

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2052S.02C
 Bill No.: SCS for SB 521
 Subject: Workers' Compensation
 Type: Original
 Date: April 24, 2023

Bill Summary: This proposal extends the sunset of the 2.5 percent supplemental surcharge collected by the Division of Workers' Compensation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	Up to (\$266,460)	Up to (\$532,919)	Up to (\$532,919)
Total Estimated Net Effect on General Revenue	Up to (\$266,460)	Up to (\$532,919)	Up to (\$532,919)

*Oversight notes the above cost are associated with the OA's supplemental charges by the SIF. Oversight notes this is a **continuance** of an existing supplemental surcharge that is currently set to expire at the end of 2023 (2.5% surcharge). Oversight reflects the maximum Up to 1% surcharge beginning in FY 2024 and annually after. The proposal extends the date to 2026.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
State Road Fund (0320)	Up to (\$45,000)	Up to (\$90,000)	Up to (\$90,000)
Colleges & Universities	(Unknown)	(Unknown)	(Unknown)
Second Injury Fund (0653)*	Up to \$8,144,251	Up to \$16,288,501	Up to \$16,288,501
Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$8,099,251	Up to \$16,198,501	Up to \$16,198,501

*This proposal (\$287.715) extends the sunset date of an up to a 1% supplemental surcharge paid into the Second Injury Fund. Currently it is set to expire on December 31, 2023. The proposal extends the date to 2026. Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the proposal will have no additional fiscal impact, beyond its current collection amount, on their organization.

Oversight notes the current law, as per SB 303 (TAFP) and signed by the Governor in 2021, requires that Missouri employers contribute up to a 2.5% supplemental surcharge into the Second Injury Fund for calendar year 2023.

Oversight notes, on average, DOLIR collects \$16.28 million for each 1% of supplemental surcharge from Missouri employers each fiscal year. (Please see the breakdown of charges for last five years below)

Oversight extracted DOLIR - Second Injury Fund surcharge collections from 2017 to 2021 period shown below:

CY	5% - 6 % Collections	1% collections	FY 1% Surcharge Collections
2017	\$ 107,413,994	\$ 17,902,332	
2018	\$ 102,442,325	\$ 17,073,721	\$ 17,488,027
2019	\$ 86,683,062	\$ 17,336,612	\$ 17,205,167
2020	\$ 87, 401,807	\$ 14,566,968	\$ 15,951,790
2021	\$ 84,308,838	\$ 14,451,073	\$ 14,509,021
			\$ 16,288,501

<https://labor.mo.gov/data>

Oversight calculated the potential impact to the SIF for FY 2024, and beyond, by dividing the total FY annual collections by 4 years totaling \$16,288,501 (\$65,154,004/4).

Oversight shows the potential maximum collection in FY 2024 to FY 2026 below:

Fiscal Year	FY 2024	FY 2025	FY 2026
Totals	\$16,288,501	\$16,288,501	\$ 16,288,501

Therefore, **Oversight** will note the continued positive fiscal impact to the Second Injury Fund in the fiscal note in FY 2024 (6 Mo.), FY 2025 and FY 2026.

Oversight notes, upon further conversation with the DOLIR, the Department annually review the Actuarial Report determining the solvency of the fund. The Director, as per RSMO 287.690 is also required to announce the relevant rate no later than October 31, each year, in order to adjust the rate accordingly.

Oversight notes, as per conversation with the DOLIR, the DWC announced the rate for CY 2023 and set the rate at 0% surcharge. Therefore, **Oversight** will note the maximum impact as Up to potential 1% collection amount \$16,288,501 (as the maximum allowed collection amount per proposal if 1% is announce by the DOLIR by October 31st of 2023) in the fiscal note.

Officials from the **Missouri Department of Transportation (MoDOT)** and the **Office of Administration (OA)** both assume the proposal will have no fiscal impact on their organization.

In response to the SB 303 – 2021 officials from the MoDOT noted:

Currently MoDOT pays a 3% Second Injury Fund (SIF) surcharge and a supplemental rate of 0%. This amount will vary based on each year's premiums, but for 2020, they paid \$405,512 for the SIF surcharge and \$270,347 for the supplemental rate. They pay quarterly, but these are the annual figures.

2017-2019 had a 3% SIF surcharge and a 3% supplemental rate. They paid the following annually:

2019 - \$400,919 for each (surcharge and supplemental)

2018 - \$403,463 for each

2017 - \$413,749 for each

Oversight notes that MoDOT assumes approximately \$270,000 annually for 3% supplemental surcharge; therefore, **Oversight** will show \$90,000 in FY 2021 and beyond as a representing the 1% supplemental charge collected beginning in FY 2024 (6 mo).

In response to the SB 303 – 2021 officials from the **Office of Administration (OA)** assumed:

Section 287.715.6 – This legislation changes the maximum supplemental surcharge from 3% to 2.5% in CY 2023. If the division of workers' compensation collects the maximum of 2.5%, this change could decrease the total supplemental surcharge the state would pay by a total of \$184,156 for GR and \$2,953 for Conservation.

However, the division of workers' compensation currently collects 2%, which is less than their maximum allowed amount; therefore, the proposed legislation would result in an increase in costs to the state as compared to the actual amount collected by the division of workers' compensation. This is based on expenditures shown below:

FY21 expenditures for CY2020 taxes GR: \$1,841,562
FY21 expenditures for CY2020 taxes Conservation: \$29,531
This is 3% SIF and 2% surcharge

Increasing the surcharge to 2.5% could increase GR costs by \$184,156.20 and Conservation by \$2,953.11. Current figures based on 2020 payroll, 2020 insurance rates and 2020/21 experience modification. Other factors that could increase/decrease FY22/23 would be CY2021/22 payroll, insurance rates and experience modification changes.

Summary of OA’s surcharge paid into SIF:

FY	Summary of Total Tax Collected into Second Injury Fund by OA
2022	\$ 2,492,987
2021	\$ 2,539,533
2020	\$ 2,482,810
2019	\$ 2,539,133
2018	\$ 3,268,504
Average	\$ 2,664,593

Source: https://oa.mo.gov/sites/default/files/FY_2020_Executive_Budget_Final.pdf

Oversight notes that the OA pays its Workers’ Compensation tax and Second Injury Fund assessments based on billings received from the Department of Revenue and the Division of Workers’ Compensation.

Oversight notes MoDOT and OA both will be required to continue to make up to 1 % surcharge supplemental payments into the Second Injury Fund because of the extension of the surcharge payment until 2028 under the proposal. Therefore, Oversight will note a negative fiscal impact of **\$81,209** to MoDOT’s State Road Fund. Additionally, Oversight will note Up to an average 1 % surcharge tax expense of **\$532,919** ($\$2,664,593 / 5 \times 1$) to the general revenue in the fiscal note, until FY 2026.

Officials from the **City of Kansas City** assume the proposal will have an undetermined positive fiscal impact.

Officials from the **City of Springfield** assumed the proposal would have an undetermined negative fiscal impact.

In response to the similar proposal, SB 521 – 2023, officials from the **City of Saint Louis – Budget Division** note:

The proposal reduces the supplemental surcharge charged to employees who pay into the state’s Second Injury Fund from 3% to 2.5% and extends the supplemental surcharge until 2028. The City of St. Louis pays \$859,714 annually into this fund. This fee is made up of the 3% surcharge

plus a 1% supplemental surcharge. Reducing the supplemental surcharge from 3% to 2.5% will have no fiscal impact on the City because the City currently pays a 1% supplemental surcharge. However, extending the supplemental surcharge until 2028 will have a fiscal impact. Extending this supplemental surcharge will keep the City’s payment at \$859,714 annually until 2028; if the supplemental surcharge were allowed to sunset, the City’s payment would be \$644,785 a decrease of \$214,928. Extending the supplemental surcharge will cost the City a total of \$1M (\$214,928 x 5) over the next five years until 2028.

Oversight notes the above local political subdivisions noted the proposal would have a direct fiscal impact on their organizations due to the extension of the supplemental surcharge beyond CY 2023. Therefore, **Oversight** will reflect a negative Unknown cost to the local political subdivisions in the fiscal note till FY 2026.

In response to the similar proposal, SB 521-2023, officials from the **University of Central Missouri** assume the proposal will have no fiscal impact on their organization.

Oversight notes the colleges and universities will be responsible for a continuous payment, 1 % supplemental surcharge, to be submitted on behalf of its employees if DOLIR announce the 1% new rate for FY 2024. Therefore, **Oversight** will reflect a negative Unknown cost to the colleges and universities in the fiscal note.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (6 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Cost – OA - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23 p.5-6</u>	<u>Up to (\$266,460)</u>	<u>Up to (\$532,919)</u>	<u>Up to (\$532,919)</u>
NET EFFECT ON GENERAL REVENUE	<u>Up to (\$266,460)</u>	<u>Up to (\$532,919)</u>	<u>Up to (\$532,919)</u>
STATE ROAD FUND (0320)			
<u>Cost - MoDOT - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23 p.5-6</u>	<u>Up to (\$45,000)</u>	<u>Up to (\$90,000)</u>	<u>Up to (\$90,000)</u>
NET EFFECT ON STATE ROAD FUND	<u>Up to (\$45,00,00)</u>	<u>Up to (\$90,000)</u>	<u>Up to (\$90,000)</u>

SECOND INJURY FUND (0653)			
<u>Revenue Gain</u> - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23 p.5-6	Up to <u>\$8,144,251</u>	Up to <u>\$16,288,501</u>	Up to <u>\$16,288,501</u>
NET EFFECT ON SECOND INJURY FUND	Up to <u>\$8,144,251</u>	Up to <u>\$16,288,501</u>	Up to <u>\$16,288,501</u>
COLLEGES AND UNIVERSITIES			
<u>Cost</u> - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23 p.7	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON COLLEGES AND UNIVERSITIES	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost</u> – §287.715 - continuance of supplemental surcharge past beyond 12/31/2023	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal due to the continuance of a 1% supplemental surcharge beyond FY 2023.

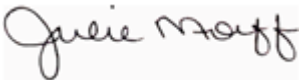
FISCAL DESCRIPTION

Under current law, for calendar year 2023, the Director of the Division of Workers' Compensation is required to collect a supplemental surcharge not to exceed 2.5% of the policyholder's or self-insured's workers' compensation net deposits, net premiums, or net assessments for the previous policy year, rounded up to the nearest one-half of a percentage point. This provision expires December 31, 2023. This act extends that expiration date to December 31, 2026 and lowers the surcharge to 1% for that duration, rather than revert to 3%.

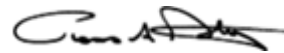
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Missouri Department of Transportation
City of Kansas City
City of Springfield
University of Central Missouri



Julie Morff
Director
April 24, 2023



Ross Strobe
Assistant Director
April 24, 2023