

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4619-01
Bill No.: Perfected SB 700
Subject: Workers' Compensation
Type: Original
Date: February 24, 2106

Bill Summary: This proposal modifies the law relating to workers' compensation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Workers Compensation Administration	(\$230,757)	(\$239,469)	(\$241,722)
Second Injury Fund	(\$705,132)	(\$712,183)	(\$719,305)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$935,889)	(\$951,652)	(\$961,027)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Workers' Compensation Administration	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the dollar amount of the effect on the premium base used to calculate the Workers' Compensation Administrative Tax and Second Injury Fund Surcharge is unknown.

Experience Modification Factor

DOLIR officials state the Division's Self-Insurance Unit regulates 285 Individual Self-Insured Employers and 20 Group Trusts, consisting of 2,700 employers, as of 11/30/2015. Self-Insurance is 29.88% of the Missouri Workers' Compensation premium base. The Individual Self-Insurers and Group Trusts are required to submit reports on an annual and/or quarterly basis, which includes detailed losses. This proposal has the potential to increase the workload in that staff will now be required to review and track the losses based on the applicable split-point for a given year. Two Insurance Financial Analysts I/II (each at \$37,548) would be required to assist with the examination, review, follow-up and other duties associated with enforcing compliance with statutory reporting requirements for injuries and medical costs by self-insured employers and group-trusts. Total costs for the 2 FTE to the Workers Compensation Administration Fund are estimated at \$114,000 in FY 2017 and \$122,000 per year thereafter.

Contractors' Premium Adjustment Program

DOLIR officials also state the Contractors Credit Premium Adjustment Program (CCPAP) currently mandates the use of the 3rd quarter payroll for calculating the credit (new contractors use the 1st quarter of the policy period). The proposal allows the contractor to choose the quarter the payroll information is being submitted in order to calculate the premium credit. The contractor will most likely choose to report the quarter with the highest payroll which would give him the highest premium credit. However, the increase in the premium credit is limited to the amount that the contractor's payroll in the selected "reporting" quarter is greater than the 3rd quarter. For example, if the contractor's 3rd quarter payroll is \$800,000 and the 2nd quarter is \$1,000,000 the amount of the premium credit is only affected by the \$200,000 difference.

The proposed legislation will likely increase the overall premium credit and therefore result in a reduction in the overall workers' compensation premium base. The highest quarter's total wages in the construction industry for 2014 was \$116,128,510, more than the third quarter's wages in 2014. Using the 2015 self-insurance rate for the construction class codes of \$10.12 per \$100 in wages, the net effect to the premium base is calculated at \$11,752,205.

ASSUMPTION (continued)

With the 2016 Workers' Compensation Administrative Tax at 1%, this results in a \$117,522 (\$11,752,205 x .01) reduction to the Workers' Compensation Fund. With the 2016 Second Injury Surcharge rate at 6% this results in a \$705,132 (\$11,752,205 x .06) reduction to the Second Injury Fund.

Oversight will use the DOLIR's estimate of revenue reductions to the Workers' Compensation Fund and the Second Injury Fund in this fiscal note. Oversight will also include a cost to the Workers's Compensation Fund for the estimated additional employees.

Officials at the **Eldon School District** assume this proposal would have an estimated impact of \$2,000 on their organization.

Officials at the **Hawthorn Leadership School for Girls** assume this proposal would have an estimated impact of \$5,000 on their organization.

Officials at the **City of St. Charles School District** assume this proposal would have an unknown impact on their organization.

Officials at the **Sarcoixie R-II School District** assume this proposal would have an unknown impact on their organization.

Oversight will show a negative unknown fiscal impact to local governments.

Officials at the **Department of Conservation, Department of Transportation, Office of Administration - Personnel, Office of Administration - General Services, Department of Insurance, and Financial Institutions, and Professional Registration** each assume this proposal would not have a fiscal impact on their respective organizations.

Officials at the counties of **Callaway** and **St. Louis** each assume this proposal would not have a fiscal impact on their respective organizations.

Officials at the Board of Elections Commissioners for **St. Louis County** assume this proposal would not have an impact on their organization.

Officials at the **Metropolitan Community College, Missouri State, State Technical College of Missouri, University of Central Missouri, and University of Missouri** each assume this proposal would not have a fiscal impact on their respective organizations.

ASSUMPTION (continued)

Officials at the **Macon County R-IV, Parkway, Shell Knob #78, Special School District, Warren County R-III, West Plains, Wright City R-III** each assume this proposal would not have a fiscal impact on their respective organizations.

Officials at the following counties: Andrew, Atchison, Audrain, Barry, Bollinger, Boone, Buchanan, Camden, Cape Girardeau, Carroll, Cass, Christian, Clay, Cole, Cooper, DeKalb, Dent, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Maries, Marion, McDonald, Miller, Mississippi, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, Shelby, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to **Oversight's** request for fiscal impact.

Officials at the following board of election commissions: Kansas City Board of Election Commission, St. Louis City Board of Election Commission, Clay County Board of Election Commission, Jackson County Board of Election Commission, and Platte County Board of Election Commission did not respond to **Oversight's** request for fiscal impact.

Officials at the following colleges: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Lincoln University, Moberly Area Community College, Missouri Southern State University, Missouri Western State University, Northwest Missouri State University, Southeast Missouri State University, State Fair Community College, St. Charles Community College, St. Louis Community College, Three Rivers Community College, and Truman State University did not respond to **Oversight's** request for fiscal impact.

Officials at the following charter schools: Carondelet Leadership Academy, Eagle College Prep, Frontier Schools, and the KIPP Endeavor Academy of Kansas City did not respond to **Oversight's** request for fiscal impact.

Officials at the following school districts: Arcadia Valley R-2, Aurora R-8, Avilla R-13, Bakersfield, Belton, Benton County R-2, Bismark R-5, Bloomfield R-14, Blue Springs, Bolivar R-I, Bowling Green R-1, Branson, Brentwood, Bronaugh R-7, Campbell R-2, Carrollton R-7, Caruthersville, Cassville R-4, Central R-III, Chilhowee R-4, Chillicothe R-II, Clarkton C-4, Cole R-I, Columbia, Concordia R-2, Crawford County R-1, Crocker R-II, Delta C-7, East Carter R-2, East Newton R-6, Everton R-III, Fair Grove, Fair Play, Fayette R-3, Forsyth R-3, Fox C-6, Fredericktown R-I, Fulton, Grain Valley, Hancock Place, Hannibal, Harrisonburg R-8, Harrisonville, Hillsboro R-3, Hollister R-5, Humansville R-4, Hurley R-1, Independence, Jefferson City, Kansas City, Kearney R-1, Kennett #39, King City R-1, Kingston 42, Kirbyville R-VI, Kirksville, Laclede County R-1, Laredo R-7, Lee Summit, Leeton R-10, Lewis County C-1, Lindbergh, Lonedell R-14, Macon County R-1, Malta Bend, Mehville, Mexico, Middle Grove

ASSUMPTION (continued)

C-1, Midway R-1, Milan C-2, Moberly, Monroe City R-I, Morgan County R-2, New Haven, Nixa, North St. Francois Co. R-1, Northeast Nodaway R-5, Odessa R-VII, Oregon-Howell R-III, Orrick R-11, Osage County R-II, Osborn R-O, Pattonville, Pettis County R-12, Pierce City, Plato R-5, Princeton R-5, Raymore-Peculiar R-III, Raytown, Reeds Springs R-IV, Renick R-5, Richland R-1, Riverview Gardens, Salisbury R-4, Scotland County R-I, Sedalia, Seymour R-2, Shelby County R-4, Shell Knob #78, Sikeston, Silex, Slater, Smithville R-2, Spickard R-II, Springfield, St Joseph, St Louis, St. Elizabeth R-4, Sullivan, Tipton R-6, Valley R-6, Verona R-7, Warrensburg R-6, Webster Groves, and the Westview C-6 did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
WORKERS' COMPENSATION ADMINISTRATION FUND			
<u>Costs - DOLIR</u>			
Experience rating changes			
Salaries	(\$62,580)	(\$75,847)	(\$76,605)
Benefits	(\$33,917)	(\$40,905)	(\$41,112)
Equipment and expense	<u>(\$16,738)</u>	<u>(\$4,020)</u>	<u>(\$4,121)</u>
Total Cost - DOLIR	(\$113,235)	(\$120,772)	(\$121,838)
<u>FTE change - DOLIR</u>	2 FTE	2 FTE	2 FTE
<u>Revenue reduction - DOLIR</u>			
Experience rating procedure change Section 287.957 & 287.975	<u>(\$117,522)</u>	<u>(\$118,697)</u>	<u>(\$119,884)</u>
ESTIMATED NET EFFECT ON WORKERS' COMPENSATION ADMINISTRATION FUND	<u>(\$230,757)</u>	<u>(\$239,469)</u>	<u>(\$241,722)</u>
Estimate Net FTE effect on Workers' Compensation Administration Fund	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2017 (10 Mo.)	FY 2018	FY 2019
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SECOND INJURY FUND

Revenue reduction - DOLIR

Experience rating procedure changes Section 287.957 & 287.975	<u>(\$705,132)</u>	<u>(\$712,183)</u>	<u>(\$719,305)</u>
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ESTIMATED NET EFFECT ON SECOND INJURY FUND	<u>(\$705,132)</u>	<u>(\$712,183)</u>	<u>(\$719,305)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
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LOCAL GOVERNMENTS

Cost - Local governments

Workers' compensation program assessments	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which are subject to workers' compensation insurance requirements.

FISCAL DESCRIPTION

Currently, the uniform experience rating plan of workers' compensation insurance must prohibit an adjustment to the experience modification of an employer if the total medical cost does not exceed \$1,000, the employer pays all of the medical costs, there is no lost time from the employment (subject to exceptions), and no claim is filed. This act changes the medical cost amount limit to 20% of the current split point of primary and excess losses under the uniform experience rating plan.

FISCAL DESCRIPTION (continued)

The act further provides that, for purposes of calculating the premium credit under the Missouri contracting classification premium adjustment program, an employer within the construction group of code classifications may submit to the advisory organization the required payroll record information for the first, second, third, or fourth calendar quarter of the year prior to the workers' compensation policy beginning or renewal date, provided the employer clearly indicates for which quarter the payroll information is being submitted.

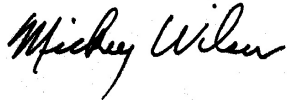
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Conservation
Department of Transportation
Office of Administration - Personnel
Office of Administration - General Services
Department of Insurance
Financial Institutions, and Professional Registration
Callaway County
St. Louis County
St. Louis Board of Elections Commission
Metropolitan Community College
Missouri State, State Technical College of Missouri
University of Central Missouri
University of Missouri
Macon County R-IV School District
Parkway, Shell Knob #78 School District
Special School District School District of St. Louis
Warren County R-III
West Plains School District
Wright City R-III School District

SOURCES OF INFORMATION (continued)

City of St. Charles School District
Hawthorn Leadership School for Girls
Sarcoxi R-II School District
Eldon R-I School District

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 24, 2016

Ross Strobe
Assistant Director
February 24, 2016