

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



INTERIM SUPPLEMENTAL REQUEST FOR FY 2012-13

DEPARTMENT OF PERSONNEL

**JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision**

**Prepared By:
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June 20, 2013**

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Interim Supplemental Request

INTERIM SUPPLEMENTAL REQUEST #4 WORKERS' COMPENSATION BILLING TRUE-UP

	Request	Recommendation
Total	<u>\$1,367,406</u>	<u>\$1,500,000</u>
FTE	0.0	0.0
General Fund	0	0
Cash Funds	0	0
Reappropriated Funds	1,367,406	1,500,000
Federal Funds	0	0

<p>Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.? [The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function, or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.]</p>	YES
<p>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]</p>	YES
<p>JBC staff agrees that this request meets the interim supplemental criteria of Section 24-75-111, C.R.S., and is the result of data that was not available when the original appropriation was made. Specifically, the Department has expended more in litigation and administrative expenses than was requested and budgeted in FY 2012-13.</p>	

Department Request: The Department requests an additional \$1,367,406 reappropriated funds from the State Employees Workers' Compensation Account in the Risk Management Fund for FY 2012-13, for the Workers' Compensation Premiums line item in Risk Management Services in the Division of Human Resources.

Staff Recommendation: Staff recommends that the Committee approve an additional \$1,500,000 in reappropriated funds spending authority. This request does not include additional billings to state agencies as the Department has an estimated year-end fund balance of \$5.3 million. The Department states that its high-end projection for this line item in FY 2012-13 is \$1.45 million. Therefore staff recommends an additional \$1.5 million in spending authority in order to avoid additional budget action.

The rules governing interim supplementals in Section 24-75-111 (5), C.R.S., require the Committee to introduce all interim supplementals that it approves.

Staff Analysis:

Workers' Compensation Billings from Third Party Administrator Broadspire

In April 2013, the Department engaged in a billing reconciliation with the State's workers' compensation Third Party Administrator (TPA), Broadspire, due to differences in invoice and tracking detail on each side. The reconciliation identified additional payments owed to Broadspire would require a projected additional spending authority amount for the *Workers' Compensation Premiums* line item of \$1,367,406. The following table outlines the expense items included in the original FY 2012-13 budget request, the staff recommendation, and the current projection for the *premiums* line item.

Workers' Compensation Premiums Line Expenses	FY 2012-13 Original Request	JBC Staff Recommendation	Current Projection	Projected Over/ (Under) Expenditure
Prospective Claims Payout	\$34,907,605	\$34,907,605		
DHS Prior Year Claim Payments	<u>150,000</u>	<u>150,000</u>		
Subtotal Claims Payments	35,057,605	35,057,605	34,297,915	(759,690)
TPA Fees	2,150,000	2,150,000	2,400,216	250,216
Loss Control Incentives	50,000	50,000	4,650	(45,350)
Excess Policy	449,893	449,893	513,964	64,071
Litigation Costs	500,000	500,000	1,885,784	1,385,784
CDLE Permit	2,000	2,000	2,000	0
CDLE Surcharge	500,000	500,000	364,256	(135,744)
Actuarial Services	39,500	39,500	23,500	(16,000)
RMIS Service Fees	45,816	45,816	12,409	(33,407)
Broker Service Fees	<u>13,943</u>	<u>13,943</u>	<u>14,000</u>	<u>57</u>
Workers' Compensation Premiums	\$38,808,757	\$38,808,757	\$39,518,694	\$709,937
Other Expenses Included in Premiums, But Not Identified in Budget Request				
Medical Bill Review			634,490	
Indexing Fee			<u>22,978</u>	
Subtotal Other Expenses Not Identified in Budget Request			\$657,469	
Total Projected Workers' Compensation Premiums Line			\$40,176,163	\$1,367,406
Percentage of Litigation and Administrative Expenses Relative to Claims Payments Included in the Premiums Line				
	10.7%		17.1%	

Staff Concerns

As outlined in the table:

- Litigation expenses account for an additional \$1.4 million of projected expenditures.
- Administrative expenses included in the premiums line item account for an additional \$741,000 of projected expenditures including an additional \$250,000 in TPA fees and an additional \$657,000 in medical bill review and indexing fees that were not detailed in the budget request.
- Non-TPA administrative expenses that were detailed in the budget request are projected at \$166,000 under budget.
- Claims payments are projected at \$760,000 under budget.

While it is reasonable that the switch in TPA to Broadspire beginning in the current fiscal year (FY 2012-13) might include some adjustments in previous budget ratios and expectations, it is concerning that litigation and administrative expenses included in the *Workers' Compensation Premiums* line item in FY 2012-13 are projected to be 17.1 percent of claims payments but the budget request only budgeted 10.7 percent for these costs; this represents a 59.8 percent increase in that ratio.

In January 2013, the Committee approved the Department's interim supplemental request for an additional \$2.8 million in billings to state agencies for the liability program for FY 2012-13. Staff analysis determined that, while claims payments were projected to be slightly higher than actuarially projected, much higher legal and administrative expenses than were included in the original budget request were predominantly the cause for the additional billings.

In FY 2013-14 figure-setting, staff recommended and the Committee approved splitting the premiums lines for all three risk management programs for the purposes of budget transparency regarding actual claims payments and litigation and administrative expenses that were previously commingled in the *Premiums* line items. The Governor's Office of State Planning and Budgeting (OSPB) requested that the split premiums line items provide for spending across these line items in order to preserve flexibility. Spending flexibility was achieved through a footnote for the workers' compensation program line items and already provided to the liability and property programs through continuous spending authority provided in statute for those programs.

Staff will continue to monitor and research the risk management programs for issues related to the expenditure of legal and administrative expenses to determine whether the differences between the budgeted amount and actual expenditures are attributable to Department budget or program management deficiencies.

	FY 2011-12	FY 2012-13	Fiscal Year 2012-13 Interim Supplemental		
	Appropriation	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
DEPARTMENT OF PERSONNEL					
Kathy Nesbitt, Executive Director					
Interim Supplemental #4 - Workers' Compensation Billing True-up					
<i>(2) Division of Human Resources</i>					
<i>(C) Risk Management Services</i>					
Workers' Compensation Premiums	<u>36,376,710</u>	<u>38,808,757</u>	<u>1,367,406</u>	<u>1,500,000</u>	<u>40,308,757</u>
Reappropriated Funds	36,376,710	38,808,757	1,367,406	1,500,000	40,308,757
Totals					
DEPARTMENT OF PERSONNEL					
TOTALS for ALL Departmental line items	<u>157,857,935</u>	<u>164,186,172</u>	<u>1,367,406</u>	<u>1,500,000</u>	<u>165,686,172</u>
<i>FTE</i>	<i>394.3</i>	<i>396.9</i>	<i>0.0</i>	<i>0.0</i>	<i>396.9</i>
General Fund	4,118,272	6,603,153	0	0	6,603,153
Cash Funds	11,790,909	12,565,917	0	0	12,565,917
Reappropriated Funds	141,948,754	145,017,102	1,367,406	1,500,000	146,517,102
Federal Funds	0	0	0	0	0