

Individual State Agency Fiscal Note

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| Bill Number: 5176 SB | Title: Employee-owned coop UI | Agency: 540-Employment Security Department |
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--|-----------|---------|-----------|---------|---------|
| FTE Staff Years | 4.3 | 1.0 | 2.7 | 1.0 | 1.0 |
| Account | | | | | |
| Unemployment Compensation Administration Account-Federal 119-2 | 1,293,124 | 128,913 | 1,422,037 | 257,826 | 257,826 |
| Total \$ | 1,293,124 | 128,913 | 1,422,037 | 257,826 | 257,826 |

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

| | | |
|--------------------------------------|-----------------------|------------------|
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| Agency Preparation: Lesley Carpenter | Phone: 360 902-9404 | Date: 01/18/2023 |
| Agency Approval: Lisa Henderson | Phone: 360-902-9291 | Date: 01/18/2023 |
| OFM Review: Anna Minor | Phone: (360) 790-2951 | Date: 01/20/2023 |

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Under current law, the corporate officers of employee cooperative corporations are automatically exempt from unemployment coverage unless the corporation opts them in, and the officers of cooperative associations and limited cooperative associations are covered by unemployment insurance with no opportunity for the association to opt them out of coverage. SB 5176 would instead automatically cover the corporate officers of employee cooperative corporations unless the corporation opted them out of coverage, and would give cooperative associations and limited cooperative associations the ability to opt their officers out of unemployment coverage. Additionally, corporate officers of employee cooperative corporations, unlike corporate officers of typical for-profit corporations, can count as unemployed even if the corporation has not permanently dissolved or the officer has not permanently resigned as a corporate officer.

Sec. 1 defines "employee-owned cooperative" to include employee cooperative corporations, cooperative associations and limited cooperative associations.

Sec. 2 adds the option for an employee-owned cooperative business to file with the commissioner a written election that all services provided by its corporate officers be deemed to not constitute "employment" for at least two calendar years. Upon the commissioner's written approval, the services will be exempt from unemployment coverage beginning on the date of the approval. The corporate officer's services can be covered/non-exempt from coverage again as of January 1 of any calendar year after the two calendar year period ONLY if the business files with the commissioner, before January 15 of that year, a written application for election of coverage.

Sec. 3 (2)(a) states that officers of an employee-owned cooperative business are covered by state unemployment insurance as employees unless the business elects to not cover all of its corporate officers under Sec 2, above.

Sec. 3 (2)(b) provides that if the employee-owned cooperative business elects not to cover its corporate officers under Sec. 2, above, it must notify its corporate officers in writing that they are ineligible for unemployment benefits. However, if the business does not provide such notification, the person's status as a corporate officer and their ineligibility for benefits does not change.

Sec. 4 (3) states that a covered corporate officer of an employee-owned cooperative can count as "unemployed" for purposes of unemployment benefit eligibility, even if the officer is performing services only as an officer of an employee-owned cooperative. Also, unlike corporate officers of typical for-profit corporations, officers of an employee-owned cooperative can count as "unemployed," even if they have not permanently resigned as a corporate officer or even if the corporations has not permanently dissolved.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

This bill will likely not have an impact on cash receipts. Employee-owned cooperatives will either continue to cover their corporate officers if they have opted in to coverage or elect to not cover them if they are currently not covered, leading to no changes in unemployment tax payments.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Please see attached Expenditure Narrative

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

| Account | Account Title | Type | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|-----------------|--|---------|-----------|---------|-----------|---------|---------|
| 119-2 | Unemployment Compensation Administration Account | Federal | 1,293,124 | 128,913 | 1,422,037 | 257,826 | 257,826 |
| Total \$ | | | 1,293,124 | 128,913 | 1,422,037 | 257,826 | 257,826 |

III. B - Expenditures by Object Or Purpose

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------------------------|-----------|---------|-----------|---------|---------|
| FTE Staff Years | 4.3 | 1.0 | 2.7 | 1.0 | 1.0 |
| A-Salaries and Wages | 385,637 | 68,041 | 453,678 | 136,082 | 136,082 |
| B-Employee Benefits | 154,255 | 27,216 | 181,471 | 54,432 | 54,432 |
| C-Professional Service Contracts | 492,512 | | 492,512 | | |
| E-Goods and Other Services | 155,145 | 15,150 | 170,295 | 30,300 | 30,300 |
| G-Travel | | | | | |
| J-Capital Outlays | | | | | |
| M-Inter Agency/Fund Transfers | | | | | |
| N-Grants, Benefits & Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| T-Intra-Agency Reimbursements | 105,575 | 18,506 | 124,081 | 37,012 | 37,012 |
| 9- | | | | | |
| Total \$ | 1,293,124 | 128,913 | 1,422,037 | 257,826 | 257,826 |

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

| Job Classification | Salary | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--|---------|---------|---------|---------|---------|---------|
| COMMUNICATIONS CONSULTANT 4 | 64,788 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| COMMUNICATIONS CONSULTANT 5 | 75,120 | | 0.1 | 0.1 | 0.1 | 0.1 |
| EMPLOYMENT SECURITY PROGRAM COORDINATOR 3 | 61,632 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| IT APP DEVELOPMENT - SENIOR/SPECIALIST | 99,864 | 0.2 | | 0.1 | | |
| IT ARCHITECTURE - SENIOR/SPECIALIST | 104,868 | 0.1 | | 0.1 | | |
| IT ARCHITECTURE - SENIOR/SPECIALIST (Supervisor) | 110,111 | 0.5 | | 0.3 | | |
| IT BUSINESS ANALYST - JOURNEY | 86,268 | 1.0 | | 0.5 | | |
| IT BUSINESS ANALYST - SENIOR/SPECIALIST | 95,100 | 0.2 | | 0.1 | | |
| IT PROJECT MANAGEMENT - SENIOR/SPECIALIST | 99,864 | 0.3 | | 0.2 | | |
| IT QUALITY ASSURANCE - JOURNEY | 86,268 | 0.6 | | 0.3 | | |
| MANAGEMENT ANALYST 5 | 78,900 | 0.6 | 0.3 | 0.5 | 0.3 | 0.3 |
| TAX SPECIALIST 3 - ES | 53,100 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| WMS BAND 2 | 98,088 | 0.3 | | 0.2 | | |
| Total FTEs | | 4.3 | 1.0 | 2.7 | 1.0 | 1.0 |

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

SB 5176 will require major rulemaking.

Sec 1: WAC 192-300-170 and WAC 192-310-190 will need to be updated to reflect the definition of "employee-owned cooperative."

Sec 2: WAC 192-300-170 and WAC 192-310-190 will need to be updated to reflect the new opt-out process.

Sec 3: WAC 192-300-170 and WAC 192-310-190 will need to be updated to reflect the bill's treatment of officers of employee-owned cooperatives as different from officers of corporations.

Sec 4: WAC 192-300-170 and WAC 192-310-190 will need to be updated to reflect the bill's treatment of officers of employee-owned cooperatives as different from officers of corporations.

Expenditure Impact Narrative

SB 5176 automatically gives unemployment coverage to the corporate officers of employee cooperative corporations unless the corporation opts them out of coverage. This bill would also give cooperative associations and limited cooperative associations the ability to opt their officers out of unemployment coverage. Additionally, corporate officers of employee cooperative corporations, unlike corporate officers of typical for-profit corporations, can count as unemployed even if the corporation has not permanently dissolved or the officer has not permanently resigned as a corporate officer.

To implement this bill the following needs to occur in fiscal year 2024:

- Major rulemaking and policy work - 6 months
- Update the Next Generation Tax System (NGTS)
- Modifications to internal technology systems
- Update Employment Security Department (ESD) websites and email communications
- Update employer tax system by creating an additional classification
- Update training and reference materials
- Staff Training

Employment Security Department (ESD) must update the Next Generation Tax System (NGTS) to allow for identification of these businesses and the opt-in process.

SB 5176 will require updates to the employer tax system by creating an additional classification for employee-owned cooperatives.

While the NGTS system is being updated, the training unit can create curricula to be used to train staff.

Communications will need to update websites and customer service deliverables.

One Time Cost

Rulemaking and Policy related cost (one time cost)

- Major rulemaking cost = \$90,000

Information Technology (IT) Related Contract Costs (one-time cost):

- Fast contract – Code and configure changes to NGTS
 - FY24 (1200 hours*\$210 per hour = \$252,000)
- Application Developer – update Registration and opt out workflow correspondence and report updates, add new business structure type, update graphical user interface, and tax application programming interface, update structure type to federal report, and update logic for tax accounting integration with the Employer Account Management System (EAMS)
 - FY24 (1592 hours*\$110 per hour = \$175,120)
- Quality Assurance – Test and validate NGTS
 - FY24 (976 hours = \$65,392)

Total IT Related Contract Cost during FY2024: ($\$252,000 + \$175,120 + \$65,392 = \$492,512$)

Information Technology (IT) Related Staff Cost (one-time cost)

- IT App Development – Senior Specialist - update logic for tax accounting, and integration between the Register, Reinstatement and Maintain Employer Accounts (RRM) and Employer Account Management System (EAMS)
 - FY24 (0.2 FTE = \$37,081)
- IT Architecture - Senior Specialist (Supervisor) – work on new business structure type for rates and registration, registration and opt out workflow, correspondence, and report updates
 - FY24 (0.5 FTE = \$101,302)
- IT Architecture - Senior Specialist - work on adding new business structure type for Employer Account Management System (EAMS), update graphical user interface and tax application programming interface
 - FY24 (0.1 FTE = \$19,380)
- IT Business Analyst - Journey - gather detailed scope/requirements of the work desired by leading discussions with stakeholders and capturing their inputs and needs. Consulting and specification updates to rates and registration, update structure type specifications and User Acceptance Testing (UAT) coordination
 - FY24 (1.0 FTE = \$162,560)
- IT Business Analyst - Senior Specialist - work on adding new business structure type, update specifications and User Acceptance Testing (UAT) coordination for Employer Account Management System (EAMS)
 - FY24 (0.2 FTE = \$35,478)
- IT Quality Assurance – Journey – validation of expected changes to rates and registration, Employer Account Management System (EAMS), federal reports, and Tax and Wage reports
 - FY24 (0.6 FTE = \$97,536)

Total IT Related Staff Costs during FY2024: ($\$37,081 + \$101,302 + \$19,380 + \$162,560 + \$35,478 + \$97,536 = \$453,337$)

Product Management Related Staff Cost (one-time cost)

Product Management engagement is needed due to the impacts on the employer tax system. The following staff are needed to update the system to create an additional classification for the type of business being identified in SB 5176 which will require several project pieces that need cross-team support and engagement that Project Management can assist with.

- Management Analyst 5
 - FY24 (0.3 FTE = \$45,055)
- WMS2
 - FY24 (0.3 FTE = \$54,722)
- IT Project Management – Senior Specialist
 - FY24 (0.3 FTE = \$55,618)

Total Product Management Related Staff Cost during FY2024: ($\$45,055 + \$54,722 + \$55,618 = \$155,395$)

Claims Center Cost (one-time cost)

Staff will need to develop and participate in training for the new process. Development of training will involve one employee and will take 8 hours. One staff member will spend 12 hours delivering the training. 97 staff members will participate in the training for a total of 194 training hours. These costs can be absorbed with existing resources.

Total One-Time Cost for FY2024: $\$90,000 + \$492,512 + \$453,337 + \$155,395 = \$1,191,244$

Ongoing Cost

Communications Related Staff Cost (ongoing cost)

- Communications Consultant 4 – execute medium communications plan, work on execution for engagement of GovDelivery campaign, medium outreach campaign, postal mail campaign, small social media campaign, and webinar planning, copying, writing, and editing for creative design support, and content development and publication of new webpage and resources
 - FY24 (0.1 FTE = \$12,649)
 - FY25 and ongoing (0.2 FTE = \$25,298)
- Communications Consultant 5 – Review and give tactical guidance for medium communications plans, GovDelivery campaign, medium outreach campaign, postal mail campaign, small social media campaign, webinar planning, creative design support and content planning, management, tracking along with content review and approval for new webpage and resources
 - FY25 and ongoing (0.1 FTE = \$14,384)

Total Communications Cost for FY2024: \$12,649

Total Communications Cost for FY2025 and ongoing: $\$25,298 + \$14,384 = \$39,682$

Product Management Related Cost (ongoing)

- Management Analyst 5 – review and understand impact and recommend any changes
 - FY24 (0.3 FTE = \$45,056)
 - FY25 and ongoing (0.3 FTE = \$45,056)

Claims Center Cost (ongoing)

- Employment Security Program Coordinator 3 – work with Department of Revenue (DOR) and Secretary of State (SOS) to Identify Employee Cooperatives, Cooperative Associations, Limited Cooperative Associations; Create Letter for employers to informing of requirements for cooperative officers.
 - FY24 (0.1 FTE = \$12,118)
 - FY25 and ongoing (0.1 FTE = \$12,118)
- Tax Specialist 3 - Create New Accounts for Cooperatives under correct business structure for existing employers
 - FY24 (0.3 FTE = \$32,057)
 - FY25 and ongoing (0.3 FTE = \$32,057)

Total Claims Center Cost for FY2024: $\$12,118 + \$32,057 = \$44,175$

Total Claims Center Cost for FY2025 and ongoing: $\$12,118 + \$32,057 = \$44,175$

Total Ongoing Cost for FY24: $\$12,649 + \$45,056 + \$44,175 = \$101,880$

Total Ongoing Cost for FY25 and Ongoing: $\$39,682 + \$45,056 + \$44,175 = \$128,913$

Total Cost for FY2024: $\$1,191,244 + \$101,880 = \$1,293,124$

Total Cost for FY2025 and ongoing: \$128,913