increase the amount of unemployment compensation that the state will have to reimburse to the trust fund if a state employee leaves work to accompany the individual's active-duty military spouse who is transferred.
- The bill may increase administrative costs to process additional unemployment claims for eligible individuals. Administrative funds for unemployment programs are provided to the state from the federal unemployment tax on employers and are deposited into the Unemployment Compensation Review Commission Fund (Fund 3V40) used by the Ohio Department of Job and Family Services (ODJFS). The additional amount ODJFS may receive as a result of this bill will depend on the actual increase in the workload to process additional claims.

Local Fiscal Highlights

- The bill may increase the amount of unemployment compensation that local governments will have to reimburse to the trust fund if a local government employee leaves work to accompany the individual's active-duty military spouse who is transferred.

Detailed Fiscal Analysis

Spousal unemployment benefits – military transfer

The bill extends eligibility for unemployment compensation benefits to an individual who leaves work to accompany the individual's active-duty military spouse who is transferred. If an individual is found to be qualified for such benefits, the benefits are to be paid from the state's mutualized account in Ohio's Unemployment Compensation Trust Fund, unless the individual was previously employed by a reimbursing employer in which case the reimbursing employer is to pay the benefits (see **Fiscal Implications on Employers** below). The mutualized account is separate from the employer accounts in Ohio's trust fund and is maintained for the primary purpose of recovering costs of unemployment benefits that are not chargeable to an individual employer for a variety of reasons.

According to a spokesperson with the U.S. Department of Defense (USDOD), there were 4,349 spouses of active duty military members in Ohio as of June 2010. Of that number, the Defense Manpower Data Center, a statistics agency within the USDOD, estimates 2,240 of those spouses were employed. According to a spokesperson at the USDOD, other states have experienced low participation for this eligibility category (about 2% over a two-year period). Based on the most currently available data for the average weekly unemployment benefit (\$390.22) and the average duration of unemployment (20.8 weeks),¹ the cost for each individual who would be eligible for benefits under the bill would be \$8,117. The actual cost per individual may be lower, because according to a spokesperson at the USDOD, individuals married to active-duty members tend to make less than the average wage and usually find employment shortly after relocating. The total cost of extending eligibility will depend on the actual number of spouses eligible to receive benefits, the number of weeks spouses receive benefit payments, and the amount of weekly benefits for those spouses.

Impact on Ohio's Unemployment Compensation Trust Fund

Unemployment benefits are paid from state unemployment taxes that are paid by employers. The Ohio Department of Job and Family Services (ODJFS) collects the tax and deposits the revenue into a clearing account which is then transferred to a federal bank account (the Unemployment Compensation Trust Fund). On January 12, 2009, Ohio's aggregate trust fund balance of employer accounts was depleted, and the state began borrowing from the federal government to pay unemployment benefits. Ohio's mutualized account balance in the trust fund was also depleted, and the state is borrowing to pay benefits from that account as well. To date, ODJFS has borrowed \$2.31 billion total from the federal government.

¹ Source: October 2010 data from the Ohio Department of Job and Family Services, Ohio Labor Market Information (<http://ohiolmi.com/uc/UCReports.htm>).

According to ODJFS, when the state is in a borrowing situation, new or increased benefits must be paid from the state's current unemployment tax receipts. The benefits extended to individuals under the bill may reduce the amount available to pay current benefits and increase the amount the state must borrow to pay other unemployment benefits from the mutualized account.

The principle on amounts borrowed must be paid from Ohio's trust fund once a balance is restored; interest must be paid from state resources. The federal government has waived interest on borrowing for unemployment compensation benefit payments through December 31, 2010. Effective January 1, 2011, interest on these loans will begin to accrue, with the first interest payment due on September 30, 2011. Any additional borrowing that results from this bill will increase the amount of trust fund dollars that will be utilized to pay back the principle and state resources that will be needed to pay interest on those amounts.

Fiscal implications on employers

State and local government

State law classifies employers into one of two categories – a "reimbursing" employer or a "contributory" employer. Reimbursing employers generally include most public employers and nonprofit organizations that have elected to be reimbursing employers instead of contributory employers. Reimbursing employers are billed once a month, after the fact, for the amount of benefits paid to the employer's former employees from the trust fund. The bill may increase the amount of unemployment compensation that the state or local government will have to reimburse to the trust fund if a public employee leaves work to accompany the individual's active-duty military spouse who is transferred.

Private employers

Most private employers are contributory employers. Contributory employers pay unemployment taxes into their own employer account and the mutualized account. Each employer's account in the trust fund is funded by an experience tax on the first \$9,000 of each employee's taxable wage. The tax ranges from 0.7% to 9.4% depending on an employer's "experience" of unemployment claims paid from the employer's account. Employers' accounts in the trust fund are used to pay claims that are attributable to that particular employer. Employers' experience rates, and hence, revenues to the trust fund's employer accounts, will not be affected by the bill, as the bill specifies that benefits for eligible military spouses will be paid out of the state's mutualized account in the trust fund.

The mutualized account is separate from the employer accounts in Ohio's trust fund and is maintained for the primary purpose of recovering costs of unemployment benefits that are not chargeable to an individual employer for a variety of reasons. The mutualized rate is the same for all contributory employers (0.4%) regardless of each employer's experience rate. This rate is only charged to restore the mutualized account

to a positive balance. The rate may fluctuate each year depending upon a number of factors including expenditures made from the account.

It is uncertain if the mutualized tax rate for contributory employers would be affected due to benefits paid to claimants that leave work to accompany their active duty military spouses. There are many variables associated with calculating the mutualized tax rate each year, and it would be difficult to attribute a change in the rate to one particular factor. Furthermore, as other states have experienced low participation in this eligibility category, the impact to the mutualized account may not be significant. Finally, even if the tax rate were affected by this benefit expansion, the maximum allowable mutualized tax rate is 0.5%, which is 0.1 percentage point higher than the current rate.

Administrative costs

Extending eligibility to individuals married to active-duty military members may increase administrative costs. Administrative funds for unemployment programs are provided to the state from the federal unemployment tax on employers. According to ODJFS, Ohio receives a set grant based on USDOL workload estimates. Each quarter, USDOL provides "above-base funding" for costs that exceed the estimated costs to administer unemployment programs. The additional amount the state would receive as a result of this bill will depend on the actual increase in ODJFS's workload to process additional claims. ODJFS deposits administrative funds received from the federal government into the Unemployment Compensation Review Commission Fund (Fund 3V40).