

Fiscal Estimate Narratives

DWD 10/4/2005

LRB Number	05-3276/1	Introduction Number	AB-686	Estimate Type	Original
Subject					
Worker's compensation rates for mechanized forestry operations					

Assumptions Used in Arriving at Fiscal Estimate

Under current workers' compensation (WC) law every employer that is subject to the WC law must purchase workers' compensation insurance from an insurance company that is authorized to do business in Wisconsin (duty to insure). Under certain exceptions the Department of Workforce Development (DWD) can exempt an employer from the duty to insure if it is able to self-insure its workers' compensation liabilities and agrees to comply with all of the state WC laws and administrative rules of DWD. This bill allows two or more employers engaged in the logging industry to pool their workers' compensation liabilities for purposes of obtaining an exemption from duty to insure and operate as a self-insurer of their workers' compensation liabilities. In addition, the Wisconsin Compensation Rating Bureau (WCRB) classifies risks and establishes rates for worker' compensation insurance written in Wisconsin. This bill requires the WCRB to establish separate classifications and rates for both mechanized and manual logging operations.

In summary, it is estimated that AB-686, if adopted, will have the following fiscal impact:

1. The department would need 4.0 FTE staff in the Risk Analyst Senior classification. The annualized cost for these positions will be \$378,800 (\$221,200 salary, \$93,600 fringe benefits, and associated supplies and services of \$64,000). Related one-time costs for the 4.0 FTE are \$24,000 (office, office furnishings and PC). [s.20.445(1)(ha)]
2. Miscellaneous supplies and services will be required for a) contractual actuarial services/consultations in the amount of \$210,000 annually, and b) business and credit reports costing \$16,800 annually. [s.20.445(1)(ha)]
3. Required one-time enhancements and modifications to existing IT systems is estimated at \$19,500. [s.20.445(1)(ha)]
4. Annual expenditures out of the Self-Insured Employers Liability Fund are estimated at \$200,000 per year. [s.20.445(1)(s)]

Revenue to cover the annual WC administrative expenditures of the self-Insurance program is obtained through the annual administrative assessment of all insurers and self-insured employers in the state of Wisconsin. Through the assessment, all self-insured employers are assessed for their share of the overall administration of the WC program and, in addition, are charged for their share of the costs related to the administration of the self-insurance program. The department also charges \$1,100 for a new application for self-insurance and a \$200 fee for the annual renewal of a self-insurers application. The new application and renewal fee revenues are deducted from the overall administrative expenditures of the self-insurance program before the amount is used in the annual assessment of the self-insurers. (s.20.445(1)(ha))

It is anticipated that the Department will collect revenue of approximately \$15,400 from the new group applications; and annual renewal fees amounting to \$2,800. (s.20.445(1)(ha))

Assumptions used in determining the proposed bill's fiscal impact:

1. Of the estimated 1200 existing logging operations, approximately half would seek to enter a self-insured group. The average logger group would be comprised of thirty individual logging operation members. Therefore, about twenty (20) groups of loggers comprised of six hundred individual members will apply for self-insurance privileges.
2. Applicant logger groups would be reviewed by the Self-Insurers Council in the same manner past self-insured applicants have been reviewed. Currently the Council reviews approximately 1 application per quarter (averaged over the past four years). We assume the Council would be able to process a maximum of five applications per quarter.

3. In preparation for the Council's review, Department staff, in accordance with Administrative Code DWD 80.60, must produce an analysis of each of the thirty individual logging operation members within each applicant group. As specified in the Code, the analysis consists of the following:

- a) The financial strength and liquidity of the logging operation to include: profit and loss history; financial and performance ratios; characteristics and trends for the individual operation or the consolidated group to which the operation belongs; characteristics and trends for other employers of the same or the most similar industry in which the operation or the group is involved;
- b) The operation's organizational structure, management background, kind of business, length of time in business, and any intended or newly implemented reorganization including but not limited to merger, consolidation, acquisition of new business, divesting or spinning off of assets or other changes;
- c) The nature and extent of the operation's business systems and assets in the state of Wisconsin;
- d) The operation's bond or other business ratings;
- e) The number of employees, payroll and hours worked in Wisconsin;
- f) The operation's performance indicators under ch. 102, Stats., including, but not limited to, promptness or time taken in making first indemnity payments, promptness or time taken in submitting first reports, and injury and illness incidence and severity rates;
- g) The existing or proposed claims administration, occupational health, safety, and loss control programs to be maintained by the operation. The department may require certification of the occupational safety and health program by state or independently qualified specialists;
- h) The worker's compensation loss history, experience modification factor, reported losses, loss reserves and worker's compensation premium of the operation; and
- i) Excess insurance, surety bond, cash deposit or pledges of the operation, guaranty by the parent company, or other guarantees or pledges acceptable to the department.

4. In order to better define the DWD workload associated with this program, it is assumed:

- a. Each group of loggers accepted for self-insured status will be constituted as a separate and individual legal entity, and will act as an employer (for self-insured purposes), and have the same status and liability as any and all existing self-insured employers under the Wisconsin Worker's Compensation Act.
- b. Each individual logging operation will hold joint and several liability with each of its fellow group members for worker's compensation costs as specified in the Act.
- c. In the event any group of loggers is unable to meet their obligations due to bankruptcy or default, s.102.28 (7) requires that liability will fall to the Self-Insured Employers Liability Fund, s.20.445(1)(s). Revenues for this fund are obtained from assessments to all self-insured employers. This means that, in like fashion, groups of loggers accepted as self-insured entities would be assessed to pay claims when a current or former non-logger self-insured employer goes into bankruptcy or cannot pay its claims.

5. Based on historical experience, about 66% of SI applicants are accepted. Therefore, approximately fourteen (14) of the group logger applicants will be accepted for self-insurance status. Supervision of these groups will actually involve oversight of 420 individual logging operations. This will effectively increase the DWD workload and staff by a factor of three. (The department currently has 2.00 FTE for the administration of the self-insurance program.) Hence, 4.00 additional FTE's will need to be added to the program.

6. Upon granting Self Insurance privileges to a logger group, the Department must conduct ongoing analysis of the group and its members in all nine areas listed above in item 3.

7. Based upon responsibilities and workload described above, we assume a level of qualification for the identified 4.00 FTE risk analyst personnel will be higher than entry level, and that it will be in the WC Risk Analyst- Senior classification. Cost projections for 4.00 FTE's in this classification are \$378,800 (\$221,200 salary, \$93,600 fringe benefits, and associated supplies and services \$64,000) annually. Related one-time costs for the 4.00 FTE are \$24,000 (for office, office furnishings and PC).

8. There will be additional miscellaneous supplies and services in the form of contracted actuarial consultation services. This consultation will mainly involve analyzing claims paying history and reserve adequacy. The estimated actuarial costs the department will need to pay for each of the estimated 14 new Self Insurance groups is \$15,000 per group, for a total of \$210,000. This cost will begin in year two of the program and be annual and ongoing.

9. Another miscellaneous cost will be the purchase of regular business and credit (Dun & Bradstreet) reports for the 420 individual members at \$40 each, annually - \$16,800.

10. Several modifications to the Worker's Compensation Division's IT systems and applications will need to be made to accommodate the new program, so as to code logic for new rules to handle groups, while at the same time, use existing rules for orders that are assigned to individual existing and future single self-insured employers. Specific changes needed are:

- a) Modify ICMS database design to accommodate assigning self-insured orders to groups. 40 hours
- b) Modify ICMS application to change maintenance screens for self-insured orders, and modify the process claim screen where employers/insurers are assigned to a claim. 120 hours
- c) Changes needed to Insurer Pending Reports where employers/insurers are assigned to a new claim. 15 hours
- d) Changes needed to the WC division's Access database to track/maintain self-insured orders that currently exist or in application phase. New tables, fields etc. 80 hours
- e) Changes needed to Assessment program to handle correct billing of assessment for self-insured employers in a group. 45 hours

The estimated one-time cost for these changes is \$19,500.

11. Expenditures will be made from the Self-Insured Employers Liability Fund, 20.445(1)(s) to cover unmet liability resulting from logger group bankruptcies or defaults. Based on the total 2002 medical and indemnity costs for Wisconsin employers in the logging industry, we estimate an annual average liability per logging operation group (with 30 members) to be approximately \$91,000. We assume defaults and/or bankruptcies will occur at a rate of two per 10 year period, resulting in an annualized cost to the Fund of approximately \$200,000. (Note: Payments will not be distributed evenly from one year to the next. For example, in 1998 two serious logging related claims resulted in payments of \$1.7 million; in 2001 four serious logging claims resulted in payments of \$1.2 million; in 2002 two logging related claims resulted in payments of \$1.0 million. If, during these example years, the involved employers had defaulted, obligations to the fund would have been much higher than the \$200,000 annual estimate.)

12. Section 32 of the bill (Sec. s.626.12 (2) Classification), does not have a fiscal impact on DWD. DWD has no authority over classifications for worker's compensation policies. The Wisconsin Compensation Rating Bureau has jurisdiction over worker's compensation classifications for the State of Wisconsin. The classifications are submitted by the Bureau to the Office of the Commissioner of Insurance for approval.

Long-Range Fiscal Implications

In the long range, if this bill is passed it is probable that other industries would seek group status for self-insurance purposes. This could result in numerous law changes that would increase the cost and complicate the administration of the self-insured program. For example, if roofing operations - another high risk industry - sought group status, several additional Department staff would be needed to manage this increased and complicated workload.

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-3276/1		Introduction Number AB-686	
Subject			
Worker's compensation rates for mechanized forestry operations			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
If this bill is passed, a one-time cost of \$24,000 is anticipated for office, office furnishings and a PC for the 4.00 FTE and a \$19,500 expenditure is anticipated for I.T. system related changes.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$314,800	
(FTE Position Changes)		(4.0 FTE)	
State Operations - Other Costs		290,800	
Local Assistance			
Aids to Individuals or Organizations		200,000	
TOTAL State Costs by Category		\$805,600	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS (s.20.445(1)(ha))		605,600	
SEG/SEG-S (s.20.445(s))		200,000	
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS (s.20.445(1)(ha))		2,800	
SEG/SEG-S (s.20.445(s))		200,000	
TOTAL State Revenues		\$202,800	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$805,600	\$
NET CHANGE IN REVENUE		\$202,800	\$
Agency/Prepared By		Authorized Signature	Date
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