

2011 SENATE APPROPRIATIONS

SB 2021

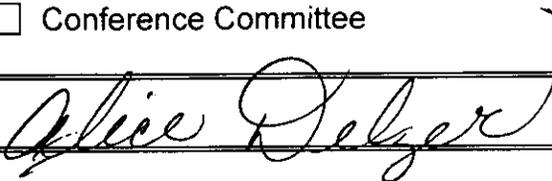
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB 2021
January 11, 2011
Job #12779

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

The budget for Workforce Safety and Insurance.

Minutes:

"See attached testimony."

Chairman Holmberg called the committee to order on SB 2021. All committee members were present. Roxanne Woeste from Legislative Council and Tad H. Torgerson, OMB were also present.

Bryan Klipfel, Director of WSI testified in favor of SB 2021 and provided Testimony attached # 1. He introduced members of his staff. The goal of our testimony is to provide a clear picture of WSI's accomplishments and ongoing improvements. We have implemented a new Strategic Plan. Our mission states, WSI's main objective is to service ND workers and employees by providing superior worker's compensation and safety services. When I came in I didn't have the experience, one of the things I did have was my experiences at my former job on the Highway Patrol and my main job was to implement a vision of a process of servant-leadership principles. That was Implemented back in the 1960s. He continued on with his testimony and stated we have great employees.

Chairman Holmberg That is an item that this committee should applaud as there was a lot of turmoil a few years ago and to get your turnover rate down to 2% is a very much appreciated thing from the standpoint of the legislative assembly. You are to be commended for that movement. Testimony continued (Meter 14.04)

Chairman Holmberg stated Senator Robinson has been in charge of the IT committee for a number of biennium and he knows all about it. This is the first example of a state project that is coming in above what was projected.

Senator Robinson commented that the committee has appreciated the effort that WSI has made to keep us in the loop every step of the way. This is a system that Bryan, Claire and company inherited, it's not something that happened in the last year or so and they are making every effort and they have brought some new expertise on board that had previous experience in these types of projects. We've heard about it every step of the way, bad or good and I have confident we are going to get through it.

Bryan Klipfel continued and provided Testimony attached # 2, Strategic Management System. (Meter 24.35)

Senator Robinson had questions regarding the fraud division and employee fraud and asked for stats on that.

Bryan Klipfel said he will get the stats for that. To answer your question, there has been a lot of emphasis on employee/injured worker fraud. We are working to try to identify some employer fraud also. We work with job service very closely because if they apply for unemployment insurance we should find out which company it is, work with the Secretary of State's Office and we are looking at a medical data program that will take a look at all the employer accounts, and if something looks fraudulent, those companies will come to the forefront. We do have auditors that go out and check these companies.

Senator Kilzer had questions regarding litigation numbers and you state that they are down, is this District Court cases or is this Office of Administrative Hearings?

Bryan Klipfel: When we look at litigation we are looking at cases that are filed on to the Office of Administrative Hearing, and then to District Court and then to Supreme Court.

Senator Kilzer: A few years ago concerning the Office of Administrative Hearings, the bureau was their number one customer. What is your relationship with Administrative Hearings?

Bryan Klipfel: If you recall one of the last initiative measure back in the fall of 2008, one requirement was all cases that had disputes would go to the Office of Administrative Hearings, and then they file a decision on the case. We do use them for any disputed claims. (meter 28.06)

Cindy Ternes, Director of Finance of WSI testified in favor of SB 2021 and her testimony begins on page 5 through 7 of Testimony attached # 1. She presented the 2011-2013 Appropriation Request to the committee. Currently we are working with vendor that contract ends the end of June. Testimony attached # 3 Quick Facts.

V. Chair Grindberg had questions regarding operating expenses. He asked if it is fair to assume that we appropriate these dollars for these ongoing additional IT projects that 11-13 request would be smaller than the current once these projects are completed. Would it be smaller in the 13-15 biennium He was told yes. Then he asked who do you contract for these services, is it ITD or instate firm that is going to create this or are you doing it in house.

Cindy Ternes: Different services, we do some in house, some ITD and some we outsources.

V. Chair Grindberg: Of the three bullets, which one would be the most increased. He was told the additional IT projects. He also had questions concerning capital assets. WSI owns that building and he was told yes. He also had questions regarding Quick Facts regarding earned premiums, that's what was collected, \$153 million.

Cindy Ternes: that is on an accounting earned basis, so that would be pro-rated by months. So that is what is paid in and earned.

V. Chair Grindberg Question on fund surplus. He was told that is our net assets you take our total assets less total liabilities, that is the remainder. He then asked about declared premium dividends, is that what you paid out during that period; he was told that is correct. That is the dividends we declared we do not physically pay them out we credit renewals. He asked about Investments – is WSI sitting on 1.2 billion in managed assets. He was told absolutely. That is our investment portfolio. He asked wouldn't the employers be crying for reduced premiums with that type of fund based on historical. Cindy stated It is sizable. If you would take our liabilities which are our reserves on an undiscounted basis it would equal or surpass that. We are within the limits that are statutorily set for surplus levels. (Meter 38.31)

Senator Wanzek: It is 1.2 billion, but there is also contingent liabilities to pay out injured workers. Don't we do actuary prognosis that shows workers that are currently being treated, If you carry that out it would be that many dollars of contingent liabilities that would consume up a lot of that money. He was told that is correct.

Cindy Ternes: That is correct, when we discount our reserves at 5% our liabilities for the reserves is \$7,077.00.

Senator Wanzek: Fund surpluses, is that after you take in account the statutory requirements for the safety grant?

Cindy Ternes: The fund surplus that is showing here, that is before we deduct any of those legislatively approved funding items, such as the safety grants, the revolving school loan fund and the AIM project. This amount at the end of 2010 is reduced, bringing us to a fund surplus ratio of 139.6 which is just under the 140% that statute requires.

Senator Warner: Who manages your investment portfolio and how did you survive the stock market crash?

Cindy Ternes replied that is done by the Retirement and Investment Office and concerning the stock market crash, we did quite well, we have a very conservative portfolio, and I did bring some data with that shows our returns from 2006 to 2010. We did fare quite well. The most we ever lost was ten. It was also overseen by the State investment board.

Chairman Holmberg closed the hearing on SB 2021.

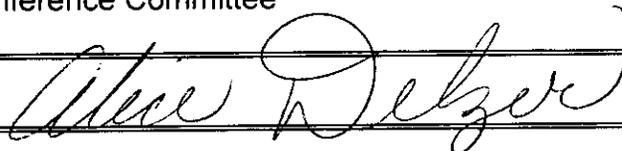
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB2021
02-03-2011
Job #13965

\$ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Subcommittee meeting for Workforce Safety and Insurance.

Minutes:

You may make reference to "attached testimony."

Chairman Krebsbach opened the subcommittee hearing. Senator Wanzek and Senator Warner were present. Bryan Klipfel and Cindy Ternes from WSI and Sheila Peterson, OMB and Roxanne Woeste, Legislative Council were also present.

This budget can be finished up in one meeting it is self funded in your own premiums. I did need a few questions on the testimony that I would to just review and clarify in my own mind.

Chairman Krebsbach: In the testimony on page 5 the AIM project, what does it stand for?

Bryan Klipfel: That is our system Advanced Information Management is what our AIM project stands for.

Senator Krebsbach: It costs, in operating budget in regard to that on page 6, you indicate that you will be carrying some of the \$1.5 Million dollars funding from '09-11 budget, over into the 2011-2013 and that on the Web Portal project. Can you just explain that to me a little bit better? It is self explanatory with the words but at the same time just how is it operating, how are you working that? Is this for the benefit of the clients, for the public for information or what?

Cindy Ternes, Director of Finance. This is part of our long range IT plan. It provides a single point of entry for both premium holders, for policy or for registering a claim. It is within the Website making it much more users friendly where they can their history of claims and things of that nature.

Senator Krebsbach: They can go into their own file in this portal then, can they? Cindy response: Yes.

Senator Wanzek: That 3.1 is part of the operating expense increase then of 3.137 am I understanding of this? Cindy Ternes: I want to make sure I am clear of what you're asking?

Senator Wanzek: In the operating expense there is an increase of \$3.1 which that updating of that web portal and data processing. Is that included in that operating expense line item? **Cindy Ternes:** Yes, it is as well as the increases from OMB for salary, retirement and all of those things are included in that.

Senator Warner: The last two lines is that the generator?

Cindy Ternes: That is the only capital asset at this time. We will be investing in some computer equipment but most of that will be housed here at ITD, and they will be doing the depreciation on that.

Senator Krebsbach: Then too, I noticed also on page 6, you look at the system replacement. You have part of the fourteen million that's being carried over and yet I've read some places where you cost estimate is going to be \$17.8 M and you're looking for an additional \$ 3 Million now. Where is the other \$800,000 going to be funded?

Cindy Ternes: We are planning to expend that out of our current biennium funds. I do have worksheet; actually I have quite a few. At the top of this worksheet you will see in the 2007-2009 talking about the AIM project. Where we originally had \$14,000,000 appropriated and we spent approximately \$ 7,000,000 and had \$7,000,000 remaining that we carried forward into the 2009-2011 biennium. Through December, of the current year, we have expended \$4.2 M with approximately \$2.8 of the original \$14,000,000 left. We do plan to expend that by the end of June. Now these payments are tied to deliver those, so if we would have difficulty with the deliverables being met, there's always the possibility we wouldn't expend all of those funds by June. But right now, we looked to be on target and we do plan on spending that plus the additional \$800,000 that you to refer to.

Senator Krebsbach And the blue bar, right below there, shows you're total current biennium of \$56.87 Million. What we expended the first year of the biennium fiscal year 2010, and what we've expended \$11.9 through December. We expect to expend \$16 Million though the end of June, now that might be strong, I am being conservative here, with what we have estimated to be remaining of the prior biennium appropriations of \$6.8 million. That might be a bit more so that's where we would find the other \$800,000.

Senator Krebsbach : Do you intend to take that out of operations then is that it?

Cindy Ternes: Correct. Continue with worksheet. The remaining appropriation that access appropriation, the things we did not expend dollars on we had savings in salaries, our back scanning. You can see the Web Portal is the top line item. We also had some discretionary FTE's that we did not hire. So those dollars. **Senator Krebsbach:** What are you looking at, the previous year? **Cindy Ternes:** I believe it was 2010. We did hire one FTE's since that time that person has left WSI so we do have the ten open again. And then way at the bottom, of this worksheet, Corvel is the return to work vendor that we work with currently. In fiscal year 2010, we spent \$1.124 Million dollars on Corvel. Our in house estimate were the ten discretionary FTE's as \$1.3, so if I look at that on an annual basis, \$676,000 for an annual saving of approximately \$450,000, or \$900,000 in a biennium.

Senator Wanzek: This reference of egress analysis, is that employee salaries?

Cindy Ternes: Yes that is and now those we are with through the initiated measure under HRMS. I believe there doing some work with the HAY group but WSI will not be expending

those dollars. At the time of this budget we were still unclassified, so we had planned to do some work with them.

Senator Wanzak: You were unclassified and you still are unclassified?

Cindy Ternes: We are now classified. **Senator Wanzak:** As a result too? **Cindy Ternes:** Because of the initiated measure, when WSI moved back under the governor, the employees then became classified. **Senator Warner:** Interesting, because the Governors' office is full of unclassified employees. That wouldn't necessarily be determined asset. **Cindy Ternes:** We do have a few, WSI has a few unclassified employees but the bulk is classified now. **Senator Krebsbach:** We changed that last session.

Senator Krebsbach: Temp employees, and according to the chart I have, you have five temporary and one of those is 25% or less of the time, and three fall into the category of 25-50% of the time, and then one is marked full time temporary. Is that correct?

Cindy Ternes: I don't have that data in front of me, we have at least one full time temporary employee and she is working on the AIM project; we do have several part time temporary employees. Some of our back scanners also were temporary, so, I am not sure exactly what time period it is from.

Senator Krebsbach: If they are long time are they intended to be there longer? I think that we really need to look at moving them into permanent rather than leaving them in temporary forever and forever.

Bryan Klipfel: That full time temporary on a project was since last June. **Senator Krebsbach:** When the project is completed it may be diminished or left open again.

Bryan Klipfel: The other possibility is if it works out as planned, we may look at making that position full time a full time position. **Senator Krebsbach:** Then you would come to the legislature for that. **Bryan Klipfel:** Or else use one of our existing vacancies.

Senator Wanzek: We look at these budgets there is \$6.7 M from the previous biennium that you figure is not going on expended, but we've provided a continuing appropriation here for that too?

Cindy Ternes: Those dollars would be left within our fund. Correct. We do have continuing appropriation for some items, but this would not be just used at our discretion though.

Senator Wanzek: We stay in the fund and then we are re-appropriating for needs for the next biennium. **Cindy Ternes:** That would be correct.

Senator Krebsbach: My understanding is that that would go for the shortfall that you have opened now, for the completion of the computer system. You have had appropriated \$17M and this was going to cost approximately \$17.8 M, your anticipated cost on that?

Cindy Ternes: Right, you could do it that way. We did in the biennium, we asked for an appropriation of \$3 M, so that is build in to the new budget.

Senator Krebsbach: Three and you had \$14M before, so that comes to \$17 M but what you indicated you would need to complete the project was \$17.8?

Cindy Ternes: We would use the \$800,000 out of the current excess funding, for the current biennium, but in total over the 3 bienniums; we are looking at the \$17.8 as you state.

Bryan Klipfel: One comment I will make. When we put in HB 1111, that reduces the permanent partial impairment threshold from 16% to 10%, we put that bill in, and then 1055, which reduces it from PPI threshold from 16% to 14%, and we wanted one extra employee. If that legislation passed, and especially if it went from 16% to 10%, because we figure there would be a lot more impairment evaluations going on and we would need an additional person to do that. From 16% to 14% we're still going to probably need some. I am not sure if we would quite great demand, but it still is part of a fiscal note for that particular bill which is HB1055. That is one thing we liked to look at is if we could have an additional employee for the PPI evaluation or else. Another area that I think we're cutting ourselves short on is on the discretionary employees for the return to work. Right now we're asking for 10, for a final stamp of approval. But I think we're going to be really cutting ourselves short and I am sure if the 10 is going to be enough. It would be important for us make sure we're going to do the program and that we have enough employees to do it. We would like to have at least one possibly two employees additional for that return to work, coming back into WSI as part of our agency.

Senator Krebsbach: Where has it been if it hasn't been with your agency? **Brian Klipfel:** It has been with CORVEL. That is one that has been with CORVEL, and CORVEL right now I think has twelve (12) or thirteen (13) people doing the same job that we're expecting ten (10) people to do. That is where I am a bit nervous about bringing that in and house without having enough staff to take care of it.

Senator Krebsbach: Are you suggesting that the ten (10) be increased to twelve (12) or where are we at with that?

Bryan Klipfel: We originally had it on the Permanent, Partial or Impairment (PPI), bills but I really think it's more important that we have extra employees in the return to work. Especially when I have the facts since moving the threshold from 16% to 10% was defeated in the House. So that isn't even going anywhere, so the only one out there now is the 16% to 14% and I don't think that's going to make a whole lot of difference as far as our auditors position is concerned...

Senator Krebsbach: The return to work program is where you're looking? **Bryan Klipfel:** That's correct. **Senator Krebsbach:** Now the ten (10) that you were granted in 2009, I have any of those been, just one you said, has been hired. **Bryan Klipfel:** We had the authority to hire them, but we just wanted to wait until this session to get a final stamp of approval to say that is okay with doing this. This is what we are waiting for. When we put it in originally we thought that the number was ten (10), but looking at the number of personal that CORVEL has handling what we plan to handle, I am a bit nervous about not having enough employees to take care of part faction of return to work.

Senator Krebsbach: Is there some reason that we didn't make this change sooner or what happened there because I thought it was going to be in place by now?

Bryan Klipfel: We have the dollars, from the last session and the authority to hire the positions. When we had our 2101 performance evaluation which was done in June; that was again one of their recommendations that we bring the return to work services in house to WSI. What we did was have the discretionary authority to do that but let's wait until this session to get a final stamp of approval on our budget to make sure everything is good to go before we make that commitment.

Senator Krebsbach: Can you provide us with that Performance that was completed in June? I would like to see that as well as the others. She was told yes.

Senator Wanzek: You were saying the previous biennium did approve nine (9) and you're saying that you think you might take one more or do you want that authority be raised to ten(10)?

Bryan Klipfel: We had 10 employees that we could hire on as return to work. I think, looking at the potential work load I feel that we need more than ten (10), so eleven (11) or twelve (12).

Senator Wanzek : Are you saying it's because of the potential reduction of the threshold could result in more cases at Permanent, Partial and Impairment (PPI)?

Bryan Klipfel: It is almost two different things. Originally when we put in our budget, we asked for an additional employment for the PPI threshold. We're looking at moving that from 16 % to 10% so we have one PPI auditor already and we want to have one more because we fear there would be an increase in evaluations because of the threshold being lowered to 10%. The other bill was reducing it from 16% to 14% and we put the additional impairment auditor in that bill too, for an additional employee. Since the 10% one has been defeated already, and we're at the 14%, there is a possibility that we're not going to need an additional auditor for now. The other area of concern is the Return to Work, so it is a separate area. With this return to work, right now CORVEL is contracted to do the Return to Work services for our injured workers. CORVEL has 12 or 13 people plus some administrative staff to handle the State of North Dakota. We're originally had 10 put into our budget for this project. I am a bit nervous the 10 will not be able to handle this efficiently and that's where we would like to have an additional employee or two.

Senator Krebsbach: So when do you plan to take that in house? **Bryan Klipfel:** As soon as we probably get approval in this session here through both side of the House. We know that the Legislature is in favor of it, we'll start hiring in April or May.

Senator Krebsbach: The threshold from the 16 to the 14 is that on a bill that is in the House or where is that at? **Bryan Klipfel:** That's correct, it is HB 1055. **Senator Krebsbach:** And you have two or three other bills to that perhaps we should talk about. That is HB 1050, Vocational Rehabilitation grants, and HB 1056 the Performance Evaluations. The third bill is SB 2114, the Scholarship Awards.

Cindy Ternes: Under HB1050, the Vocational Rehabilitation grants that allows for the grant program to provide grants to more recipients than it did before. The total grant awards are limited to no more than \$100,000 per year. We don't see any significant fiscal impact on that. This allows some grants into a larger pool of catastrophically injured workers than it did in the past. Historically, WSI has had a loan fund, through the continuing appropriations of approximately \$14 M dollars that hasn't been used significantly. We are starting to see it used more and more so we wanted to expand those that would qualify for the loan. That is where the funding would come is from that \$14 M.

Senator Krebsbach: The HB 1056 performance evaluations. **Cindy Ternes:** By statute WSI is required to have a performance evaluation done once per biennium or every two years. I am not sure historically but I think part of that was when WSI was governed by the board. We wanted to make sure there was ample oversight. What we are asking with this bill HB1056, it proposes that evaluation be done once every 4 years or every other biennium. The fiscal impact is that it would save approximately \$240,000 per biennium.

Senator Krebsbach: Was this something that came from an interim study or committee? She was told yes.

Bryan Klipfel: On the Independence Performance Evaluation that was the one we just completed, this summer. It cost about \$240,000 and that's where you get the information on the Return to Work coming into our agency plus other recommendations. We've had them every two years, and it's costly and it takes a lot of staff time and then there is always recommendations and it takes sometimes longer than two years to take care of some of their recommendations, so you always have a backlog of not being able to fulfill all of their recommendations. This went through the Interim Work Comp Review Committee, and that was their recommendation that they would go from the two to four years for the evaluation. **Senator Krebsbach:** Who performs that audit? Do you have to hire? **Bryan Klipfel:** A consultant comes in to do that. **Senator Krebsbach:** It is not our state auditors?

Bryan Klipfel: It is not, but that is probably a good point too. This is a performance evaluation. We still have our financial audit every year and we usually when our financial audits come in, they audit other things besides finance, maybe human resources, or claims, etc. We do have a constant trail of audit. This is just the performance evaluation.

Cindy Ternes: The State Auditor does the contracting for the performance evaluation. It is totally independent of WSI. We just pay the bill.

Senator Wanzak: I was on the Workman's Comp Review Committee that discussed that. There was this feeling that we barely are getting implemented the recommendations from the previous one when they already spending resources in time getting ready for the next performance audit. So, in considering that the financial audits are ongoing with the State Auditor, that's where the recommendation came from. **Senator Krebsbach:** The Scholarship Awards on SB2114 is that recommended by the bureau as well?

Cindy Ternes: This is part of what we call our hodgepodge bill because we just had a lot of different small items that we were trying to get clarification. This expands the eligibility for

the Scholarship Program that includes the spouses and the children of catastrophically injured workers.

Senator Krebsbach: We passed that 3 sessions ago for to grant scholarships I believe did we not or was that longer?

Bryan Klipfel: With prior to this, the amendment in here, was you could for injured workers who were killed, there was, you could provide these grants to their spouses and dependent children. So this expands it now. Catastrophically injured and there's some exceptional cases out these, and then some permanent total disabilities also.

Senator Krebsbach: You showed me some additional benefits that have been granted. Do we need extra funding?

Cindy Ternes: Here is an updated sheet on that. Some of the earlier items that they've been if they haven't cleared the House or the Senate they have been dropped. Or if there have been other amendments that have just been updated a bit. **Senator Krebsbach:** Some of these could be pending then? **Cindy Ternes:** The 2011 yes. For example, one of the changes is the real estate remodeling allowance. The original bill that was being proposed increased it from \$50,000-\$100,000 and it was amended from \$50,000 to \$75,000. So those changes have been incorporated here.

Senator Krebsbach: Do you have any actuarial figures on some of these benefits that you're proposing to increase? Do you have those available for us? **Cindy Ternes:** I can certainly get them, as they attached to each of the bills. **Senator Krebsbach:** Our question then is the ten (10) that were granted from last time, are they automatically included in the FTE for this biennium or upcoming biennium?

Bryan Klipfel: That is correct. They are included. **Senator Krebsbach:** They are included in there. But you're looking now for two more? **Bryan Klipfel:** That's correct. **Senator Krebsbach:** Okay, and it because of the Return to Works program that you're taking in house and we initially thought that you could handle it within but you're concerned that you may need more? **Bryan Klipfel:** That is correct. On the positions, in our budget, we had a pharmacy tech position that we're going to be adding, but we have the funding for it in our budget but we had to use one of our existing vacancies to fill it. So the point is we don't have a lot of existing vacancies left anymore, even if we want to hire these two additional Return to Work and just use existing vacancies, we're kind of limited on the numbers that we have at this point.

Senator Warner: Your unfilled vacancies, a lot of agencies use those as a source of funding for to fund retirements, and payouts of retirement, sick live. You must have sick leave policies similar to the state? Is that right? **Bryan Klipfel:** That is correct. **Senator Warner:** Are you running so close, so that is an issue that you would not have adequate funds to hand turnover within your regular office? **Bryan Klipfel:** That's not the case. We're adequately funded to take care of those. We don't need to use vacant positions to fulfill paying out sick leave or pay out vacation. The way we're funded being an employer premium special funded agency, our budget usually takes care of those particular costs. We don't need to use vacant positions to pay out sick leave

Senator Krebsbach: Sometimes I thought we should have a pool set aside in the state budget for this, but I was talked out of it.

Cindy Ternes: One more exhibit, this is a snap shot of the WSI fund as of the end of November. My goal, two years plus current year to date now through the end of November, we don't have our December investment information yet, so it hasn't been updated. At the end of June, our net assets were \$265 M of June 2009, in June 2010, \$336 M, and five months later, in November 2010, \$426.9 M. At the very bottom of the worksheet this is our level of net assets in relationship to our estimated discounted reserve liability. At the end of June, we did not give a dividend in June of 2009; we were at \$129.4, at the end of June of 2010. This last fiscal year we did give our policy holders a 50% premium credit dividend. And after that dividend was issued, our reserve level or asset level was at \$139.6 within statute WSI is mandated to be between 120-140%. We were just under that. We do have two years to come into compliance but we were able to do the 50% and get into compliance at the in the end of June. You can see at the end of November, we are at 151.4. Now some of this is derived from our investment portfolio revenue and we all know that is a roller coaster these days. But even with that being said, we are well over the 140% and December and January both had the same gains. (WSI Fund #c) **Senator Krebsbach:** The mandate is 120- 140? **Cindy Ternes:** Correct. And we relook that at every June. That is what the statute calls for. We just wanted you to see that WSI is very sound financially. For the funding for two more FTE's would not be a problem as far as the fund is concerned, also it would still come out of the savings from CORVEL that we're really paying out annually now. Our CORVEL contract does end in June of 2011, do we're looking if the Legislature gives us the stamp of approval to move forward.

Senator Krebsbach: What we are paying CORVEL and what our costs will be when take this in house with the 10 and with the 12? **Cindy Ternes:** I certainly will do that.

Senator Krebsbach: Does that make sense then we something to go on. **Senator Warner:** CORVEL a domestic company in down south North Dakota? **Cindy Ternes:** Yes they are. Well in Minnesota and North Dakota. **Senator Warner:** But they have presence in town here? **Cindy Ternes:** I don't know if they do here in town, but in Grand Forks, Fargo I think. They do have some consultants located throughout the state which really helps us with our rural population when we have injured workers in those other towns.

Senator Krebsbach: I see that it is in good shape. I guess that accounts for some of the reasons that you're looking at expanding, some of the benefits as well.

Bryan Klipfel: The fund has done very well the last year and a half or so. We're in really good shape especially when you compare us to other funds around the country.

Senator Warner: Does REO manage your fund? **Bryan Klipfel:** Yes that is correct.

Senator Krebsbach: What are the two rolling funds for? **Cindy Ternes:** On the pie at the top what we do when determine whether or not we have any funds available for dividend we take our total net assets, and from that we deduct any programs that have been both legislatively and WSI board approved. There are three programs and listed in detail at the bottom and also on top in the pie. Safety and education, originally we had \$35 M earmarked there, we have spent \$25M over the last couple of biennium's and we have \$10

M left, the School Loan Fund that we discussed a little bit today, that has barely been used. That's why we're expanding some of the qualifications for that, so that there is more usage. Then the ITTP/ AIM funding, that we approximately \$3 M of the \$14 that we have not expended yet through the end of November. Then the large blue portion, that would be the 20% that we are mandated to keep in reserve our \$155.4 M, then the red portion, is everything that is left which would be \$243.6M that would also bring us up to 40%. So with the 20 and the 31 we would be at 51.4%.

Senator Krebsbach: Thanked the committee for meeting to listen to the information.

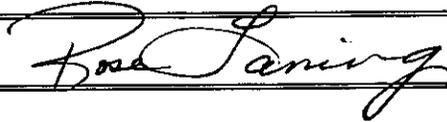
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

SB 2021
February 15, 2011
Job # 14584 (Meter starting at 51:00)

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Committee work on SB 2021 – Workforce Safety and Insurance bill.

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg called the committee hearing to order on SB 2021 and said this bill is another one line budget.

Vote 1

Senator Krebsbach moved Do Pass on Amendment 11.8131.01001

Senator Wanzek seconded.

A Roll Call vote was taken. Yea: 3 Nay: 9 Absent: 1

Amendment failed.

Vote 2

Senator Krebsbach moved Do Pass on SB 2021.

Senator Wanzek seconded.

A Roll Call vote was taken. Yea: 11 Nay: 1 Absent: 1

Senator Krebsbach will carry the bill.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2021

Page 1, replace lines 10 and 11 with:

"Total special funds \$56,877,605 \$1,686,688 \$58,564,293
 Full-time equivalent positions 247.14 1.00 248.14"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2021 - Workforce Safety and Insurance - Senate Action

	Executive Budget	Senate Changes	Senate Version
Workforce Safety and Insurance	\$58,413,293	\$151,000	\$58,564,293
Total all funds	\$58,413,293	\$151,000	\$58,564,293
Less estimated income	58,413,293	151,000	58,564,293
General fund	\$0	\$0	\$0
FTE	247.14	1.00	248.14

Department No. 485 - Workforce Safety and Insurance - Detail of Senate Changes

	Adds FTE Position ¹	Total Senate Changes
Workforce Safety and Insurance	\$151,000	\$151,000
Total all funds	\$151,000	\$151,000
Less estimated income	151,000	151,000
General fund	\$0	\$0
FTE	1.00	1.00

¹ This amendment adds 1 FTE position for the additional administrative costs associated with provisions of House Bill No. 1055 relating to permanent portal impairment benefits.

Date: 2-15-11
 Roll Call Vote # _____

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 2021

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 11.8131.01001

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Krebsbach Seconded By Wanzek

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg		✓	Senator Warner		✓
Senator Bowman		✓	Senator O'Connell		✓
Senator Grindberg			Senator Robinson		✓
Senator Christmann		✓			
Senator Wardner		✓			
Senator Kilzer		✓			
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele		✓			
Senator Wanzek	✓				

Total (Yes) 3 No 9

Absent 1

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
failed

Date: 2-15-11
Roll Call Vote # 2

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2021

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Krebsbach Seconded By Wanzek

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell		✓
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 11 No 1

Absent 1

Floor Assignment Sen Krebsbach

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2021: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS
(11 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). SB 2021 was placed on the
Eleventh order on the calendar.

2011 HOUSE APPROPRIATIONS

SB 2021

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Education and Environment Division
Sakakawea Room, State Capitol

SB 2021
3/8/11
15061

Conference Committee

Committee Clerk Signature *Shirley Branning*

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of workforce safety and insurance.

Minutes:

You may make reference to "attached testimony."

Chairman Skarphol: The meeting was called to order to hear SB 2021, Work Force Safety and Insurance (WSI), noting that everyone is present.

The session began with a presentation by **Sheila Sandness, Legislative Council Representative** on *The Analysis of State Trust Funds for the 2011-13 Biennium Reflecting Legislative Action Through March 7, 2011*.

Typically, this update is done at crossover to note that all of the Trust Funds are as of crossover; however, the State Disaster relief fund on p. 41 and the permanent oil tax trust fund which is on p.30 have been updated through March 7 to reflect SB 2369, approved yesterday in the Senate Appropriations committee. It has to do with the Adjutant General Snow Removal Grant.

Chairman Skarphol: Is this all inclusive, often we get question about items that may not be covered in the book.

Sandness: We try to cover the funds that we get most questions about, I don't think it has every fund. I can let you know if any are not in there.

Chairman Skarphol: The hearing was opened.

Brian Klipfel, Workforce Safety and Insurance Director: He provided printed testimony, see Attachment # 1, Reviewing briefly pp. 1-5 The data on claims was presented.

Chairman Skarphol: The number of employees, what are the numbers?

Klipfel: There are difficulties with our staff, we can handle about 20,000 claims. More injured workers are

Rep. Monson: You have about a 5% decrease in claims but you said your claims are increasing.

Kliphel: Yes, The fund is doing well; we have to monitor the number of claims coming in. \$172M is projected for this year to collect premiums. I have heard numbers even up to \$190M. There are more new employers coming in and they are in the Northwestern part of the state.

Chairman Skarphol: New employer from out of state, do they get a discounted rate? Employers build a rate history and they receive a discounted rate after a certain period of time. New employers from out of state don't get that discounted at least initially.

Kliphel: The rate classes are set, it has come down just a little bit. They do get some discounts if their Experienced Modification (EMod) is a little more, they may get a discount that way.

Chairman Skarphol: A new employer would have to build a record, can they bring that in?

Kliphel: The legislature has enhanced the benefits over the years. See Attachment 2. We have safety grant programs. We have a grant program along with our discount premium programs. On the employee part WSI is a good organization. Staff turnover three years ago was about 16% and now is about 2.2%, down from previous years. The system replacement process is continuing. Some of our internal processes to make sure our business is doing as well as it can. Corvel handles our voc rehab to give seriously injured workers some retraining. We made a decision that it would be better to bring voc rehab within our agency and we have the discretionary authority to do that but we want to make sure that has the stamp of approval after this session. Our employees for the biennium is 247.114. We are hiring some people in house to replace Corvel.

The financial perspective is the last part, we have had low stable premium rates. A study done by the State of Oregon, our premium rates were the lowest in the nation compared to Montana who is the highest in the nation. Expense ratio, 11% which is low for an insurance company. We declare a 50% dividend for the year 2010 dividends declared in the past five of six years over \$350M back to our employers. Our fund is in good shape again and we should get another dividend back and we will know that come July.

Cindy Ternes will address the budget.

Rep. Williams: Salary adjustments for the employees, is it in your budget?

Kliphel: Ms Ternes will address that.

Chairman Skarphol: Where are you with regard with reserves? Some people are uncomfortable with the amount of money that may be put into various funds within the agency. It creates a perception that there may be more money there than what may be utilized.

Kliphel: Our fund is actuarially established; it is not an exacting science, there may be fudge room. We hired a new actuary and I have a lot of confidence that we are in line.

Chairman Skarphol: Addressing Sheila Sandness, with regard to the House bills and the Senate bills on the green sheet, are these all still pending or have some of them failed or current?

Sandness: Anything that has failed is not on the green sheet after crossover.

Rep.Hawken: Tell me a little bit more about the switch to inhouse for vocational rehab. Is it more injured workers?

Kliphel: Most of the time it is the most injured workers who cannot go back to their existing jobs and need retraining to find another job. Currently Coreval is a contractor that has a lot of turnover and we lose some of our continuity with our injured workers. Bringing it in house, we will have better service, less turnover and better employees.

Rep.Hawken: Do they actually do the therapy or do you send them someplace and you would do the job retraining?

Kliphel: They work with the injured workers so if there is a retraining program, they will work with them.

Rep. Hawken: They wouldn't do the retraining, they would be the manager.

Kliphel: Manager.

Cindy Ternes, WSI Director of Finance: Began her testimony beginning on p. 5 of Attachment # 1. It does contain the salary increases that the Governor has put in, I believe it is 3 and 3.

Chairman Skarphol: I heard the Senate changed it to 4-1, calling on Tammy Dolan, OMB Analyst to explain.

Dolan: Yes, as far as the distribution of the salary increases, they changed it to a 4 and a 1. However, the dollar amount did not change. The 4 and the 1 came in about the same as the 3 and the 3 so there was no change in the dollar amount.

Chairman Skarphol: I want an explanation of what that means, why the Senate action took place. It is supposed to save us some money next time.

Dolan: In response, every biennium we come in and make the Cost to Continue adjustment for that second year salary increase. By front loading the salary increase and making more of that in the first year of the biennium, there won't be as much of a Cost to Continue adjustment necessary in the next biennium because you have already funded most of the salary increase for 24 months.

Chairman Skarphol: Why didn't they change it to 5-1 and they wouldn't have to worry about cost to continue.

Dolan: Because of the proposed changes to the retirement contribution. In the second year of the biennium employees will have a salary deduction of about 1% to cover their share of the increased retirement rates. They left that one percent salary increase for employees to off set that one percent retirement contribution. So employees would not actually see a paid decrease. If they put in a five percent up front and then the retirement contribution came up in that second year, their salaries would actually go down that second year.

Chairman Skarphol: OK.

Ternes: Continuing with testimony, pp. 5-7, it is a special fund budget

Chairman Skarphol: Why is this, the generator, necessary all of a sudden is needed?

Ternes: This has been under study for some time. With the current back up system we do not have the capability to keep the building heated, cooled or keep the computers running. We calculated the cost of the down time in comparison to the actual generator. We did have authority but wanted the approval of the appropriation before we went ahead.

Rep. Monson: Referring to the green sheet, related to FTE funding for a pharmacy tech position. On the green sheets, your FTE don't go up on the chart for 247.14 for '09-'11 and 2011-'13.

Ternes: When we submitted our budget request to OMB we had requested an additional FTE for the pharmacy tech and we had an outside consultant come in and do our performance evaluation of the biannual evaluation. They suggested changes to our pharmacy program that we did not feel we could incorporate without additional help. When we received the Governor's recommendation back they had denied the request for the additional FTE but they left the funding with us. If we need help we may be able to find a temporary person. The qualifications for a full time person would likely be higher. Moving on p. 7, the FTE request was presented.

Chairman Skarphol: You received authorization and appropriation for 10 FTE but you have not made that move.

Ternes: Correct

Chairman Skarphol: You have unexpended money in your salaries and wages line from this last biennium.

Ternes: Yes, those have not been expended.

Chairman Skarphol: The increase for salary and wages for Cost to Continue, is that reflective of those ten employees you didn't hire as well?

Ternes: It would be like a carry forward. A turn back of what we are not expending but we rerequested it. We hired one of those to inhouse for some time. Ten months ago that employee did move to full time again.

Rep. Monson: You have about 10 vacant spots, you've got the money and you could fill them at any time. Two months after we leave town you could use that money to hire someone. Two months from now they could quit and it looks like it didn't happen.

Ternes: I would not do it any different than any other FTE that we have. We have been working close with a consultant company and have found that... when we got our discretionary authority last time, we thought we were getting good service. Now we feel they are ready and we are coming back and saying we would like this discretionary authority to move ahead.

Rep. Monson: Referring to p. 5 of testimony, there is a percent change from 2009-2011 for salaries, wages and benefits are 5.4%. If we are looking at a 3 and 3 or even a 4 and 1. I am seeing that a 3 and 3 should have been a bigger number than the 5.4%.

Ternes: We have had some administrative efficiencies so when this project was set up for the \$26M in '09-'11 we did not expend all of those dollars plus some revamping within the agencies so we started with a little bit of a lower base.

Rep. Monson: Because you had 10 vacant FTE you really didn't need to increase your wages, salaries and benefits line item because there is carryover in there.

Ternes: Some would be carryover and some would be additional savings for salaries that were not expended.

Chairman Skarphol: Do you have your own personnel system or did that get changed by the constitutional as well as the initiated measure?

Ternes: We are under the Classified System. We do have a few unclassified but personnel but overall we are on the HRMS system.

Chairman Skarphol: As far as the savings that you referred to created by efficiencies in the administrative services. Were the roll-up dollars turn back or were they utilized to increase salaries over and above for work over and above?

Ternes: Those would be what we consider turn back.

Regarding our reserves, through the end of December our reserves are discounted at 5%. That amount is \$802,316. That compares to our audited June numbers at of \$772M.

Our reserves have increased at \$330M in six months. Part of that deals with the increased claims. That \$772M at the end of June is an audit number. Our undiscounted number, if we were to compare to that would be \$1.131B. That is what it would cost if we had to pay all of our claims into the future. We are holding back a certain percentage. I do not feel that we are hoarding money or have unnecessary funding.

Chairman Skarphol: You are required to be within a certain percentage.

Ternes: If our net assets are fund surplus, plus our unfunded liabilities of \$172M, the combination of those, if they exceed 140% of the unfunded liability we are to give a dividend but it cannot exceed 50% of the prior year premium.

Chairman Skarphol: Are you within the range in today's environment?

Ternes: At the end of December we are at 149% so...no. We are required to look at it every June. At the end of June 2010 we gave a 50% dividend which is the maximum that we were allowed to do and we ended up at 139.6% just under the 140%.

Statute allows us two years to get back within that limit and we were able to do it in the one year.

Chairman Skarphol: What kind of dollar amount did that 50% discount amount to?

Ternes: \$82M.

Chairman Skarphol: Are included the information fund, an educational revolving loan fund and others.

Ternes: Distributes Handout # 1 and explains the pie chart and the Net Asset Detail as of December 31, 1010.

Chairman Skarphol: In the allowance in the statutory authorization for the funds and the utilization of the funds for some of these dollars to put into these funds, are there any allowances as to the amount you can have in these funds? Does it have to have any relationship to utilization or are there no limitations? Could you lower your net assets to be in compliance?

Ternes: With the Safety in Education grants that originally started out at \$35M and that was designated by the Board of Directors. It is possible that they could go ahead and do that again.

Chairman Skarphol: It appears to have been utilized. Has there not been another infusion? That \$35M has been the only infusion?

Ternes: To date, yes. That has been the historical process of allocating money to these funds and that is what we would follow in the future.

Chairman Skarphol: If you were gonna give a 50% discount this time, will it get you below the 140%.

Ternes: Being halfway into the year, we don't know where the market is. Right now If we were to stay at about where we are, it would. If we continue to increase as we have been, the other thing that plays into that is the discounted financial reserve. If it continues to go up, it eats that surplus down.

Continuing with explanation of Handout # 1

Chairman Skarphol: In the column on the far right is 18 months of the biennium?

Ternes: No, that is the first six months of the current year. July 1 to December 31 of 2010.

Chairman Skarphol: As compared to full year in the middle column/

Ternes: The first two columns are full years, the last column is the first six months of this fiscal year.

Chairman Skarphol: Should we anticipate an increase in the next six months?

Ternes: I would anticipate an increase but not a similar increase.

Chairman Skarphol: You're \$87M above last year in available fund surplus, and you paid out \$82M to get below to get below the 40. How will you get below the 140% when you got \$87M more than you had last time in six months.

Ternes: At the end of the year is when the actuary comes in and set the reserves, every June and gives us our target reserve liability amount. I anticipate an increase there of \$30-50M. Especially with what we are seeing in the oil field.

Rep. Dosch: Who does the investing of your funds?

Ternes: RIO administers it and our Board designates asset allocation and that is approved by the Governor, that allocation goes to the State Investment Board and they do the actual choosing of the funds based on that asset allocation and RIO does the administration.

Rep. Dosch: The fund must be doing quite well based on your dividends. How does this compare to PERS?

Ternes: I do participate in the State Investment Board. WSI does have a designee on that board. WSI's portfolio is much more conservative than the Teachers' Fund or the PERS fund. Historically their return beats ours by a few basis points. WSI did not take as large of a hit as they did because they have more of their allocation toward equities where we are more on fixed assets. The 10 and 25 year returns are very comparable, More conservative 10-15 year returns are comparable. Our current return is approximately 8% through the end of January.

Chairman Skarphol: What kind of losses did you suffer in '08-'09?

Ternes: Fiscal Year (FY) '07 our return was a positive 10.3%, FY '08 .57%, FY '09 a minus 10.24%, FY '10 it is 11.94% and current year to date just a little over 8%.

Chairman Skarphol: While you suffered a loss in '09 it was less than 1/2 of what was inflicted on the other investment funds.

Ternes: If you look at fiscal year '10-'11 year to date you will see that their returns are more significant than ours

Rep. Monson: What is your actuary basing your needs at?

Ternes: The WSI Board of Directors determines the discount rate for our estimated liabilities. It is currently at 5%. They look at the rate that we have chosen and help us determine the asset allocation that will fit that rate. Since our rate is 5% our asset allocation does not need to be as aggressive as the other two.

Rep. Monson: You don't have an unfunded liability?

Ternes: We have sufficient funds invested and we are getting sufficient return at this time to fund those liabilities on a discounted basis.

Chairman Skarphol: Addressing changes on the green sheet and on the bottom of p. 5, you do have a 22% increase in operating expense and a 50% decrease in your System Replacement Project (AIM project). The green sheet has significant changes, we go to contractual services where you deduct \$2.6M and you add back in supplies of \$2.6M. That is a wash. Is that part of the process of moving the IT project away from a vendor to operating expense?

Ternes: Beginning with the appropriation request on the bottom of p. 5, delineating each item. We do plan to spend that full \$7M this biennium and asking for an additional \$3M to complete the project next biennium.

Chairman Skarphol: There will be an additional \$3M spent on the AIM Project. By whom is that project being completed?

Ternes: We do have HCL and we also have NEON, they are two major consultants.

Rep. Monson: The \$7.017M in the current appropriation for this AIM Project. You will expend all of that or \$417M. Then the \$3M is carryover? Will you spend that or is it additional?

Ternes: We will expend \$7M this biennium by the end of June 2011. The formula indicates the change between what we are spending this biennium and what we plan to spend next biennium. The \$3M is an additional.

Rep. Monson: How much did you spend before this \$7M. The whole project is \$14M. Will you come in at budget?

Ternes: The original allocation was \$14M, we did spend \$7M and now we will spend the second \$7M.

Rep. Monson: It will actually be a total of \$17M instead of the \$14M.

Ternes: We do indicate in testimony \$17.8m is what it is at now.

Chairman Skarphol: Going to the green sheet, the \$3.964M is reflected as supply, IT and soft ware. The same number is reflected under IT contractual services. Is that a swap?

Ternes: I would see this as new software, servers...contractual services....

Chairman Skarphol: Referring to p. 6 of testimony, are there new projects that will be incorporated in that \$2.694M.

Ternes: The data warehousing will probably be in there. The web portal will just be carry over and would not have been a change.

Chairman Skarphol: You have a data warehousing project you are going to begin to work on? On the Green sheet, the \$1.355M reduction?

Ternes: That is discretionary funding for Corvel.

Chairman Skarphol: Where are you on paying for the building?

Ternes: The building has been paid for, and has been for 3-4 years. We do have a maintenance account that we pay for, snow removal, general items. We have tenants on the first two floors of the building. They pay rents through the building fund. We use those rents to offset the costs of maintenance.

Chairman Skarphol: Why is that incorporated, addressing Sandness.

Sandness: I could pull up that Code Section but my inclination is that is the language in the Code Section and that is why it is in here.

Chairman Skarphol: I am wondering if they can bond.

Dolan: The statute that allowed for the building to be constructed included language for bonding if necessary. That was never done, it was paid for as it was constructed with WSI funds, cash. It is the language that was there.

Chairman Skarphol: Could we take the language out, bottom of p. 1, green sheet? Could it create an authorization that we really don't want. Requesting that Sandness look into that

Rep. Martinson: How can you raise the rent to Commerce and tourism if the building is paid for?

Ternes: The building is paid for but our costs don't necessarily go away. Our tenant rates are low but utilities were almost double of what the budget was for snow removal. Ongoing costs continue.

Rep. Martinson: You are the highest paid landlord to state agencies.

Ternes: We are trying to build up the building funds because two years ago our building fund had a balance of \$25,000. I didn't feel that was significant, currently it is at about \$120,000. When we pay our "in lieu of taxes" of over \$220,000 every year it almost depletes it. Looking at the generator, we do not have sufficient funds within the building

fund to fund that and that is why we are coming to the budget rather than running it through continuing appropriations,

Chairman Skarphol: Are the tenants' long term contracts.

Ternes: I believe they are for 2 years with the right to renew two to four years.

Rep. Monson: When you raised their rates did you kick in more yourself toward for snow removal. Do you pay in the same amount to this fund as you ask them to pay?

Ternes: I don't know that but I know that WSI took an increase two years prior before the tenants did to try to build up that balance.

Rep. Monson: Referring to green sheet, the \$2.964M. You had a decrease of \$2.649 and then you had an increase above in your supplies so it appears to be a wash, just shifting from one line to another.

Ternes: We lessened some of our external consultants. We also some items that we have moved over to ITD and so we have to purchase the software for those programs and servers that are being housed for us by ITD. That was the shift to show some of that.

Chairman Skarphol: Requesting budget detail from Dolan on the two \$2M figures. Do you have the same type of budget detail for WSI that you have for other agencies? Why don't you print it and give it to us.

Rep. Dosch: To whom do you make the payment in lieu of taxes?

Ternes: to the Burleigh County Court House. It is a property tax on our building.

Kliphel: In answer to the question regarding out of state company, they pay the same rate classification that we have set. They have option of bringing in their Experienced Modification (EMOD)in if they are a permanent operation or a part of economic development. They don't get the premium dividend for two years but they are eligible for the same discount program their first year.

Chairman Skarphol: Hearing no further questions, the meeting is closed.

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Education and Environment Division
Sakakawea Room, State Capitol

SB 2021

3/24/11

15940

Conference Committee

Committee Clerk Signature

Shirley Branning

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of workforce safety and insurance.

Minutes:

You may make reference to "attached testimony."

Chairman Skarphol: Bring forward discussion on SB 2021, are there any changes?

Rep. Hawken: Move a Do Pass

Rep. Dosch: Second

Chairman Skarphol: Is there any discussion? If not, the clerk can take the roll.

Motion Carried: 6-0-0

Carrier: Rep. Dosch

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Committee
Roughrider Room, State Capitol

SB 2021
3/29/11
16129

Conference Committee

Committee Clerk Signature

Meredith Tracholt

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of workforce safety and insurance.

Minutes:

You may make reference to "attached testimony."

Chairman Delzer: Let's take up SB 2021, workforce safety and insurance (WSI).

Representative Dosch: The budget is quite simple. As a reminder, the operating funds out of WSI come strictly from the employers and the premiums that the employers pay in the state of ND, there are no general funds in this budget. Things are going well up there, in comparison to a few years ago. Overall, the number of claims over the past biennium has decreased just over 9%. They implemented a safety training program that seems to be doing quite well. Employee turnover rate has settled down; it used to be over 16%, and now it is down to about 2.2%. The health of the fund at WSI is also in very good shape, it now exceeds 140% of their liabilities, which has allowed them to declare another 50% dividend credit for the upcoming year for the employers, which is a very good sign. The fund itself invests quite conservatively, which has led to very good performance in 2009-2010. Overall operating budget has increased only 2.7% from the previous biennial budget. They are continuing a system replacement project, which was a \$14 million rewrite on their ITD, and that should be finished this biennium. They did run about \$3 million short; they jumped the gun authorizing the funds to complete the project, but it will be completed in this biennium. FTE count remains the same. Last session we did authorize 10 additional FTEs because they were looking at replacing the services of CorVel with their own employees and bringing the service in-house, which will possibly save a few dollars, but more importantly, should provide better service for the injured workers. That's the overview. The only other major expenditure is the purchase of a backup generator for about \$466,000. I move Do Pass on SB 2021.

Representative Skarphol: Second.

Chairman Delzer: We have a motion and a second. Discussion by the committee?

Representative Kreidt: How many companies participate in the safety programs? They've been around awhile, have they pretty much got everybody involved at this point?

Representative Dosch: I don't know how many companies are on the safety program. I do know you can earn up to a 25% credit off your premiums by participating, so it's been a very good program employed by many, especially in the oil field area, which is one area where they are experiencing more claims but where they're working on this type of program. Considering what you can save on your premium, it's a tremendous incentive. Their overall claims, despite oil field activity, have actually decreased, so it appears to be working well.

Chairman Delzer: Was there discussion of how many continuing appropriations WSI has? Do they need to continue those, or can they be returned to their appropriation line?

Representative Dosch: We had some discussion on that. Some of them are the revolving education loan fund that depends upon utilization each biennium, there's the safety program and they don't know the exact usage from biennium to biennium.

Chairman Delzer: What about the safety program, for example, how is the funding set up? Is it anything they want to use out of their fund?

Representative Dosch: There was an amount allocated, which I don't recall offhand.

Representative Klein: Do you recall what the percentage of the fund is when they have to provide a refund?

Representative Dosch: If it exceeds 140% of their estimated liabilities.

Representative Nelson: Can you tell me about the FTE that was added for the pharmacy tech position? It doesn't look like the overall employee count has increased. Was that a transfer? What does that position do in WSI?

Representative Dosch: That was an authorized position, it just wasn't filled. This time we're providing funding for it. Given the amount of prescription drugs they authorize out of that office, this tech reviews prescriptions to monitor what's going on, since there's such a large dollar volume of what is being used. She would also check if there are any alternatives, such as generic drugs.

Representative Nelson: If there is a dispute between the injured worker and his or her doctor and the pharm tech, who has precedence in the decision making for the prescription?

Representative Dosch: We didn't get into those specifics. My understanding is this position is to review what is going up, look for red flags, etc.

Representative Nelson: It's a tech position. They don't have the expertise to get too in depth, I wouldn't think.

Representative Kaldor: Could you refresh my memory on the CorVel group and their services?

Representative Dosch: For example, if you were a severely injured worker and needed to arrange for rehab, retraining, etc., you would be assigned a case worker at CorVel. They check if you're going to your treatments, your rehab, like a case manager does, for more extensive and ongoing cases. They found CorVel itself was having a lot of turnover, so the injured worker might have multiple case managers, leading to a lack of consistency in knowing your case and what your needs were and what your history was. They felt by bringing it in-house, having more of a stable one-on-one, they could provide you with better services.

Representative Klein: I'm looking at the green sheet on information technology contractual services, which is reduced by \$2.5 million. What changed?

Representative Dosch: That is with the rewrite of their system. As they're completing it, they are reversing that portion out of the budget.

Representative Kroeber: Keep in mind that our workers' comp rates in ND are the lowest in the country; we're at 1.02 per \$100 of payroll. South Dakota has a payment of twice that amount, Montana three times. Keep in mind we're extremely low when we do get to look at some benefit increases for our injured workers.

Chairman Delzer: Further discussion on the motion? If not, we'll call the roll for a Do Pass on SB 2021. Motion carries 20-0-1. Representative Dosch will carry the bill. We'll stand adjourned until tomorrow morning.

**2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2021**

House Appropriations – Education and Environment Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment

Rerefer to Appropriations Reconsider

Motion Made By Rep. Hawken Seconded By Rep. Dosch

Representatives	Yes	No	Representatives	Yes	No
Bob Skarphol	X		Clark Williams	X	
Kathy Hawken	X				
Mark Dosch	X				
Rep. Martinson:	X				
David Monson	X				

Total (Yes) 6 No 0

Absent 0

Floor Assignment

Rep. Dosch:

If the vote is on an amendment, briefly indicate intent:

Date: 3/29
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2021

House Appropriations Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Rep. Dosch Seconded By Rep. Skarphol

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Nelson	X	
Vice Chairman Kempenich			Representative Wieland	X	
Representative Pollert	X				
Representative Skarphol	X				
Representative Thoreson	X		Representative Glassheim	X	
Representative Bellew	X		Representative Kaldor	X	
Representative Brandenburg	X		Representative Kroeber	X	
Representative Dahl	X		Representative Metcalf	X	
Representative Dosch	X		Representative Williams	X	
Representative Hawken	X				
Representative Klein	X				
Representative Kreidt	X				
Representative Martinson	X				
Representative Monson	X				

Total (Yes) 20 No 0

Absent 1

Floor Assignment Rep. Dosch

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

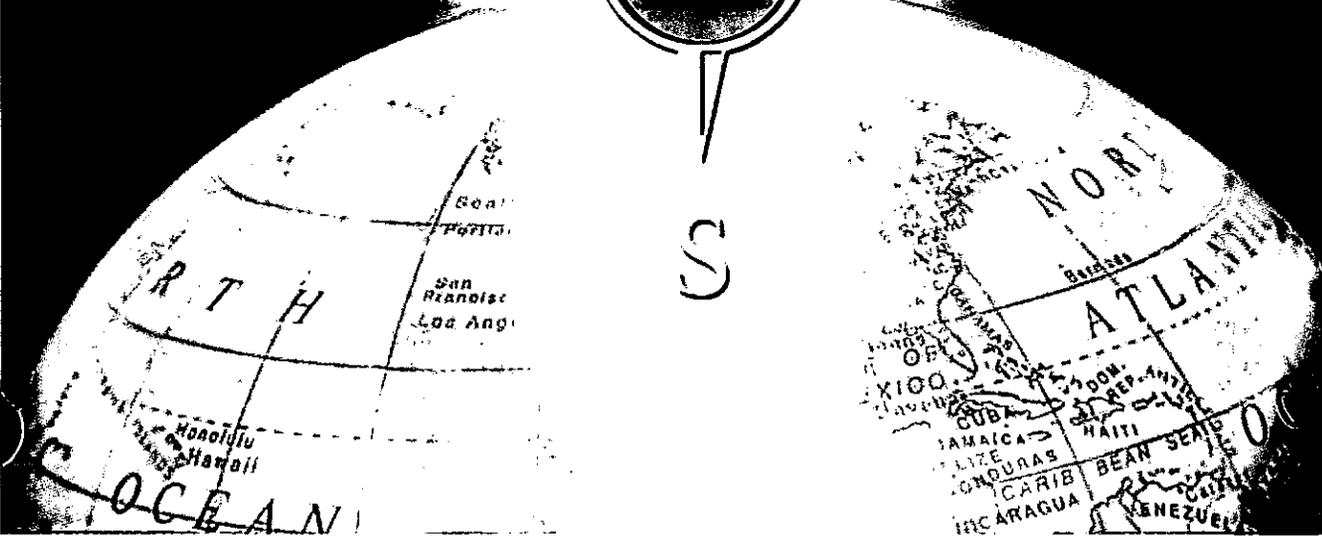
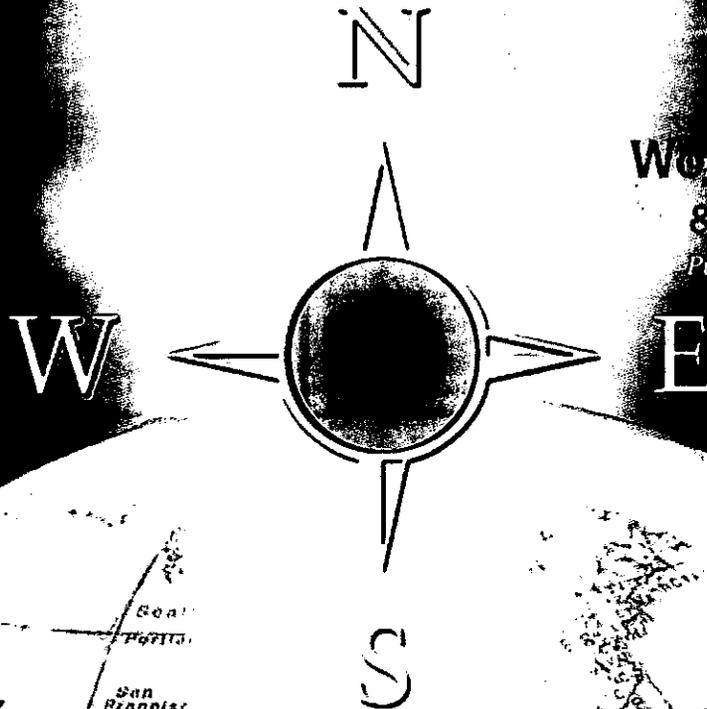
SB 2021: Appropriations Committee (Rep. Delzer, Chairman) recommends DO PASS
(20 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2021 was placed on the
Fourteenth order on the calendar.

2011 TESTIMONY

SB 2021



Occupational Safety
& Health
Putting Safety to Work



Testimony on Senate Bill 2021

Senate Appropriations Committee

January 11, 2011

2011 Senate Bill No. 2021
Testimony before the Senate Appropriations Committee
Presented by: Bryan Klipfel, WSI Director and Cindy Ternes, WSI Director of Finance
Workforce Safety & Insurance
January 11, 2011

Mr. Chairman and Members of the Committee:

Good afternoon. My name is Bryan Klipfel, Director of Workforce Safety & Insurance (WSI). We are here to testify before the committee, to help you better understand what WSI does, where it is going, and to ask for your support of WSI's biennial appropriations, Senate Bill 2021. On behalf of WSI, we would like to thank the Chairman and the Committee for providing the agency the opportunity to testify today.

WSI is the sole provider of workers' compensation insurance in the State of North Dakota. WSI was established in 1919 with the purpose of providing wage loss, medical, and rehabilitation benefits to injured workers or to dependents of workers killed during the course of their employment. WSI does not receive general fund dollars. Instead, WSI collects premiums from employers, which provide for the payment of medical and wage loss benefits as well as administrative expenses.

The goal of our testimony is to provide a clear picture of WSI's accomplishments and ongoing improvements. WSI has implemented a new Strategic Plan and is using this plan to go places "strategically" by creating focus and alignment throughout the organization.

As our **mission** states, WSI's main objective is to serve North Dakota workers and employers by innovatively providing superior workers' compensation and safety services.

WSI's **vision** is a safe, secure and healthy North Dakota workforce. To achieve our Vision, I must communicate the mission and values that are needed to move WSI into the future. Once employees are clear on where they are going, my role switches to the task of implementation. How do I make this happen? This is where servant leadership comes into play.

The servant-leader *is* servant first... It begins with the feeling that one wants to serve, to serve *first*. Characteristics of a servant-leader that are part of WSI's Values are: Respect, Empowerment, Integrity, Trust, Dedication, Compassion, and Selfless Service.

WSI's Strategic Objectives are broken into four different yet integrated perspectives: the Customer Perspective; Learning & Growth Perspective; Internal Processes Perspective; and the Financial Perspective. Each of these perspectives have key Strategic Objectives linked to them.

Customer Perspective

Some accomplishments under this perspective include:

- **Improved Service and Overall Customer Satisfaction.** Periodic injured worker and employer customer satisfaction surveys independently conducted for WSI consistently rank in the "high" satisfaction category, with ratings of over 4 on a scale of one to five.
- **Fewer Injuries.** North Dakota continues to experience declines in the number of injuries. For the four year period of FY 2007 through FY 2010, total claims filed decreased by just over 9%, from 21,309 to 19,388 respectively.

The 2005 Legislative Assembly authorized a continuing appropriation for promoting safety through education, training, consultation, grants and other incentives. Pursuant to this legislation, WSI's Board of Directors earmarked \$35 million for this purpose. Through the end of FY 2010, WSI had invested \$24.4 of this \$35 million in safety education and grants. This activity supports WSI's vision of a safe, secure and healthy North Dakota workforce. These investments in safety, combined with employer and employee participation in safety and ergonomic programs, have each contributed to the reduction of work related injuries.

- **An Enhanced Benefit Structure.** As indicated in recent reviews, WSI's benefit structure compares quite favorably to most other jurisdictions and has continually been enhanced in past legislative sessions. WSI works with the Legislative Assembly, interim legislative committees, and other stakeholders to identify appropriate benefit enhancements. **Attachment 1** contains a detailed listing of benefit legislation passed by the 1997-2009 Legislative Assemblies as well as current legislative proposals being submitted for consideration by the 2011 Legislative Assembly.
- **Less Adversarial.** The system today is less adversarial. Litigation requests represent less than one percent of total claims filed. In fiscal year 2010, WSI received 184 litigation requests—a reduction of nearly 87% from the levels existing in 1994. Formal constituent inquiries from public officials such as state legislators, the governor's office, and North Dakota's congressional delegation are down 74% from more than a decade ago.

Learning & Growth Perspective

Knowledgeable, well-informed and well-equipped employees will provide the best service to our customers – the workers and employers of North Dakota.

Two Strategic Objectives relating to this perspective are:

- **Improve Employee Development.** WSI has a well educated and knowledgeable staff. Many have certifications and need to participate in ongoing education to keep certifications current. Educational opportunities are made available to all WSI employees, on every level; and employees are encouraged to develop themselves professionally.
Professional growth enhances morale, reduces staff turnover, and ensures efficiency and effectiveness throughout the agency. WSI employee turnover for fiscal years 2009 and 2010 was 3.6% and 2.2% respectively – down from a high of 15.8% just three years ago.
- **Improve Organizational Climate & Culture.** While academic education and professional growth is extremely important, personal growth is equally important. To ensure employees have the opportunity to grow personally, WSI uses “Servant Leadership” principles to enhance and fortify our agency values. These principles align very closely with the agency’s values and encourage employees to “do the right thing”. Servant Leadership principles will improve employee morale and the organizational culture and climate. Recent surveys indicate significant improvement in employee morale.

Internal Processes Perspective

A direct result of education and growth will be improved internal processes and business operations. Some of the Strategic Objectives in this area are:

- **Improve Business Operations.** WSI is working to establish and implement a Continuous Improvement Program to increase efficiency and streamline work processes. WSI is in the midst of replacing its computer business applications. The anticipated implementation date is January 2012 for Claims and September 2012 for Policy. To that end, we continue with the very challenging claims portion of our business which is so critical to the successful operation of WSI. We are moving along smoothly with the policy administration side of WSI’s business. The original cost estimate was \$14 million. Our current cost estimate is \$17.8 million. We continue to look for ways to save money.
- **Improve Internal & External Communications.** WSI plans to upgrade its internal web site using a product similar to Microsoft SharePoint to provide employees with a collaborative workspace. WSI is also upgrading its external web site to provide more user-friendly access to its customers. This will help customers communicate more easily, making information more accessible and business more transparent. It is important for WSI to be current with technology.
- **Innovation & Mentoring Programs.** Two new programs being introduced are a “mentoring” program and an “innovation” program. WSI is a complex organization. The mentoring program will help new employees “learn the ropes” more quickly.

The innovation program will help focus employees toward implementing the most efficient and effective methods of conducting business. Both programs, coupled with specific training, will help our employees provide superior service to our customers and provide a solid foundation for succession planning.

Financial Perspective

Financial stability is the result of sound business practices. Statute requires WSI to “maintain adequate financial reserves to ensure the solvency of the fund and the payment of future benefit obligations... (NDCC 65-04-02 Reserves-Surplus). Additionally, the statute outlines the required reserve and surplus levels.

The two main objectives of this perspective are:

- ***Improve Safeguarding of Assets.***
 - At the end of FY 2010, WSI was able to maintain an adequate reserve balance while providing a fifty percent dividend credit to North Dakota employers. Total dividends declared in 5 out of the past 6 years have amounted to nearly \$350 million.
 - Statewide premium rate levels have remained stable. A national study continually ranks North Dakota as a low premium state.
- ***Optimize Financial Resources.***
 - WSI is administratively efficient with an 11% administrative expense ratio (FY 2010). Workers' compensation industry expense ratios typically range between 25% and 35%.
 - WSI is frugal with its' biennial budget, diligently turning back appropriated dollars to the WSI fund that remain unused within the biennium.

A financially secure fund benefits both injured workers and businesses.

Strategic Plan Explanation

Those are the four perspectives with explanations of some of the major objectives. These Strategic Objectives are the most important things that need to be improved within each area. In order to know if we are achieving these objectives and ultimately our strategy, performance measures are identified for each objective. Using “Quick Score” software, employees will begin measuring progress of each objective. These progress scores will be recorded and used to perform comparative reviews over time.

Strategic Objective Explanation

Within the “Organizational Strategy Map” that has been provided to you, all of WSI's strategic objectives are listed. This is the organization-wide view of our strategic plan.

Strategic initiatives are identified and will be implemented to significantly improve the performance of the strategic objectives. There are two more levels that are strategically linked to these objectives, measures, and initiatives – the department level and employee level. This linking creates focus and alignment throughout the organization to make our strategic plan actionable at every level of WSI.

I hope this helps you better understand what WSI does and where we are going. North Dakota's workers' compensation system today remains stable, is continually improving, and functioning very well.

At this point, I would like to introduce WSI's Director of Finance, Cindy Ternes, to highlight the details of WSI's proposed budget for the committee.

WSI is committed to delivering and continually improving the services and advancements to North Dakota's workforce and business community that they expect and deserve. WSI will remain efficient and effective: efficient in managing our organization's use of premium dollars to maintain financial stability; and, effective in professionally providing quality services to North Dakota's workers and employers. The organization submits this budget, requesting the necessary resources to not only sustain these positive results, but also to ensure WSI continues to build on these results for the benefit of North Dakota and its workforce.

Presented for your consideration is WSI's administrative budget request of \$58,413,293 for the 2011-2013 biennium, an increase of 2.7% from the previous biennial budget of \$56,877,605. As indicated earlier, this budget contains no general fund dollars. A brief explanation of each of the categories is as follows:

2011-2013 Appropriation Request

	Current Appropriation 2009-2011	Amount of Change from 2009-2011	Executive Recommendation 2011-2013	Percent Change from 2009-2011
Salaries, Wages & Benefits	36,045,739	1,948,589	37,994,328	5.4%
Operating Expense	13,814,866	3,137,849	16,952,715	22.7%
AIM Project	7,017,000	-4,017,000	3,000,000	-57.2%
Capital Assets	0	466,250	466,250	100.0%
Agency Appropriation	56,877,605	1,535,688	58,413,293	2.7%
FTEs	247.14	0	247.14	

Salaries, Wages & Benefits Salaries, wages and benefits show an increase from the 2009-2011 biennium reflecting the adjustments contained in the Governor's recommendation. This is an increase of \$1.95 million or 5.4%.

Operating Expense The proposal provides an increase of \$3.1 million or 22.7% over the 2009-11 biennium. Much of this increase relates to funding of additional Information Technology (IT) projects, increased consultant costs, and future strategic initiatives. Some of the major items include:

- Ongoing and additional IT Projects
 - Web Portal and Data Warehousing.
- Ongoing increased consultant costs
 - Actuarial, Audit, Strategic Planning, and Customer Surveys.
- Future Strategic and Other Initiatives
 - Mentoring and Innovation Program, Intranet and Internet Replacement, and Professional Development.

System Replacement Project (AIM Project) This project has been a cooperative effort with the State's Information Technology Department (ITD). WSI received an appropriation of \$14,000,000 in the 2007-2009 biennium for a major computer system replacement project. Approximately half of this funding was re-appropriated into the 2009-2011 biennium. WSI plans to expend these funds by June 2011 if work progresses as expected. Payments are tied to project completion and it may be necessary to request some of this funding be re-appropriated into the 2011-2013 biennium if project delays occur. WSI is adding an additional \$3,000,000 in the current budget to complete the project, with implementation targeted for calendar year 2012.

The Web Portal project was previously scheduled for the 2009-11 biennium with funding of \$1.5 million. This funding is also being requested to be re-appropriated into the 2011-13 biennium. WSI has taken precautions to ensure the dollars we are requesting to be re-appropriated from the 2009-11 biennium to the 2011-13 biennium, are not being expended in the current biennium.

Capital Assets WSI is currently requesting funding for a back-up generator system for the Century Center office building. This full building back-up generator system will provide essential power for all areas of the building including geothermal heating and cooling systems, computer systems and life safety systems.

FTEs WSI currently has legislative authority for 247.14 FTE. This includes the discretionary authority for ten (10) FTE granted by the 2009 legislature to provide vocational rehabilitation services should it be determined that it would be more efficient and cost-effective to do so. The 2010 Performance Evaluation recommended bringing these services in-house and WSI has compiled a business plan to do so.

Thank you again for your time today and your consideration of WSI's biennial appropriation request. At this time, we would be glad to answer any questions that you may have.

ATTACHMENT 1

Workers Compensation Legislation—Historical and Current Legislative Benefit Proposals

2011 Legislative Proposals

Establishes a vocational rehabilitation grant program (HB 1050)

Provides up to two years of benefits for workers injured within two years of their presumed retirement date (HB 1051)

Provides that the organization move from the 5th to 6th edition of the AMA Guides for evaluating impairment awards (HB1055)

Reduces the threshold for percentage of whole body impairment to qualify for a PPI award (HB 1055 and HB 1111)

Increases permanent partial impairment awards (multipliers) for the lower impairment levels (HB 1055 and HB 1111)

Expands eligibility for the scholarship program (SB 2114)

Increases the annual cap that the organization can award in scholarships from \$300,000 to \$500,000 (SB 2114)

Increases the maximum scholarship amount payable per applicant from \$4,000 per year to \$10,000 per year (SB 2114)

Streamlines the personal reimbursement process for injured workers (SB 2114)

Expands eligibility for the educational revolving loan fund (SB 2114)

Provides limited benefits for intended victims of a violent crime that sustain a mental injury arising from a mental stimulus (SB 2093)

2009 Legislation

Provides for payment of eyeglasses and other devices if an injury occurs and damages those prescriptive devices (HB 1061)

Provides for an extension of an additional 20 weeks to the current 104-week limit for retraining programs (HB 1062)

Increases the eligibility pool for job search benefits (HB 1062)

Establishes pilot program to assess new methods of providing rehabilitation services (HB 1062)

Establishes parameters of liability for medical expenses paid for treatment of unknown pre-existing conditions (HB 1063)

Shortens eligibility period for cost of living adjustments (COLAs) for pre-1/1/06 total disability claims from 7 to 3 years (HB 1064)

Expands COLA eligibility for pre-1/1/06 claims to include both permanent total and temporary total benefit recipients (HB 1064)

Outlines coverage parameters for emergency volunteer healthcare practitioners (HB 1073)

Increases the maximum disability benefit from 110% to 125% of the state's average weekly wage (SAWW) (HB 1101)

Increases lifetime cap on death benefits from \$250,000 to \$300,000 (HB 1101)

Increases burial expense from \$6,500 to \$10,000 and one-time payments for spouses and dependent children (HB 1101)

Increases the dependency allowance from \$10 to \$15 per week per child (HB 1101)

Increases pre-acceptance disability benefits from the minimum benefit rate to the standard rate (HB 1101)

Increases travel and other personal reimbursements on aggravation claims to 100% (HB 1101)

Provides up to six months benefits for the surviving spouse of a PTD that provided home health care during disability (HB 1455)

Provides that OAH conduct WSI hearings and that OAH's decisions are final (HB 1464)

Provides for a study of the post-retirement benefit structure to be conducted during the interim (HB 1525)

Provides that WSI outline reasons for disregarding a treating doctor's opinion (HB 1561)

Resolution to study workers' compensation laws regarding pre-existing injuries (HCR 3008)

Resolution to study injured worker access to legal representation (HCR 3013)

Establishes a clear and convincing evidence standard to rebut the presumption clause (SB 2055)

Provides door to door reimbursement of mileage to attend medical appointments (SB 2056)

Establishes a PPI schedule award for the partial loss of eye sight (SB 2057)

Distinguishes an independent medical exam (IME) from an independent medical record review (IMR) (SB 2058)

Provides for attorney fees and costs for review of a claim after OIR completion (SB 2059)

Provides for a rehab training expense for maintaining a second household or traveling more than 25 miles to school (SB 2419)

Provides that WSI make a reasonable effort to designate an IME doctor within a certain radius of worker's residence (SB 2431)

Shortens the time period in which an injured worker can request a change of doctor (SB 2432)

Provides that WSI notify injured workers of work search obligations (SB 2433)

2007 Legislation

Provided funds for the purchase or adaptation of motor vehicles for the catastrophically injured (HB 1038)

Provided increased post-retirement additional benefits for certain injured workers (HB 1038)

Expanded the population that is eligible for death benefits (HB 1038)

Shortened eligibility period for cost of living adjustments (COLAs) from seven years to three years (HB 1038)

Expanded the eligibility pool for WSI's revolving loan fund (HB 1038)

Provided inflation adjustment for long-term Temporary Partial Disability benefit recipients (HB 1140)

Provided funds for the purchase or adaptation of motor vehicles for catastrophic and exceptional circumstance claims (HB 1411)

Provided benefits for firefighters and law enforcement officers in the event of a false positive test (SB 2042)

2005 Legislation

Established additional safety incentives (HB 1125)

Established ongoing funding for safety education, grant, and incentive programs (HB 1125)

Created retraining options for injured workers (HB 1171)

Established an injured worker educational revolving loan fund (HB 1491)

Increased the non-dependency death award (HB 1506)

Increased post-retirement additional benefit payments (SB 2351)

2003 Legislation

Increased lifetime cap on death benefits from \$197,000 to \$250,000 (HB 1060)

Established a \$50,000 home remodeling and vehicle adaptation allowance for catastrophic injured workers (HB 1060)

Increased the maximum amounts for scholarship awards (HB 1120)

2001 Legislation

Increased certain permanent partial impairment awards (HB 1161)

1999 Legislation

Increased permanent partial impairment awards for the severely impaired (HB 1422)

Increased the maximum disability benefit from 100% to 110% of the State's Average Weekly Wage (SB 2214)

Shortened the waiting period for eligibility for cost of living adjustments from 10 years to 7 years (SB 2214)

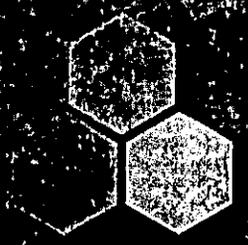
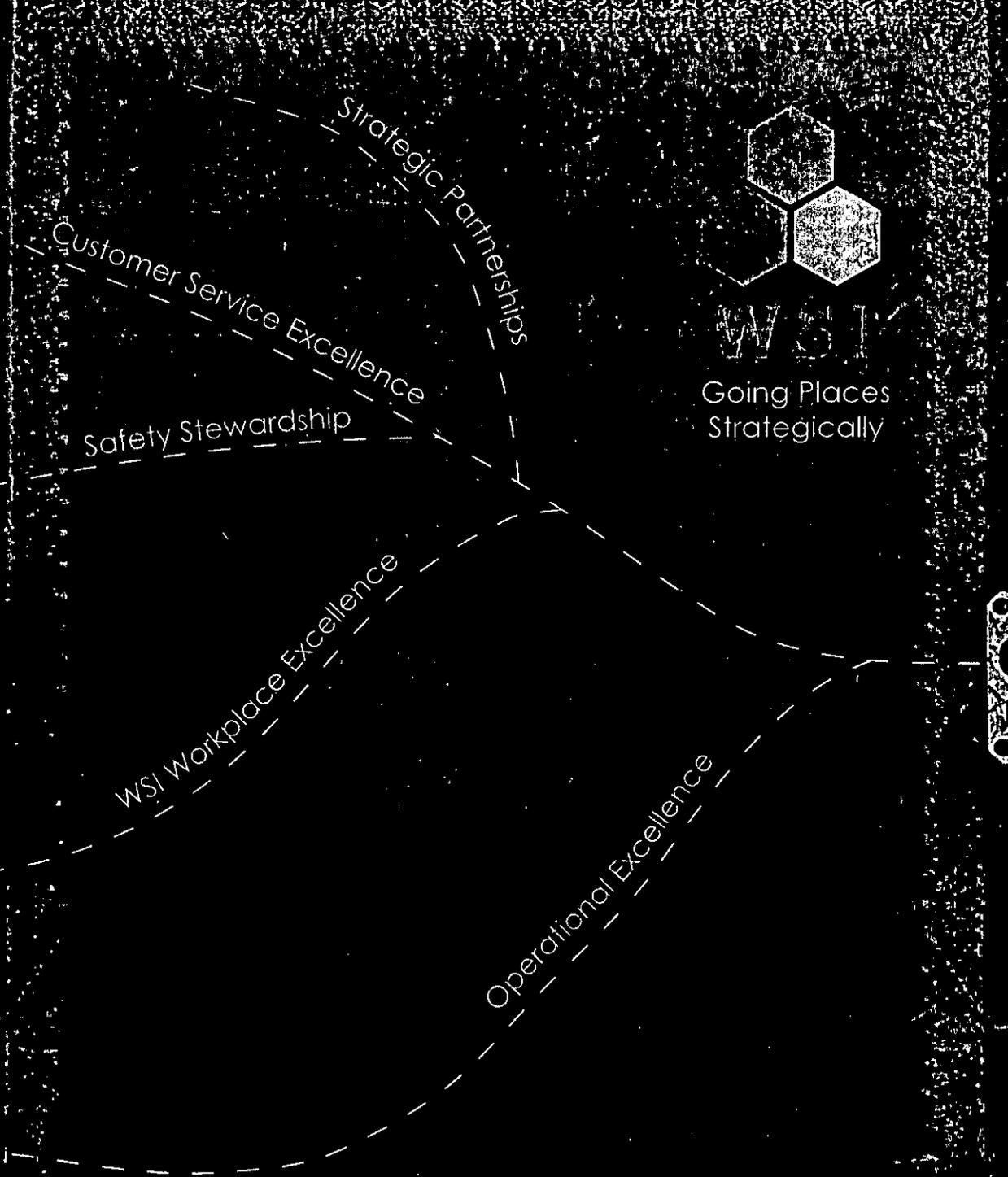
1997 Legislation

Increased weekly death benefits for surviving spouses (SB 2116)

Created the Guardian Scholarship program (SB 2116)

Established a post-retirement additional benefit (SB 2125)

SB 2021 3/8/11
workforce safety
attachment #3



WSI

Going Places
Strategically



WSI's Journey Continues...



**North Dakota
Workforce Safety
& Insurance**
Putting Safety to Work

N.D. Workforce Safety & Insurance

Mission

Our mission is to serve North Dakota workers and employers by innovatively providing superior workers' compensation and safety services.

Respect

Empowerment

Integrity

Self-Service

Strategic Pillars

Customer Service Excellence

Strategic Result: Positive interactions and improved services resulting in highly satisfied customers

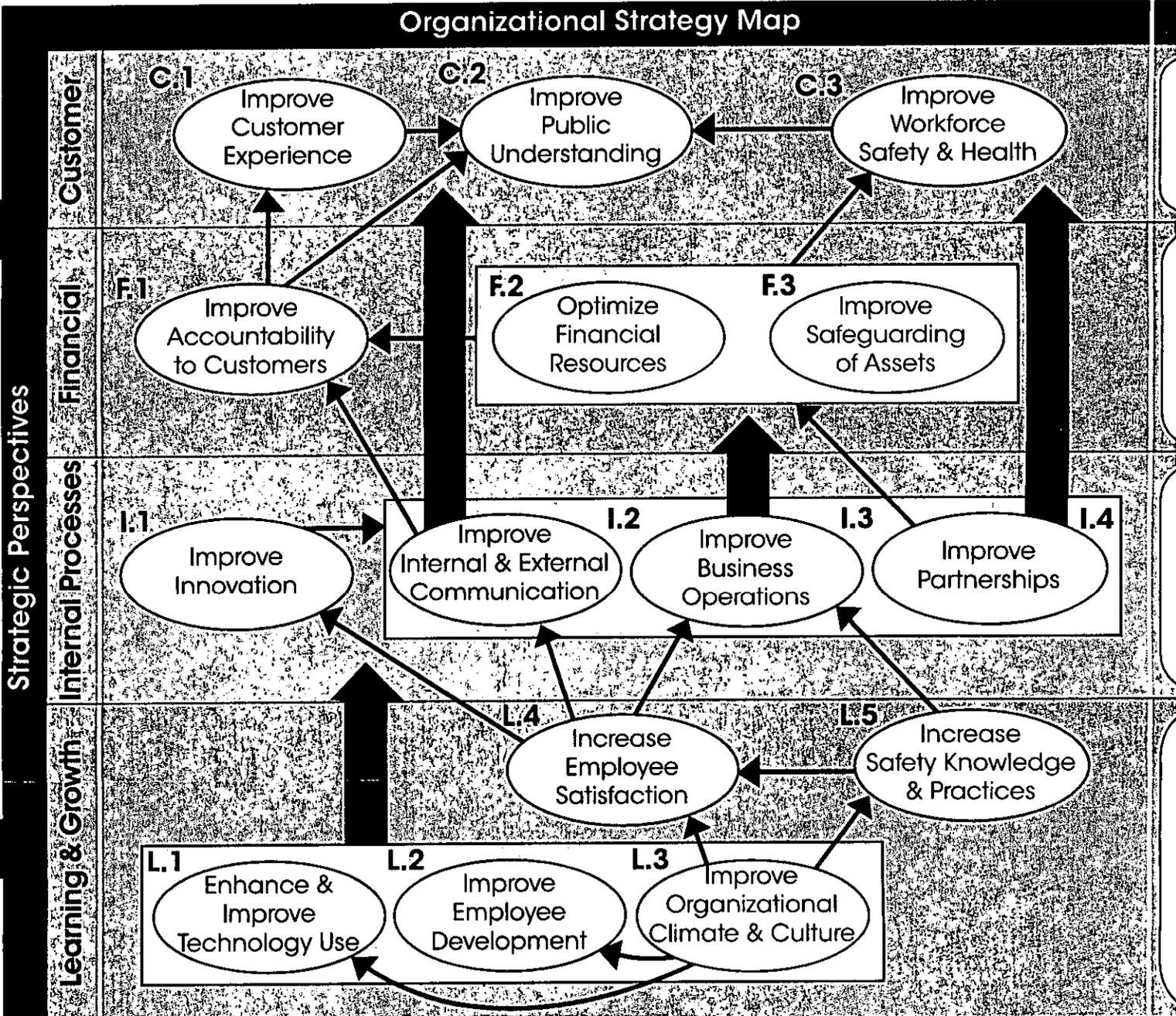
Operational Excellence

Strategic Result: A responsive and seamless customer-focused organization that is financially solvent, efficient and adaptive

WSI Workforce Excellence

Strategic Result: An engaged, knowledgeable, empowered workforce working in a safe and secure environment with effective communication

Organizational Strategy Map



Strategic Management System



WSI

North Dakota
Workforce Safety
& Insurance
Putting Safety to Work

Vision

Our vision is a safe, secure and healthy North Dakota workforce.

Dedication

Compassion

Trust

Themes

Excellence

ization comprised of
and valued employees
nment with open
mutual respect

Safety Stewardship

Strategic Result: A commitment to safety that
is a priority in every work environment

Strategic Partnerships

Strategic Result: Partnerships that are mutually
established and fostered for the benefit of all entities

Strategic Objectives with Performance Measures

Improve Customer Experience

- PM. 1 Employer Satisfaction Rate
- PM. 2 Injured Worker Satisfaction Rate

Improve Public Understanding

- PM. 1 # of negative/Inaccurate stories
on selected subjects.
- PM. 2 Customer Satisfaction Rate

C.3 Improve Workforce Safety & Health

- PM. 1 Claims per 100 Workers
(time loss vs med only)
- PM. 2 Frequency Rate per \$1 Million Payroll
- PM. 3 SAM / SMP Safety Survey Rate

Improve Accountability to Customers

- PM. 1 Administrative Cost per Claim
- PM. 2 Paid Claim Cost per Covered Worker
- PM. 3 Premium Cost per Covered Worker

F.3 Improve Safeguarding of Assets

- PM. 1 Fiscal Year Combined Ratio
- PM. 2 Available Surplus Ratio
- PM. 3 Employee Turnover Rate

Optimize Financial Resources

- PM. 1 Fiscal Year Combined Ratio
- PM. 2 Available Surplus Ratio
- PM. 3 Admin. Exp/Admin. Budget
- PM. 4 Investment Return

Strategic Initiatives

1. Develop a System to Provide Information / Education (C.2)
2. Develop a Branding Program (C.2)
3. Develop Claims & Loss Control Analytics (C.3)
4. Develop a Loss Control Comm. Plan (C.3)
5. Establish WSI as a Training Agency for Employers (C.3)

1. Develop Comprehensive Asset Protection Programs (F.3)

Improve Innovation

- PM. 1 Number of Innovations Proposed vs.
Number Implemented Agency Wide
- PM. 2 Scope of Innovations
 - A. Global
 - B. Multiple units
 - C. Within a Performance Unit

I.3 Improve Business Operations

- PM. 1 Injured Worker Satisfaction Rate
- PM. 2 Employer Satisfaction Rate

I.4 Improve Partnerships

- PM. 1 # of Partnerships - New and Existing
Internal/External
- PM. 2 Partnership Satisfaction Rate
(including med provider)

Improve Internal/External Comm. Plan

- PM. 1 # of Changes Implemented Resulting
from Survey Recommendations
- PM. 2 Customer Satisfaction Rate
- PM. 3 % Increase in Effective Communication
Tools & Techniques

1. Develop an Innovation Program (I.1)
2. Develop a Comprehensive Comm. Plan (I.2)
3. Develop a Branding Program (I.2)
4. Revise Employee Orientation Program (I.2)
5. Develop Electronic Accessibility (I.3)
6. Establish a Technology Plan (I.3)
7. Establish and implement a Continuous Improvement Program (I.3)
8. Create a Partnership Program (I.4)

Enhance & Improve Technology Use

- PM. 1 # HELP Desk Calls By Type
- PM. 2 Annual Help Desk Satisfaction Rate
- PM. 3 Overall Tech Ed

L.4 Increase Employee Satisfaction

- PM. 1 Employee Satisfaction Rate
- PM. 2 Absenteeism Rate
- PM. 3 Employee Turnover Rate

Improve Employee Development

- PM. 1 # Regular Employees with a
Documented Development Plan

L.5 Increase Safety Knowledge & Practices

- PM. 1 # of Report IT's Compared to
Internal Claims
- PM. 2 Safety Knowledge Survey Rate
- PM. 3 Internal Policy and Procedures
LMS Course

Improve Organizational Climate & Culture

- PM. 1 Employee Satisfaction Rate

1. Develop a Technical Training Program (L.1)
2. Establish an Employee Continuity Plan (L.2)
3. Revise Employee Orientation Program (L.2)
4. Conduct an Organizational Culture and Satisfaction Assessment (L.3 & L.4)
5. Implement Servant Leadership (L.3 & L.4)
6. Create a Mentorship Program (L.4)
7. Develop an Online Safety & Claim Training Program (L.5)



Going Places Strategically Story

WSI's Mission is to serve North Dakota workers and employers by innovatively providing superior workers' compensation and safety services. Our Vision is a safe, secure and healthy North Dakota workforce.

Achieving our Vision depends on executing five strategies: Customer Service Excellence, Operational Excellence, WSI Workplace Excellence, Safety Stewardship and Strategic Partnerships. Our programs, projects and work activities are all aligned with these strategies and our future depends on successfully laying the foundation for them.

Learning and growth is the foundation for our strategy. A work environment based on accountability at all levels, with open communication and trust, promotes the improvement of the organizational climate and culture. Having a climate and culture which provides employees the opportunity for further development and enhanced technology, along with a commitment to safe practices, are the basic building blocks of our employees' satisfaction.

Satisfied employees are the driving force for innovation. With an environment fostering innovative thinking, employees will be encouraged to generate new ideas for the improvement of communications, business operations and partnerships.

As business operations are improved our financial strength improves. Because of the value placed on trust and integrity, financial resources need to always be effectively managed. Safeguarding our financial and physical assets is required to meet our current and future obligations. Providing accurate, timely and complete information is the key to providing accountability to our customers.

As a result of the financial resources being effectively managed, the organization can promote and improve safety and health practices in the workplace. To maintain a safe work environment requires commitment on the part of the business owners, the workforce, our partners and WSI all working together.

The relationship with the customer is critical to public understanding. When the organization has improved accountability, through effective communications, the customer experience and the public understanding of the organization and its mission improves.

Our success will be realized through outstanding customer experiences and improved public understanding.

**Workforce Safety & Insurance
2006 - 2010 Quick Facts**

Category	2006	2007	2008	2009	2010
Employer accounts	19,756	19,672	19,777	19,946	20,316
Net Earned premiums (\$millions) ¹	\$121.6	\$128.1	\$143.0	\$160.7	\$153.0
Fund surplus (Net Assets)(\$millions) ²	\$428.8	\$466.8	\$386.0	\$265.6	\$336.2
Declared Premium Dividends (\$millions) ²	\$55.6	\$67.9	\$94.2	\$0.0	\$76.5
Investments (\$millions)	\$1,201	\$1,301	\$1,259	\$1,084	\$1,213
Investment returns	3.45%	10.33%	0.57%	-10.25%	11.94%
Average annual premium adjustment ³	5.3%	3.0%	2.2%	2.5%	-2.5%
Average covered workforce ⁴	318,240	326,100	332,170	340,915	340,117
Medical-only claims filed	19,268	19,022	18,771	18,162	17,031
Wage-loss claims filed	2,320	2,287	2,290	2,382	2,357
Total claims filed	21,588	21,309	21,061	20,544	19,388
Total claims filed per 100 Covered Workers	6.78	6.53	6.34	6.03	5.70
Wage-loss claims filed per 100 Covered Workers	0.73	0.70	0.69	0.70	0.69
General Administrative and ULAE Expenses (\$millions)	\$16.8	\$17.3	\$14.6	\$15.4	\$17.9
General Administrative Expense and ULAE Ratio ⁵	13.8%	13.5%	10.2%	9.6%	11.7%
Indemnity benefits paid (\$millions)	\$37.0	\$35.2	\$44.8	\$42.5	\$44.8
Medical benefits paid (\$millions)	\$42.4	\$48.0	\$54.8	\$69.0	\$64.7
Allocated Loss Adjustment Expense (ALAE) paid (\$millions)	\$3.3	\$3.6	\$3.9	\$3.3	\$3.9
Total paid benefits (\$millions)	\$82.7	\$86.8	\$103.5	\$114.8	\$113.5
Maximum weekly wage-loss benefit ⁶	\$624	\$653	\$689	\$832	\$853
Minimum weekly wage-loss benefit	\$341	\$356	\$376	\$399	\$410
Claims Reported within 14 days	83%	85%	86%	85%	85%
Callers' average time on hold (seconds) ⁷	27	32	28	27	33
Litigation requests	209	231	160	153	158
Injured Worker Independent Customer Satisfaction Survey (1 to 5 scale)	4.38	4.28	4.25	4.34	4.16
Employer Independent Customer Satisfaction Survey (1 to 5 scale)	4.21	4.05	4.07	4.13	4.11
WSI employee turnover rate	12%	10%	16%	4%	2%

¹Reflects earned premiums before reinsurance and dividend

²Restated Fys 05 & 06 due to prior period adjustment

³Rate Review - Appendix M, Exhibit I, Column 1

⁴Provided by Job Service ND - based on previous calendar year average

⁵General Administrative Expense and ULAE Ratio calculation removes funding expended for Safety Grants and computer business application replacement

⁶Effective August 1, 2009, the maximum weekly benefit increased from 110% of SAWW to 125% of the SAWV

⁷FY2009 Avg hold time stat is for July 2008 - April 2009 - reports were not available May and Jun

Subcommittee
1/20/09

A

AON Funding progression			
	Appropriated	Spent	Remaining
2007-2009 Biennium	14,000,000	6,983,000	7,017,000
2009-2011 Biennium	7,017,000	4,238,878 (thru 12/31/10)	2,778,122

2009-11 Biennium Funding				
2009-2011 Biennial Budget	FY 2010 Expenditures	Expenditures through 12/31/10	Expected to expend through 06/30/11	Estimated Remaining Appropriation
56,877,605 *	21,934,598	11,897,318	16,258,532	6,787,157

* Includes funding for 10 discretionary FTEs in Voc Rehab RTW area.

Unexpended 2009-2011	
Web Portal	1,500,000
RTW Discretionary	1,200,000
FileNet Phase II	950,000
Valley Oak Mtnc	735,000
LMS Provider System	150,000
Provider Summit	54,000
Other consulting, reviews	500,000
Benchmarking	120,000
Survey (emp morale)	65,000
Hay group analysis	40,000
Strategic Planning	100,000
IT Special Audits	55,000
Backscanning Salaries	200,000
Salaries	1,051,000
	6,720,000

RTW Data		
Corvel - FY 10	1,124,057	Annual
In-house estimate	1,353,286	Biennial
	676,643	Annual
Annual Savings	447,414	

Workers Compensation Legislation—Historical and Current Legislative Benefit Proposals

2011 Legislative Proposals

- Establishes a vocational rehabilitation grant program (HB 1050)
- Provides up to two years of benefits for workers injured within two years of their presumed retirement date (HB 1051)
- Provides that the organization move from the 5th to 6th edition of the AMA Guides for evaluating impairment awards (HB1055)
- Reduces the threshold for percentage of whole body impairment to qualify for a PPI award (HB 1055)
- Increases permanent partial impairment awards (multipliers) for the lower impairment levels (HB 1055)
- Increases the PPI benefit rate (HB 1055)
- Increases the real estate remodeling allowance from \$50,000 to \$75,000 (HB 1453)
- Provides for an interim study relating to mental injuries arising from a mental stimulus (SB 2093)
- Expands eligibility for the scholarship program (SB 2114)
- Increases the annual cap that the organization can award in scholarships from \$300,000 to \$500,000 (SB 2114)
- Increases the maximum scholarship amount payable per applicant from \$4,000 per year to \$10,000 per year (SB 2114)
- Streamlines the personal reimbursement process for injured workers (SB 2114)
- Expands eligibility for the educational revolving loan fund (SB 2114)

2009 Legislation

- Provides for payment of eyeglasses and other devices if an injury occurs and damages those prescriptive devices (HB 1061)
- Provides for an extension of an additional 20 weeks to the current 104-week limit for retraining programs (HB 1062)
- Increases the eligibility pool for job search benefits (HB 1062)
- Establishes pilot program to assess new methods of providing rehabilitation services (HB 1062)
- Establishes parameters of liability for medical expenses paid for treatment of unknown pre-existing conditions (HB 1063)
- Shortens eligibility period for cost of living adjustments (COLAs) for pre-1/1/06 total disability claims from 7 to 3 years (HB 1064)
- Expands COLA eligibility for pre-1/1/06 claims to include both permanent total and temporary total benefit recipients (HB 1064)
- Outlines coverage parameters for emergency volunteer healthcare practitioners (HB 1073)
- Increases the maximum disability benefit from 110% to 125% of the state's average weekly wage (SAWW) (HB 1101)
- Increases lifetime cap on death benefits from \$250,000 to \$300,000 (HB 1101)
- Increases burial expense from \$6,500 to \$10,000 and one-time payments for spouses and dependent children (HB 1101)
- Increases the dependency allowance from \$10 to \$15 per week per child (HB 1101)
- Increases pre-acceptance disability benefits from the minimum benefit rate to the standard rate (HB 1101)
- Increases travel and other personal reimbursements on aggravation claims to 100% (HB 1101)
- Provides up to six months benefits for the surviving spouse of a PTD that provided home health care during disability (HB 1455)
- Provides that OAH conduct WSI hearings and that OAH's decisions are final (HB 1464)
- Provides for a study of the post-retirement benefit structure to be conducted during the interim (HB 1525)
- Provides that WSI outline reasons for disregarding a treating doctor's opinion (HB 1561)
- Resolution to study workers' compensation laws regarding pre-existing injuries (HCR 3008)
- Resolution to study injured worker access to legal representation (HCR 3013)
- Establishes a clear and convincing evidence standard to rebut the presumption clause (SB 2055)
- Provides door to door reimbursement of mileage to attend medical appointments (SB 2056)
- Establishes a PPI schedule award for the partial loss of eye sight (SB 2057)
- Distinguishes an independent medical exam (IME) from an independent medical record review (IMR) (SB 2058)
- Provides for attorney fees and costs for review of a claim after OIR completion (SB 2059)
- Provides for a rehab training expense for maintaining a second household or traveling more than 25 miles to school (SB 2419)
- Provides that WSI make a reasonable effort to designate an IME doctor within a certain radius of worker's residence (SB 2431)
- Shortens the time period in which an injured worker can request a change of doctor (SB 2432)
- Provides that WSI notify injured workers of work search obligations (SB 2433)

2007 Legislation

- Provided funds for the purchase or adaptation of motor vehicles for the catastrophically injured (HB 1038)
- Provided increased post-retirement additional benefits for certain injured workers (HB 1038)
- Expanded the population that is eligible for death benefits (HB 1038)
- Shortened eligibility period for cost of living adjustments (COLAs) from seven years to three years (HB 1038)
- Expanded the eligibility pool for WSI's revolving loan fund (HB 1038)
- Provided inflation adjustment for long-term Temporary Partial Disability benefit recipients (HB 1140)
- Provided funds for the purchase or adaptation of motor vehicles for catastrophic and exceptional circumstance claims (HB 1411)
- Provided benefits for firefighters and law enforcement officers in the event of a false positive test (SB 2042)

2005 Legislation

- Established additional safety incentives (HB 1125)
- Established ongoing funding for safety education, grant, and incentive programs (HB 1125)
- Created retraining options for injured workers (HB 1171)
- Established an injured worker educational revolving loan fund (HB 1491)
- Increased the non-dependency death award (HB 1506)
- Increased post-retirement additional benefit payments (SB 2351)

2003 Legislation

- Increased lifetime cap on death benefits from \$197,000 to \$250,000 (HB 1060)
- Established a \$50,000 home remodeling and vehicle adaptation allowance for catastrophic injured workers (HB 1060)
- Increased the maximum amounts for scholarship awards (HB 1120)

2001 Legislation

- Increased certain permanent partial impairment awards (HB 1161)

2000 Legislation

- Increased permanent partial impairment awards for the severely impaired (HB 1422)
- Increased the maximum disability benefit from 100% to 110% of the State's Average Weekly Wage (SB 2214)
- Shortened the waiting period for eligibility for cost of living adjustments from 10 years to 7 years (SB 2214)

1997 Legislation

- Increased weekly death benefits for surviving spouses (SB 2116)
- Created the Guardian Scholarship program (SB 2116)
- Established a post-retirement additional benefit (SB 2125)

Strategic initiatives are identified and will be implemented to significantly improve the performance of the strategic objectives. There are two more levels that are strategically linked to these objectives, measures, and initiatives – the department level and employee level. This linking creates focus and alignment throughout the organization to make our strategic plan actionable at every level of WSI.

I hope this helps you better understand what WSI does and where we are going. North Dakota's workers' compensation system today remains stable, is continually improving, and functioning very well.

At this point, I would like to introduce WSI's Director of Finance, Cindy Ternes, to highlight the details of WSI's proposed budget for the committee.

WSI is committed to delivering and continually improving the services and advancements to North Dakota's workforce and business community that they expect and deserve. WSI will remain efficient and effective: efficient in managing our organization's use of premium dollars to maintain financial stability; and, effective in professionally providing quality services to North Dakota's workers and employers. The organization submits this budget, requesting the necessary resources to not only sustain these positive results, but also to ensure WSI continues to build on these results for the benefit of North Dakota and its workforce.

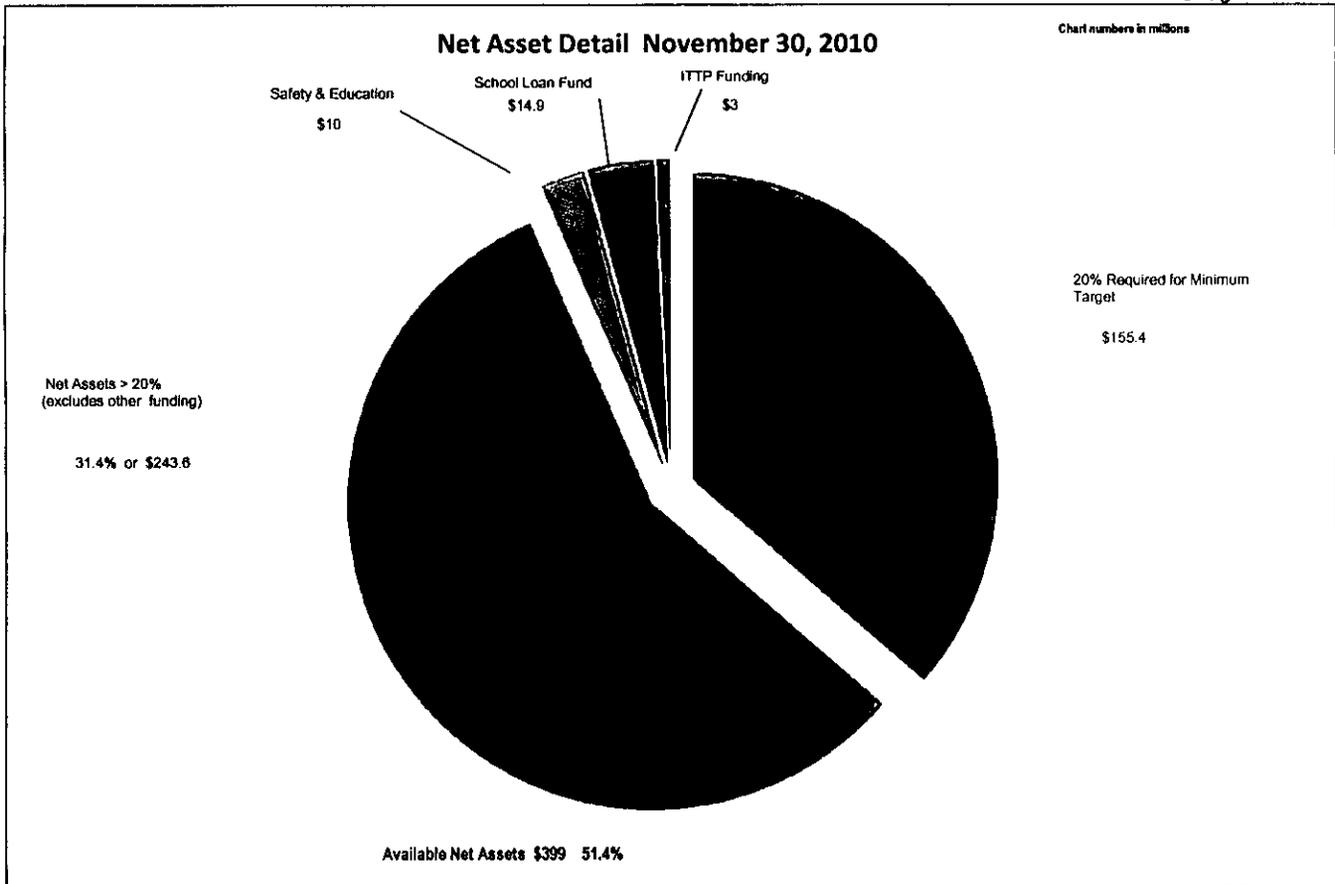
Presented for your consideration is WSI's administrative budget request of \$58,413,293 for the 2011-2013 biennium, an increase of 2.7% from the previous biennial budget of \$56,877,605. As indicated earlier, this budget contains no general fund dollars. A brief explanation of each of the categories is as follows:

2011-2013 Appropriation Request

	Current Appropriation 2009-2011	Amount of Change from 2009-2011	Executive Recommendation 2011-2013	Percent Change from 2009-2011
Salaries, Wages & Benefits	36,045,739	1,948,589	37,994,328	5.4%
Operating Expense	13,814,866	3,137,849	16,952,715	22.7%
AIM Project	7,017,000	-4,017,000	3,000,000	-57.2%
Capital Assets	0	466,250	466,250	100.0%
Agency Appropriation	56,877,605	1,535,688	58,413,293	2.7%
FTEs	247.14	0	247.14	

WSI FUND STATUS

*SB 2021
Subcommittee*



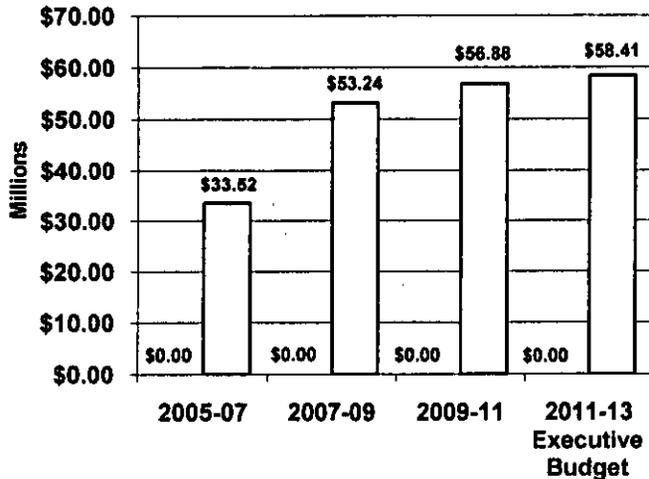
(Actual June 2009 - November 2010)	Actual June 2009	Actual June 2010	Y-T-D Nov 2010
NET ASSETS or "SURPLUS"	\$ 265,552,937	\$ 336,211,167	\$ 426,890,572
Estimated Discounted Financial Reserves	771,900,000	772,095,000	777,015,743
Net Assets (Surplus)	\$ 265,552,937	\$ 336,211,167	\$ 426,890,572
2009 HB 1035 Allowable Deductions from Net Assets (Surplus)			
Safety & Education Grants	16,818,852	10,638,262	10,026,526
Revolving School Loan Fund	14,980,617	14,954,324	14,915,042
ITTP/AIM Update	7,017,000	4,581,674	2,951,321
Total Exclusions from Net Assets (Surplus)	38,816,469	30,174,260	27,892,889
Available Fund Surplus	\$ 226,736,468	\$ 306,036,907	\$ 398,997,683
Level of discounted reserves + available fund surplus	129.4%	139.6%	151.4%

e

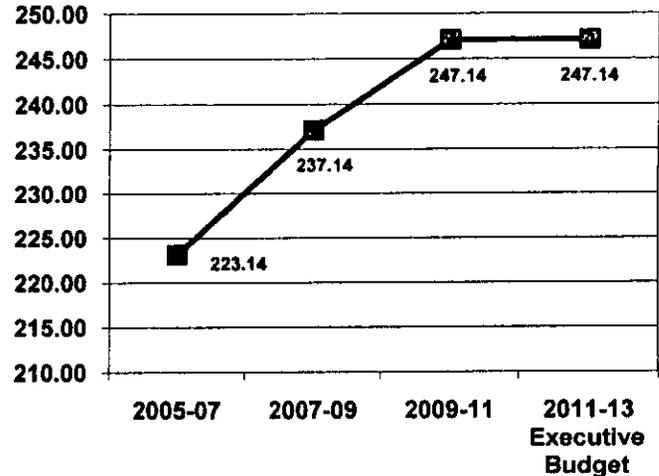
**Department 485 - Workforce Safety and Insurance
 Senate Bill No. 2021**

	FTE Positions	General Fund	Other Funds	Total
2011-13 Executive Budget	247.14	\$0	\$58,413,293	\$58,413,293
2009-11 Legislative Appropriations	247.14	0	56,877,605	56,877,605
Increase (Decrease)	0.00	\$0	\$1,535,688	\$1,535,688

Agency Funding



FTE Positions



■ General Fund □ Other Funds

First House Action

Attached is a summary of first house changes.

**Executive Budget Highlights
 (With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Adds funding for a FTE pharmacy technician position		\$99,596	\$99,596
2. Adjusts funding for operating expenses as follows:			
Travel		\$191,822	\$191,822
Supplies - Information technology software		2,694,668	2,694,668
Supply/material - Professional		55,604	55,604
Miscellaneous supplies		103,470	103,470
Postage		84,636	84,636
Printing		56,200	56,200
Information technology equipment under \$5,000		(563,864)	(563,864)
Rentals/leases - Equipment and other		4,800	4,800
Rentals/leases - Building and land		(5,547)	(5,547)
Information technology - Data processing		72,000	72,000
Information technology - Communications		2,926	2,926
Information technology - Contractual services		(2,649,287)	(2,649,287)
Professional development		(217,708)	(217,708)
Operating fees and services		10,373	10,373
Fees - Professional services		(574,713)	(574,713)
Other		(1,355,000)	(1,355,000)
Total		(\$2,089,620)	(\$2,089,620)
3. Adds funding for a backup generator		\$466,250	\$466,250

Continuing Appropriations

Building maintenance account - North Dakota Century Code Section 65-02-05.1 - Money in the Workforce Safety and Insurance building maintenance account is appropriated on a continuing basis for bond principal and interest payments, operating, maintenance, repair, and payment in lieu of taxes expenses of the buildings and grounds.

Reinsurance and other states' coverage - Section 65-02-13.1 - Money in the Workforce Safety and Insurance fund is appropriated on a continuing basis to allow the agency to establish a program of reinsurance and a program of extraterritorial coverage and other states' insurance.

Allocated loss adjustment expenses - Section 65-02-06.1 - Money in the Workforce Safety and Insurance fund is appropriated on a continuing basis for the payment of all allocated loss adjustment expenses experienced by the agency.

Preferred worker program - Section 65-05-36 - Money in the Workforce Safety and Insurance fund is appropriated on a continuing basis for the payment of any employment-related expenses for the preferred worker program.

Performance evaluation - Section 65-02-30 - Money in the Workforce Safety and Insurance fund is appropriated on a continuing basis for the payment of the expense of conducting a biennial independent performance evaluation.

Insurance fraud unit - Section 65-02-23 - Money in the Workforce Safety and Insurance fund is appropriated on a continuing basis for the payment of costs associated with identifying, preventing, and investigating employer or provider fraud.

Information fund - Section 65-01-13 - Money in the Workforce Safety and Insurance information fund is appropriated on a continuing basis for the payment of publication and statistical processing expenses incurred by the agency.

Safety programs - Section 65-03-04 - Money in the Workforce Safety and Insurance fund is appropriated on a continuing basis for the purpose of funding work safety and loss prevention programs.

Educational revolving loan fund - Section 65-05.1-08 - Money in the Workforce Safety and Insurance educational revolving loan fund is appropriated on a continuing basis to maintain the fund and provide loans to individuals wanting to pursue a postsecondary education.

Significant Audit Findings

There are no significant audit findings for this agency.

Major Related Legislation

House Bill No. 1050 - Vocational rehabilitation grants - Creates a vocational rehabilitation grant program to promote and provide necessary educational opportunities for injured employees within the vocational rehabilitation process. The program uses funds already in the agency's educational revolving loan fund.

House Bill No. 1054 - Pain therapy - Relates to workers' compensation coverage of prescription drugs for pain therapy.

House Bill No. 1055 - Benefits - Relates to workers' compensation permanent partial impairment benefits.

House Bill No. 1056 - Performance evaluations - Decreases the frequency of Workforce Safety and Insurance performance evaluations from once each biennium to once every four years.

Senate Bill No. 2093 - Mental injuries - Relates to the definition of mental injuries arising from a mental stimulus.

Senate Bill No. 2114 - Operations - Relates to Workforce Safety and Insurance operations.

ATTACH:1

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2021 - Funding Summary

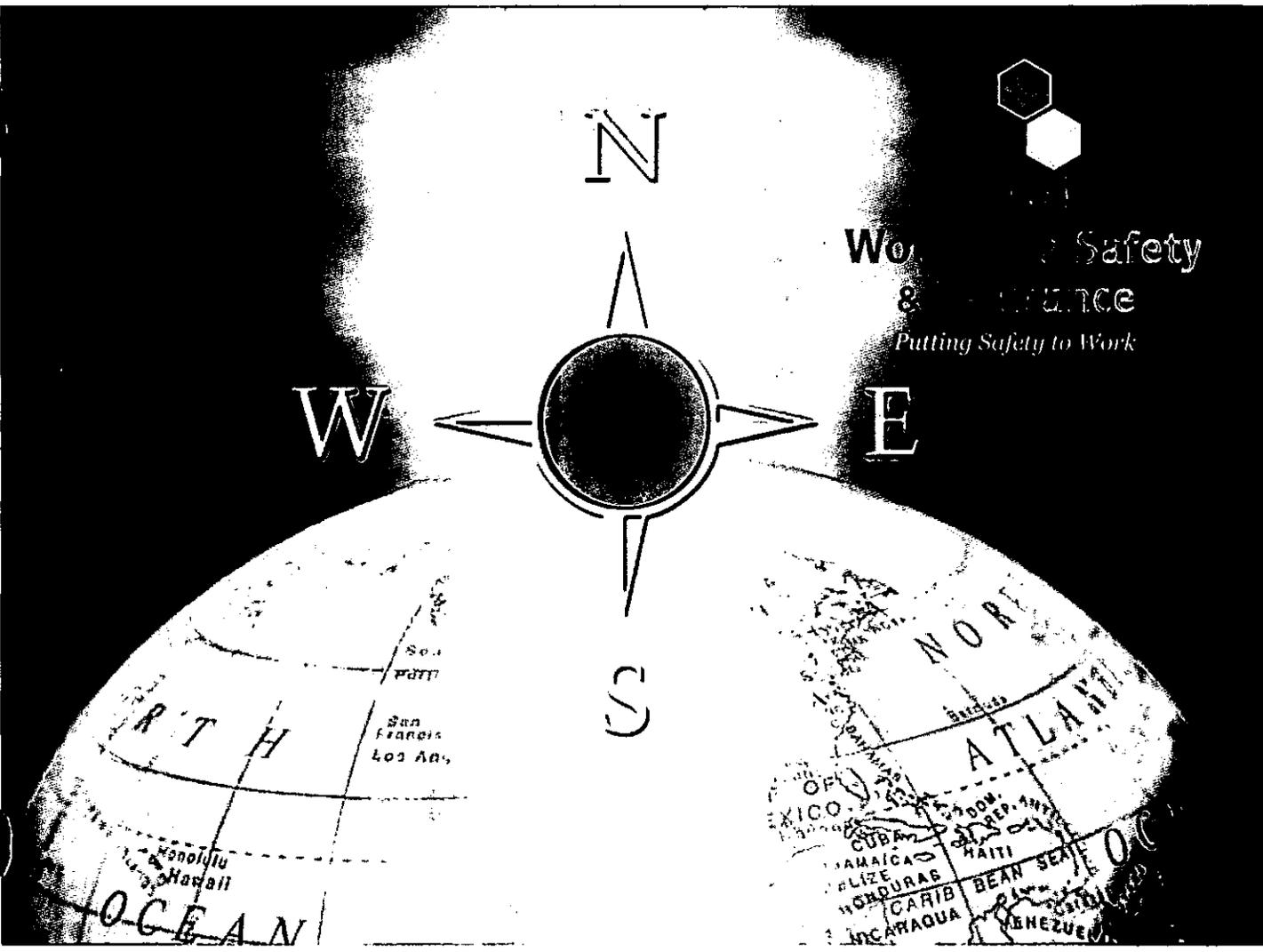
	Executive Budget	Senate Changes	Senate Version
Workforce Safety and Insurance			
Workforce Safety and Insurance	\$58,413,293		\$58,413,293
Total all funds	\$58,413,293	\$0	\$58,413,293
Less estimated income	58,413,293	0	58,413,293
General fund	\$0	\$0	\$0
FTE	247.14	0.00	247.14
Bill Total			
Total all funds	\$58,413,293	\$0	\$58,413,293
Less estimated income	58,413,293	0	58,413,293
General fund	\$0	\$0	\$0
FTE	247.14	0.00	247.14

Senate Bill No. 2021 - Workforce Safety and Insurance - Senate Action

The Senate did not change the executive recommendation for Workforce Safety and Insurance.



Workplace Safety
& HEALTH
Putting Safety to Work



Testimony on Senate Bill 2021

House Appropriations Committee
Education & Environment Division

March 8, 2011

2011 Senate Bill No. 2021
Testimony before the House Appropriations Committee
Education & Environment Division
Presented by: Bryan Klipfel, WSI Director and Cindy Ternes, WSI Director of Finance
Workforce Safety & Insurance
March 8, 2011

Mr. Chairman and Members of the Committee:

Good afternoon. My name is Bryan Klipfel, Director of Workforce Safety & Insurance (WSI). We are here to testify before the committee, to help you better understand what WSI does, where it is going, and to ask for your support of WSI's biennial appropriations, Senate Bill 2021. On behalf of WSI, we would like to thank the Chairman and the Committee for providing the agency the opportunity to testify today.

WSI is the sole provider of workers' compensation insurance in the State of North Dakota. WSI was established in 1919 with the purpose of providing wage loss, medical, and rehabilitation benefits to injured workers or to dependents of workers killed during the course of their employment. WSI does not receive general fund dollars. Instead, WSI collects premiums from employers, which provide for the payment of medical and wage loss benefits as well as administrative expenses.

The goal of our testimony is to provide a clear picture of WSI's accomplishments and ongoing improvements. WSI has implemented a new Strategic Plan and is using this plan to go places "strategically" by creating focus and alignment throughout the organization.

As our **mission** states, WSI's main objective is to serve North Dakota workers and employers by innovatively providing superior workers' compensation and safety services.

WSI's **vision** is a safe, secure and healthy North Dakota workforce. To achieve our Vision, I must communicate the mission and values that are needed to move WSI into the future. Once employees are clear on where they are going, my role switches to the task of implementation. How do I make this happen? This is where servant leadership comes into play.

The servant-leader *is* servant first... It begins with the feeling that one wants to serve, to serve *first*. Characteristics of a servant-leader that are part of WSI's Values are: Respect, Empowerment, Integrity, Trust, Dedication, Compassion, and Selfless Service.

WSI's Strategic Objectives are broken into four different yet integrated perspectives: the Customer Perspective; Learning & Growth Perspective; Internal Processes Perspective; and the Financial Perspective. Each of these perspectives have key Strategic Objectives linked to them.

Customer Perspective

Some accomplishments under this perspective include:

- **Improved Service and Overall Customer Satisfaction.** Periodic injured worker and employer customer satisfaction surveys independently conducted for WSI consistently rank in the "high" satisfaction category, with ratings of over 4 on a scale of one to five.
- **Injury Oversight.** North Dakota experienced declines in the number of injuries for the four year period of FY 2007 through FY 2010, with total claims filed decreasing by just over 9%, from 21,309 to 19,388 respectively. The 2005 Legislative Assembly authorized a continuing appropriation for promoting safety through education, training, consultation, grants and other incentives. Pursuant to this legislation, WSI's Board of Directors earmarked \$35 million for this purpose. Through the end of FY 2010, WSI had invested \$24.4 of this \$35 million in safety education and grants. This activity supports WSI's vision of a safe, secure and healthy North Dakota workforce. These investments in safety, combined with employer and employee participation in safety and ergonomic programs, have each contributed to this reduction of work related injuries.

Current year reports indicate an increase in the number of injuries, although it generally corresponds to the increase in the number of employees within the state; particularly in the western part of the state with the oil activity. WSI will continue to provide safety education to employees and employers striving to reduce the number of injuries whenever possible.

- **An Enhanced Benefit Structure.** As indicated in recent reviews, WSI's benefit structure compares quite favorably to most other jurisdictions and has continually been enhanced in past legislative sessions. WSI works with the Legislative Assembly, interim legislative committees, and other stakeholders to identify appropriate benefit enhancements. **Attachment 1** contains a detailed listing of benefit legislation passed by the 1997-2009 Legislative Assemblies as well as current legislative benefit proposals being considered by the 2011 Legislative Assembly.
- **Less Adversarial.** The system today is less adversarial. Litigation requests represent less than one percent of total claims filed. In fiscal year 2010, WSI received 184 litigation requests—a reduction of nearly 87% from the levels existing in 1994. Formal constituent inquiries from public officials such as state legislators, the governor's office, and North Dakota's congressional delegation are down 74% from more than a decade ago.

Learning & Growth Perspective

Knowledgeable, well-informed and well-equipped employees will provide the best service to our customers – the workers and employers of North Dakota.

Two Strategic Objectives relating to this perspective are:

- **Improve Employee Development.** WSI has a well educated and knowledgeable staff. Many have certifications and need to participate in ongoing education to keep certifications current. Educational opportunities are made available to all WSI employees, on every level; and employees are encouraged to develop themselves professionally. Professional growth enhances morale, reduces staff turnover, and ensures efficiency and effectiveness throughout the agency. WSI employee turnover for fiscal years 2009 and 2010 was 3.6% and 2.2% respectively -- down from a high of 15.8% just three years ago.
- **Improve Organizational Climate & Culture.** While academic education and professional growth is extremely important, personal growth is equally important. To ensure employees have the opportunity to grow personally, WSI uses "Servant Leadership" principles to enhance and fortify our agency values. These principles align very closely with the agency's values and encourage employees to "do the right thing". Servant Leadership principles will improve employee morale and the organizational culture and climate. Recent surveys indicate high employee satisfaction and significant improvement in employee morale.

Internal Processes Perspective

A direct result of education and growth will be improved internal processes and business operations. Some of the Strategic Objectives in this area are:

- **Improve Business Operations.** WSI is working to establish and implement a Continuous Improvement Program to increase efficiency and streamline work processes. WSI is in the midst of replacing its computer business applications. The anticipated implementation date is January 2012 for Claims and September 2012 for Policy. To that end, we continue with the very challenging claims portion of our business which is so critical to the successful operation of WSI. We are moving along smoothly with the policy administration side of WSI's business. The original cost estimate was \$14 million. Our current cost estimate is \$17.8 million. We continue to look for ways to save money.
- **Improve Internal & External Communications.** WSI plans to upgrade its internal web site using a product similar to Microsoft SharePoint to provide employees with a collaborative workspace. WSI is also upgrading its external web site to provide more user-friendly access to its customers. This will help customers communicate more easily, making information more accessible and business more transparent. It is important for WSI to be current with technology.
- **Innovation & Mentoring Programs.** Two new programs being introduced are a "mentoring" program and an "innovation" program. WSI is a complex organization. The mentoring program will help new employees "learn the ropes" more quickly.

The innovation program will help focus employees toward implementing the most efficient and effective methods of conducting business. Both programs, coupled with specific training, will help our employees provide superior service to our customers and provide a solid foundation for succession planning.

Financial Perspective

Financial stability is the result of sound business practices. Statute requires WSI to "maintain adequate financial reserves to ensure the solvency of the fund and the payment of future benefit obligations (NDCC 65-04-02 Reserves-Surplus). Additionally, the statute outlines the required reserve and surplus levels.

The two main objectives of this perspective are:

- ***Improve Safeguarding of Assets.***
 - At the end of FY 2010, WSI was able to maintain an adequate reserve balance while providing a fifty percent dividend credit to North Dakota employers. Total dividends declared in 5 out of the past 6 years have amounted to nearly \$350 million.
 - Statewide premium rate levels have remained stable. A national study continually ranks North Dakota as a low premium state.
- ***Optimize Financial Resources.***
 - WSI is administratively efficient with an 11% administrative expense ratio (FY 2010). Workers' compensation industry expense ratios typically range between 25% and 35%.
 - WSI is frugal with its' biennial budget, diligently turning back appropriated dollars to the WSI fund that remain unused within the biennium.

A financially secure fund benefits both injured workers and businesses.

Strategic Plan Explanation

Those are the four perspectives with explanations of some of the major objectives. These Strategic Objectives are the most important things that need to be improved within each area. In order to know if we are achieving these objectives and ultimately our strategy, performance measures are identified for each objective. Using "Quick Score" software, employees will begin measuring progress of each objective. These progress scores will be recorded and used to perform comparative reviews over time.

Strategic Objective Explanation

Within the "Organizational Strategy Map" that has been provided to you, all of WSI's strategic objectives are listed. This is the organization-wide view of our strategic plan.

Strategic initiatives are identified and will be implemented to significantly improve the performance of the strategic objectives. There are two more levels that are strategically linked to these objectives, measures, and initiatives – the department level and employee level. This linking creates focus and alignment throughout the organization to make our strategic plan actionable at every level of WSI.

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	Current Appropriation 2009-2011	Amount of Change from 2009-2011	Executive Recommendation 2011-2013	Percent Change from 2009-2011
Salaries, Wages & Benefits	36,045,739	1,948,589	37,994,328	5.4%
Operating Expense	13,814,866	3,137,849	16,952,715	22.7%
AIM Project	7,017,000	-4,017,000	3,000,000	-57.2%
Capital Assets	0	466,250	466,250	100.0%
Agency Appropriation	56,877,605	1,535,688	58,413,293	2.7%
FTEs	247.14	0	247.14	

Salaries, Wages & Benefits Salaries, wages and benefits show an increase from the 2009-2011 biennium reflecting the adjustments contained in the Governor's recommendation. This is an increase of \$1.95 million or 5.4%.

Operating Expense The proposal provides an increase of \$3.1 million or 22.7% over the 2009-11 biennium. Much of this increase relates to funding of additional Information Technology (IT) projects, increased consultant costs, and future strategic initiatives. Some of the major items include:

- Ongoing increased consultant costs
 - Actuarial, Audit, Strategic Planning, and Customer Surveys.
- Future Strategic and Other Initiatives
 - Mentoring and Innovation Program, Intranet and Internet Replacement, and Professional Development.
- Ongoing and additional IT Projects
 - Web Portal and Data Warehousing.

The Web Portal project was previously scheduled for the 2009-11 biennium with funding of \$1.5 million. This funding is included in the Operating Expense line item and is being requested to be re-appropriated into the 2011-13 biennium.

WSI has taken precautions to ensure the dollars being requesting to be re-appropriated from the 2009-11 biennium to the 2011-13 biennium, are not being expended in the current biennium.

System Replacement Project (AIM Project) This project has been a cooperative effort with the State's Information Technology Department (ITD). WSI received an appropriation of \$14,000,000 in the 2007-2009 biennium for a major computer system replacement project. Approximately half of this funding was re-appropriated into the 2009-2011 biennium. WSI plans to expend these funds by June 2011 if work progresses as expected. Payments are tied to project completion and it may be necessary to request some of this funding be re-appropriated into the 2011-2013 biennium if project delays occur. WSI is adding an additional \$3,000,000 in the current budget to complete the project, with implementation targeted for calendar year 2012.

Capital Assets WSI is currently requesting funding for a back-up generator system for the Century Center office building. This full building back-up generator system will provide essential power for all areas of the building including geothermal heating and cooling systems, computer systems and life safety systems.

FTEs WSI currently has legislative authority for 247.14 FTE. This includes the discretionary authority for ten (10) FTE granted by the 2009 legislature to provide vocational rehabilitation services should it be determined that it would be more efficient and cost-effective to do so. The 2010 Performance Evaluation recommended bringing these services in-house and WSI has compiled a business plan to do so.

Thank you again for your time today and your consideration of WSI's biennial appropriation request. At this time, we would be glad to answer any questions that you may have.

Workers Compensation Legislation—Historical and Current Legislative Benefit Proposals

2011 Legislative Proposals

- Establishes a vocational rehabilitation grant program (HB 1050)
- Provides up to two years of benefits for workers injured within two years of their presumed retirement date (HB 1051)
- Provides that the organization move from the 5th to 6th edition of the AMA Guides for evaluating impairment awards (HB1055)
- Reduces the threshold for percentage of whole body impairment to qualify for a PPI award (HB 1055)
- Increases permanent partial impairment awards (multipliers) for the lower impairment levels (HB 1055)
- Increases the PPI benefit rate (HB 1055)
- Increases the real estate remodeling allowance from \$50,000 to \$75,000 (HB 1453)
- Provides for an interim study relating to mental injuries arising from a mental stimulus (SB 2093)
- Expands eligibility for the scholarship program (SB 2114)
- Increases the annual cap that the organization can award in scholarships from \$300,000 to \$500,000 (SB 2114)
- Increases the maximum scholarship amount payable per applicant from \$4,000 per year to \$10,000 per year (SB 2114)
- Streamlines the personal reimbursement process for injured workers (SB 2114)
- Expands eligibility for the educational revolving loan fund (SB 2114)

2009 Legislation

- Provides for payment of eyeglasses and other devices if an injury occurs and damages those prescriptive devices (HB 1061)
- Provides for an extension of an additional 20 weeks to the current 104-week limit for retraining programs (HB 1062)
- Increases the eligibility pool for job search benefits (HB 1062)
- Establishes pilot program to assess new methods of providing rehabilitation services (HB 1062)
- Establishes parameters of liability for medical expenses paid for treatment of unknown pre-existing conditions (HB 1063)
- Increases eligibility period for cost of living adjustments (COLAs) for pre-1/1/06 total disability claims from 7 to 3 years (HB 1064)
- Expands COLA eligibility for pre-1/1/06 claims to include both permanent total and temporary total benefit recipients (HB 1064)
- Outlines coverage parameters for emergency volunteer healthcare practitioners (HB 1073)
- Increases the maximum disability benefit from 110% to 125% of the state's average weekly wage (SAWW) (HB 1101)
- Increases lifetime cap on death benefits from \$250,000 to \$300,000 (HB 1101)
- Increases burial expense from \$6,500 to \$10,000 and one-time payments for spouses and dependent children (HB 1101)
- Increases the dependency allowance from \$10 to \$15 per week per child (HB 1101)
- Increases pre-acceptance disability benefits from the minimum benefit rate to the standard rate (HB 1101)
- Increases travel and other personal reimbursements on aggravation claims to 100% (HB 1101)
- Provides up to six months benefits for the surviving spouse of a PTD that provided home health care during disability (HB 1455)
- Provides that OAH conduct WSI hearings and that OAH's decisions are final (HB 1464)
- Provides for a study of the post-retirement benefit structure to be conducted during the interim (HB 1525)
- Provides that WSI outline reasons for disregarding a treating doctor's opinion (HB 1561)
- Resolution to study workers' compensation laws regarding pre-existing injuries (HCR 3008)
- Resolution to study injured worker access to legal representation (HCR 3013)
- Establishes a clear and convincing evidence standard to rebut the presumption clause (SB 2055)
- Provides door to door reimbursement of mileage to attend medical appointments (SB 2056)
- Establishes a PPI schedule award for the partial loss of eye sight (SB 2057)
- Distinguishes an independent medical exam (IME) from an independent medical record review (IMR) (SB 2058)
- Provides for attorney fees and costs for review of a claim after OIR completion (SB 2059)
- Provides for a rehab training expense for maintaining a second household or traveling more than 25 miles to school (SB 2419)
- Provides that WSI make a reasonable effort to designate an IME doctor within a certain radius of worker's residence (SB 2431)
- Increases the time period in which an injured worker can request a change of doctor (SB 2432)
- Provides that WSI notify injured workers of work search obligations (SB 2433)

2007 Legislation

- Provided funds for the purchase or adaptation of motor vehicles for the catastrophically injured (HB 1038)
- Provided increased post-retirement additional benefits for certain injured workers (HB 1038)
- Expanded the population that is eligible for death benefits (HB 1038)
- Shortened eligibility period for cost of living adjustments (COLAs) from seven years to three years (HB 1038)
- Expanded the eligibility pool for WSI's revolving loan fund (HB 1038)
- Provided inflation adjustment for long-term Temporary Partial Disability benefit recipients (HB 1140)
- Provided funds for the purchase or adaptation of motor vehicles for catastrophic and exceptional circumstance claims (HB 1411)
- Provided benefits for firefighters and law enforcement officers in the event of a false positive test (SB 2042)

2005 Legislation

- Established additional safety incentives (HB 1125)
- Established ongoing funding for safety education, grant, and incentive programs (HB 1125)
- Created retraining options for injured workers (HB 1171)
- Established an injured worker educational revolving loan fund (HB 1491)
- Increased the non-dependency death award (HB 1506)
- Increased post-retirement additional benefit payments (SB 2351)

2003 Legislation

- Increased lifetime cap on death benefits from \$197,000 to \$250,000 (HB 1060)
- Established a \$50,000 home remodeling and vehicle adaptation allowance for catastrophic injured workers (HB 1060)
- Increased the maximum amounts for scholarship awards (HB 1120)

2001 Legislation

- Increased certain permanent partial impairment awards (HB 1161)

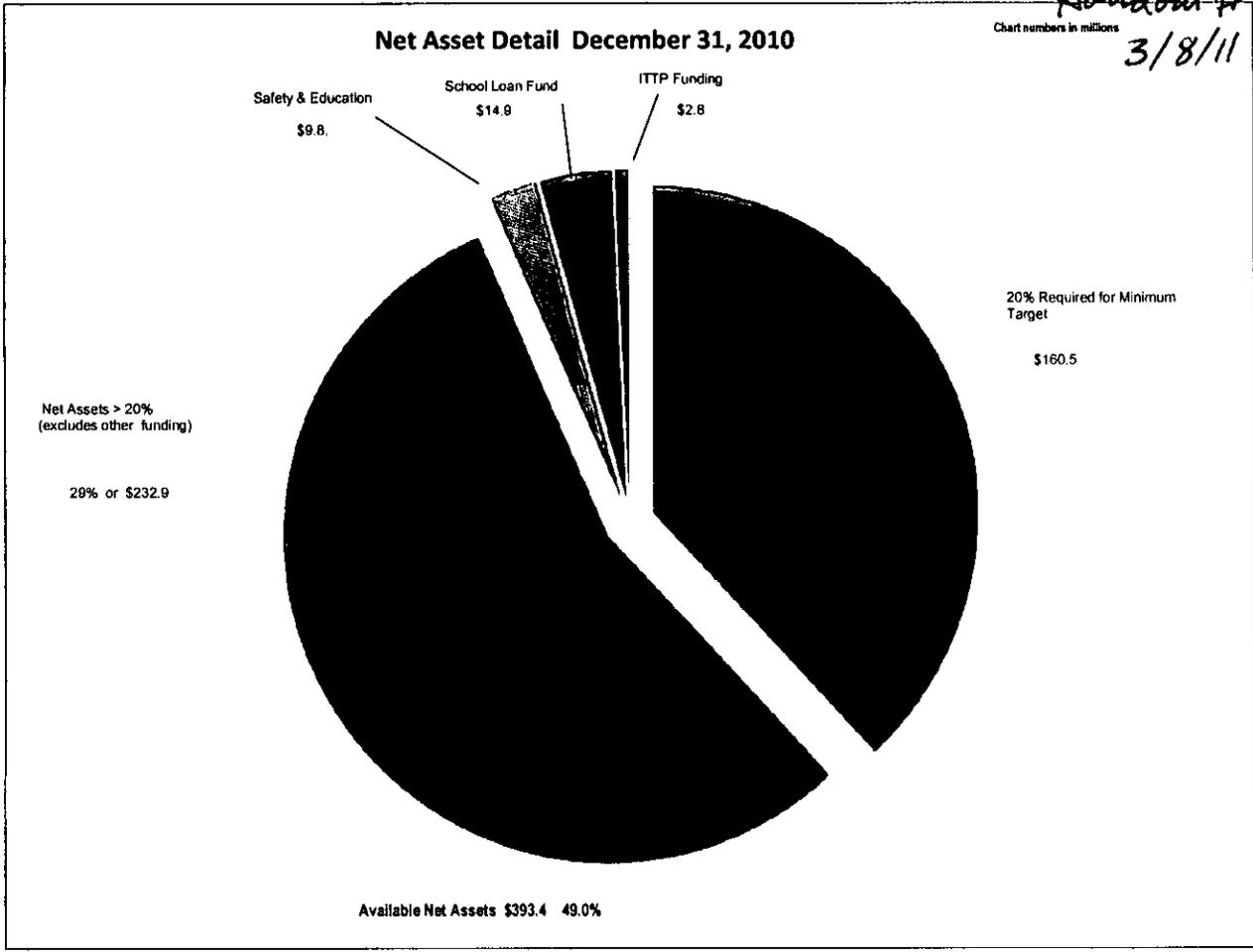
2000 Legislation

- Increased permanent partial impairment awards for the severely impaired (HB 1422)
- Increased the maximum disability benefit from 100% to 110% of the State's Average Weekly Wage (SB 2214)
- Shortened the waiting period for eligibility for cost of living adjustments from 10 years to 7 years (SB 2214)

1997 Legislation

- Increased weekly death benefits for surviving spouses (SB 2116)
- Created the Guardian Scholarship program (SB 2116)
- Established a post-retirement additional benefit (SB 2125)

SB 2021
Workforce Safety
Handout #1
3/8/11



(Actual July 2010 -December 2010)	Actual June 2009	Actual June 2010	Y-T-D Dec 2010
NET ASSETS or "SURPLUS"	\$ 265,552,937	\$ 338,211,167	\$ 420,882,725
Estimated Discounted Financial Reserves	771,900,000	772,095,000	802,315,688
Net Assets (Surplus)	\$ 265,552,937	\$ 338,211,167	\$ 420,882,725
2009 HB 1035 Allowable Deductions from Net Assets (Surplus)			
Safety & Education Grants	16,818,852	10,638,262	9,800,440
Revolving School Loan Fund	14,980,617	14,954,324	14,915,042
ITTP/AIM Update	7,017,000	4,581,674	2,778,122
Total Exclusions from Net Assets (Surplus)	38,816,469	30,174,260	27,493,604
Available Fund Surplus	\$ 226,736,468	\$ 308,036,907	\$ 393,389,121
	29.4%	39.8%	49.0%

March 2011

COMPARISON OF PROPOSED STATE EMPLOYEE SALARY INCREASES AND RELATED COST TO CONTINUE

The schedule below provides a comparison of the effect of a 3 percent annual state employee salary increase to a 4 percent first-year and 1 percent second-year state employee salary increase each biennium.

Individual Salary Example	Fiscal Year 2012	Fiscal Year 2013	Total 2011-13	Fiscal Year 2014	Fiscal Year 2015	Total 2013-15	Fiscal Year 2016	Fiscal Year 2017	Total 2015-17
Base salary level	\$40,000	\$40,000	\$80,000						
3 percent annual increases	\$41,200	\$42,436	\$83,636	\$43,709	\$45,020	\$88,729	\$46,371	\$47,762	\$94,133
4 percent first-year/1 percent second-year increases	\$41,600	\$42,016	\$83,616	\$43,697	\$44,134	\$87,831	\$45,899	\$46,358	\$92,257
Estimated general fund cost to continue the previous biennium's salary increase for all state employees									
3 percent annual increases			N/A			\$8,000,000			\$8,500,000
4 percent first-year/1 percent second-year increases			N/A			\$2,700,000			\$2,800,000