

MINUTES OF THE MEETING
LABOR AND EMPLOYMENT RELATIONS COMMITTEE
MONTANA STATE SENATE

April 7, 1987

The twenty-third meeting of the Labor and Employment Relations Committee was called to order by Chairman Lynch on April 7, 1987, at 1:00 p.m. in Room 325 of the State Capitol.

ROLL CALL: All members were present.

CONSIDERATION OF HOUSE BILL NO. 884: Rep. Clyde B. Smith, House District 5, sponsor of the bill, stated Senate Bill 315 solves the first part of the Workers' Compensation problem, but the unfunded liability will have grown to an estimated \$145 million by July 1, 1987. House Bill 884 has a payroll tax to help make the unfunded liability solvent. Rep. Smith stated the original form of this bill called for 5/10's of 1% gross payroll tax with bonding. This bill was amended in the House to 2/10's of 1% gross payroll tax with a 2 year "go to sleep" clause. However, Rep. Smith does not believe this will solve the unfunded liability problem. Rep. Smith reserved the right to close.

PROPOSERS: Rep. Jerry Driscoll, House District 92, stated that after Senate Bill 315 passed there was further investigation into the unfunded liability of the Workers' Compensation system. Private insurance carriers testified Senate Bill 315 would lower their rates between 35-40%. The State Fund estimates their rates would be lowered between 18-22%. If the State Fund keeps 100% of its market share and the payroll grows at 1%, they will run out of cash flow in 1990. If they do not get their increase in the market share and it drops to 44%, they will run out of cash flow in December 1988. With the passage of Senate Bill 315, private insurers and self-insurers will receive an immediate effect of lower rates, but the State Fund will not because of their unfunded liability. Rep. Driscoll stated Legislative Auditors have estimated the State Fund will be \$159 million in debt with unfunded liabilities and out of cash if something is not done to put something into the system.

Rep. Bill Glaser, House District 98, stated House Bill 884 was not drafted to save the State Fund. It was drafted to

LABOR AND EMPLOYMENT

April 7, 1987

Page 2

save the Plan 1 and Plan 2 insurance plans. Rep. Glaser distributed information relating to House Bill 884 which was compiled by Staff Attorneys of the Montana Legislative Council. (See Exhibit 1)

Senator Bob Williams, Senate District 15, stated Senate Bill 315 will be a big help for the Workers' Compensation system, but House Bill 884 would take care of some past problems and would aid in reconstructive economic development for the Workers' Compensation Fund. He thinks House Bill 884 is a good bill.

Mr. Gene Huntington, representing Governor Schwinden, stated he strongly supports House Bill 884 in its original form. There is an unfunded liability and it is going to have to be paid. He said the group of legislators working together with the Division tried to find the cheapest financing available, which is municipal bonds, and that lead to the bonding portion of the bill. However, it appears the cash shortage will have to be funded out of premiums paid by policy holders, that should be earning higher rates in reserve. He said whatever solution is decided on has to produce enough cash to keep the fund from going broke. If the 3 Plan insurance system is to be preserved, the solution cannot further erode the competitive position of the State Fund with the other 2 plans. Mr. Huntington urged the committee to support House Bill 884 in its original form.

Mr. Bob Robinson, representing Workers' Compensation Division, explained the Montana State Workers' Compensation Fund/Unfunded Liability which is attached as Exhibit 2.

Mr. Keith Olson, representing the Montana Logging Association, stated it is difficult to come before this committee and support another payroll tax. He represented an industry that already has a payroll tax of approximately 50% of wages, and he said if there was another alternative to House Bill 884, they would be supporting it. Currently it costs \$6,800 per employee per year in the logging industry, and unless something is done to off-set the unfunded liability, there will be another 25-30% increase in rates. The logging industry cannot afford a 25% increase in Workers' Compensation premiums, and he stated Montana needs a strong 3 Plan System for Workers' Compensation. He urged the committee to support this bill.

Mr. Robert N. Holding, representing Montana Motor Carriers' Association, stated they supported the original draft of House Bill 884. He feels this problem should be resolved during this session, and not at the 1989 session. He feels

LABOR AND EMPLOYMENT

April 7, 1987

Page 3

combining Senate Bill 315 and House Bill 884 would give the state the largest economic reform package this legislature could enact.

Mr. Irvin Dellinger, representing Montana Building Materials Dealers Association, stated there have been many good points brought up in testimony today, and they support House Bill 884 in its original form.

Rep. Bob Marks, House District 75, stated he is a proponent of the bill as it is before the committee today, however, if the amendment is put back in the bill to restore it to its original form, then he is opposed to the bill. He said the amendment was added because there was a concern with passing a bonding program which was in the original draft of House Bill 884, which had a long term commitment of 7 years. Rep. Marks stated Senate Bill 315 needs time to work and additional money should not be added until the results are tested. Rep. Marks stated he has statistics from the Legislative Auditors Office indicating if the .2% is added to all employers and the proceeds go to the fund, the fund would remain solvent until 1993. There are concerns there will be a loss of market shares because of Senate Bill 315 and House Bill 884. Rep. Marks stated he had a computer check made of what would happen, for example, if a market share were dropped by 5%. The results were the fund would stay solvent until 1992. Rep. Marks feels placing a small tax on would make sense. He said he is not totally happy with the bill, but said something needs to be done, and this is the best alternative.

OPPONENTS: Mr. Gordon Morris, representing the Montana Association of Counties, Workers' Compensation Trust Fund, stated they oppose House Bill 884 because it will require the State Insurance Fund to conduct their operations in a self-sufficient manner. When the State Fund was created, it addressed the solution to a financial shortfall. This section of the Montana law requires the employers who purchase insurance from the State Fund, be responsible if the State Fund is unable to pay outstanding bills. House Bill 884 will repeal that section. This bill would further allow the State Fund to continue charging a rate for insurance that is less than adequate to meet the current obligations. It will also require parties not insured by the State Fund to contribute to the State Fund. Mr. Morris stated he opposes the bill in its original version and the current version. The 20¢ per \$100 payroll will mean an increase to employers in Montana. Mr. Morris stated the effective date of the bill is upon passage and approval, and it applies back to the quarter preceeding. He assumes they will be billed

back to the 3rd quarter of the current fiscal year, and they would end up paying approximately \$90,000. He said that would be an unanticipated expenditure local governments in Montana are not prepared to address. The bill ignores employers who have shown the most concern for the safety of their workers.

Mr. Ray Conger, representing the Montana Classification and Rating Committee, give testimony in opposition to this bill. A copy of his testimony is attached as Exhibit 3.

Mr. Bruce Moerer, representing the Montana School Boards Association, stated they are concerned with the ability of schools being able to pay the money required by House Bill 884. The problems schools face now are probably no worse than for other businesses, but schools do not have any Block Grant Funding. Most schools are currently freezing their votes of levies because the political climate will not allow them to increase levies. In 1985, the Legislature passed a bill which restricted the ability of the Board of Public Education to adopt rules with a fiscal impact on schools. The legislature is adopting this tax increase for the public schools and the public schools do not have the means to pay it.

Mr. Bob Correa, representing the Bozeman Chamber of Commerce, stated they oppose the bill in its original form and also in the current form, on the basis it is not needed at this time. The Legislative Auditors Office reports the State Fund can maintain itself until 1990 and this did not take into consideration the effects of Senate Bill 315. Mr. Correa encouraged the committee to wait until the 1989 Session when the Workers' Compensation Division can be re-accessed.

Ms. Kay Foster, representing the Billings Chamber of Commerce, stated they opposed this bill in its original form and in its current form. This is an issue of fairness that you are taxed whether you are in Plan 1, Plan 2 or Plan 3, and regardless of the direct risk you present to the unfunded liability. One of the businesses in Billings that has been extremely concerned is the Western Sugar Company. They are upset with this bill because they came to Billings, rescued a non-functioning business, and decided to be privately insured even though they had to pay higher premiums. This privately insured business will now be taxed twice to help fund the State Fund. She urged the committee to oppose this bill.

LABOR AND EMPLOYMENT

April 7, 1987

Page 5

Mr. Ted Rollins, representing ASARCO, Inc., stated they are opposed to House Bill 884 for the reason that their Montana operations, the Troy Silver Copper Mine and the East Helena Lead Smelter, have recently concluded painful salary and wage reductions in an attempt to bring Montana operations to profit. They had hoped there would be some tax relief for the hard rock miners this session, but it did not happen. Mr. Rollins stated if they had to live with one of the two versions of the bill, they would choose 2/10's of 1%. Mr. Rollins stated the Troy Mine has compiled a safety record never before achieved in the history of tunnel mining; they have excavated more than 20 miles of tunnels without a fatality. The problem addressed in House Bill 884 is not of their making.

Mr. Alan Tandy, representing the City of Billings, stated they agree with the testimony of Mr. Gordon Morris. Mr. Tandy stated it is unjustified to surcharge the self-insured programs for problems not created by them and where they will not benefit from the surcharge.

Mr. Lloyd Lockrem, representing the Montana Contractors Association, stated they are opposed to this bill in its present form and the original form. Mr. Lockrem stated contracts that are being signed now, with an immediate effective date, but the project lasts for 1 or 2 years, the additional cost of the payroll tax would not be able to be recovered by the contractors. He urged opposition of the committee.

Ms. Carla Gray, representing the Montana Power Company and ENTECH, stated they oppose this bill in the current form and its original form. If this bill should pass, they would prefer it in the current form.

Mr. Gene Pigeon, representing the MDU Resources, stated they will accept the bill in its present form if it has to pass.

QUESTIONS (OR DISCUSSIONS) ON HOUSE BILL NO. 884: Senator Keating asked Mr. Pigeon what was the payroll of MDU. Mr. Pigeon replied approximately \$1.4 million. Senator Keating asked Mr. Lockrem if some of their contractors have state and county projects paid for by tax money, and if their contractors were assessed this additional amount, would they have to figure that into their bids. Mr. Lockrem replied yes, the problem is that in the contracts they currently have, there is no provision for recovering those costs. However, in future contracts it would be passed on directly.

Senator Keating asked Ms. Foster the current rate of the Western Sugar Company. Ms. Foster replied, 33%. Western Sugar is not totally concerned with the rate they would pay, but they are concerned with the principal of this bill.

Senator Lynch asked Mr. Bob Robinson if he is aware of the law in Section 1-2-112 and 1-2-113, MCA, which applies to school districts and local government, and how would he address that in this bill. Mr. Robinson stated that is the first time that section of law has come up during the entire process. There is no specific means in this bill for school districts or counties to generate an additional source of revenue. It was presumed they would provide this money from their normal sources. Mr. Morris stated unfortunately they cannot use this particular provision because Subsection 4 of Section 1-2-112, MCA, states "this section shall not apply to any law under which the required expenditure of additional local funds is incidental to the main purpose of the law." They understood this to mean 20¢ per \$100 is incidental to the law in this case. Thus, they could not use the Drake Amendment to require and insist upon the fiscal note.

Senator Lynch stated there seems to be a real problem with this section of the law concerning this bill.

Senator Thayer asked Rep. Smith about the analyzation of Senate Bill 315 for the private plans that indicated a 35-40% savings, and Plan 3 estimating a 22-25% savings. Rep. Smith stated he believes the Division is hanging on the 22-25%. Some of the private carriers are seeing a savings of one-third. Senator Thayer asked Rep. Smith if there is a disparity between the two analysis. Rep. Smith replied yes.

Senator Lynch asked Mr. Robinson to respond to that question. Mr. Robinson stated one individual made that statement in the House without documentation to support it. The National Council of Compensation Insurers, the organization that represents Plan 2 and Plan 3 users, estimates the effect of Senate Bill 315 at 20-25% savings. The State Fund's actuary estimated the State Fund savings at approximately 22%.

Senator Thayer asked Mr. Robinson who made that statement while testifying in the House. Mr. Robinson replied Mr. Ray Conger. Senator Thayer asked Mr. Conger to respond to the question. Mr. Conger stated Plan 2's current rate level is about 3 times the State Fund's rate level. He made his statement in the context of those figures, and he would stand by those figures. If the State Fund is going to save 22% on

a rate that is one-third of their rates, they will probably save 35% on a rate that is 3 times the State Fund.

Senator Haffey asked Mr. Morris if he would consider supporting this bill with the 20¢ per \$100 figure. Mr. Morris stated he does believe there should be a continued State Fund program, however, their contribution to the solution would be to refer to the fact that the problem arises from poor administering of the program. They do not have a solution to the problem. Senator Haffey asked Mr. Morris if he subscribes to the notion there should be a State Fund, could he think of a better solution to this problem. Mr. Morris stated his solution would be for the State Fund to conduct their operations in a self-sufficient manner. They would need a law to establish a true self-sufficient manner that would put them in the same context as a private insurance company and administer their program based on liabilities incurred. They would then be able to generate the income to meet those expenses at the time they are incurred.

Senator Lynch asked Mr. Robinson to explain Section 39-71-2326, MCA, which is being repealed. Mr. Robinson explained in the case of the State Compensation Fund, if it were to become insolvent and unable to pay its bills, it provides that the losses would fall back on the employer at the time the injury occurred. This section was analyzed and thought to be impractical. The question was asked if the State could bond for a private purpose. It was thought someone would say it might eventually fall back on the employer and then the state could not bond.

Senator Blaylock asked Mr. Gene Huntington what was the advantage of the bonding program over the way the bill has been amended. Mr. Huntington stated the initial problem faced is that there is a lot of money that has to be paid out in a short period of time. The payments need to be structured and the money would have to be borrowed over a longer period of time. Tax exempt bonds are the cheapest way the state can borrow money.

Rep. Smith closed by stating there have been observations that Montana will be sued if there is a 5/10% tax. Rep. Smith feels it does not matter on the amount of the tax, if someone wants to sue, they will. There is a termination date of June 30, 1991. Rep. Smith said the state will not feel the effects of Senate Bill 315 until July 1, 1987, and more help will be needed to make the fund solvent. House Bill 884 gives that extra help. He said if the state

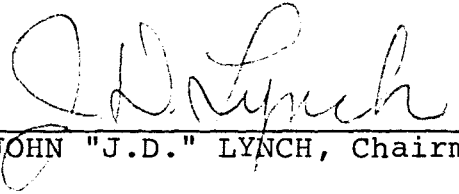
LABOR AND EMPLOYMENT

April 7, 1987

Page 8

continues to require employers to have Workers' Compensation Insurance and the State Fund is required to pay its liabilities, one of the following alternatives must be pursued. 1) Pay the unfunded liability with general tax dollars; 2) use the Coal Tax money; 3) create a State Fund monopoly so the unfunded liability can be paid from a broader premium base and rates could be increased without losing customers to private and self-insurers; or 4) the 3 Plan system could be maintained by imposing a tax on all 3 plans to pay the unfunded liability. Rep. Smith thanked the committee for their time.

ADJOURNMENT: There being no further business to come before the committee, the hearing adjourned at 2:35 p.m.



SENATOR JOHN "J.D." LYNCH, Chairman

jr

ROLL CALL

LABOR AND EMPLOYMENT RELATIONS COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 4/7/87

NAME	PRESENT	ABSENT	EXCUSED
John "J.D." Lynch Chairman	X		
Gene Thayer Vice Chairman	X		
Richard Manning	X		
Thomas Keating	X		
Chet Blaylock	X		
Delwyn Gage	X		
Jack Haffey	X		
Jack Galt	X		

Each day attach to minutes.

Laurel

DATE: April 7, 1987

VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

ISSUES RELATING TO HOUSE BILL ⁸⁸⁴~~844~~

- STATE RESPONSIBILITY FOR PLAN 3 FUND
- STATE DEBT
- EQUAL PROTECTION

Legal Memorandum
Staff Attorneys
Montana Legislative Council
March 24, 1987

SENATE LABOR & EMPLOYMENT
EXHIBIT NO. 1
DATE 4/7/87
BILL NO. HB 884

I. STATE RESPONSIBILITY FOR PLAN 3 FUND

1. Question: Whether the state of Montana has a continuing responsibility to pay workers' compensation benefits to workers injured while insured under compensation plan No. 3, if the state industrial insurance trust fund becomes insolvent.

2. Conclusion: Because of statutory responsibilities assigned to the Division of Workers' Compensation, establishing it as a trustee of the fund, the state may not avoid liability for unfunded obligations if the insolvency is the result of a failure of the division to meet the statutory requirements imposed on it. The provision of 39-71-2326, MCA, for an employer to pay unfunded obligations of the fund do not shift responsibility for ultimate payment of such obligations from the division to the insured employer.

3. Discussion: Montana law requires employers to insure their liability for job-related accidents or illnesses of their employees under one of three compensation plans. Plan No. 1 allows employers furnishing proof of solvency and financial ability to pay workers' compensation claims to self-insure. Plan No. 2 allows employers to obtain insurance from private carriers. Plan No. 3 establishes a state-operated insurance program, that must provide insurance to any employer seeking it, under conditions prescribed by the Division of Workers' Compensation.

Under plan No. 3, an industrial insurance expendable trust fund is created, into which is deposited all premiums collected from insured employers (39-71-2303, MCA) and from which is paid all benefits under the program (39-71-2301, MCA). The fund is administered by the Division of Workers' Compensation (39-71-2301, MCA) and is specifically declared to be held in trust for

payment of worker compensation benefits (39-71-2322, MCA). The insurance program is required to be "neither more nor less than self-supporting" (39-71-2304(2), MCA), and the division is required to fix premiums for different classes of occupations or industries at the lowest rate consistent with maintaining an actuarially sound insurance fund and creating actuarially sound surplus and reserves (39-71-2304(3), MCA). The division is also given other specific responsibilities and authority in administering the program.

The net effect of the statutory scheme is to establish the division as trustee of the insurance fund to ensure its adequacy to meet all claims made against it. Williams v. Industrial Accident Board, 109 M 235, 97 P.2d 1115 (1939); Yurkovich v. Industrial Accident Board, 132 M 77, 319 P.2d 503 (1957).

Hence, as a result of the statutory responsibilities, the division owes a fiduciary duty to employers insured by the fund to administer it in a financially sound and prudent manner and to employees insured under the fund to pay all valid claims for workers' compensation benefits. Generally speaking, as a trustee the division has a fiduciary responsibility to the beneficiaries of the trust to follow the terms of the trust and the requirements of applicable state law and has a legal and moral obligation to exercise the highest good faith in all matters pertaining to the trust (72-20-201, MCA). A breach of the fiduciary responsibility would make the trustee liable to the beneficiaries for any damage caused by such breach. If as a result of failure of the division to perform its fiduciary and statutory responsibilities the fund becomes insolvent, the division (i.e., the state of Montana) would be liable for unfunded obligations incurred in operating the insurance program.

It is not the purpose of this memorandum to analyze whether in incurring the currently projected unfunded liability of the insurance fund there has been any breach by the division of its

SENATE LABOR & EMPLOYMENT
EXHIBIT NO. _____
DATE 4/17/87
BILL NO. HB 884

fiduciary or statutory responsibilities. That is a factual matter that may be determined only in a proper judicial proceeding. It is conceivable, although unlikely because of the statutory requirements and safeguards, that the unfunded liability could have occurred despite complete and proper performance by the division of its responsibilities. A court would certainly consider all facets of how the fund has been administered, including the manner of making benefit payments, whether a shortfall was reasonably foreseeable, and, if so, whether the division took timely and reasonably adequate action to address the foreseen shortage as required by 39-71-2304(3), MCA.

The continuing obligation of the state to pay workers' compensation benefits is also premised upon principles of contract law. Inasmuch as obligations for payment of workers' compensation benefits are incurred pursuant to contracts of insurance entered into by the division and the employer under authority of law, they represent vested contractual rights and are binding as such upon the state under principles of contract law. The legislature may not impair or abrogate such contractual obligations (Article II, section 31, Mont. Const.) nor may the contractual obligation be shifted to the employer under 39-71-2326, MCA, for reasons discussed in the following paragraphs, even though the insurance policy is conditioned upon payment as provided in that statute.

The application and effect of 39-71-2326, MCA, is not entirely clear. If the fund becomes unable to pay an obligation as it becomes due, this statute requires the employer on account of whose employee the obligation was incurred to satisfy the obligation, receiving a credit against subsequent premium assessments. However, the statutes have already imposed on the division the obligation to maintain the adequacy of the fund. The division, pursuant to the previous analysis, cannot avoid

liability for a breach of its statutory responsibilities, and the legislature may not avoid the previously contracted obligation. Therefore, it seems the employer may be properly made to pay the obligation only if the shortage in the fund is perceived to be merely temporary and the payment by the employer is simply a stop-gap means of continuing the program until it generates sufficient income to again become self-supporting.

The language of 39-71-2326, MCA, suggests the legislature in adopting that statute did not contemplate a permanent collapse of the fund and in fact merely contemplated a temporary shortage in the fund, in that all payments by employers plus interest thereon are to be credited against future contributions (i.e., premium payments) to the fund by the employer. Essentially the statute establishes an obligation for reimbursement of the amount of payment plus interest thereon to the employer, indicating there was no intent to permanently shift the obligation for payment of benefits to the employer. The section would create an impossible situation if the fund in fact became permanently insolvent and incapacitated, because the obligation to credit payments and interest against subsequent assessments nevertheless continues. Also, the statute does not address what happens if the fund is insolvent and there is no employer, whether because of death, insolvency, or other reason, to make the required payment.

Therefore, 39-71-2326, MCA, appears to provide for temporary prepayment of contributions in a certain limited circumstance, and nothing more.

II. STATE DEBT

An analysis of House Bill (HB) 884 in light of Article VIII, section 8, of the Montana constitution revolves around three issues. First, is a state debt created by the legislative act of

providing a supplemental funding source for the workers' compensation state fund? Second, is a state debt created by the legislative act of providing for the sale of bonds to finance the unfunded liability of the state fund? Third, is the sale of bonds to finance the state fund unfunded liability the creation of a state debt to cover deficits because appropriations exceeded anticipated revenues?

Article VIII, section 8, of the Montana constitution provides:

State debt. No state debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon. No state debt shall be created to cover deficits incurred because appropriations exceeded anticipated revenues.

A. SUPPLEMENTAL FUNDING BY STATE OF STATE FUND

1. Question: By providing a supplemental funding source for the state fund is the legislature creating a state debt?

2. Conclusion: The unfunded liability of the state fund represents a projected future responsibility; it is not a present debt. Therefore, the legislature is not creating a state debt by devising a scheme to use tax revenue to presently augment the state fund.

3. Discussion: Title 39, chapter 71, part 23, MCA, provides that the workers' compensation state fund is funded by payment, by employers subject to the plan, of premiums based on a percentage of their payroll. Pursuant to 39-71-2322, MCA, the funds are held in trust by the state and administered by the division for the purposes for which they were collected. According to HB 884, "based on current liabilities and actuarial analysis, an unfunded liability presently exists in the state fund and is projected to increase". This unfunded liability represents medical and other benefits that the state fund likely will have to pay in the future for injuries that have occurred to

date. This projected liability is not a current debt of the state fund.

While auditors are able prepare an analysis of the future financial status of the state fund that shows it faces cash flow problems in the months or years to come, the fund presently has not expended all of its cash and is able to pay claims as they are submitted. As the unfunded liability in the state fund represents the projected payment of future benefits and not a debt that has already accrued, the legislature is not creating a state debt by assuming the responsibility to provide a supplemental funding source for the state fund unfunded liability. Thus, these provisions of the bill do not require a two-thirds vote of each house of the legislature.

B. SALE OF BONDS CREATES STATE DEBT

1. Question: Do the provisions of HB 884 that authorize the sale of bonds or notes to fund the state fund unfunded liability create a state debt?

2. Conclusion: The bonding scheme in HB 884 providing for the sale of general obligation bonds backed by the state's general taxing power constitutes the use of borrowed money to fund a state purpose. Therefore, a state debt is created that would necessitate a two-thirds vote of each house.

3. Discussion: HB 884 allows the state to borrow money through the issuance of bonds or notes. The Montana supreme court as recently as 1984 pointed out in Grossman v. State: "[I]f a new project or program will require the incurrence of debt, two-thirds of the members of each house can authorize it. Since the constitution provides for the use of borrowed funds, it undoubtedly follows that the state could in fact borrow money or create indebtedness. Incurrence of long-term debt through the issuance of bonds or similar instruments is a time-honored method

of governmental financing at all levels. We hold it eminently clear that the legislature can authorize borrowing long-term by issuing and selling bonds, and can provide for the servicing for such indebtedness by repayment or refunding." Grossman, 41 St. Rep. 804, 682 P2d 1319.

However, there are instances in which the issuance of bonds does not create a state debt. In State ex rel. Normile v. Cooney, the supreme court found that a state debt was not created in view of the provision in the authorizing law that all bonds contain a statement that they do not constitute a state debt or liability and are payable only from revenues derived from the works constructed. Normile, 100 M 391, 47 P2d 637 (1935).

In Normile the court stated: "The bonds of each project are payable only from the revenue derived therefrom. Such a plan does not violate [Article XIII, section 2 (provision revised by Article VIII, section 8 of the 1972 constitution)]." The bonds authorized in Normile were revenue bonds and were required to contain a statement on their face that the state was not obligated to pay them or the interest on them except from the revenues generated by the project built with the loan. The bonds were also required to provide that the bonds were not a debt of the state and were secured only by the funds received from the project built with the bond proceeds.

This is not the situation in HB 884, as the legislature is required to provide for the continued assessment, levy, collection, and deposit of the payroll tax into a fund to secure payment of the general obligation bonds or notes. Thus, the state's general taxing power is pledged to repay the bonds and a state debt is thereby created. This indebtedness becomes a state obligation that extends over the life of the indebtedness, and each succeeding legislative assembly has an unavoidable duty to provide for it, in the manner required by HB 884, which is

through the continued assessment of the payroll tax. This is the obvious intent of the legislature in HB 884.

C. BORROWING THROUGH USE OF BONDS NOT DEBT TO PAY DEFICIT

1. Question: By borrowing money through the sale of bonds is the legislature creating a debt "to cover deficits incurred because appropriations exceeded anticipated revenues"?

2. Conclusion: Although the sale of bonds to finance the state fund creates a state debt, it is not a debt incurred to pay for a deficit incurred because appropriations exceeded anticipated revenues because the unfunded liability represents a projected future responsibility. Money has not been appropriated to fund the state fund.

3. Discussion: As concluded in the discussion of the first issue, the state fund's unfunded liability constitutes a projected future responsibility; it does not represent amounts currently owed to injured workers. Although borrowing money through the sale of bonds would create a state debt, it is in effect incurring a debt to fund a new public purpose or project that the legislature has determined calls for state funding. Taking a loan for this purpose does not constitute incurring a debt to pay for a deficit already incurred; nor has money been appropriated previously to the state fund. The state fund has been funded by employer contributions, not by legislative appropriations. Thus, the final part of the constitutional prohibition is not applicable in this instance.

III. EQUAL PROTECTION

1. Question: Does the imposition of a payroll tax of 0.57% on all employers, even those participating in Plans 1 (self-

insurance) and 2 (commercial coverage), to fund the unfunded liability of Plan 3 (state fund) constitute taxation that is unconstitutional as being contrary to the equal protection clauses of the U.S. or Montana constitutions?

2. Conclusion: The tax is imposed on a logical class for a public purpose, and although it may not be considered fair by the taxpayer and other methods may be preferable, the tax is not unconstitutionally imposed.

3. Discussion:

a. The tax imposed in H.B. 884 is a real tax and not an assessment or a premium. The tax is a general percentage against an amount without a specific property interest benefited. An assessment would constitute a specified amount per employee or countable item, and a premium would be like an assessment but tied to other factors such as risk and liability. For the purposes of this bill, the difference is important in measuring the benefit derived from the payor. With assessments and premiums there is a benefit directly derived; with a tax there is no benefit except that of civilized government imposing a tax for a public purpose. In summarizing the relationship between cost and benefit in the relationship of property taxes paid by one person, the U.S. supreme court said:

"It may be true that he does not receive the same amount of benefit from some or any of these taxes as do citizens living in the heart of the city. It probably is true ... that his tax bears a very unjust relation to the benefits received as compared with its amount. But who can adjust with precise accuracy the amount which each individual in an organized civil community shall contribute to sustain it, or can insure in this respect absolute equality of burdens, and fairness in their distribution among those who must bear them? Kelly v. City of Pittsburgh, 104 US 78, 26 L.Ed. 658.

Just as there is no relationship between the number of school children a person has and the amount of tax he pays for school, a tax is paid to support some public purpose regardless of whether the individual paying the tax receives a direct benefit.

b. The purpose for the tax is a public purpose suitable for support by a tax. There are three "insurance" Plans within workers' compensation: Plan 1, self-insurance; Plan 2, commercial insurance; and Plan 3, state fund. The tax in H.B. 884 will pay for a bond issue to fund the unfunded liability of Plan 3. The participants of Plans 1 and 2 are to pay this amount even though they do not at this time use the state fund. Workers' compensation constitutes a public purpose recognizable by the courts.

"Our Workmen's Compensation Law was enacted for the protection of the workman as well as the employer.... It is the theory of our Workmen's Compensation Law that loss occasioned by injury to a workman shall not be borne by him alone, but by the industry and indirectly through the cost of the product by the public." State v. Industrial Accident Board, 130 M 272, 301 P2d 954 (1956).

The existence of Plan 3 constitutes an important part of workers' compensation because no employer may be denied coverage except by nonpayment of premiums. It is the coverage of last resort. There need be no direct benefit to taxpayers for a tax, but in this instance there is at least an indirect benefit in that those employers participating in each plan are not frozen in place. During the period the tax is imposed, employers will transfer from plan to plan, and some employers will go out of business and some new employers will be formed. The same is equally true of the exact business that may have directly benefited during the time the unfunded liability was incurred. The primary beneficiaries are employees, and they would be covered by different plans over a period of time more than employers.

c. The tax does not infringe or affect a fundamental or constitutional right. The tax does not infringe upon any right that is constitutionally recognized for the purposes of invoking the strict scrutiny or middle tier test of equal protection. Such rights are generally recognized individual rights not easily disrupted by a general tax on employers. See Butte Community

Union v. Lewis, __M__, __P2d__, 43 St.Rep. 65 (1986), for a complete discussion of the current status of equal protection, including the rational basis, middle tier, and strict scrutiny tests.

d. The classifications involved in imposing the tax must have only a rational basis, meaning it must not be arbitrary or capricious. Section 2 of the bill, "Findings and purpose" is included in the bill so that the legislature expressly states that there is a rational basis for enacting the bill. The tax is imposed upon employers, as defined by the workers' compensation laws, for the purpose of paying the unfunded liability of Plan 3. There is clearly a rational basis for taxing employers for the imposition of workers' compensation, and the fact that the continued provision of Plan 3 is a public purpose means that it is the proper subject of a tax. Because of the indeterminate membership of each of the plans and the fact that it is the employer, not the state, that chooses the plan to which the employer will belong, the taxation of workers' compensation employers to pay Plan 3 liabilities has a rational basis.

e. The fairness or unfairness of the tax does not appear to invoke constitutional principles. Whether it is fair to tax one group of persons or another group for the payment of the unfunded liability is not a constitutional question. If there is a rational basis for the taxation, a group may be taxed. It may be possible that many groups could also be taxed in a constitutionally correct manner. The fact that choices can be made and "inequalities" balanced does not mean a tax is unconstitutional.

7083f/c:jeanne\wp:jj

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROJECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

REVENUE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Premium pre-collected				\$15,561,128	\$9,132,053	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0
Tax Revenues (Cash)	\$49,232,000	\$50,861,305	\$64,800,000	\$62,244,510	\$62,565,955	\$63,435,625	\$64,130,581	\$64,771,887	\$65,419,505	\$66,073,802	\$66,724,540	\$67,401,885
Premium Collected	\$7,401,282	\$7,964,872	\$4,315,607	\$2,212,392	\$1,789,781	\$1,437,380	\$550,818	\$322,445	\$0	\$0	\$0	\$0
Investment Earnings	\$425,000	\$313,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income												
TOTAL INCOME	\$57,119,282	\$59,139,177	\$69,115,607	\$70,511,140	\$72,788,789	\$66,971,053	\$65,081,399	\$65,094,332	\$65,419,506	\$66,073,802	\$66,724,540	\$67,401,885
EXPENSES (paid)												
Prior FY 88 Benefits				\$61,944,000	\$42,456,000	\$25,404,000	\$14,964,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$2,088,000
Camp Benefits	\$38,034,472	\$43,866,927	\$53,091,639	\$49,149,758	\$48,204,611	\$23,206,934	\$33,146,200	\$36,168,181	\$38,067,302	\$39,216,695	\$39,993,222	\$40,585,334
Med Benefits	\$14,085,173	\$20,472,171	\$28,587,805	\$3,311,408	\$9,723,560	\$13,572,964	\$17,947,954	\$17,947,954	\$20,497,778	\$21,116,682	\$21,534,812	\$21,553,641
Other Expenses	\$5,021,998	\$6,672,158	\$6,800,000	\$7,000,000	\$7,200,000	\$7,500,000	\$8,100,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Bad Debt Expenses	\$100,144	\$248,348	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
TOTAL EXPENSES	\$57,241,787	\$71,250,204	\$88,473,444	\$78,605,166	\$74,786,171	\$71,983,898	\$74,058,154	\$72,817,356	\$71,937,281	\$73,209,377	\$73,038,034	\$73,665,375
INCURRED:				\$59,132,285	\$59,723,607	\$60,320,843	\$60,924,052	\$61,533,282	\$62,146,625	\$62,770,112	\$63,387,813	\$64,031,731
Loss Ratio:				0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
RESERVES (CHIE Repts)												
Cash & Investments	\$57,737,038	\$47,951,191	\$28,587,354	\$20,493,328	\$19,495,946	\$13,583,111	\$4,606,355	\$3,116,659	\$3,634,144	\$16,759,719	\$23,073,213	\$29,298,304
Past Liability			\$174,000,000	\$161,727,119	\$156,664,555	\$150,201,500	\$145,167,358	\$142,183,335	\$140,894,879	\$139,155,614	\$138,415,333	\$137,420,208
Unfunded Liability			(\$145,412,646)	(\$141,233,791)	(\$135,568,609)	(\$136,618,390)	(\$140,561,043)	(\$145,300,004)	(\$150,529,023)	(\$155,325,333)	(\$161,468,606)	(\$167,219,512)
FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MARKET (Montana)												
Total 1/1/111 Payro	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,055	\$4,158,045,866	\$4,199,628,325	\$4,241,622,588	\$4,284,038,814	\$4,326,879,202	\$4,370,147,994
Plan 111 Payroll:	\$1,736,337,982	\$1,888,332,934	\$1,907,994,667	\$1,830,720,883	\$1,849,028,091	\$1,867,518,372	\$1,886,193,556	\$1,905,055,492	\$1,924,106,047	\$1,943,347,107	\$1,962,780,578	\$1,982,408,384
Plan 111 x of Mkt:	44.51%	47.75%	47.75%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%
avg. Rate:	\$2.81	\$2.69	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

Assumptions:
after FY 87

MARKET SHARE DROPS 5%
PRECEDENCE OF PREMIUMS
PASSAGE OF SB 315
TRX OF 2% ON PLAN 1, 111, 111 EMPLOYERS
TRX SUBSETS AFTER FY 1988-89

SENATE LABOR & EMPLOYMENT

4/7/87
HB 884

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROTECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

REVENUE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Premium pre-collected				\$16,380,134								
Tax Revenues (Cash)	\$49,292,000	\$50,861,305	\$64,800,000	\$65,520,537	\$8,132,053	\$2,039,059	\$67,505,875	\$0	\$68,180,933	\$68,852,743	\$69,551,370	\$70,246,884
Premium Collected	\$7,401,282	\$7,954,872	\$4,315,607	\$2,212,392	\$1,984,246	\$1,785,253	\$1,914,065	\$0	\$886,321	\$397,627	\$0	\$0
Investment Earnings	\$425,000	\$313,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL INCOME	\$57,119,282	\$59,134,177	\$69,115,607	\$73,787,166	\$76,292,041	\$70,660,782	\$68,919,944	\$69,047,455	\$69,250,359	\$69,551,370	\$70,246,884	\$70,949,353
EXPENSES (Paid)												
Prior FY88 Benefits	\$38,034,472	\$43,866,927	\$53,091,539	\$61,944,000	\$42,456,000	\$25,404,000	\$14,954,000	\$8,874,000	\$4,872,000	\$4,175,000	\$2,610,000	\$2,088,000
Corp Benefits	\$13,085,173	\$20,472,171	\$28,587,805	\$3,465,693	\$9,184,800	\$25,533,515	\$34,890,137	\$38,071,770	\$40,070,845	\$41,280,732	\$42,098,128	\$42,721,404
Other Expenses	\$5,021,998	\$6,672,158	\$6,800,000	\$7,000,000	\$7,200,000	\$1,580,000	\$1,900,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Bad Debt Expenses	\$100,144	\$248,948	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
TOTAL EXPENSES	\$57,241,787	\$71,260,204	\$88,479,444	\$73,103,122	\$76,098,285	\$73,924,946	\$76,742,057	\$75,745,953	\$75,019,453	\$75,384,818	\$76,276,351	\$76,913,237
Loss Ratio:				0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
RESERVES (CHIEF Repts)												
Cash & Investments	\$57,737,038	\$47,951,191	\$28,587,354	\$23,271,399	\$23,455,155	\$20,200,991	\$12,378,878	\$5,680,380	\$147,459,347	\$145,884,330	\$145,742,519	\$144,831,167
Unfunded Liability			(\$145,412,646)	(\$141,063,989)	(\$135,044,904)	(\$135,579,746)	(\$138,890,383)	(\$142,914,814)	(\$147,574,051)	(\$152,796,482)	(\$158,184,138)	(\$163,736,670)
FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MARKET (Montana)												
Total 1/1/111 Payro	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,325	\$4,241,622,588	\$4,284,038,814	\$4,326,879,202	\$4,370,147,994
Plan III Payroll:	\$11,756,337,982	\$11,888,932,494	\$11,907,994,667	\$11,927,074,613	\$11,946,343,359	\$11,965,808,813	\$11,985,465,901	\$12,005,321,570	\$12,025,374,785	\$12,045,628,334	\$12,066,084,819	\$12,086,745,567
Plan III x of Mkt:	\$4,512	\$4,773	\$4,773	\$4,773	\$4,773	\$4,773	\$4,773	\$4,773	\$4,773	\$4,773	\$4,773	\$4,773
Prg. Rate:	\$2.81	\$2.63	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

SENATE LABOR & EMPLOYMENT

4/7/87
#B 884

(STBILLS)

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROJECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

Assumptions:
after FY 87
PASSAGE OF SB 315 (3RD READING COPY)
ON PLAN 1, 11, 111 EMPLOYERS
TAX SCHEDULES AFTER FY 1988-89

REVENUE

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Tax Revenues (Cash)				\$6,053,638	\$8,132,053	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0
Premium Collected	\$49,282,000	\$50,861,305	\$64,800,000	\$65,520,537	\$66,175,742	\$66,837,500	\$67,505,875	\$68,180,333	\$68,862,743	\$69,551,370	\$70,246,884	\$70,949,553
Investment Earnings	\$7,401,282	\$7,964,872	\$4,315,607	\$2,212,992	\$1,984,246	\$1,785,225	\$1,414,069	\$866,521	\$397,627	\$0	\$0	\$0
Misc. Income	\$426,000	\$313,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

TOTAL INCOME	\$57,119,282	\$59,139,177	\$69,115,607	\$73,787,166	\$76,282,041	\$70,660,782	\$68,919,944	\$69,047,455	\$69,260,369	\$69,551,370	\$70,246,884	\$70,949,553
--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

EXPENSES (paid)

Prior FY88 Benefits				\$61,944,000	\$42,456,000	\$25,404,000	\$14,564,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$2,088,000
Comp Benefits	\$38,034,472	\$43,866,927	\$53,091,639	\$6,473,429	\$17,057,485	\$26,533,615	\$34,690,737	\$38,071,770	\$40,070,845	\$41,280,732	\$42,059,128	\$42,721,404
Med Benefits	\$14,085,173	\$20,472,171	\$28,587,805	\$3,485,633	\$9,184,800	\$14,287,331	\$18,787,320	\$20,500,184	\$21,576,609	\$22,228,066	\$22,668,223	\$23,003,833
Other Expenses	\$5,021,998	\$6,672,158	\$6,800,000	\$7,000,000	\$7,200,000	\$7,500,000	\$7,900,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Bad Debt Expenses	\$100,144	\$248,948	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000

TOTAL EXPENSES	\$57,241,787	\$71,280,204	\$88,479,444	\$79,103,122	\$76,098,285	\$73,924,946	\$76,742,057	\$75,745,953	\$75,019,453	\$76,384,818	\$76,276,351	\$76,913,237
----------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

RESERVES (CHIEF Repts)

INCURRED:				\$62,244,510	\$62,966,935	\$63,493,625	\$64,130,581	\$64,771,887	\$65,419,606	\$66,073,802	\$66,734,540	\$67,401,285
Loss Ratio:				0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95

Cash & Investments	\$57,737,038	\$47,951,191	\$28,587,354	\$23,271,399	\$23,465,155	\$20,200,991	\$12,378,878	\$5,680,380	\$78,704	\$6,912,152	\$12,941,619	\$18,905,504
Past Liability			\$174,000,000	\$164,341,388	\$158,510,058	\$155,780,737	\$151,269,261	\$148,595,194	\$147,495,347	\$145,884,330	\$145,242,519	\$144,831,167
Unfunded Liability			(\$145,412,646)	(\$141,069,989)	(\$135,044,904)	(\$135,579,746)	(\$138,890,383)	(\$142,914,814)	(\$147,574,051)	(\$152,796,482)	(\$158,184,138)	(\$163,736,670)

FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
-------------	------	------	------	------	------	------	------	------	------	------	------	------

MARKET (Montana)

Total 1/11/111 Payro	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,225	\$4,241,622,598	\$4,284,038,914	\$4,326,879,202	\$4,370,147,374
Plan III Payroll:	\$1,756,337,982	\$1,688,932,494	\$1,907,994,667	\$1,927,074,613	\$1,946,345,359	\$1,965,808,813	\$1,985,466,901	\$2,005,321,570	\$2,025,374,766	\$2,045,628,534	\$2,066,084,819	\$2,086,745,667
Plan III x of Mkt:	44.51%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%
Avg. Rates:	\$2.81	\$2.69	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

TAX RATE=	0.002											
-----------	-------	--	--	--	--	--	--	--	--	--	--	--

FIRST QUARTER COLLECTIONS	0	\$2,017,879	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SECOND QUARTER COLLECTIONS	\$2,017,879	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
THIRD QUARTER COLLECTIONS	\$2,017,879	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

SENATE LABOR & EMPLOYMENT
DATE: 4/7/87
128834

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROJECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

Assumptions:
after FY 87 MARKET SHARE DROPS 5%
PRECEDENCE OF PREMIUMS
TAX OF .2% ON PLAN 1, II, III EMPLOYERS
TAX SINKETS AFTER FY 1988-89

REVENUE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Premium pre-collected	\$49,232,000	\$50,961,305	\$54,800,000	\$15,561,128	\$8,132,053	\$2,038,058	\$64,130,581	\$0	\$0	\$0	\$0	\$0
Tax Revenues (Cash)	\$7,401,282	\$7,964,872	\$4,315,607	\$62,244,510	\$62,865,955	\$43,495,625	\$350,818	\$54,771,887	\$55,419,606	\$66,073,802	\$66,734,540	\$67,401,885
Premium Collected	\$428,000	\$313,000	\$0	\$2,212,992	\$1,789,781	\$1,437,380	\$0	\$322,445	\$0	\$0	\$0	\$0
Investment Earnings				\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income												
TOTAL INCOME	\$57,119,282	\$59,139,177	\$69,115,607	\$70,511,140	\$72,784,789	\$66,971,063	\$65,081,399	\$65,094,332	\$65,419,606	\$66,073,802	\$66,734,540	\$67,401,885
EXPENSES (paid)												
Prior FY88 Benefits												
Comp Benefits	\$38,034,472	\$43,865,987	\$53,091,639	\$61,944,000	\$42,456,000	\$25,404,000	\$14,964,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$2,088,000
Med Benefits	\$14,085,173	\$20,472,171	\$28,587,805	\$6,149,758	\$8,204,611	\$35,206,334	\$33,146,200	\$36,168,181	\$38,067,302	\$39,216,695	\$39,993,222	\$40,585,334
Other Expenses	\$5,021,998	\$6,672,158	\$6,800,000	\$7,000,000	\$7,200,000	\$7,500,000	\$7,900,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Bad Debt Expenses	\$100,144	\$248,948	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
TOTAL EXPENSES	\$57,241,787	\$71,260,204	\$88,479,444	\$78,605,166	\$74,786,171	\$71,983,898	\$74,058,154	\$72,817,536	\$71,937,981	\$73,091,377	\$73,038,034	\$73,666,375
RESERVES (CHAE Repts)												
Cash & Investments	\$57,737,038	\$47,561,191	\$28,587,354	\$20,493,328	\$18,495,946	\$13,583,111	\$4,606,355	(\$3,116,659)	(\$9,634,144)	(\$16,769,719)	(\$23,073,213)	(\$29,238,304)
Past Liability				\$174,000,000	\$154,064,555	\$150,201,500	\$145,167,338	\$142,183,335	\$140,894,879	\$139,552,614	\$138,415,593	\$137,320,208
Unfunded Liability				(\$145,412,646)	(\$135,568,609)	(\$138,618,530)	(\$140,561,043)	(\$143,300,004)	(\$150,323,023)	(\$153,323,333)	(\$161,488,606)	(\$167,219,312)
FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MARKET (Montana)												
Total 1/1/1/11 Payro	\$3,945,656,824	\$3,956,237,969	\$3,935,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,325	\$4,241,622,588	\$4,284,038,814	\$4,326,879,202	\$4,370,147,394
Plan III Payroll:	\$1,756,337,982	\$1,888,332,494	\$1,907,994,667	\$1,630,720,883	\$1,849,028,091	\$1,867,518,372	\$1,886,193,556	\$1,905,055,132	\$1,924,105,047	\$1,943,347,107	\$1,962,760,576	\$1,982,408,394
Plan III % of Mkt:	44.51%	47.75%	47.75%	40.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%
Avg. Rate:	\$2.81	\$2.65	\$2.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

SENATE LABOR & EMPLOYMENT

EXHIBIT NO. 1

DATE

BILL NO.

4/7/91
HB 884

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROJECTION
FINDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 894

ASSUMPTIONS:
after FY 87
MARKET REMAINS UNCHANGING
PRECEDENCE OF PREVISIONS
TAX OF .2% ON PLAN 1, 11, 111 EMPLOYERS
TAX SINKETS AFTER FY 1988-89

REVENUE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Premium pre-collected				\$16,380,134	\$8,132,053	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0
Tax Revenues (Cash)	\$49,292,000	\$50,861,305	\$64,800,000	\$65,520,537	\$66,173,742	\$66,837,300	\$67,505,875	\$68,180,933	\$68,862,743	\$69,551,370	\$70,246,864	\$70,949,353
Premium Collected	\$7,401,282	\$7,964,872	\$4,315,607	\$2,212,992	\$1,984,246	\$1,785,225	\$1,414,069	\$866,321	\$397,627	\$0	\$0	\$0
Investment Earnings	\$426,000	\$313,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income												
TOTAL INCOME	\$57,119,282	\$59,139,177	\$69,115,607	\$73,787,166	\$76,292,041	\$76,660,782	\$68,919,944	\$69,047,455	\$69,260,369	\$69,551,370	\$70,246,864	\$70,949,353
EXPENSES (paid)												
Prior FY88 Benefits				\$61,944,000	\$42,456,000	\$25,404,000	\$14,964,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$2,088,000
Comp. Benefits	\$38,034,472	\$43,865,927	\$53,091,539	\$61,473,429	\$67,057,486	\$72,533,515	\$78,890,737	\$83,071,770	\$87,070,845	\$91,280,732	\$95,098,129	\$98,721,404
Med. Benefits	\$19,085,173	\$20,432,171	\$28,587,805	\$37,465,693	\$47,184,800	\$57,287,331	\$67,787,320	\$78,500,184	\$89,376,609	\$100,388,086	\$111,568,223	\$122,903,833
Other Expenses	\$3,021,998	\$6,672,128	\$6,800,000	\$7,000,000	\$7,200,000	\$7,500,000	\$7,800,000	\$8,100,000	\$8,400,000	\$8,700,000	\$9,000,000	\$9,300,000
Bad Debt Expenses	\$100,144	\$248,948	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
TOTAL EXPENSES	\$57,241,787	\$71,280,204	\$88,479,444	\$109,103,122	\$126,098,285	\$139,924,946	\$156,742,057	\$175,745,953	\$195,019,453	\$214,384,818	\$233,276,351	\$252,913,237
RESERVES (CHIEF RENTS)												
Cash & Investments	\$57,737,038	\$47,951,191	\$28,587,354	\$23,271,399	\$23,465,155	\$20,200,991	\$12,378,878	\$5,680,380	\$2,704	\$5,912,152	\$12,941,519	\$18,905,504
Past Liability			\$174,000,000	\$184,341,388	\$158,510,058	\$135,180,737	\$101,269,261	\$68,593,194	\$40,495,347	\$24,884,330	\$14,242,519	\$8,831,167
Unfunded Liability			(\$145,412,646)	(\$141,063,989)	(\$135,044,904)	(\$135,579,746)	(\$138,890,383)	(\$142,514,814)	(\$147,574,051)	(\$152,756,482)	(\$158,184,138)	(\$163,736,670)
FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MARKET (Montana)												
Total 11/11/11 Payro	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,075,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,325	\$4,241,622,588	\$4,284,038,814	\$4,326,879,202	\$4,370,147,994
Plan 111 Payroll:	\$1,756,337,982	\$1,888,932,494	\$1,907,994,657	\$1,927,074,613	\$1,946,345,359	\$1,965,808,813	\$1,985,466,901	\$2,005,321,570	\$2,025,374,786	\$2,045,628,534	\$2,066,084,819	\$2,086,745,657
Plan 111 x of Mkt:	\$4,318	\$4,753	\$4,753	\$4,753	\$4,753	\$4,753	\$4,753	\$4,753	\$4,753	\$4,753	\$4,753	\$4,753
Rvg. Rate:	\$2.81	\$2.53	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

SENATE LABOR & EMPLOYMENT
EXHIBIT NO. 1
DATE 4/7/13
BILL NO. 43 884

(SFBI16)

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROTECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

Assumptions:
TAX OF 2% ON PLAN 1, 11, 111 EMPLOYERS
TAX SCHEDULES AFTER FY 1989-89

REVENUE

Tax Revenues (Cash)
Premium Collected
Investment Earnings
Misc. Income

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Tax Revenues (Cash)	\$49,238,000	\$50,861,305	\$64,800,000	\$6,053,638	\$8,132,053	\$2,038,058	\$67,505,875	\$68,180,333	\$68,862,743	\$69,551,370	\$70,245,884	\$70,949,353
Premium Collected	\$7,401,282	\$7,964,872	\$4,315,607	\$2,212,992	\$1,984,246	\$1,785,225	\$1,414,069	\$866,521	\$397,627	\$0	\$0	\$0
Investment Earnings	\$425,000	\$313,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

TOTAL INCOME

	\$57,119,282	\$59,139,177	\$69,115,607	\$73,787,166	\$76,292,041	\$70,660,782	\$68,919,944	\$69,047,455	\$69,260,369	\$69,551,370	\$70,245,884	\$70,949,353
--	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

EXPENSES (paid)

Prior FY88 Benefits
Comp Benefits
Med Benefits
Other Expenses
Bad Debt Expenses

	\$38,034,472	\$43,866,927	\$53,091,639	\$61,944,000	\$42,456,000	\$25,404,000	\$14,954,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$2,088,000
Comp Benefits	\$14,085,173	\$20,472,171	\$28,587,805	\$6,473,429	\$17,057,486	\$26,533,615	\$34,890,737	\$38,071,770	\$40,070,845	\$41,280,732	\$42,058,128	\$42,721,404
Med Benefits	\$51,021,998	\$6,672,158	\$6,800,000	\$3,485,693	\$9,184,800	\$14,287,331	\$18,787,320	\$20,500,184	\$21,576,609	\$22,228,086	\$22,668,223	\$23,003,833
Other Expenses	\$100,144	\$248,948	\$0	\$200,000	\$7,200,000	\$7,500,000	\$7,900,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Bad Debt Expenses	\$0	\$0	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000

TOTAL EXPENSES

	\$57,241,787	\$71,260,204	\$88,479,444	\$79,103,122	\$76,098,285	\$73,924,946	\$76,742,057	\$75,745,953	\$75,019,453	\$76,384,818	\$76,276,351	\$76,913,237
--	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

RESERVES (CHGE Repts)

			INCURRED:									
			Loss Ratio:	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95

Cash & Investments
Past Liability
Unfunded Liability

	\$57,737,038	\$47,951,191	\$28,587,354	\$23,271,393	\$23,465,155	\$20,200,991	\$12,378,878	\$5,680,380	(\$78,704)	(\$9,912,152)	(\$12,941,619)	(\$18,905,504)
Past Liability	\$174,000,000	\$154,341,388	\$158,510,058	\$158,780,737	\$155,780,737	\$151,269,261	\$148,595,194	\$147,495,347	\$145,884,330	\$145,242,519	\$144,821,167	\$144,821,167
Unfunded Liability	(\$145,412,646)	(\$141,069,983)	(\$141,069,983)	(\$135,044,904)	(\$135,579,746)	(\$138,890,383)	(\$142,914,814)	(\$147,574,051)	(\$152,795,482)	(\$158,184,138)	(\$163,736,670)	

FISCAL YEAR

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
--	------	------	------	------	------	------	------	------	------	------	------	------

MARKET (Montana)

Total 1/11/111 Payro
Plan III Payroll:
Plan III % of Mkt:
Avg. Rate:

	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,325	\$4,241,622,598	\$4,284,038,914	\$4,326,879,202	\$4,370,147,974
Plan III Payroll:	\$1,756,337,982	\$1,888,932,494	\$1,907,994,667	\$1,927,074,613	\$1,946,345,359	\$1,965,808,813	\$1,985,466,901	\$2,005,321,570	\$2,025,374,786	\$2,045,628,534	\$2,066,084,819	\$2,086,745,667
Plan III % of Mkt:	44.51%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%	47.75%
Avg. Rate:	\$2.81	\$2.69	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

TAX RATE=

	0.002		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
--	-------	--	------	------	------	------	------	------	------	------	------	------

FIRST QUARTER COLLECTIONS

	0	\$2,017,879	\$2,017,879	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
--	---	-------------	-------------	-------------	-----	-----	-----	-----	-----	-----	-----	-----

SECOND QUARTER COLLECTIONS

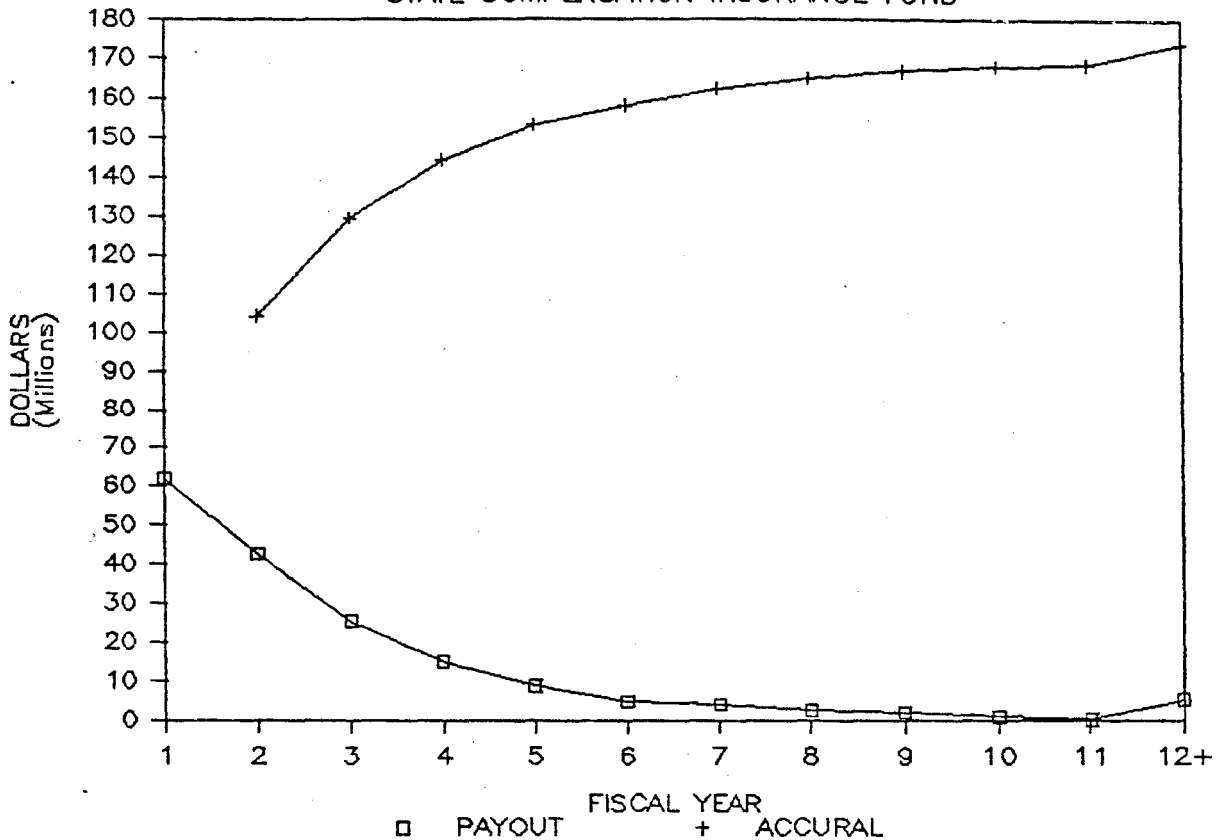
	\$2,017,879	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
--	-------------	-------------	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

THIRD QUARTER COLLECTIONS

	\$2,017,879	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
--	-------------	-------------	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

DATE 4/7/87
BILL NO. 446,884

STATE COMPENSATION INSURANCE FUND



MONTANA STATE WORKERS' COMPENSATION FUND Unfunded Liability Projected Payout Pattern of Liabilities

Year	%	Payout
1	35.6	\$61,944,000
2	24.4	\$42,456,000
3	14.6	\$25,404,000
4	8.6	\$14,964,000
5	5.1	\$8,874,000
6	2.8	\$4,872,000
7	2.4	\$4,176,000
8	1.5	\$2,610,000
9	1.2	\$2,088,000
10	0.6	\$1,044,000
11	0.2	\$348,000
12+	3.0	\$5,220,000
Totals	100	\$174,000,000

Expected reserves (FY 87 year end) \$34,000,000
 Unfunded Liability (FY 87 year end) \$140,000,000
 Total: \$174,000,000

SENATE LABOR & EMPLOYMENT

EXHIBIT NO. 2

DATE 4/7/87

BILL NO. HB 289

OFFICE OF THE LEGISLATIVE AUDITOR
STATE COMPENSATION INSURANCE FUND
FINANCIAL ACTIVITY PROJECTION
MARCH 16, 1987

REVENUE

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Premium Collected	\$50,861,305	\$64,800,000	\$65,520,537	\$66,175,742	\$66,837,500	\$67,505,875	\$68,180,933	\$68,862,743	\$69,551,370	\$70,246,884	\$70,945,353	\$71,656,846
Investment Earnings	7,964,872	4,315,607	1,400,000	770,000	245,000	0	0	0	0	0	0	0
Misc. Income	313,000	0	0	0	0	0	0	0	0	0	0	0

TOTAL INCOME	\$59,135,177	\$69,115,607	\$66,920,537	\$66,945,742	\$67,082,500	\$67,505,875	\$68,180,933	\$68,862,743	\$69,551,370	\$70,246,884	\$70,945,353	\$71,656,846
--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

EXPENSES (paid)

Prior FYDE Benefits												
Comp Benefits	\$43,866,927	\$53,091,639	\$61,944,000	\$42,456,000	\$25,404,000	\$14,964,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$2,088,000	\$1,044,000
Med Benefits	20,472,171	28,567,805	3,485,693	9,184,800	14,287,331	18,787,320	20,500,184	21,576,609	22,228,086	22,668,223	23,003,833	23,342,799
Other Expenses	6,672,152	6,800,000	7,000,000	7,200,000	7,500,000	7,900,000	8,100,000	8,300,000	8,500,000	8,700,000	8,900,000	9,100,000
Bad Debt Expenses	246,946	0	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000

TOTAL EXPENSES	\$71,260,204	\$88,479,444	\$79,103,122	\$76,098,285	\$73,924,946	\$76,742,057	\$75,745,953	\$75,019,453	\$76,384,818	\$76,276,351	\$76,913,237	\$77,037,712
INCURRED:	\$67,373,084	\$76,662,000	\$62,244,510	\$62,865,955	\$63,495,625	\$64,130,581	\$64,771,887	\$65,419,606	\$66,073,802	\$66,734,540	\$67,401,825	\$68,075,904
Loss Ratio:			0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95

Cash & Investments	\$47,951,191	\$28,587,354	\$16,404,769	\$7,252,226	\$409,780	(\$8,826,402)	(\$16,391,422)	(\$22,548,133)	(\$29,381,580)	(\$35,411,048)	(\$41,374,932)	(\$45,753,796)
Fast Liability		\$174,000,000	\$164,341,386	\$158,510,058	\$155,780,737	\$151,269,261	\$148,595,194	\$147,495,347	\$145,884,330	\$145,242,519	\$144,831,167	\$145,165,352
Unfunded Liability	(\$61,021,967)	(\$145,412,646)	(\$147,936,619)	(\$151,257,832)	(\$155,370,957)	(\$160,095,663)	(\$164,986,616)	(\$170,043,479)	(\$175,265,911)	(\$180,653,567)	(\$186,206,099)	(\$191,923,157)

MARKET (Montana)

Plane 1/11/111 Payroll	\$3,956,237	\$3,995,800	\$4,035,758	\$4,076,115	\$4,116,877	\$4,158,045	\$4,199,626	\$4,241,622	\$4,284,038	\$4,326,879	\$4,370,147	\$4,413,849
Plane 111 Payroll:	\$1,888,932	\$1,907,954	\$1,927,074	\$1,946,345	\$1,965,806	\$1,985,466	\$2,005,321	\$2,025,374	\$2,045,628	\$2,066,084	\$2,086,745	\$2,107,613
Plan 111 x of Mkt:	47.75x	47.75x	47.75x	47.75x	47.75x	47.75x	47.75x	47.75x	47.75x	47.75x	47.75x	47.75x
Arg. Rate:	\$2.69	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

4/7/87
HB 884

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROJECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
REVENUE												
Premium pre-collected				\$15,561,128	\$8,132,053	\$2,038,058	\$0	\$0	\$0	\$0	\$0	\$0
Tax Revenues (Cash)	\$49,292,000	\$50,861,305	\$64,800,000	\$6,053,638	\$2,886,955	\$63,495,625	\$64,130,581	\$64,771,887	\$65,419,606	\$66,073,802	\$66,734,540	\$67,401,885
Premium Collected	\$7,401,282	\$7,964,872	\$4,315,607	\$2,212,992	\$2,879,060	\$2,602,909	\$2,197,933	\$1,656,858	\$1,209,556	\$838,108	\$397,486	\$0
Investment Earnings	\$426,000	\$313,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL INCOME	\$57,119,282	\$59,139,177	\$69,115,607	\$86,072,267	\$73,878,068	\$68,136,591	\$66,328,514	\$66,428,745	\$66,629,261	\$66,911,910	\$67,131,825	\$67,401,885
EXPENSES (Paid)												
Prior FY88 Benefits	\$18,034,472	\$43,866,927	\$53,091,639	\$6,149,758	\$16,204,611	\$29,206,934	\$33,146,200	\$36,168,181	\$38,067,302	\$39,218,695	\$39,893,222	\$40,585,334
Comp. Benefits	\$14,083,173	\$20,472,171	\$28,587,803	\$3,311,408	\$8,723,360	\$13,572,984	\$17,847,934	\$19,473,174	\$20,947,778	\$21,116,682	\$21,534,812	\$21,853,641
Med. Benefits	\$3,021,998	\$6,672,158	\$6,880,000	\$7,000,000	\$7,200,000	\$7,500,000	\$7,900,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Other Expenses	\$100,144	\$248,948	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Bad Debt Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL EXPENSES	\$57,241,787	\$71,260,204	\$88,479,444	\$78,605,166	\$74,786,171	\$71,883,898	\$74,058,154	\$72,817,356	\$72,937,081	\$73,209,377	\$73,028,034	\$73,626,975
LOSS INCURRED:				\$59,132,285	\$59,723,607	\$60,320,843	\$60,924,052	\$61,533,292	\$62,148,625	\$62,770,112	\$63,397,813	\$64,031,791
LOSS RATIO:				0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
RESERVES (CAME Repts)												
Cash & Investments	\$57,737,038	\$47,951,191	\$29,587,354	\$36,054,456	\$35,146,352	\$31,399,045	\$23,669,405	\$17,280,795	\$11,972,975	\$5,675,508	(\$230,700)	(\$6,455,791)
Past Liability			\$174,000,000	\$161,727,119	\$154,064,555	\$130,201,500	\$145,167,358	\$142,183,335	\$140,894,879	\$139,155,614	\$138,415,393	\$137,920,208
Unfunded Liability			(\$145,412,646)	(\$125,672,653)	(\$118,918,203)	(\$118,802,455)	(\$121,497,993)	(\$124,902,540)	(\$128,921,904)	(\$133,480,106)	(\$138,646,093)	(\$144,375,999)
FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MARKET (Montana)												
Total 1/1/11 Payro	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,325	\$4,241,622,588	\$4,284,038,814	\$4,326,879,202	\$4,370,147,994
Plan 111 Payroll	\$1,736,337,982	\$1,888,932,494	\$1,907,994,667	\$1,830,720,883	\$1,849,028,091	\$1,867,318,972	\$1,886,193,358	\$1,905,053,492	\$1,924,106,047	\$1,943,347,107	\$1,962,780,578	\$1,982,408,384
Plan 111 % of Mkt:	44.51%	47.75%	47.75%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%	45.36%
Avg. Rate:	\$2.81	\$2.67	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

Assumptions:
after FY 87
MARKET SHARE DROPS 5%
PRECOLLECTION OF PREMIUMS
PASSAGE OF SB 315
TAX OF .2% ON PLAN 1,11,111 EMPLOYERS
TAX SUNSETS AFTER FY 1988-89

SENATE LABOR & EMPLOYMENT

EXHIBIT NO. 2
DATE 4/7/87
BILL NO. #13-884

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROJECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

Assumptions:
after FY 87

MARKET SHARE DROPS 5%
PRECOLLECTION OF PREMIUMS LARGE POLICIES
PASSAGE OF SB 315
TAX OF 2.1% ON PLAN 1,111 EMPLOYERS
TAX DOES NOT SUNSET

REVENUE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Premium pre-collected				\$7,780,544								
Tax Revenues (Cash)	\$49,292,000	\$50,861,305	\$64,800,000	\$6,003,838	\$8,132,053	\$8,213,174	\$8,295,507	\$8,378,462	\$8,462,247	\$8,546,870	\$8,632,338	\$8,718,662
Premium Collected	\$7,401,282	\$7,964,872	\$4,315,607	\$2,212,992	\$2,334,420	\$2,356,281	\$2,384,165	\$2,440,436	\$2,499,606	\$2,562,743	\$2,630,336	\$2,698,536
Investment Earnings	\$426,000	\$313,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income												
TOTAL INCOME	\$57,119,282	\$59,139,177	\$69,115,607	\$78,291,703	\$73,333,428	\$73,945,279	\$74,810,253	\$75,590,785	\$76,520,089	\$77,583,415	\$78,639,538	\$79,789,083
EXPENSES (Paid)												
Prior FY88 Benefits				\$61,944,000	\$42,456,000	\$25,404,000	\$14,944,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$7,068,000
Comp. Benefits	\$39,034,472	\$43,864,927	\$53,091,639	\$6,149,758	\$16,204,611	\$25,404,934	\$33,146,200	\$36,168,181	\$38,067,302	\$39,216,695	\$39,893,222	\$40,585,334
Med. Benefits	\$14,083,173	\$20,472,171	\$28,587,805	\$3,311,408	\$8,725,560	\$13,572,964	\$17,847,954	\$19,475,174	\$20,497,778	\$21,116,882	\$21,534,812	\$21,853,641
Other Expenses	\$3,021,998	\$6,672,158	\$6,800,000	\$7,000,000	\$7,200,000	\$7,500,000	\$7,900,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Bad Debt Expenses	\$100,144	\$248,948	\$0	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
TOTAL EXPENSES	\$57,241,787	\$71,260,204	\$88,479,444	\$78,605,166	\$74,786,171	\$71,883,898	\$74,058,154	\$72,817,356	\$71,937,081	\$73,209,377	\$73,038,034	\$73,626,975
INCREASED:				\$59,132,285	\$59,723,607	\$60,320,843	\$60,924,052	\$61,533,292	\$62,148,625	\$62,770,112	\$63,397,813	\$64,031,791
Loss Ratio:				0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
RESERVES (CMAE Repts)												
Cash & Investments	\$57,737,038	\$47,951,191	\$28,587,354	\$28,273,892	\$26,821,149	\$28,882,530	\$29,634,629	\$32,408,058	\$36,991,067	\$41,365,104	\$46,966,608	\$53,128,716
Past Liability			\$174,000,000	\$161,727,119	\$154,024,555	\$150,201,500	\$145,167,398	\$142,183,335	\$140,894,879	\$137,155,614	\$138,415,393	\$131,220,208
Undertaken Liability			(\$145,412,646)	(\$133,453,227)	(\$127,243,406)	(\$121,318,971)	(\$115,332,769)	(\$109,775,276)	(\$103,903,813)	(\$97,790,510)	(\$91,448,783)	(\$84,791,493)
FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MARKET (Montana)												
Total 1/1/11 Payro	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,325	\$4,241,622,589	\$4,284,038,814	\$4,326,879,202	\$4,370,147,994
Plan III Payroll:	\$1,756,337,982	\$1,888,932,494	\$1,907,994,667	\$1,830,720,883	\$1,849,028,091	\$1,867,318,372	\$1,886,193,536	\$1,905,053,492	\$1,924,106,047	\$1,943,347,107	\$1,962,780,378	\$1,982,408,384
Plan III 2 of Mkt:	44,512	47,752	47,752	45,362	45,362	45,362	45,362	45,362	45,362	45,362	45,362	45,362
Agv. Rate:	\$2.81	\$2.69	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

SENATE LABOR & EMPLOYMENT
EXHIBIT NO. 2
DATE 4/17/87
DWL NO. 473, 884

OFFICE OF THE LEGISLATIVE AUDITOR
STATE INSURANCE FUND FINANCIAL ACTIVITY PROJECTION
FUNDING ANALYSIS ASSUMING THE PASSAGE OF SB 315 AND HB 884

Assumptions:
after FY 87
MARKET SHARE DROPS 5%
PRECOLLECTION OF PREMIUMS LARGE POLICIES
TAX OF .5% ON PLAN 1,111 EMPLOYERS
TAX DOES NOT SUNSET

REVENUE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Premium pre-collected				\$7,780,564								
Tax Revenues (Cash)	\$49,292,000	\$50,861,305	\$64,800,000	\$13,154,094	\$20,330,133	\$20,533,434	\$20,738,788	\$20,946,156	\$21,155,618	\$21,364,174	\$21,560,846	\$21,796,654
Premium Collected	\$7,401,282	\$7,964,872	\$4,315,607	\$62,234,510	\$62,886,935	\$63,493,625	\$64,130,581	\$64,771,887	\$65,419,606	\$66,073,802	\$66,734,540	\$67,401,885
Investment Earnings	\$426,000	\$313,000	\$0	\$2,530,808	\$3,525,171	\$4,369,578	\$3,354,580	\$6,687,843	\$8,068,191	\$9,666,876	\$11,349,104	\$13,222,383
Misc. Income				\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL INCOME	\$57,119,282	\$59,139,177	\$69,115,607	\$87,689,976	\$86,722,258	\$88,398,637	\$90,403,929	\$92,405,886	\$94,643,414	\$97,107,852	\$99,664,489	\$102,420,922
EXPENSES (Paid)												
Prior FY88 Benefits	\$38,034,472	\$43,866,927	\$53,091,639	\$61,944,000	\$42,456,000	\$75,404,000	\$14,964,000	\$8,874,000	\$4,872,000	\$4,176,000	\$2,610,000	\$2,088,000
Comp. Benefits	\$14,083,173	\$20,472,171	\$28,587,805	\$6,149,758	\$16,204,611	\$25,204,934	\$33,146,200	\$36,168,181	\$38,067,302	\$39,933,222	\$40,985,334	\$41,985,334
Med. Benefits	\$3,021,998	\$6,672,158	\$6,800,000	\$3,311,408	\$8,723,560	\$13,312,964	\$17,847,934	\$19,473,174	\$20,497,778	\$21,116,682	\$21,534,812	\$21,853,641
Other Expenses	\$100,144	\$248,948	\$0	\$7,000,000	\$7,200,000	\$7,500,000	\$7,900,000	\$8,100,000	\$8,300,000	\$8,500,000	\$8,700,000	\$8,900,000
Bad Debt Expenses				\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
TOTAL EXPENSES	\$57,241,787	\$71,260,204	\$88,479,444	\$78,605,166	\$74,786,171	\$11,883,898	\$74,058,154	\$72,817,356	\$71,937,081	\$73,209,377	\$73,038,034	\$73,626,975
Loss Incurred:				\$59,132,285	\$59,723,607	\$60,320,843	\$60,924,052	\$61,533,282	\$62,148,625	\$62,770,112	\$63,397,813	\$64,031,791
Loss Ratio:				0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
RESERVES (CME Repts)												
Cash & Investments	\$57,737,038	\$47,951,191	\$28,587,354	\$37,672,144	\$49,608,252	\$66,122,990	\$82,468,764	\$102,057,295	\$124,763,629	\$148,662,103	\$175,288,558	\$204,082,505
Past Liability			\$174,000,000	\$161,727,119	\$154,064,555	\$150,201,500	\$145,167,398	\$142,183,335	\$140,894,879	\$139,155,614	\$138,415,333	\$137,920,208
Unfunded Liability			(\$145,412,646)	(\$124,054,955)	(\$104,456,304)	(\$84,078,510)	(\$62,698,634)	(\$40,126,040)	(\$16,131,251)	\$9,506,489	\$36,873,165	\$66,162,296
FISCAL YEAR	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MARKET (Montana)												
Total 1/11/11 Payro	\$3,945,656,824	\$3,956,237,969	\$3,995,800,349	\$4,035,758,352	\$4,076,115,936	\$4,116,877,095	\$4,158,045,866	\$4,199,626,325	\$4,241,622,588	\$4,284,038,814	\$4,326,879,202	\$4,370,147,994
Plan 1/1 Payroll:	\$1,756,537,982	\$1,888,932,494	\$1,907,994,667	\$1,830,720,883	\$1,849,028,091	\$1,867,518,312	\$1,886,193,556	\$1,905,053,492	\$1,924,106,047	\$1,943,347,107	\$1,962,780,378	\$1,982,408,384
Plan 1/1 & of Mkt:	44,512	47,752	47,752	45,362	45,362	45,362	45,362	45,362	45,362	45,362	45,362	45,362
Avg. Rates:	\$2.81	\$2.67	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40	\$3.40

SENATE LABOR & EMPLOYMENT
FBI/HIT NO. 2
4/7/87
4/2/88

**EFFECT OF SB 315 & .5% PAYROLL TAX
Self Insurers--PLAN I FIRMS**

FIRMS	Payroll Paid Omit(000)	Benefit Cost Current Law Omit (000)	Benefit Costs after SB 315 Omit (000)	Benefit Reductions (Savings) Omit (000)	.05% Payroll Tax Omit (000)	Net Effect (Savings) Omit (000)
All Plan I	\$522,691	\$ 8,342	\$ 6,673	\$ (1,669)	\$ 2,613	\$ 94

SAMPLE FIRMS

# 1	\$ 5,565	\$ 233	\$ 187	\$ (46)	\$ 28	\$ (1)
# 2	18,651	195	156	(39)	93	(5)
# 3	1,695	366	293	(73)	8	(65)
# 4	27,355	12	10	(2)	136	(134)
# 5	80,028	667	533	(134)	401	(26)
# 6	9,813	534	427	(107)	49	(5)
# 7	3,198	150	120	(30)	16	(14)
# 8	62,018	874	699	(175)	310	(135)
# 9	69,000	246	197	(49)	345	(29)
#10	3,778	482	385	(97)	19	(7)

**EFFECT OF SB 315 & .5% PAYROLL TAX
PLAN II FIRMS**

Rates Per \$100 of Payroll

Current Rate	Expected Rate After SB 315	Cost of 0.5% Payroll Tax	New Combined Rate	Additional Cost (Savings) from Current
.50	.39	.50	.89	.39
1.00	.78	.50	1.28	.28
1.50	1.17	.50	1.67	.17
2.00	1.56	.50	2.06	.06
2.50	1.95	.50	2.45	(.05)
3.00	2.34	.50	2.84	(.16)
4.00	3.12	.50	3.62	(.38)
5.00	3.98	.50	4.48	(.52)
10.00	7.08	.50	8.30	(1.70)
15.00	11.07	.50	12.20	(2.80)
25.00	19.05	.50	20.00	(5.00)
35.00	27.03	.50	27.80	(7.20)

**EFFECT OF SB 315 & .5% PAYROLL TAX
PLAN III FIRMS ***

Rates Per \$100 of Payroll

Current Rate	Cost of 0.5% Payroll Tax	Combined Rate	Additional Cost from Current
\$.50	\$.50	\$ 1.00	\$.50
1.00	.50	1.50	.50
1.50	.50	2.00	.50
2.00	.50	2.50	.50
2.50	.50	3.00	.50
3.00	.50	3.50	.50
4.00	.50	4.50	.50
5.00	.50	5.50	.50
10.00	.50	10.50	.50
15.00	.50	15.50	.50
25.00	.50	25.50	.50
35.00	.50	35.50	.50

* Current premium is approximately 18-20% low.
20% Savings from SB 315 should offset any rate increase.

SENATE LABOR & EMPLOYMENT
EXHIBIT NO. 2
DATE 4/7/87
BILL NO. HB 889

STATE FUND - UNFUNDED LIABILITY

HB 884 introduced in the Montana Legislature to solve the unfunded liability problems within the State Compensation Insurance Fund will impose a "payroll tax" of 57¢ on each \$100 of wages paid by every Montana employer. This revenue producing measure would provide the State Fund with an additional \$23 million each year beginning in Fiscal Year 1988.

The financial short-fall facing the State Compensation Insurance Fund has to be dealt with swiftly to avoid a potential collapse of this needed insurance program. The majority of solutions available to correct this problem are administrative in nature and do not need any legislative involvement. A "quick-fix" measure should not be used on a problem that has developed over the past six to seven years.

The State Fund has grown from a relatively small insurance company in the late 1970's to the largest insurance writer of workers' compensation insurance in Montana. Many reasons surround this tremendous growth, but, the most significant reason rests with the inadequate rate that the State Fund has used since 1980. Since July 1, 1980 the State Fund has charged its policyholders a rate that did not meet a break-even level for their insurance operations. Since this rate was significantly less than the rates used by the private insurance companies in Montana, many Montana employers moved their insurance coverage to the State to save premium dollars. In 1980, the State Fund wrote \$26.9 million in workers' compensation coverage. They grew to \$33.7 million in 1983; to \$37 million in 1984; to \$49.3 million in 1985 and are projecting premium income of \$65 million for 1987.

The State Fund has increased its market share nearly 100% from 1981 through 1987 using a rate that was not adequate. They passed on this rate savings to only those policyholders that purchased insurance from the State Fund. Businesses that did not attain insurance coverage from the State Fund thru this period were required to pay higher prices for insurance from their private insurance company to reflect the increases in the costs of workers' compensation. ³ In the 1980's, they the State Fund was not using an actuarial sound rate.

SENATE LABOR & EMPLOYMENT

EXHIBIT NO. 3

DATE 4/7/87

HB 884

are faced with a financial deficit or unfunded liability that they must meet to maintain their position in the insurance industry.

Many members of the Montana Legislature believe that this "payroll tax" measure is the only solution to this financial problem. But, many options are available even at this late point to deal with the financial problems of the near future.

Many people believe that the State Fund will not be able to solve this financial problem since the State Fund cannot refuse insurance to any business. When the State Fund was created in 1915, it was granted many advantages over the private insurance companies and the self insured companies. In exchange for these advantages, the State Fund was restricted in its ability to restrict enrollment in its insurance program. These advantages include:

1. All State government agencies must insure with the State Fund.
2. State Fund was exempted from the need to pay premium taxes. (The State Fund in Idaho & Oregon pay premium taxes to their respective General Funds)
3. State Fund was exempted from paying income taxes on their profits from operation.
4. State Fund was exempted from paying income taxes on dividend or interest income.
5. State Fund does not belong to the Western Guarantee Association. (Private insurance companies are required to participate and thus, must charge their insureds an additional 2% of earned premium to support the financial failures of private insurance companies)
6. State Fund does not have to purchase reinsurance for excess losses. (Had the Fund purchased reinsurance for their aggregate losses in each year, the Fund's unfunded liability would be minimal at this point or even non-existent)
7. State Fund is immune from all regulations imposed by the Insurance Commissioner. The State Fund is permitted to discount their incurred losses at unusually high interest rates; they do not have to maintain a "loss adjustment expense" reserve that will equal the cost of paying off all outstanding claims; they are exempt from all costs of acquiring new business (salesmen, marketing staff, or agents).

Many options are available for use to help solve the problems facing the State Compensation Insurance Fund. The following options are not meant to be an inclusive listing of ALL available options:

SENATE LABOR & EMPLOYMENT

EXHIBIT NO

3

DATE

4/7/37

thm 004

1. The 57¢ "payroll tax" amounts to a 16.48% premium increase for those risks insuring with the Montana State Fund. Employers' are looking at bottom line costs for insurance, and whether the requirement to pay additional monies to the State Fund is called a "rate increase" or a "payroll tax" the cost must be paid by the employer.

The State Fund rate for insurance is the cheapest available in Montana at this time. The next best available rate used by any insurance company is State Fund plus 17½%.

The State Fund would certainly be able to move their rate upward without having to loose the need for charging the lowest rate.

2. The State Fund is able to charge an advance rate for dangerous places of employment. This permits the State Fund to debit their current rate to use on employers that have employment conditions unacceptable to the standard risk.

Private insurance companies for many years have used a debit or credit system to impose a penalty for poor risks or grant a reduction to good risks.

3. The State Fund should improve their insurance products by offering for sale more than just a guaranteed cost insurance policy. They could offer retrospective rated insurance policies, retention plans, cash flow plans, and individually tailored dividend programs.
4. The State Fund should improve their cash flow position. They should require that all advance deposits be paid in cash. A deposit should be more than just security for unpaid premiums; it should be a vehicle that generates income to aid in the operations. Deposits should be altered annually to reflect the current operations of each risk that is insured with the State Fund.
5. The State Fund should offer more than just quarterly and semi-annual voluntary payroll reports as the method of paying premiums. A program to allow insureds to pay premiums in advance will improve the cash-flow position of the Fund.

Private insurance companies allow premium payments in advance on the majority of insurance policies. Payments on a monthly basis and an annual basis in advance provide a very positive cash flow and additionally this reduces the fixed collection costs associated with premium payments.

6. The State Fund should audit all risks above \$2,500 each year.

Private insurance companies audit all risks each year; risks above \$2,500 are generally audited by a individual visiting the risks and risks below \$2,500 are generally asked to submit all payroll information on a solicitation basis. Fee auditors are able to complete about 20 audits per week per person when actually visiting the business.

SENATE LABOR & EMPLOYMENT
EXHIBIT NO. 3

DATE 4/3/87

4/7/87

7. The State Fund should use proven claims reserve practices that reflect the loss development characteristics unique to Montana. When the initial reserve amounts are not adjusted in a timely manner, the Experience Modification Factor is unable to reflect the "correct" actual incurred loss. The use of the NCCI development factors will more accurately allow the State Fund to know that the experience modification promulgation process is reflective of the actual loss data.
8. The State Fund does not use the "Expected loss rates" or the "D ratio's" calculated by NCCI in the experience rating process. Since the State Fund does not use the NCCI rates, the State Fund should calculate their own experience modification factors using factors that are relative to their own experience.

It serves no purpose to develop a rate program and then use a different set of rates to promulgate an experience modification factor. Currently, the "expected loss rate" for many class codes is greater than the actual rate used by the Fund. In these cases, the experience modification factor is far less than adequate in reflecting the true experience of a risk.
9. The State Fund should have a loss control department. They should implement an aggressive program to aid employers in reducing loss time injuries. The use of "safety inspectors" employed by the Division of Workers' Compensation prevents a free exchange of information on the part of the employers in many cases. Loss control is a very important item in the overall effort to reduce employer costs under the workers' compensation program.
10. The State Fund rate level does adequately reflect the losses incurred by each classification code. Since individual claim reserves are not adequately valued within the first seven months, the rates don't reflect the true loss experience. This problem is providing a dual benefit to the employer; one from the rate position and one from the experience rating position. The use of NCCI loss development factors would help solve this problem.
11. The State Fund should retain the services of an actuarial firm that has a wealth of knowledge in the property-casualty insurance field. Their current actuarial firm has helped lead them on the path to their current financial position. The use of NCCI is always an alternative. The Fund could submit their line item losses to NCCI for determination of the adequate rate to use.

Many of the State Fund rates are based on virtually no credible data since they are inclusive of such a small data base. The inclusion of additional data available from NCCI would improve the rate credibility base that the State Fund is using.
12. The State Fund could increase each rate less than the average rate by 25%. The average State Fund rate is about \$3.75. This additional increase will generate additional premiums of \$8-10.

SENATE LABOR & EMPLOYMENT
EXHIBIT NO. 3

DATE 4/7/87

million annually. This type of increase would pass more of the fixed costs of the insurance operation directly to the users.

13. The State Fund should stagger their renewal dates (NARD dates). This would permit the use of the correct rates and correct experience modification factors at all times. This would improve the internal work flow and all policies would not receive their modification factors on July 1.
14. The State Fund should "short-rate" any insured that is mid-term cancelling a policy to insure with another insurance company.
15. The State Fund should eliminate any special programs that they have with certain groups that work to the detriment of the overall insurance program offered by the State Fund.

For instance, they should drop the Montana Logging Association "Dividend-Safety Program". Under this program, the State Fund pays to the MLA up to 4% of the paid premium by all the members. Additionally, none of the members of this "group" are required to pay an advance deposit.

16. The State Fund could choose to cap rates when they reach a certain limit (for instance \$32.00). If this were the case, the State Fund would have to spread the excess over the remainder of the risks insured with the Fund. This practice is common when a rate increase would be excessive in any single year; extension to an overall book of business would also be very easy to implement.
17. The State Fund could adopt the NCCI expense constant for Montana of \$120. per insurance policy. This charge for 26,000 risks would amount to \$3,120,000 annually.

State Funds in Oregon and Idaho currently use this same \$120.

18. The State Fund could use a minimum premium charge on each account similiar to the private insurance companies in Montana. State Funds in Idaho and Oregon also use this same minimum premium. The minimum premium is equal to the current rates times 105 plus the \$120 expense constant, but not over \$750 each year.
19. The State Fund should improve their claims handling process. They currently have attorney representation on 35% of their open case file which is excessive for the industry, probably seven (7) times the average for Montana. A problem exists in getting the word to the injured people on their benefits and what the State Fund will do for them.

SENATE LABOR & EMPLOYMENT

EXHIBIT NO. 3

DATE 4/13/88

FILE NO. 417187

20. The State Fund should not use special classification codes for only their own usage. They should use established classifications that include a history of losses.

For some of the captives insuring with the State Fund, the Fund has created a special classification code to use. This code has a rate that has been developed over a period of time. Then the risk is experience rated. For instance, the State Highway Department uses two codes only used by that entity. Then they receive an experience modification factor comparing them to the average risk using just those two classifications.

The effect of any losses are magnified by providing a lower rate and a low modification factor if past losses are less than the premium paid. If the losses are greater, the rates and the experience modification factor would be much greater than the premium paid.

Since losses are discounted when they exceed \$2,000; a greater benefit is given to the insureds with numerous losses over that \$2,000 loss figure.

21. State Fund may still need to borrow monies to meet the immediate financial needs of their plan in late 1989 or 1990. They could borrow this money from the "Coal Trust" and amortize the debt over an extended number of years.

One of the major reasons that the State Fund is facing the financial problems of today rests in the tremendous growth that it brought upon itself. By maintaining a rate level less than break-even, they were able to garner the majority of the workers' compensation insurance market in Montana. But, the more business they attracted, the more money they will lose. To reverse this trend, the State Fund will have to charge a rate that is adequate to cover all insurance operations. Private insurance companies must charge an adequate rate to remain in business. In recent years, the private insurance companies have charged a rate that would cover the insurance operations, but that rate has been unattractive to the consumers in Montana since the State Fund is using a rate that is depressed.

The State Fund is an insurance company and must operate like an insurance company. It must provide a product to the consumer at an equitable price, a price that is inclusive of all the costs of operating an insurance company for a long period of time. The Fund must use good business practices. It must use methods consistent with all other insurers, balancing the needs of the customer and Fund.

SENATE LABOR & EMPLOYMENT

EXHIBIT NO 3

DATE 4/7/87

HB 884

A change in the administrative direction at the State Fund will assist in making them a more viable venture. The current problems at the State have developed over the past seven years and can be solved through prudent decisions and money management. HB 884 shifts the burden of insurance from the high risk employer to the low risk employer. A flat tax on the payroll earned of each employer will penalize the employers who have succeeded in implementing a good and effective safety program over a number of years. Employers with low rates will see tremendous increases in premium.

Schools, retail stores, professional offices and other low risk establishments will see rate increases that exceed 50% under HB 884. These risks have provided the base for all successful insurance operations in the past. A risk with a \$20.00 rate would only see an increase in premium of 2.9% under HB 884.

The unfunded liability existing at the State Fund is a direct result of the insurance program offered by the Division of Workers' Compensation. The insureds at the State Fund who received lower than adequate rates in the past should hold the responsibility of balancing the existing liabilities of the present since they are a direct result of the past operations.

Ray Conger, Chairman of classification
and Rating Committee
4/7/87 Independent Insurance Agents

SENATE LABOR & EMPLOYMENT

EXHIBIT NO. 3

DATE 4/7/87

BILL NO. HB 884

COMMENTS REGARDING HB 884

BEFORE THE SENATE LABOR AND EMPLOYMENT RELATIONS COMMITTEE

APRIL 7, 1987

Mr. Chairman, members of the Committee, my name is Don Allen representing the Montana Wood Products Association. I appear today in support of HB 884 as it was amended and passed by the House. Our members - as businessmen and as employees - are philosophically concerned about the imposition of any payroll tax since it could be just one more deterrent to business and since temporary taxes too easily become permanent.


However, given the enormous size of the unfunded liability and in view of the fact that no one has come up with an alternative we support the amended bill with the lower tax to be used to reduce the unfunded liability, the 2 year sunset provision, and elimination of the bonding.

During the next two years the savings due to the implementation of SB315 will be clear, the Division can implement suggested management improvements, some of which should improve cash flow and then the whole situation can be evaluated again.

We recognize the serious plight of the Montana Loggers and would suggest that a way be found to cap the rate for loggers.

Thank you for the opportunity to present these comments.

Sincerely,

A handwritten signature in cursive script that reads "Don L. Allen".

Don L. Allen

BILL SUMMARY
(HB 884)

Prepared for the Senate Labor and Employment
Relations Committee

By Tom Gomez, Staff Researcher
Montana Legislative Council

HB 884 is a bill providing for an employer's payroll tax to reduce the unfunded liability in the state workers' compensation insurance fund.

As passed by the House of Representatives, HB 884 contains the following main provisions:

- Expresses findings underlying enactment of the legislation, which primarily recite the problem of the current unfunded liability in the state fund and the need to establish a tax upon all employers in order to provide a source of funding for the unfunded liability in addition to premium and investment income;
- Imposes on each Montana employer a workers' compensation payroll tax equal to 0.2% of the employer's payroll in the preceding calendar quarter for all employments covered by the Workers' Compensation Act;
- Requires deposit of the workers' compensation payroll tax in a special revenue account for use in reducing the unfunded liability in the state fund;
- Provides a statutory appropriation of the tax proceeds to reduce the unfunded liability of the state workers' compensation fund; and
- Establishes an immediate effective date and a termination date of June 30, 1989.

AMENDMENT TO HB 884

1. Page 5, line 13.

Following: "to"

Insert: "the department to be used to"