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BILL ANALYSIS

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Senate Bill 483 (Substitute S-1 as reported)
Senate Bill 484 (Substitute S-1 as reported)
Sponsor: Senator Mark C. Jansen
Committee: Finance

CONTENT

Senate Bill 483 (S-1) would create the "Employment Security Financing Act" to permit the Michigan Finance Authority to issue bonds for the following purposes:

-- Reducing or avoiding the need for the State to borrow or obtain a Federal advance to Michigan's Unemployment Trust Account within the Federal Unemployment Trust Fund.
-- Repaying principal and interest on unpaid advances to the Unemployment Trust Account.
-- Funding a surplus in the Unemployment Trust Account.
-- Paying unemployment benefits.
-- Paying or providing for financing costs.
-- Providing sufficient reserves under an indenture or under Federal unemployment insurance laws, rules, regulations, or guidance as necessary to minimize the impact on unemployment insurance tax rates.

The bill also would appropriate $1.0 million from the General Fund to the Authority to pay its operating expenses and to fund reserve requirements.

Senate Bill 484 (S-1) would amend the Michigan Employment Security Act to:

-- Permit the Department of Licensing and Regulatory Affairs (LARA) to request the Michigan Finance Authority to issue obligations in order to repay Federal advances, repay loans to and from the Unemployment Trust Fund, and fund unemployment benefits, and for related purposes.
-- Create the "Obligation Trust Fund".
-- Require employers to pay an unemployment obligation assessment, which would be deposited in the Fund.
-- Require the State Treasurer to determine the assessment rate after consulting with the LARA Director.
-- Require LARA to spend money from the Fund for the payment of obligations and expenses, and for the same purposes as proceeds of the obligations.

The bills are tie-barred to each other and to Senate Bill 806. That bill would amend the Michigan Employment Security Act with respect to employers' contributions; claimants' eligibility for benefits and disqualifications; penalties; and responsibilities of the Unemployment Insurance Agency.

MCL 421.2 et al. (S.B. 484) Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would have an indeterminate fiscal impact on the State's finances. The bills would allow the Michigan Finance Authority (MFA) to issue bonds to pay for Title XII, Social Security Administration advances used for paying unemployment insurance benefits. The MFA also could issue bonds to pay for future unemployment insurance liabilities that the Unemployment Compensation Fund could not cover. Any principal and interest costs from these bonds would be paid by an unemployment obligation assessment levied by the State Treasurer on Michigan employers on the first $9,000 of wages paid to employees. The level of this assessment would be determined by the State Treasurer, and would be set to raise revenue sufficient for servicing any bonds issued under the bills.

While the bills would allow the MFA and the Department of Licensing and Regulatory Affairs (LARA) to bond to pay for the expenses described above, the bills would not require them to do so. The current system of borrowing from the Federal government and using Federal Unemployment Tax Act (FUTA) taxes to pay the principal of these loans and the solvency tax to pay the interest would still be possible if bonding turned out to be a more expensive option. This flexibility would apply only to the initial decision to finance Michigan's current Title XII balance and future potential Title XII borrowing. If the MFA and LARA decided to finance Michigan's current Title XII balance, those bonds would have to be serviced until they were paid in full or refinanced; no mechanism would exist to move a bond balance back to a Title XII advance, even if such a move were financially advantageous.

Currently, Michigan owes about $3.2 billion in Title XII balances. This debt is being repaid by FUTA tax collections. The FUTA tax is levied on employers by the Federal government on the first $7,000 in annual wages. The nominal rate of this tax is 6.2% with a 5.4% credit, yielding a net tax rate of 0.8%. However, the FUTA tax credit for Michigan employers has been reduced in recent years due to Michigan's Title XII balance. For each fiscal year a state carries a Title XII advance forward, its FUTA credit is reduced by 0.3%. For tax year 2011 (payable by employers in 2012), Michigan's FUTA credit will be reduced by 0.9%, yielding a net tax rate of 1.7% or about $119 per employee. Additionally, Title XII advances accrue interest at a rate of approximately 4.1% per year. The funding mechanism for these interest costs is the solvency tax, which is paid by employers with a negative unemployment insurance experience account balance (meaning their former employees have received more unemployment insurance benefits than the employers have paid in State Unemployment Tax Act (SUTA) taxes). In FY 2010-11, the solvency tax raised approximately $47.3 million, while the total amount of Title XII interest owed was approximately $106.0 million, leaving a shortfall of $58.7 million. An even larger shortfall of $69.4 million is expected for FY 2011-12.

The bills would allow the MFA to issue bonds to pay for this shortfall, or to repay the Title XII balance in its entirety. Table 1 shows Michigan's current progress in repaying its Title XII advances, using projections from the Unemployment Insurance Agency (UIA). Title XII balance figures from these projections were updated to account for newer Title XII balance information. Tables 2 and 3 show two of the potential bonding scenarios compared with UIA projections under current law. The assumptions made in assembling the tables are as follows: a 5- or 10-year repayment window, a $3.161 million Title XII balance, and bonds that are fully amortized.

Table 1
Current Title XII repayment projections (in millions)

Calendar Year	2012[a]	2013	2014	2015	2016	2017	2018	Totals
Beg. Title XII Bal.	3,161	2,962	2,503	2,074	1,547	875	115	N/A
Net SUTA	(1)	188	84	111	184	199	272	1,037
FUTA Collections	200	271	345	416	488	561	634	2,915
End Title XII Bal.	2,962	2,503	2,074	1,547	875	115	0	N/A
Est. Interest Due	126.4	118.5	100.1	83.0	61.9	35.0	4.6	529.5
Est. Solvency	57.0	57.0	57.0	57.0	57.0	57.0	57.0	399.0
Interest Shortfall	69.4	61.5	43.1	26.0	4.9	(22.0)	(52.4)	130.5

[a]Michigan's Title XII balance as of November 4, 2011, was $3,161,437,019. This was used as the beginning balance for calendar year 2012. The actual balance could be higher or lower.

Table 2
5-year Bond to Repay Title XII Loans (in millions)[1]

Calendar Year	2012	2013	2014	2015	2016	Totals
Debt Payment	661	661	661	661	661	3,305
FUTA Collections[2]	200	186	186	186	186	944
Est. Interest Due	0	0	0	0	0	0
Est. Solvency	0	0	0	0	0	0

[1]A 1.5 % interest rate was used in these calculations; this rate was obtained using average current yield on 5-year AA-rated municipal bond.
[2]Assumes FUTA credit will remain reduced for tax year 2011 (payable in 2012) and then will be restored.

Table 3
10-year Bond to Repay Title XII Loans (in millions)[1]

Calendar Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Totals
Debt Payment	356	356	356	356	356	356	356	356	356	356	3,560
FUTA Collections	200	186	186	186	186	186	186	186	186	186	1,874
Est. Interest Due	0	0	0	0	0	0	0	0	0	0	0
Est. Solvency	0	0	0	0	0	0	0	0	0	0	0

[1]A 2.2% interest rate was used in these calculations; this rate was obtained using average current yield on 10-year AA-rated municipal bond.

Making a comparison of the three scenarios above is somewhat difficult. One of the primary reasons is that the current repayment scheme uses net SUTA tax revenue to assist with repaying Title XII loans. Net SUTA tax revenue is the SUTA revenue left over after paying UI benefit obligations for the year. Because bonds are used to fully repay the Title XII advances in the scenarios from Tables 2 and 3, it is not necessary to use net SUTA revenue for this purpose, and at the end of repayment in the bonding scenarios, the Unemployment Compensation Fund (UCF) would be left with a substantial balance. Under the current repayment milieu, a relatively small UCF balance will be left when repayment is finished. Having a larger UCF balance reduces the likelihood of future borrowing to pay unemployment insurance benefit obligations.

Another difficulty in comparing the three scenarios is the treatment of FUTA tax collections. Regardless of what happens to Michigan's Title XII balance, there will always be some level of FUTA collections; therefore, to do a marginal analysis of these repayment schemes, a baseline amount of FUTA collections must be subtracted from each scenario's assumed FUTA collections.

Finally, Senate Bill 483 (S-1) would appropriate $1.0 million in GF/GP revenue to the MFA for the administration of the Act, and any unused appropriations would not lapse at the end of the fiscal year and would be available for administrative expenses in future years.

Date Completed: 11-22-11 Fiscal Analyst: Josh Sefton