Individual State Agency Fiscal Note

Bill Number: 1496 S HB	Title: Vocational rehabilitation	Agency: 235-Department of Labor and Industries

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	6.5	12.2	9.4	11.6	11.0
Account					
Medical Aid Account-State 609-1	1,138,000	1,162,000	2,300,000	2,088,000	1,952,000
Total $	1,138,000	1,162,000	2,300,000	2,088,000	1,952,000

Estimated Capital Budget Impact:

NONE

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: 04/15/2015
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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 attached.

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.

See attached.

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 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	6.5	12.2	9.4	11.6	11.0
A-Salaries and Wages	399,000	936,000	1,335,000	1,787,000	1,702,000
B-Employee Benefits	150,000	101,000	251,000	170,000	138,000
C-Professional Service Contracts					
E-Goods and Other Services	524,000	124,000	648,000	129,000	110,000
G-Travel	1,000	1,000	2,000	2,000	2,000
J-Capital Outlays	64,000		64,000		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$1,138,000	$1,162,000	$2,300,000	$2,088,000	$1,952,000

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2016	FY 2017	2015-17	2017-19	2019-21
Fiscal Analyst 2	40,524	1.0	1.2	1.1	1.1	1.0
ITS4	71,496	0.8		0.4		
Voc Services Specialist	57,240	1.0	7.0	4.0	7.0	7.0
WCA3	55,836	2.0	2.0	2.0	2.0	2.0
WCA4	58,656		1.0	0.5	1.0	1.0
WMS Band 1	78,792	1.0	1.0	1.0	0.5	
WMS Band 2	90,140	0.8		0.4		
Total FTE's	452,684	6.5	12.2	9.4	11.6	11.0

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 increase successful return-to-work outcomes and vocational retraining by expanding Preferred Worker Program (PWP) benefits and making permanent certain elements of the piloted 2007 vocational improvements. This legislation expands PWP as a tool under the statutory return-to-work priorities when a worker is receiving vocational assistance. This legislation also makes permanent certain provisions of the 2007 legislation that expanded vocational benefits and choices for injured workers, protected employers from the claim costs related to retraining under certain circumstances, and ensured all parties are accountable.

This bill takes effect 90 days from sine die. The vocational provisions are effective August 1, 2015 and the expanded preferred worker benefits are effective January 1, 2016.

II. A – Brief Description of What the Measure Does that Has Fiscal Impact

This bill differs from HB 1496 in the following ways:

- On page 7, line 32, strikes RCW 51.32.095(3) and inserts RCW 51.32.095(4)
- On page 22, line 8, strikes RCW 51.32.095(3) and inserts RCW 51.32.095(4); and
- On page 23, line 13, strikes RCW 51.32.095(3) and inserts RCW 51.32.095(4).

There is no fiscal impact created by these changes, other than to correct statutory reference errors in the original bill.

PWP would expand benefits by:

- Allowing participation by the employer of injury,
- Including reimbursements for partial wage replacement (up to 66 days and $10,000), and the cost of tools, equipment and clothing.
- Providing an employer a one-time financial incentive of up to $10,000 for durable employment (at least 1 year) of a preferred worker.
- These benefits are limited to employers insured by L&I ("state fund").

Note: current PWP benefits include reduced premium and protection from subsequent claims for up to three years after the worker is certified as a preferred worker.

Primary vocational improvements from 2007 legislation that would be made permanent include:

- Additional time and money for vocational retraining as Option 2 is expanded from 6 to 9 months of time loss and the worker being able to select this option through the first academic quarter or three months (in which case the time-loss paid while in training and the tuition and other training costs are deducted from the option 2 award and/or from the money available for self-directed training, as appropriate).
- Ability for workers to opt out of vocational services but retain access to retraining funds (Option 2).

- Tuition cost growth is capped at 2% per year with a provision to ensure continued access to community college and vocational technical school programs.
- Continued partnership through co-location of L&I vocational experts at selected WorkSource locations.
- Specific requirements and timeframes to hold all participants accountable.
- Relief for employers from the costs of subsequent retraining when a worker who received training or who chose Option 2 returns to work inconsistent with his or her restrictions and is reinjured and unable to return to any job.

II. B – Cash Receipt Impact

As an insurance entity, Labor and Industries' (L&I) premium rates are intended to match premiums to claims cost projections. Therefore, for this fiscal analysis the department assumes any incremental costs or savings for these workers' compensation system changes will equal the incremental revenue collected.

II. C – Expenditures

Operating Costs for Enhanced Preferred Worker Program - Appropriated

The additional staffing resources required to administer the enhanced PWP are as follows:

- One Vocational Services Specialist to administer the increased number of PWP applications and Intent to Hire forms.

Workload Assumptions:

	Workload	Staffing Needs
Current PWP Applications and Intent to Hires	150 applications/month 6 Intent to Hires/month	.75 Vocational Services Specialist
Future PWP Applications and Intent to Hires (7% Scenario)	222 applications/month 16 Intent to Hires/month	1.75 Vocational Services Specialist (net add of 1 FTE)
Future PWP Applications and Intent to Hires (14% Scenario)	222 applications/month 31 Intent to Hires/month	1.75 Vocational Services Specialist (net add of 1 FTE)
Future PWP Applications and Intent to Hires (20% Scenario)	222 applications/month 44 Intent to Hires/month	1.75 Vocational Services Specialist (net add of 1 FTE)

- Two Workers' Compensation Adjudicator 3's to administer the application reimbursement of wages, tools, equipment, durable employment bonus and to coordinate education and outreach with the vocational rehabilitation community.

Workload assumptions: Currently six Workers' Compensation Adjudicator 3's process 300

Washington Stay at Work Reimbursement applications per month (50/month/FTE); in order to ensure timely processing and reimbursement of benefits for the 16 to 44 enhanced PWP requests per month, there is a need for two Workers' Compensation Adjudicator 3s to address the applicants that become eligible on January 1, 2016, to manually process reimbursements for the new 12-month durable employment benefit, and to coordinate education and outreach to the vocational rehabilitation community.

- One project WMS Senior Project Manager for three years to manage the implementation of the PWP enhancements.

Workload assumptions: A project management resource is needed to provide oversight and project management rigor to ensure successful implementation of these enhancements, including rule and policy development, internal and external communication plans, and coordination with the technology management works stream of the project. This work cannot be absorbed by existing staff.

• 1 project WMS Project Manager for 9 months to manage the IT system development and implementation.
• 1 non-permanent Information Technology Services 4—Business Analyst for 9 months to gather business requirements for Information Technology system.

Additionally, $332,000 is necessary for the system development to allow for on-line filing of applications, benefit payment, and application adjudication and processing would be required.

Finally, $100,000 is requested to initiate a marketing campaign to heighten awareness of the expanded PWP benefits and to connect certified preferred workers with interested employers.

<u>Operating Costs for Vocational Improvement Project - Appropriated</u>

The resources required for the permanent vocational improvements from the vocational improvement project are consistent with the current staffing allocation associated with this work and provided by the 2007 legislature. They are as follows:

- Six Vocational Services Specialists that are co-located at WorkSource one-stop-shops around the state. They assist injured workers in accessing job readiness, job search assistance, and customize services specific to the worker's restrictions and skills. They work closely with local vocational counselors, employers, and medical providers, along with Department claim and field staff, to identify workers who can benefit from this assistance. Their work contributes to the "return-to-work culture" the Department is building, as well as helping workers resolve their claims with a return-to-work outcome.
- One Workers' Compensation Adjudicator 4 that serves as the "Option 2 Specialist". This position works directly with injured workers who choose Option 2 and are considering or now attending school using their training funds under a self-directed program. The position advises workers whether a school is on the L&I approved list, helps facilitate registration of schools that are not on the L&I approved list, and pays all retraining bills

for Option 2 workers. The position is specialized and is critical to supporting an ever-growing population of Option 2 workers.

No additional technology investments are needed to sustain the VIP.

The system savings associated with making permanent certain elements of the VIP would be cost neutral as the cost of the program is sustained and the documented benefits would continue.

<u>Enhanced Preferred Worker Program Costs and Savings – Non Appropriated</u>

Aggregate Net Savings

Participation/Eligible Workers	Administrative Costs	Actuarial Savings	Aggregate Net Savings
187 (7%)	$1,138,000	$2,992,000	$1,800,000
373 (14%)	$1,138,000	$6,492,000	$5,300,000
534 (20%)	$1,138,000	$9,633,000	$8,441,000

Note that the aggregate net savings will be higher by approximately $500,000 in the out years as the technology costs are one-time costs.

The primary objectives of the enhanced program are as follows:

- Reduce the incidence of disability for injured workers by increasing participation in the Preferred Worker Program by employers, including the employer of injury in addition to new employers.
- Incentivize long-term return-to-work outcomes by creating a new incentive to employers of a cash reimbursement of 10% of wages up to $10,000 when the worker has worked continuously with the employer under this program for longer than 12 months.
- These two features are incentives that will result in increased return to work for injured workers with permanent disabilities that represent significant barriers to employment.

Enhance Preferred Worker Program --Actuarial assumptions and data:
The following data is derived from the current Washington PWP. In addition, Oregon also has a PWP with elements similar to this proposal. Oregon PWP participation statistics were used to develop assumptions. As future participation of a new program is uncertain, the department has created three different estimated levels of participation, with the highest level based on Oregon data. The following actuarial assumptions were used to estimate PWP costs and savings.

The following assumptions are based on the current Washington PWP:

- 60 employers per quarter report hours in PWP risk class 7204
- 75 workers are associated with PWP risk class 7204
- 420 average quarterly hourly reporting per employer
- 336 average quarterly hourly reporting per employee
- 2,668 annual pool of vocational rehabilitation cases newly eligible for these new benefits

The following assumptions are based on statistics from Oregon:

- 20% of Oregon workers who are eligible for the program use the PWP
- 64.1% of PWP users with wage subsidy benefits (2008-2010)
- 26.67% increased employment at 13 quarters verses comparison group who didn't use Oregon PWP plans

The department further assumes the following values based on Washington assumptions on the usage of the PWP benefits based on Oregon's experience:

- 7% is the low percentage of usage amongst those eligible and 187 eligible workers using PWP benefits; one-third of Oregon levels
- 14% is the medium percentage of usage amongst those eligible and 373 eligible workers using PWP benefits; two-thirds of Oregon levels
- 20% is the high percentage of usage amongst those eligible and 534 eligible workers using PWP benefits; based on current Oregon levels
- 64.1% of PWP users with prior Oregon Employer at Injury Program (similar to SAW) benefits

The following assumptions are based on current PWP premium rate exemption:

- 6.8 is the multiplier to average cost rates based on claim verses hours data from Fiscal Year 2009 to Fiscal Year 2013
- $0.3482 is the average Accident Fund rate in 2015
- $0.2182 is the average Medical Aid Fund rate in 2015
- $0.0070 is the average SAW rate in 2015
- $3.90 is the hourly rate exemption

The following assumptions are based on the enhanced PWP benefits or percentage of PWP workers with 12 months or more of employment eligible for 10 percent wage reimbursement:

- 20% of workers in current RTW environment with 12 months of more continuous employment
- 5% additional worker percentage due to enhanced PWP
- $27,078 is the mean annual wage for those workers with earnings less than $100,000
- 99.5% of those persistent in RTW with earnings in the 12-month period following closure, less than $100,000
- $2,744 is the average benefit for those with 12 months of continuous employment

- 23% is the proportion of PWP workers reemployed with employer *not* at injury, based on Oregon's PWP program

Based on the assumptions, it is estimated PWP will have the following additional annual **costs**. These costs are from:

1. New employers being eligible for PWP benefits,
2. Additional employers incented to use this program due to the enhanced benefits, and
3. The new enhance benefits.

PWP Estimated Annual Benefit Costs

Additional Premium Exemption	Estimated Cost
Low	$979,000
Medium	$1,953,000
High	$2,799,000
New 10% wage reward for durable employment	
Low	$129,000
Medium	$255,000
High	$368,000
Total Estimated Annual Costs	
Low	**$1,108,000**
Medium	**$2,208,000**
High	**$3,167,000**

Based on the assumptions, it is estimated that PWP will have the following additional annual **new savings.** These savings are from:

1. New employers eligible and using PWP benefits,
2. More employers using the PWP due to the enhanced benefits, and
3. More workers that are back to work due to the increased usage of the PWP.

PWP Estimated Annual Benefit Savings

Avoided Pension Awards	Estimated Savings
Low	$1,293,396
Medium	$2,586,792
High	$3,776,716
Avoided Timeloss Benefits w/ with continuous 12-month award	
Low	$2,431,585
Medium	$4,811,433
High	$6,932,603
Avoided Timeloss Benefits w/ less than continuous 12-month award	
Low	$414,595
Medium	$1,307,570
High	$2,072,977
Total Estimated Annual Savings	
Low	**$4,100,000**
Medium	**$8,700,000**
High	**$12,800,000**

Based on the three different estimated levels of participation, with the highest level based on Oregon data, the PWP's estimated net annual savings is as follows.

PWP Estimated Actuarial Net Savings

Participation	Costs (Benefits)	Savings	Net Savings
187 (7%)	$1,108,000	$4,100,000	$2,922,000
373 (14%)	$2,208,000	$8,700,000	$6,492,000
534 (20%)	$3,167,000	$12,800,000	$9,633,000

Vocational Improvement Project --Actuarial assumptions and data:
The system savings associated with making permanent certain elements of the VIP would be cost neutral as the cost of the program is sustained and the documented benefits would continue.

The actuarial derived net system savings associated with expanding the benefits for Option 2 range from $600,000 to nearly $8M depending on the number of workers who would select Option 2 (see table below).

Share of workers who currently end training without completion, who would switch to Option 2	Annual Number of injured workers switching to Option 2	Change in total Annual cost from current
5%	24	$0.6 million (savings)
10%	48	$4.2 million (savings)
15%	72	$7.8 million (savings)

Indirect Costs

The amount included in this fiscal note for indirect is:

Fund	Name	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
609	Medical Aid Account	41,000	28,000	28,000	19,000	19,000	19,000
	Total:	$41,000	$28,000	$28,000	$19,000	$19,000	$19,000

The department assesses an indirect rate to cover agency-wide administrative costs. Labor and Industries indirect rate is applied on salaries, benefits, and standard costs. For fiscal note purposes the total indirect amount is converted into salary and benefits for partial or full indirect FTEs. Salary and benefits costs are based on a Fiscal Analyst 2 (Range 44, Step G).

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Rulemaking will be required to establish the new elements of the Preferred Worker Program.