

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4979-02
Bill No.: Perfected SCS for SB 613
Subject: Workers' Compensation
Type: #Corrected
Date: April 27, 2106
#Corrected to include Workers Compensation Fund FTE on page 2

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
General Revenue	(\$45,725 to Less than \$1,315,725)	(\$52,191 to Less than \$1,322,191)	(\$52,645 to Less than \$1,322,645)
Total Estimated Net Effect on General Revenue	(\$45,725 to Less than \$1,315,725)	(\$52,191 to Less than \$1,322,191)	(\$52,645 to Less than \$1,322,645)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Workers Compensation	(\$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 10 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
General Revenue	1 FTE	1 FTE	1 FTE
#Workers' Compensation	2 FTE	2 FTE	2 FTE
#Total Estimated Net Effect on FTE	3 FTE	3 FTE	3 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	\$0 or Less than \$1,270,000	\$0 or Less than \$1,270,000	\$0 or Less than \$1,270,000

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Public Safety - Division Fire Safety** assume this proposal will have a significant fiscal impact on their organization.

The Division of Fire Safety maintains a registration database of all fire departments in the State of Missouri. Currently the Division has 966 total fire departments registered in Missouri – of those, 635 are registered as Volunteer Fire Associations and would therefore meet the definition of this proposed legislation. These 635 departments maintain a roll of as many as 21,114 volunteer fire fighters in the State.

Section 287.245 requires the State Fire Marshal (Division of Fire Safety) to disburse grants to volunteer fire protection associations. The amount of the grants is based on the number of workers' compensation claims filed in the previous calendar year, with the maximum benefit of \$2,000. The Division assumes all 635 Volunteer Fire Associations would apply for and qualify for the \$2,000 grant annually. Therefore \$1,270,000 (635 x \$2,000) General Revenue support would be needed to fund the grants.

The requirements of §287.245 are new for the Division of Fire Safety and there is no program in any way similar currently within the Division. Therefore the passage of this legislation would necessitate additional staff in the form of one Accountant I to administer this program and the related funds, along with appropriate expense and equipment funding, totaling \$45,725 in FY17.

The Division would need to create an application form, review the applications and other supporting documentation, coordinate with the volunteer fire applications and other supporting documentation, correspond with volunteer fire applicants, review the claims filed, verify the requested monies corresponds with the claims filed with the Division of Workers' Compensation, approve the grant request if appropriate, coordinate the requisition of the funds, and disburse the grant monies to the qualified applicants, etc. Disbursement of the grants would be subject to appropriation.

Therefore, this proposal impacts the 635 volunteer fire associations and approximately 21,114 volunteer fire fighters in our state who are currently registered with the Division of Fire Safety by providing them with grants to be used for workers' compensation insurance premiums. The amount of the grants is based on the number of claims filed in the previous calendar year.

The Division assumes a need for \$1,270,000 (635 x \$2,000) of General Revenue Funds in order to support the grants specified in a full year. In addition, the Division is requesting

ASSUMPTION (continued)

\$45,725 in General Revenue funding for an FTE and expense funds to support this additional program with appropriate increases in following fiscal years. Total funding for this program implementation would be \$1,104,058 in FY17 and \$1,353,941 in FY18.

Officials at the **Department of Labor and Industrial Relations** and the **Department of Insurance, Financial Institutions, and Professional Registration** each assume this proposal will not have a fiscal impact on their respective organizations.

In response to a previous version, officials at the **Office of Administration - Accounting, Facilities Management and Design Construction, General Services, Division of Personnel, and Division of Purchasing, Information Technology Services Division** each assumed the proposal would not have a fiscal impact on their respective organizations.

Officials at the **City of Kansas City**, the **City of Columbia**, and the **City of Fulton** each assume this proposal will not have a fiscal impact on their respective organizations.

Officials at **Callaway County** and **St. Louis County** each assume this proposal will not have a fiscal impact on their respective organizations.

In response to a previous version, officials at **Mississippi County** assumed the proposal would not have a fiscal impact on their organization.

§287.957 and §287.975 Senate Amendment 1

In response to a similar proposal from this year (SB 700), officials from the **Department of Labor and Industrial Relations (DOLIR)** assumed 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 Analyst I/II would be required to assist with the

ASSUMPTION (continued)

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.

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 higher 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.

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 **Department of Insurance, Financial Institutions and Professional Registration** assume this amendment will not have a fiscal impact to their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Transfer Out - Division of Fire Safety - Grant</u>			
Disbursements to Qualifying Fire Protection Associations	\$0 or (Less than \$1,270,000)	\$0 or (Less than \$1,270,000)	\$0 or (Less than \$1,270,000)
<u>Costs - Division of Fire Safety - Grant</u>			
Personnel Services	(\$25,820)	(\$31,294)	(\$31,607)
Fringe Benefits	(\$15,464)	(\$18,642)	(\$18,727)
Equipment and Expenses	<u>(\$4,441)</u>	<u>(\$2,255)</u>	<u>(\$2,311)</u>
<u>Total Costs - Division of Fire Safety</u>	<u>(\$45,725)</u>	<u>(\$52,191)</u>	<u>(\$52,645)</u>
FTE Change - Division of Fire Safety	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	(\$45,725 to Less than <u>\$1,315,725</u>)	(\$52,191 to Less than <u>\$1,322,191</u>)	(\$52,645 to Less than <u>\$1,322,645</u>)
Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	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>
<u>Total Cost - DOLIR</u>	(\$113,235)	(\$120,772)	(\$121,838)
 FTE change - DOLIR	 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
 SECOND INJURY FUND			
<u>Revenue reduction - DOLIR</u>			
Experience rating procedure changes Section 287.957 & 287.975			
	<u>(\$705,132)</u>	<u>(\$712,183)</u>	<u>(\$719,305)</u>
 ESTIMATED NET EFFECT ON SECOND INJURY FUND			
	<u>(\$705,132)</u>	<u>(\$712,183)</u>	<u>(\$719,305)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
VOLUNTEER FIRE PROTECTION ASSOCIATIONS			
<u>Transfer In</u> - Division of Fire Safety - Grant	\$0 or Less than <u>\$1,270,000</u>	\$0 or Less than <u>\$1,270,000</u>	\$0 or Less than <u>\$1,270,000</u>
NET EFFECT ON VOLUNTEER FIRE PROTECTION ASSOCIATIONS	\$0 or Less than <u>\$1,270,000</u>	\$0 or Less than <u>\$1,270,000</u>	\$0 or Less than <u>\$1,270,000</u>

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

This act permits volunteer fire protection associations to apply to the State Fire Marshal for grants for the purpose of funding the workers' compensation insurance premiums for the association's volunteer firefighters. Grants shall be disbursed by the Marshal, subject to appropriations, based upon the number of volunteer firefighters which received workers' compensation benefits from claims arising out of and in the course of the prevention or control of fire or the underwater recovery of drowning victims in the preceding calendar year.

The schedule is as follows:

- Associations which had 0-5 claims shall be eligible for \$2,000;
- Associations which had 6-10 claims shall be eligible for \$1,500;
- Associations which had 11-15 claims shall be eligible for \$1,000; and
- Associations which had 16-20 claims shall be eligible for \$500.

FISCAL DESCRIPTION (continued)

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.

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.

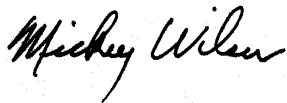
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Department of Public Safety - Fire Safety
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration
Office of Administration - Accounting
Office of Administration - Facilities Management and Design Construction
Office of Administration - General Services
Office of Administration - Division of Personnel
Office of Administration - Division of Purchasing

SOURCES OF INFORMATION (continued)

Office of Administration - Information Technology Services Division
City of Kansas City
Callaway County
Mississippi County
St. Louis County



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