

NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1466

SHORT TITLE: Refunds From ESC Reserve

SPONSOR(S): Senator McDaniel, et al.

FISCAL IMPACT: Expenditures: Increase () Decrease (X)
 Revenues: Increase () Decrease (X)
 No Impact ()
 No Estimate Available ()

FUND AFFECTED: General Fund (X) Highway Fund () Local Fund (X)
 Other Fund (X)

BILL SUMMARY: Senate Bill 1466 repeals the state surcharge tax on unemployment insurance contributions (G.S. 96-9(b)(3)(j)) used to capitalize the Employment Security Commission Reserve Fund (ESC Reserve Fund) as established under G.S. 96-5(f). The bill also repeals the ESC Reserve Fund effective June 30, 1997 and refunds to active employers the fund balance and any loan proceeds due to the fund. The bill allows the Employment Security Commission to use a portion of the ESC Reserve Fund balance for administering refunds.

Refund proceeds are distributed under the following prioritized order:

the amount of tax contributions paid into the ESC Reserve Fund by an individual employer;

to pay the cost of administering refunds; and

if funds remain after refund for individual contributions and administrative costs, to distribute these excess funds to current employers in an amount proportional to the credit balance in each employer's account.

For the period beginning July 1, 1996 the bill redirects the deposit of ESC Reserve Fund interest earnings away from the Worker Training Trust Fund and into the General Fund. Funds remaining in the Worker Training Trust Fund on and after July 1, 1996 remain available for expenditure pursuant to the Current Operations Appropriations Act. Worker Training Trust Funds that remain on June 30, 1997 revert to the General Fund.

EFFECTIVE DATE: Upon ratification.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED: Department of Commerce (Division of Employment and Training, Employment Security Commission), Department of Community Colleges, Department of Human Resources, and Department of Labor.

FISCAL IMPACT

(Millions)

	<u>FY</u> 1996-97	<u>FY</u> 1997-98	<u>FY</u> 1998-99	<u>FY</u> 1999-00	<u>FY</u> 2000-02	<u>FY's</u>
EXPENDITURES						
RECEIPTS/FEES						
GENERAL FUNDS	5.546					
SPECIAL FUNDS	(13.400)	(.347)				
LOCAL FUNDS		(2.688)				
ESC RESERVE/ REFUND ADMIN.	.721	.200	.150	.150	.300	
TOTAL EXPENDITURES						
SPECIAL FUNDS		(13.039)				
FEDERAL FUNDS		(3.035)				
ESC RESERVE/ REFUND ADMIN.	.721	.200	.150	.150	.300	
POSITIONS:		(148)				

ASSUMPTIONS AND METHODOLOGY: The following assumptions and fiscal data are categorized by General, Federal, Local, ESC Reserve, or Special funds. Fiscal impacts are described by fund category in terms of Receipt reductions or increases and Expenditure reductions or increases.

ESC Reserve Fund

The projected ESC Reserve Fund balance on July 1, 1996 is \$200.45 million.

The number of active employers who qualify for an exact refund of their individual tax contribution totals 102,000. The estimated total amount of refundable contributions for this group is \$138 million.

The estimated excess fund balance available -- net of refunds to individual contributing employers and related administrative costs -- for distribution to all employers with a credit balance is estimated to be \$60.929 million.

(\$200.45 million - \$138.00 million - \$1.521 million = \$60.929 million).

ESC Reserve Fund Administration

The estimated administrative costs to conduct a refund is \$1,521,000 over a six year period. Administrative costs are based on refunds being provided on a cash basis versus a credit being applied to future employer tax liability or to an employer's federal trust account. Costs are allocated over a six year period to account for the collection of unpaid taxes (approximately \$734,400) and other contingencies. These administrative costs are supported from the ESC Reserve Fund balance.

Special Fund Receipt Reductions

FY 1996-97 Special Fund receipt reduction (\$13,400,000) represents the estimated amount of ESC Reserve Fund interest earnings that would have been deposited to the Worker Training Trust Fund and made available for appropriation in FY 1997-98.

FY 1997-98 Special Fund receipt reduction (\$347,000) represents the loss of matching federal funds for the Division of Training Initiatives in the Department of Labor. Currently, the state match for these funds are provided from the Worker Training Trust Fund.

Special Fund Expenditure Reductions (Worker Training Trust Fund)

FY 1997-98 Special Fund expenditure reductions (\$13,039,031) are based on current FY 1996-97 Worker Training Trust Fund appropriations to the following state agencies for job locating and training related programs: Employment Security Commission (\$6,064,964); Department of Commerce (\$2,400,000); Department of Community Colleges (\$2,046,000); Department of Human Resources (\$1,528,067); and the Department of Labor (\$1,000,000).

General Fund Receipt Increase

FY 1996-97 estimated ESC Reserve Fund interest earnings to be deposited to the General Fund total \$5,546,938 million. This estimate is based on an investment rate of 6.5% and \$195 million in refunds being cashed by March 31, 1997.

Federal Funds Expenditures Reduction

FY 1997-98 Federal Fund reduction in expenditures is based on the loss of matching federal funds in the amount of \$2,688,715 for the JOBS program under the Department of Human Resources, and \$347,000 under the Division of Training Initiatives in the Department of Labor. Currently, the state match for these funds are provided from the Worker Training Trust Fund.

Local Funds Receipt Reduction

FY 1997-98 reduction in Local Fund receipts is based on the loss of \$2,688,715 in matching federal funds for the JOBS Program under the Department of Human Resources. These funds currently are allocated to local Division of Social Services offices for the JOBS Program.

Position Reductions

Position reductions are the result of eliminating funding to the Worker Training Trust Fund and are based on the following FTE reductions by agency: Employment Security Commission (126 positions, statewide), Department of Community Colleges (12 positions, system wide), and the Department of Labor (10 positions, statewide).

SOURCES OF DATA: Employment Security Commission, Department of Commerce, Department of Community Colleges, Department of Labor, Fiscal Research Division.

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION

733-4910

PREPARED BY: Mark A. Trogon

APPROVED BY:

DATE:

Official
Fiscal Research Division
Publication



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