

BILL ANALYSIS

Senate Research Center
79R7118 JMM-F

S.B. 1230
By: Fraser
Business & Commerce
4/11/2005
As Filed

AUTHOR'S/SPONSOR'S STATEMENT OF INTENT

The United States Department of Labor (DOL) allocates administrative funds to each state according to a formula based on costs. This approach allows some states to maintain costly labor intensive operations, while punishing other states, like Texas, that have adopted technology to streamline administrative services and create efficiencies. In 2004, Texas received \$157 per unemployed person for administration of its unemployment insurance (UI) program, the lowest of all 50 states. As a result, Texas employers are effectively subsidizing inefficient operations in states such as Alaska, North Dakota, and Rhode Island.

In 2005, Texas employers will pay an estimated \$560 million in federal unemployment taxes. The return on investment for this amount, however, is only about 37 cents for every dollar Texas employers paid.

Currently, employers pay the taxes imposed by the Federal Unemployment Tax Act (FUTA) at a rate of 0.8 percent on a wage base of \$7,000, or \$56 per employee. The proceeds are used to fund each state's administration of their unemployment compensation programs, the activities of the DOL, and to offset some of the federal deficit.

The purpose of this legislation is to significantly decrease the FUTA taxes paid by Texas employers. This legislation would enable Texas, in the event that the DOL provides authorization, to choose to assume the primary responsibility for administering its UI program. Texas employers would see their FUTA taxes cut by 50 percent, a savings of approximately \$280 million per year. These savings would be available to Texas employers to invest in their businesses, thus strengthening the state's economy.

During the interim, the Senate Business and Commerce Committee conducted a study of the state's UI system and recommended that efforts should be made to ensure that Texas is returned a higher percentage of FUTA tax dollars through legislation contingent on federal authorization.

RULEMAKING AUTHORITY

Rulemaking Authority is expressly granted to the Texas Workforce Commission in SECTION 2 (Section 203.303, Labor Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Sets forth legislative findings regarding the unemployment compensation system and provides the purpose of this Act.

SECTION 2. Amends Chapter 203, Labor Code, by adding Subchapter G, as follows:

SUBCHAPTER G. UNEMPLOYMENT INSURANCE OPERATIONS

Sec. 203.301. UNEMPLOYMENT INSURANCE OPERATIONS FUND. Provides that the unemployment insurance operations fund is a dedicated trust fund in the state treasury in the custody of the comptroller of public accounts. Provides that the operations fund consists of money deposited in the fund as specified.

Sec. 203.302. OPERATIONS ASSESSMENT. Requires that an employer liable for paying contributions under this subtitle pay a separate and additional operation

assessment on wages as specified. Sets forth requirements regarding deposits of the operations assessment. Provides that the limitation on wages provided by Section 3306(b)(1) of the Federal Unemployment Tax Act (26 U.S.C. Section 3306(b)(1)) applies to the assessment under this section.

Sec. 203.303. RULES. Requires the Texas Workforce Commission (commission) to adopt rules necessary to implement and enforce this subchapter.

SECTION 3. Requires the commission to request a waiver or authorization and authorizes the commission to delay implementation of any provision of this Act until the authorization or waiver is granted if they determine the provision requires a waiver or authorization from a federal agency before implementation of this Act.

SECTION 4. Provides that this Act takes effect only if the United States Congress or the United States Department of Labor transfers authority to the state to fund the operational portion of the state's unemployment compensation system and upon specified determinations by the commission. Requires the commission to provide notice of the determination required by this section to the secretary of state for publication in the Texas Register.

SECTION 5. Effective date: September 1, 2005, or upon publication of the commission publication of the notice required under SECTION 4 of this Act, whichever is later.