BILL ANALYSIS

S.B. 679
By: Williams
Economic Development
Committee Report (Unamended)

BACKGROUND AND PURPOSE

The Unemployment Insurance (UI) program, which is administered by the Texas Workforce Commission (TWC), provides UI benefits to Texas citizens who become unemployed due to no fault of their own. The UI program is financed by an experience-rated payroll tax paid by 410,000 employers and assessed on the first $9,000 in wages paid to each employee during a calendar year. The tax is assessed and paid quarterly; revenue from the tax is deposited into the Unemployment Compensation Fund (Trust Fund) and is used exclusively to pay UI benefits.

Employers' annual tax rates are calculated by a formula using the amount of benefits paid to former employees and "charged" to the employer's account. The more benefits paid to former employees, the higher the employer's tax rate increases, up to a maximum of 6%. State law sets the minimum balance for the Trust Fund at 1% of the total taxable wages in the state, often referred to as "the floor." If the Trust Fund balance is not at or above the floor on October 1st of each year, a deficit tax kicks in for the next year. Conversely, if the fund is above the ceiling which is 2% of the total taxable wages, state law requires TWC to credit the surplus to employers.

From 2002 to 2003, due to the unprecedented amount of UI benefits paid to unemployed Texans, the Trust Fund became insolvent. The only means TWC had to fund benefit payments was to borrow funds from the federal unemployment account and repay the debt at an interest rate set by the U. S. Treasury. However, Senate Bill 280, as passed by the 78th Legislature, contained a provision that allowed TWC to finance the debt through bond obligations, saving employers more than $300 million over the life of the five-year payback period. The bond debt in the UI program is currently estimated to be $652.2 million (the $246.3 million variable rate plus the $405.9 million fixed rate).

S.B. 679 would allow for the monies that are above the ceiling in the UI trust fund surplus to be used to buy down outstanding bond debt or to provide a credit to employers in the form of a reduced UI payroll tax rate the following year.

RULEMAKING AUTHORITY

It is the opinion of the committee that this bill does not expressly delegate any additional rulemaking authority to a state officer, department, agency or institution.

ANALYSIS

SECTION 1. Amends Section 203.102(a), Labor Code, as follows:

> (a) Defines the composition of the obligation trust fund as revenue received from an obligation assessment paid by employers as well as any surplus revenue in the compensation fund.

SECTION 2. Amends Subchapter D, Chapter 204, Labor Code, by amending Section 204.065 and by adding Sections 204.0651 and 204.0652 as follows:

> Section 204.065. New subheading: Use of Surplus. (a) Permits the commission to use surpluses in the compensation fund to repay bond obligations or to return surplus funds to experience rated employers through a surplus credit or credit rate.

(b) Permits the commission, regarding the tax rate computation date, to transfer surplus funds to the obligation assessment fund to pay off bonds or administrative expenses associated with bonds, as long as the amount transferred does not exceed the amount designated from bond proceeds for benefit payments.

(c) States that the commission shall use any portion of the surplus not used to repay bond obligations to compute a surplus credit or surplus credit rate.

(d) Allows the commission to determine which option is in the best interest of the state's employers and workers.

Section 204.0651 (a) Permits the commission to compute a surplus credit for employers entitled to an experience rate.

(b) Adds the modifier "surplus" to the pre-existing language dealing with credits to describe how the surplus credit will be calculated.

(c) States that employers who are delinquent in paying their contributions will not be eligible to receive a surplus until they have paid any delinquent contributions to the commission.

Section 204.0652 (a) Grants the commission the authority to compute a surplus credit rate if it does not compute a surplus credit to return surplus funds to employers entitled to an experience rate.

(b) Establishes the formula for calculating the surplus credit.

(c) States that the surplus credit rate may be subtracted from the sum of the general and replenishment tax rates, but may not result in a tax rate less than zero. The resultant tax rate shall be rounded to the nearest hundredth.

(d) Prohibits an employer from receiving a surplus credit rate if the employer is delinquent in paying contributions, but may receive the surplus credit rate in the next quarter if delinquent contributions have been paid.

SECTION 3. Amends Section 204.066(b), Labor Code, as follows:

(b) Adds language to ensure that the calculation of the surplus ratio takes into account amounts used to repay bond obligations.

SECTION 4. Amends Subchapter D, Chapter 204, Labor Code, by adding Section 204.067 to allow the commission, at its discretion, to adjust a rate under this subchapter.

SECTION 5. States the effective date for this Act.

EFFECTIVE DATE

Upon passage, or, if the act does not receive the necessary vote, the Act takes effect September 1, 2007.