Individual State Agency Fiscal Note

Bill Number: 2185 HB PL	Title: Workers' comp medical aid	Agency: 235-Department of Labor and Industries

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
Fund					
Medical Aid Account-Non-Appropriated 609-6	922,000	160,000	1,082,000	320,000	320,000
Total $	922,000	160,000	1,082,000	320,000	320,000

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 05/04/2005
Agency Preparation:	James O King	Phone: (360) 902-4744	Date: 05/05/2005
Agency Approval:	Chris P Freed	Phone: 360-902-6698	Date: 05/05/2005
OFM Review:	Deborah Feinstein	Phone: 360-902-0614	Date: 05/06/2005

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

See attachment

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

None.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services	922.000	160,000	1,082,000	320,000	320,000
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$922,000	$160,000	$1,082,000	$320,000	$320,000

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

See attached.

Part II: Explanation
This legislation will require the Department of Labor and Industries to adopt rules to establish standards for residence modification of injured workers who have sustained catastrophic injury.

II. A – Brief Description of What the Measure Does that Has Fiscal Impact
Section 1 (2): Adds a new section to RCW 51.36 that requires:

1. The department to adopt rules to establish standards for residence modification assistance to workers who have sustained a catastrophic injury.
2. It also establishes that the rules must use as guidelines adaptive residential housing standards adopted by the Department of Veterans Affairs. In determining the workers' needs or if a modification is medically necessary, substantial weight is given to the opinion of the workers' attending health services provider.
3. The Director must report to the legislature on the rules adopted by December 1, 2005.

II. B – Cash Receipt Impact
None.

II. C – Expenditures

This fiscal note differs from the previous version for total expenditures. Expenditures in the previous version erroneously included $118,626 each fiscal year. This $118,626 was a basis for calculating a final adjusted amount of yearly expenditures and has been removed from the REVISED total expenditures.

The Department of Labor and Industries will be required to set minimum standards consistent with the Federal Department of Veterans Affairs standards for adaptive housing. For this fiscal analysis, it is assumed the department's cost will increase to the statutory cap of $38,794 for fifty percent of the cases where residence modification costs are incurred. Any construction costs above the cap are the responsibility of the claimant.

The calculation for the potential increased costs for home modifications is based on the following assumptions:

The department has provided residence modification benefits to 40 injured workers since January 1, 2002. Total cost of these modifications (as of December 31, 2004) is $840,000. The average amount paid per claim is $21,000.

The statutory limit (RCW 51.36.020{7}) for home modification is $38,794 (as of July 1, 2004). This limit is per modification although only one home of any worker may be modified. Department policy 11.10 Authorizing home modifications specifies under what conditions a worker may qualify for multiple modifications of the same home.

If the rule is changed to mandate the coverage of all design provisions, there is a potential increase in cost to the department. It is difficult to analyze how the costs would change. It appears that this bill does not affect the current statutory limit of $38,794.

If we were to adopt standards, the following assumptions are made to estimate the fiscal impact:

- The statutory limit does not change
- The department modifies an average of 14 homes per year for catastrophically injured workers
- It is not possible to determine (due to resource and data limitations) to what extent the standards would require additional modifications for those who have already had modifications made.
- It is possible for the department to have to spend up to the statutory limit on each claim ($38,794). However, a reasonable assumption is that the department would spend up to the statutory limit on approximately 50 percent of the cases (($38,794 - $21,000) * 20)/3 = $118,626.

The statutory limit for home modification is adjusted annually based on the state's average annual wage for one year. As mentioned above the $118,626 for home modifications is based on 2004 data and is adjusted, as shown below, for 2005.

Actuarial review
Using the Fiscal Year 2003 medical payments of $398,000,000 as a base, the expected annual increased payments of $118,626 represent an increase of 0.03 percent. We assume that the medical reserve for unpaid claims as of 6/30/2005 will be approximately equal to the medical reserve for unpaid claims as of 6/30/2004, or $2,556,790,000. An increase of 0.03 per centage in these reserves would amount to $762,000 (0.03% x $2,556,790,000). To estimate the annual costs for claims incurred 7/1/2005 and subsequent we started with the estimated medical cost for injuries that occurred during 2003, or $477,000,000. An annual growth factor of 5.0 percent was applied to this 2003 amount to obtain the estimated medical costs of $538,000,000 ($477,000,000 x (1.05)^2.5) for accidents occurring between 7/1/2005 and 6/30/2006. An increase of 0.03 percent in these annual medical costs would be $160,000 (0.03% x $538,000,000).

In summary the estimated fiscal effect of HB 2185 on the Medical Aid Fund reserves is a one-time increase of $762,000 for claims incurred on or before 6/30/05 and an increase in the annual medical liability of $160,000 for claims incurred 7/1/05 and later. Thus the cost for Fiscal Year 2006 is $922,000 with ongoing yearly cost of $160,000.

Part IV: Capital Budget Impact
None.

Part V: New Rule Making Required
One rule-making hearing is anticipated in order to adopt new rules involving RCW 51.36.020 (7) and WAC 296-23-180.