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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/18

SPONSOR Crowder LAST UPDATED \_\_\_\_\_ HB 82

SHORT TITLE Reduce Quarterly Workers' Comp Fee SB \_\_\_\_\_

ANALYST Klunt

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	Depends on effective date	(\$1,400-\$1,500)	(\$1,400-\$1,500)	(\$4,200-\$4,500)	Recurring	Workers' Compensation Administration Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Workers' Compensation Administration (WCA)

### SUMMARY

#### Synopsis of Bill

House Bill 82 (HB 82) would reduce the workers' compensation assessment fee by covered employees from \$2.00 per quarter to \$1.50 per quarter. HB 82 would not change the assessment fees paid by covered employers (currently \$2.30 per quarter per employee).

### FISCAL IMPLICATIONS

The Workers' Compensation Administration (WCA) does not receive any operating appropriation from the general fund, the agency's operating revenue is derived from fees assessed quarterly against employers and employees covered by the New Mexico Workers' Compensation Act.

Section 52-5-19 (NMSA 1978) requires each covered employee to pay an assessment of \$2.00 on the last day of each quarter, and it requires each employer to pay an assessment of \$2.30 per employee on the last day of each quarter. The Taxation and Revenue Department (TRD) collects the assessments and transfers the funds to WCA after subtracting an administrative fee (typically

5 percent of gross revenue).

Upon receipt of the assessments, WCA transfers \$.30 of the employer assessment to its Uninsured Employer’s Fund (UEF). That fund is not impacted by HB 82.

The remaining assessment money is held in the Workers’ Compensation Administration fund (WCA Fund). Annual net revenue to the WCA Fund (after deduction of the TRD fee and the transfer of the UEF funds) is shown below:

Net Revenue – WCA Fund

FY13	\$11,359,994
FY14	11,701,963
FY15	11,342,469
FY16	12,362,773
FY17	11,779,959

Five Year Average.....**\$11,709,430**

The WCA Fund provides operating revenue for payment of all agency expenditures including: personnel services; rent, maintenance and utilities for the WCA headquarters and its six (6) field offices; and contract services.

Balances in the WCA fund do not revert. Each year, money is transferred out of the WCA fund by the Legislature, either to the Workforce Solutions Department (WSD) or to the general fund during solvency.

Based on the best data available, the reduction of the fees contemplated by HB 82 would reduce WCA fund net operating revenue by approximately \$1.4 to \$1.5 million each year. This estimate is based upon an average of approximately 716,611 covered workers paying \$2.00 less each into the WCA Fund yearly.

An operating loss of \$1.4 to \$1.5 million per year to the WCA fund would move the WCA close to or even below its average annual operating budget.

**SIGNIFICANT ISSUES**

WCA reported the following:

“The WCA mission is to provide the best possible service to injured workers and their employers within the WCA operating budget requirements. There are several variables to highlight in this issues analysis. First, it is not possible to predict future employment trends that could significantly impact total assessments and therefore WCA Fund revenues. Reduction in covered employees, together with the resulting reduction in assessment fees, would significantly impact agency net revenue.

Secondly, the WCA receives no General Fund or Capital Outlay money, relying on its own WCA Fund reserves to address building repairs and liability losses. The reduction in fees could compromise the agency’s ability to address a future loss.

Finally, HB 82 reduces WCA operating revenue but does not preclude the legislature from continuing to transfer funds from the WCA Fund. Most likely there would be insufficient funds for any funds transfer as a result of the passage of HB 82. That financial impact should be analyzed thoroughly by DWS and DFA. *Either a reduction in the workers' comp assessment (and therefore to WCA net revenue) or a cessation of the annual transfer of funds to DWS may be accomplished, but both cannot likely take place.*"

#### **ADMINISTRATIVE IMPLICATIONS**

WCA reported HB 82 would require significant public outreach in order to educate employers, employees, and state businesses and agencies on the new reduced employee assessment. The WCA must evaluate the additional employee work hours that would be involved. WCA also believes TRD should be consulted since it would have to modify its workers' compensation assessment collection processes, including implementing policy on handling inadvertent overpayments and inquiries from the public.

#### **TECHNICAL ISSUES**

HB 82 currently has no effective date. The WCA recommends a bill amendment adding an effective date sufficiently in the future so that employers, employees, state businesses and agencies, may adapt to the change.

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