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FISCAL IMPACT STATEMENT

LS 6540 **NOTE PREPARED:** Dec 10, 2020
BILL NUMBER: HB 1277 **BILL AMENDED:**

SUBJECT: Work Sharing Unemployment Insurance Program.

FIRST AUTHOR: Rep. Hatfield **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
X **FEDERAL**

Summary of Legislation: The bill establishes a work sharing unemployment insurance program. It requires an employer to submit a work sharing plan for approval by the commissioner of the Department of Workforce Development (DWD). The bill also establishes the work sharing benefit as equal to an employee's unemployment benefit reduced by a percentage equal to the percentage of the employee's normal weekly work hours that the employee works under the approved work sharing plan.

Effective Date: July 1, 2021.

Explanation of State Expenditures: *Department of Workforce Development:* DWD estimates that the cost to implement a work sharing unemployment insurance program would result in about $2.5 M in costs for the first year of implementation. This includes $1.5 M due to changes to the computer system, and $1 M for staffing costs. DWD estimates ongoing staffing costs to administer the program would total $1 M annually. Administrative expenses for state unemployment insurance programs, including approved work-sharing unemployment insurance programs, are paid with federal funds.

DWD will incur administrative costs associated with the approval of work-sharing programs, changes to the unemployment insurance benefit calculation to accommodate the new program, and fraud detection. Costs in Indiana would depend upon the number of employers that submit work-sharing plans to DWD, as well as the increased number of employees who would receive partial unemployment benefits due to these plans.

Unemployment Insurance Trust Fund: The bill should not impact the Unemployment Insurance Trust Fund. In a work-sharing program, the number of affected workers receiving benefits may increase. However, benefits are reduced by a percentage that is equivalent to the number of hours by which the employee's normal work week is reduced. A federal evaluation of these programs demonstrated only negligible impacts to state trust funds as losses are typically offset by appropriately adjusted employer experience rates (which determines how much in State Unemployment Tax (SUTA) a given employer will pay). It is possible that negative impacts may be realized if employer participation in a program of this kind increases dramatically at the same time that SUTA tax increases and adjustments are constrained. Employers pay for unemployment insurance benefits through federal and state taxes.

State Agencies: The impact on the state would be as an employer. There would be some additional fringe benefit costs if the state decided to implement a work-sharing program, as opposed to layoffs. The impact on the state as an employer would likely be minimal. [This bill has the potential to impact all agencies as employers, thus impacting all funds that provide operating funds to agency staff.]

Additional Information - Under this bill, an individual who works for an eligible employer (2 or more employees) for at least 3 months could receive up to 52 weeks of work-sharing benefits.

Work sharing is also known as short-time compensation (STC). The CARES Act included $100 M in short-time compensation (STC) grant funds for states for the implementation or improved administration of STC programs and for the promotion of the program and enrollment of employers. The deadline to apply for the grants is December 31, 2023. From March 27, 2020, through December 31, 2020, the CARES Act temporarily funded 100% of STC unemployment benefit payments in states with existing STC programs, and paid 50% of STC unemployment benefit payments for states that create a temporary STC program during that period.

Work-sharing programs allow eligible employers to avoid layoffs by reducing the hours of work for an entire group of affected employees. Work sharing allows the employer to maintain other employees on a full-time basis. Under work sharing, workers affected by reduced hours may have their wages compensated with a portion of their unemployment benefit. Twenty-seven states had STC programs in 2019. According to a 2016 Congressional Research Service report, STC payments represent a very small portion of overall unemployment benefit payments. STC payments peaked during the recession in 2010 at 3% of regular unemployment compensation first payments.

Explanation of State Revenues:

Explanation of Local Expenditures: The impact on local units of government would be as an employer. There will be some additional fringe benefit costs if local units decide to implement work sharing as opposed to layoffs. The impact on individual local units would likely be minimal.

Explanation of Local Revenues:

State Agencies Affected: All agencies as employers; Department of Workforce Development.

Local Agencies Affected: All units as employers.

Information Sources: Department of Workforce Development; U.S. Department of Labor, Employment and Training Administration, https://www.dol.gov/newsroom/releases/eta/eta20200511;
National Conference of State Legislatures, Work Share Programs,
http://www.ncsl.org/research/labor-and-employment/work-share-programs.aspx;
Congressional Research Service: Compensated Work Sharing Arrangements (Short-time Compensation) as

an Alternative to Layoffs, 2016, accessed at https:/fas.org/sgp/crs/misc/R40689.pdf.

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