



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	SB0259	<b>Title:</b>	Revising workers' compensation and occupational health and safety assessments
<b>Primary Sponsor:</b>	Tutvedt, Bruce	<b>Status:</b>	As Introduced

- Significant Local Gov Impact     
  Needs to be included in HB 2     
  Technical Concerns  
 Included in the Executive Budget     
  Significant Long-Term Impacts     
  Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<b>Expenditures:</b>					
General Fund	\$0	\$50,058	\$41,101	\$31,292	\$23,889
State Special Revenue	\$0	\$0	\$0	\$0	\$0
Other	\$14,350	\$0	\$0	\$0	\$0
<b>Revenue:</b>					
General Fund	\$0	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$1,798,142	\$2,148,453	\$2,352,470	\$2,505,466
Other	(\$14,350)	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance</b>	<b>\$0</b>	<b>(\$50,058)</b>	<b>(\$41,101)</b>	<b>(\$31,292)</b>	<b>(\$23,889)</b>

**Description of fiscal impact:** This legislation increases the workers' compensation administrative assessment percentage cap paid by employers in order to fund the current level of services provided by the Department of Labor & Industry. The revenue, which is based on paid losses in the preceding year, is declining and is expected to continue to decline. This legislation also creates a separate safety assessment to fund the services provided by the Department's Safety Bureau, which are currently paid from administrative assessment.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Labor and Industry (DLI)**

1. The Executive Budget presented to the legislature for the 2017 biennium assumes passage and approval of this bill.
2. The current workers' compensation administrative assessment is capped at 3% of paid compensation and medical benefits, less medical benefits over \$200,000 per claim. The administrative assessment currently funds all costs to administer the Workers' Compensation Act and Occupational Safety and Health Acts.
3. The amount of revenue collected from the administrative assessment has decreased 11% from 2009-2013.

4. This legislation would allow an increase to the workers' compensation administrative assessment up to 5% of paid compensation and medical benefits, less medical benefits over \$200,000 per claim and creates a safety assessment to fund the safety functions currently paid out of the workers' compensation administrative assessment.
5. The estimated increase in revenue is as follows:
  - a. \$1,798,142 in FY 2016
  - b. \$2,148,453 in FY 2017
  - c. \$2,352,470 in FY 2018
  - d. \$2,505,466 in FY 2019
6. Without this legislation, the workers' compensation administration fund will realize a deficit in each year due to expenditures of current level services being more than revenues.

**Montana State Fund (MSF)**

7. DLI will continue to provide MSF the administrative surcharge rate based on the assessment of paid losses reported for the prior year, and will provide the new safety surcharge that will be applied to policyholder premium effective July 1, 2015 and forward.
8. Payments to DLI may increase based on the ability to change the maximum assessment on total compensation benefits paid from 3% and increasing it to a maximum of 5% under section 39-71-201, MCA, and the addition of a new safety surcharge.
9. Both the workers' compensation administration surcharge and the new safety surcharge will be assessed and paid by MSF policyholders.
10. The effective date of the bill is July 1, 2015 which means MSF will start collecting the increased administrative assessment and the new safety assessment with new/renewal policies effective July 1, 2015 and forward.
11. MSF used the DLI projected surcharge increases for FY 2016 and FY2017 and then estimated the increase for FY 2018 and FY 2019 based on DLI's projected rate of increase between FY 2016 and FY 2017.
12. MSF used projected premium levels through 2019 to apply the projected surcharge rates in order to determine the amount of payment for each year. The increase between what is estimated to be paid under current law compared to the estimated payments with the surcharge increase are shown in the fiscal summary as an increase in special revenue funds to DLI.
13. MSF estimates that changes to the policy system, various reports, and applications will result in one-time costs of \$14,350 to MSF in FY 2015.
14. The safety assessment surcharge will not be applied to the Old Fund benefit payments.
15. The workers' compensation administrative surcharge for Old Fund may be increased up to 5% of the paid losses of the preceding year. The general fund is responsible for paying all costs and benefits associated with the Old Fund. An increase in the assessment will impact the general fund by the amount of the increased assessment. In this analysis we used the projected rates as provided by DLI and assumed an increase from the current 2.9% to 3.65% for FY 2016 forward. The amount assessed declines over time as claims close and the total benefit payments decline in the Old Fund.

	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<b><u>Expenditures:</u></b>					
Operating Expenses - MSF	\$14,350	\$50,058	\$41,101	\$31,292	\$23,889
<b>TOTAL Expenditures</b>	<b>\$14,350</b>	<b>\$50,058</b>	<b>\$41,101</b>	<b>\$31,292</b>	<b>\$23,889</b>
<b><u>Funding of Expenditures:</u></b>					
General Fund (01) - MSF	\$0	\$50,058	\$41,101	\$31,292	\$23,889
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
Other - MSF	\$14,350	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$14,350</b>	<b>\$50,058</b>	<b>\$41,101</b>	<b>\$31,292</b>	<b>\$23,889</b>
<b><u>Revenues:</u></b>					
General Fund (01)	\$0	\$0	\$0	\$0	\$0
State Special Revenue (02) - DLI	\$0	\$1,798,142	\$2,148,453	\$2,352,470	\$2,505,466
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$1,798,142</b>	<b>\$2,148,453</b>	<b>\$2,352,470</b>	<b>\$2,505,466</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>					
General Fund (01)	\$0	(\$50,058)	(\$41,101)	(\$31,292)	(\$23,889)
State Special Revenue (02)	\$0	\$1,798,142	\$2,148,453	\$2,352,470	\$2,505,466
Other	(\$14,350)	\$0	\$0	\$0	\$0

**Technical Notes:**

**Department of Labor (DLI)**

1. Without this legislation, the Workers' Compensation Fund Balance will be reduced. The following figures show the reduction in fund balance in each fiscal year.
  - a. In FY 2016 = (\$1,798,142)
  - b. In FY 2017 = (\$2,148,453)
  - c. In FY 2018 = (\$2,352,470)
  - d. In FY 2019 = (\$2,505,466)
2. If this legislation does not pass, the department anticipates that the fund will have a negative fund balance beginning in state fiscal year 2017.

**Montana State Fund (MSF)**

3. New section 10, states if the bill is passed and approved on or after May 1, 2015, the department is exempt from the requirement to provide the assessment percentage to MSF by April 30th. The assessments surcharge outlined in section 1 of the bill is put into MSF systems as part of the annual changes for renewal, usually around May 1st. The assessments are all then displayed on required documents that are provided to policies that are new or renewing on or after 7/1/2015. If the assessment percentages are not available to MSF by May 1st, MSF will have already issued documentation to a significant number of policyholders renewing July 1. There will be additional costs for adjusting MSF systems and mailing revised documentation to affected policyholders. The scope and cost of these changes have not been determined.
4. The bill does not define a limit or cap on the new Safety surcharge that could be charged to Montana business owners.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*