

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 343 (Second Edition)

**SHORT TITLE:** Remove Employment Security Sunsets (hereinafter “Remove ESC Sunsets”)

**SPONSOR:** Representative Redwine

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>	<b><u>FY 2003-04</u></b>	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>
<b>Unemployment Trust Fund</b>					
<b>REVENUES</b>	N/A	N/A	N/A	N/A	N/A
<b>EXPENDITURES</b>	\$1,399,074	\$1,399,074	\$1,399,074	\$1,399,074	\$1,399,074
<b>POSITIONS:</b>	N/A	N/A	N/A	N/A	N/A
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Employment Security Commission (ESC), Unemployment Insurance Division					
<b>EFFECTIVE DATE:</b> Sections One, Two, and Five are effective upon ratification of the bill. Sections Three and Four are effective September 1, 2001.					

**BILL SUMMARY:** The first edition of the Remove ESC Sunsets bill, introduced February 28, 2001 would have repealed sunset provisions of the “Alternative Base Period” law<sup>1</sup> (hereinafter “Alternative Base”) and the “Undue Family Hardship” law<sup>2</sup> (hereinafter “Hardship”), both of which affect the Definitions section of the Employment Security Act (G.S. 96; hereinafter “the Act”). The Alternative Base section redefines the base period for unemployment benefits and eliminates the “one and one-half times test,” while the Hardship section provides that an individual may not be disqualified for unemployment benefits when the individual declines employment during a particular shift because it would cause undue family hardship. The

<sup>1</sup> SL 1997-404

<sup>2</sup> SL 1999-196

Contributions section of the Act<sup>3</sup> provides, among other things, that benefits shall not be charged to an employer when a claimant has been discharged solely for inability to do the work for which he was hired, but only when the claimant was hired pursuant to a job order placed with a local office of the Employment Security Commission and other conditions were met. The first edition of the Remove ESC Sunsets bill would have deleted those requirements, so that benefits would not be charged to an employer whenever a claimant is discharged solely for inability to do the work for which he was hired.

The House committee substitute, Remove ESC Sunsets/Second Edition, introduced on March 1, 2001 retains the repeal of sunsets on the Alternative Base Period and Hardship laws, and makes several additional changes to the Remove ESC Sunsets first edition. The second edition retains the provision that benefits shall not be charged to an employer when a claimant is discharged solely for inability to do the work for which he was hired, but adds that this provision applies only where the claimant's period of employment is 100 days or less. The second edition also amends the definition of "undue family hardship" to include situations in which child care is unavailable for a minor child (now, child under 14 years old) and in which care for any disabled member of an individual's immediate family is unavailable. In addition, the definition of "immediate family" is added, effectively expanding the class of individuals who could qualify for benefits under the Hardship law.

**ASSUMPTIONS AND METHODOLOGY:** Both the repeal and redefinition sections of the Remove ESC Sunsets bill create fiscal impacts on the ESC Unemployment Insurance Trust Fund. Details of how each section of the bill contributes to its overall fiscal impact are as follows:

*Alternative Base*

Continuing to pay claims that qualify under the Alternative base law will not increase costs to the Trust Fund, but will continue to require annual expenditures at roughly the same level as in the current fiscal year (\$1,300,000; see chart below). While this is not a new cost, it must be considered a fiscal impact, as ESC will incur it only if the sunset on Alternative Base is repealed.

*Hardship*

The repeal of the sunset on the Hardship law similarly continues expenditures for benefits at approximately current levels (\$10,000; see chart below). As with Alternative Base, this expenditure must be considered a fiscal impact because ESC will incur it only if the sunset on Hardship is repealed. In addition to the repeal, the Remove ESC Sunsets bill expands the definition of Hardship, thus increasing eligible claimants. ESC estimates that the total incremental increase in claims due to this change will be minimal, but to be conservative, some added cost should be anticipated (approximately \$10,000 additional; see chart below). The agency estimates that doubling the number of claims for Hardship would be a safe high-end projection. The projected annual impact of the Hardship section is thus \$20,000.

---

<sup>3</sup> G.S. 96-9(c)(2)b

*Employed Less than 100 Days*

The Remove ESC Sunsets bill makes two changes to the “no-charge<sup>4</sup>” policy the combined effect of which is that employers will be charged for benefits for a claimant discharged solely for inability to do the job for which he was hired if that worker’s period of employment is greater than 100 days. The implication of adding this condition is that some workers who currently would not be eligible for benefits after discharge for general incompetence may now qualify for benefits. As the new policy created by the bill differs somewhat from the current policy, any fiscal impact resulting from the change would come from the incremental increase in claims made possible by it. ESC estimates that as much as a 20% increase in claims of this type could result from the policy change. This increase would raise expenditures for this category of claimant from approximately \$395,370 to \$474,444, a fiscal impact of roughly \$79,000.

*Total Fiscal Impact*

Total Trust Fund expenditures related to the Remove ESC Sunsets bill were derived using ESC’s actual and projected statistics for the number of claimants fitting into each of the three major categories addressed by the bill. The following tables display these statistics and their associated costs:

**Historical Data (Annual)**

<b>Benefit Provision</b>	<b>Average Number of Qualified Claims</b>	<b>Average Total Benefit Paid</b>	<b>Total Benefits Paid</b>
Alternative Base	3,120	\$417	\$1,300,000
Hardship	40	\$250	\$10,000
Employed Less than 100 Days	191	\$2,070	\$395,370
<b>Totals</b>	<b>3,351</b>	<b>\$2,737</b>	<b>\$1,705,370</b>

**Projections for FY 2001-2005 (Annual)**

<b>Benefit Provision</b>	<b>Average Number of Qualified Claims</b>	<b>Average Total Benefit Paid</b>	<b>Total Benefits Paid</b>
Alternative Base	3,120	\$417	\$1,300,000
Hardship	80*	\$250	\$20,000
Employed Less than 100 Days	229**	\$2,070	\$474,444***
<b>Totals</b>	<b>3,389</b>	<b>\$2,737</b>	<b>\$1,794,444</b>

\* This is a 50% increase over current figures.

\*\* This is a 20% increase over current figures.

<sup>4</sup> Under certain conditions detailed in the statute, benefits are not charged to employers.

\*\*\* The increase of \$79,074 represents the fiscal impact of the bill's "Less than 100 Days" provision.

The total fiscal impact of the bill is thus computed as follows:

\$1,300,000 (Alternative Base) + \$20,000 (Hardship) + \$79,074 (increase in <100 days) = **\$1,399,074**

**FISCAL RESEARCH DIVISION 733-4910**

**PREPARED BY:** Adam Levinson, Fiscal Analyst

**APPROVED BY:** James D. Johnson

**DATE:** May 24, 2001



**Signed Copy Located in the NCGA Principal Clerk's Offices**