

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1668 – HB 1683

January 27, 2014

SUMMARY OF BILL: Requires the Department of Labor and Workforce Development (DLWD) to develop and administer a drug screening and assessment program for the purpose of testing certain claimants for use of controlled substances. Prohibits certain applicants from receiving unemployment compensation benefits that have tested positive for use of controlled substances with certain exceptions including participation by the applicant in a treatment program for drug abuse. Authorizes the Commissioner of DLWD to promulgate and administer rules and regulations to effectuate purposes of this act. Effective upon becoming law for the purpose of promulgating such rules and regulations; for all other purposes effective on January 1, 2015.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures –

\$6,281,400/General Fund/FY14-15

\$11,415,700/General Fund/FY15-16 and Subsequent Years

Decrease State Expenditures –

\$1,576,800/Unemployment Trust Fund/FY14-15

\$3,153,700/Unemployment Trust Fund/FY15-16 and Subsequent Years

Assumptions:

- According to DLWD, this bill will have a significant impact upon the number of staff for implementation and numerous information technology (IT) modifications will be necessary to meet the provisions of the bill.
- DLWD indicates this bill will not be funded by any federal funding; therefore requiring additional state funding to implement.
- DLWD estimates that approximately 1,830 individuals will fail drug tests each year, and that 50 percent will choose not to enter into drug rehabilitation programs.
- The average duration of unemployment compensation benefits is 14.6 weeks based on 2013 third quarter departmental statistics.
- The average weekly benefit amount paid per claimant is \$236.07.
- Unemployment compensation benefits are paid from the Unemployment Insurance Trust Fund (UITF).
- The recurring decrease in state expenditures from the UITF is estimated to be \$3,153,659 (1,830 individuals x 50% not electing to participate in a drug treatment

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program x 14.6 weeks x \$236.07 weekly amount). These reduced expenditures will begin on the effective date of January 1, 2015. As a result, the decrease in state expenditures from the UITF will be \$1,576,830 in FY14-15 (\$3,153,659 x 50%) for the half-year impact; and \$3,153,659 each year beginning in FY15-16.

- DLWD estimates the annual number of applicants requiring drug testing to be 114,400. Of this number, five percent (or 5,720) will require retesting due to potential false readings. Therefore, an annual number of administered drug tests estimated to be 120,120.
- The cost for each drug test is estimated to be \$64. DLWD will contract with a TN-domiciled vendor for administering drug tests.
- The recurring increase in state expenditures from the state General Fund (GF) for the cost of drug testing is estimated to be \$7,687,680 (120,120 tests x \$64 cost per test). These expenditures will begin on the effective date of January 1, 2015. As a result, the increase in state expenditures from the GF will be \$3,843,840 in FY14-15 (\$7,687,680 x 50%) for the half-year impact; and \$7,687,680 each year beginning in FY15-16.
- One-time state expenditures from the state GF associated with drug testing requirements are estimated to be \$573,600 which includes approximately \$12,000 for required IT system maintenance and licensing, approximately \$385,000 for the development of the drug test notification screen for the unemployment insurance application and developing systems, and approximately \$176,600 for modification of online and batch programs of the current mainframe and developing systems. DLWD will contract with TN-domiciled vendors for these services. These expenditures are assumed to occur (in FY14-15) between July 1, 2014 and December 31, 2014, in preparation for the effective date of January 1, 2015.
- DLWD indicates this bill will require 56 new positions (31 adjudicator positions, 20 claims agent positions, 2 hearing officer positions, and 3 clerk positions).
- Based on information provided by DLWD and the Department of Finance and Administration concerning the costs related to new employees, the recurring increase in state expenditures from the GF for 56 new positions is estimated to be \$3,728,000. These expenditures will begin on the effective date of January 1, 2015. As a result, the increase in state expenditures from the GF will be approximately \$1,864,000 in FY14-15 (\$3,728,000 x 50%) for the half-year impact; and \$3,728,000 each year beginning in FY15-16.
- The total increase in state expenditures from the GF in FY14-15 is estimated to be \$6,281,440 (\$3,843,840 + \$573,600 + \$1,864,000).
- The total recurring increase in state expenditures from the GF in FY15-16 and subsequent years is estimated to be \$11,415,680 (\$7,687,680 + \$3,728,000).

IMPACT TO COMMERCE:

Increase Business Revenue – Net Impact -
\$3,601,400/FY14-15
\$6,055,500/FY15-16 and Subsequent Years

Increase Business Expenditures –

\$1,800,700/FY14-15

\$3,027,700/FY15-16 and Subsequent Years

Jobs Impact – There will be 56 new public sector jobs created as a result of this bill. There may be new private sector jobs created as well. However, the number of new private sector jobs is estimated to be not significant.

Assumptions:

- At least 60 percent of unemployment compensation benefits paid to claimants are spent in the economy and paid to Tennessee-domiciled businesses for goods and services.
- The reduction of unemployment compensation benefits paid will reduce revenue for Tennessee-domiciled businesses. The decrease in business revenue for FY14-15 is estimated to exceed \$946,080 ($\$1,576,800 \times 60\%$). The recurring decrease in business revenue for FY15-16 and subsequent years is estimated to exceed \$1,892,220 ($\$3,153,700 \times 60\%$).
- DLWD contracts with Tennessee-domiciled vendors for required services.
- There will be an increase in business revenue as a result of new vendors providing services required by DLWD, new state employees spending their incomes within the state economy, and additional health insurance premiums being paid for coverage for the new state employees.
- There will be an increase in business revenue of \$3,843,840 in FY14-15; and \$7,687,680 in FY15-16 and subsequent years as a result of a state contract with DLWD for administering drug tests.
- There will be an increase in business revenue of \$573,600 as a result of a state contract with DLWD for required system modifications occurring in FY14-15.
- The impact to business revenue as a result of new state employees spending their salaries in the state economy is difficult to determine. Such impact is dependent upon several unknown factors such as whether the new state employee was unemployed prior to state service, employed in Tennessee prior to state service, or employed out-of-state prior to state service. However, the increase in business revenue due to new state employees spending their incomes in the Tennessee economy is reasonably estimated to exceed \$100,000 in FY14-15; and exceed \$200,000 in FY15-16 and subsequent years.
- The impact to business revenue as a result of insurance premiums paid for new state employees is difficult to determine. Such impact is dependent upon several unknown factors such as the extent of insurance coverage provided to the new employees prior to their service with the state (if any), and the extent of premiums paid for prior insurance plans. However, the increase in business revenue due to additional insurance premiums paid is reasonably estimated to exceed \$30,000 in FY14-15; and exceed \$60,000 in FY15-16 and subsequent years.
- The net increase to business revenue in FY14-15 is estimated to be \$3,601,360 [$(\$3,843,840 + \$573,600 + \$100,000 + \$30,000) - \$946,080$]; in FY15-16 and

subsequent years is estimated to be \$6,055,460 [(\$7,687,680 + \$200,000 + \$60,000) - \$1,892,220].

- There will be an increase in business expenditures for the cost of providing goods and services sold. This increase in business expenditures is reasonably estimated to be 50 percent of any net new business revenue generated as a result of this bill. Therefore, the increase in business expenditures is estimated to be \$1,800,680 (\$3,601,360 x 50%) in FY14-15; and \$3,027,730 (\$6,055,460 x 50%).
- There will be 56 new public sector jobs created as a result of this bill. There could be an increase in the number of private sector jobs as a result of this bill; however, any increase is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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