

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 12, 2005

TO: Honorable Troy Fraser, Chair, Senate Committee on Business & Commerce

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: SB1230 by Fraser (Relating to the authority of the state to fund the operations of the unemployment compensation system.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The provisions of the bill amend the Labor Code to establish a mechanism to fund the administration of the state's unemployment insurance program if the federal government transferred the operational portion of the federal-state program to the states.

The provisions would establish a new Unemployment Insurance Operations Assessment at a rate of 0.2 percent on the annual wages paid by an employer participating in the state's unemployment insurance program. The bill specifies that under section 3306(b)(1) of the Federal Unemployment Insurance Tax Act (26 U.S.C. 26 Section 3306(b)(1)) taxable wages are defined as the first \$7,000 in annual wages rather than the first \$9,000 in annual wages under the Texas unemployment insurance compensation system.

Assessment collections would be deposited to the newly created Unemployment Insurance Operations Fund, which would be a dedicated trust fund in the State Treasury. Other revenue sources deposited to the fund would include funds appropriated by the state, federal unemployment insurance administration funding, and other sources defined by Section 203.151(b) of the Labor Code.

According to the Comptroller, based on the tax base of the first \$7,000 in annual wages and Comptroller projections of statewide employment levels in fiscal 2006-07, approximately \$114 million in Unemployment Insurance Operations Assessment revenues would be deposited into the Unemployment Insurance Operations Fund. In addition, assuming the federal government kept funding at current levels, approximately \$105 million in annual federal unemployment insurance administration funds would be redirected from GR Account 5026—Workforce Commission Federal to the Unemployment Insurance Operations Fund. However, these fiscal impacts would not occur until the federal government transferred unemployment insurance operational funding to the state and the TWC determined that the transfer of this authority was the most cost-effective and beneficial approach for the state.

The provisions of the bill would have no fiscal impact on the state until federal unemployment insurance operational funding was transferred to the state.

The Texas Workforce Commission indicates the costs of operating the state's unemployment compensation system would remain the same and therefore would not have an impact to the agency.

The bill would take effect only when: 1) the federal government transferred to Texas the authority to fund the operational portion of the state's unemployment compensation program, and 2) the Texas Workforce Commission (TWC) determined that this transfer of authority was the most cost-effective and beneficial approach for the state. If, however, the notice of that determination is published before September 1, 2005, the bill would take effect September 1, 2005.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 320 Texas Workforce Commission

LBB Staff: JOB, JRO, MW, DE