

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION**

SELECT COMMITTEE ON WORKERS' COMPENSATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on January 15, 1993,
at 4:00 p.m.

ROLL CALL

Members Present:

Rep. Chase Hibbard, Chairman (R)
Rep. Jerry Driscoll, Vice Chairman (D)
Rep. Steve Benedict (R)
Rep. Ernest Bergsagel (R)
Rep. Vicki Cocchiarella (D)
Rep. David Ewer (D)

Members Excused: Steve Benedict

Members Absent: None

Staff Present: Paul Verdon, Legislative Council
Evy Hendrickson, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: None
Executive Action: None

CHAIRMAN HIBBARD introduced **REP. DAVID EWER**, who has worked in the bonding area for his entire professional career and also was instrumental in the work behind the payroll tax bond issue that was issued as a funding source in Workers' Compensation. **REP. EWER** spoke to the committee on the process of bonding. **EXHIBITS 1A and 1B**

Opening Statement:

REP. EWER, House District 45, Helena, discussed the bonding in the area using payroll tax and admitted it was a difficult subject because it would be a tax increase.

He did not advocate one way or the other that any of the options be used. He tried to present as objectively as possible an educational summary as opposed to being a proponent of any particular option.

He discussed what he called the flexible option tax versus what

we have today which is a fixed payroll tax. Since 1991 there has been a payroll tax of .28% on all eligible payroll with only a few exceptions. In addition, the legislature authorized the issuance of either bonds or a loan from the new fund up to \$220 million. At the time that number was felt to be the correct amount of unfunded liability. They directed that the proceeds from either the loan or the bonds be used exclusively for paying claims of the old fund. Loans from the new fund or payroll tax bond proceeds both have to be supported by payroll tax. It limited the amount of debt service to 90% of the anticipated payroll tax revenues.

In July of 1991, the Board of Investments issued \$142 million approximately. The bonds backed by this payroll tax of .28 was a limited tax. Under current law, that tax could have never gone up. The gross amount that was issued, approximately \$11 million, was set aside for debt service. The idea of reserve was that the monies and reserve were to be used to pay for debt service in the event that the payroll tax collections for that year were insufficient to pay for debt service and approximately \$7 million was used to pay for the cost of underwriting for what was known as the original discount.

Had the legislature given them the ability to use a flexible option tenus, they would have been able to bond and capture growth that would undoubtedly have come with payroll tax.

REP. EWER referred to his handout as he discussed payroll base, growth rates, and Montana's business cycles; he emphasized that Montana's payroll base was extraordinarily stable. For that reason we could have an increasing amount of debt service for bonds because of the ability to anticipate a larger tax base.

He said the heart of the flexible option was if, in any given year, payroll tax revenues were insufficient to pay for the debt service on an extraordinary basis, the state would be able to raise the rate. He said that, with just about any other base, one would want to be extraordinarily careful.

The flexible option tax would offer much more efficiency. Members of the public and the legislature would have to be educated that they may not be really giving up anything. We have to acknowledge that on flexible option tax, we have to consider and maybe to accept the risk that any given year there may not be enough tax revenues and we would be allowed to set the rate. If flexible option tax was allowed, the market would allow us to bond against additional growth in payroll tax revenues.

The debt service requirements today are approximately \$11 million a year, and we would need approximately \$12.4 million to meet the requirements. That amount would be needed to the year 2020. It does not go up. If we look at future payroll tax collections, assuming that 1993 payroll tax collections remain constant, then we could bond at approximately \$14.5 million under the fixed tax.

With the flexible option we would have the ability to raise the rate in extraordinary circumstances and we would get a better rate on the bonds than an interest rate. This was not factored in.

REP. EWER closed his presentation and stated he was open for questions from the committee.

Questions From Committee Members and Responses:

REP. BERGSAGEL referred back to the growth factor and asked REP. EWER if he had not put a growth factor in the payroll - the 2.5% he talked about that he projected up until the year 2020 - was this not scheduled into the payroll tax bond?

REP. EWER said the flexible tax assumed that is how we would get the lower tax to begin with. The whole notion is the ability to capture, through a growth rate, the increased payroll tax base.

CHAIRMAN HIBBARD asked if the flexible option was cutting new ground; was it an accepted model that had been employed in the bond industry somewhere or was REP. EWER making some assumptions based upon what he thought might be possible based upon current practice.

REP. EWER said that the payroll tax bonds were not a common creature in the municipal market. General obligation bonds often times have increasing debt service. It was not uncommon in a lot of communities. Their debt service would be increased because they figure that the amount of actual pain would be spread out over a larger base. The market would be very willing to accept it.

He said he was not a proponent of a flexible option on any phase that was erratic. He wouldn't do it based on some sort of retail sales or on income because you don't have that. He said the payroll base was so stable that it offers an argument to think about flexible option.

The data suggests that it's a stable base and we could get comfortable as to what the growth factor would be - this would be an avenue for some additional efficiency.

REP. COCCHIARELLA asked REP. EWER if in the past there would only have been one bad year where the option would have been exercised?

REP. EWER replied we did not have bonds outstanding then. The amount of decline was so small that the reserves would have been sufficient to pay for that and gradually replenish those in the next year without having to use that option.

REP. COCCHIARELLA asked what the opposition to a flexible option tax is.

REP. EWER answered that people like to know exactly what the rate is, they want to have some assurance that the rate's not going to go up.

REP. BERGSAGEL asked if he was correct to assume the proposal was that we would bond for the amount of cash that we need plus one year's worth of debt service. The variable rate would be to cover any exits, to ensure that there would be payment of claims as well as the obligation for the bond. We would not be addressing the unfunded liability; we would be addressing merely the current debt service, the \$99 million plus our one year's worth of debt service and that is the amount that we would be bonded for.

REP. EWER said to remember the legislation that was in place requires that all payroll tax proceeds go to pay old fund claims and pointed out that under the fixed rate, they would not be losing payroll tax dollars to pay out claims. Some efficiency was being lost because they can't capitalize as much as they might like. They are only able to capitalize on the \$42 million.

REP. BERGSAGEL asked at what point in time the flexible rates would kick in. What circumstance would have to happen in terms of either a drop in the payroll tax fluctuation or in terms of drop in employment for that payroll tax to kick in?

REP. EWER replied the employment correlation payroll tax base is not very strong. Hopefully, as the data shows, even on economic downturns, payroll goes up.

Unlike the fixed rate tax, where we have a level debt service, we have a fixed rate of debt service every year - every year we're going to spend \$11 million. That's fixed and so theoretically, every year becomes easier to pay because the payroll tax base gets bigger and bigger. This year it's more and every year it's going to get more than we need.

The notion of flexible option is that instead of having that fixed amount of debt service the same, it goes up. Given that the debt service is going up along with payroll tax base, we would have to concede that the possibility to exercise the option is more pressing. Payroll growth is not just a function of employment; it's a function of inflation and productivity.

REP. EWER said he would be happy to discuss the tables and handout with REP. BERGSAGEL to clarify some of his questions as REP. BERGSAGEL was unclear as to the way this would function. REP. EWER also suggested that the committee might be interested in hearing some comments from the Department of Revenue.

There being no further discussion CHAIRMAN HIBBARD thanked REP.

EWER for his presentation.

Informational Testimony:

CHAIRMAN HIBBARD announced there were two people in the audience he had invited to speak briefly to the committee. They were Michelle Graham, Director of Oregon's Safe Corporation Claims Division, and Dr. Brian Rasmussen, Director of the Department of Reimbursement for the American Physical Therapy Association in Virginia.

Dr. Rasmussen said he had worked in a variety of public and private health agencies including the Blue Cross & Blue Shield Association and also the Texas Rehabilitation Commission. He discussed five issues of workers' compensation reform. First, would managed care be a solution? The managed care in workers' compensation he had seen in other states had not been initiated in largely rural states and there was no evidence as to what the impact would be. Access to care could be a problem should a work comp claimant already have to travel 50-100 miles to seek care. There could also be a problem with access relating to specialty providers. A general practice physician may be reasonably accessible but not someone such as a physical therapist who specializes in treating complicated injuries. Also, managed care could involve negotiations for discounting fees; in this case that would presumably be lesser amounts than are paid now under the Montana comp fee schedule.

He strongly supported appropriate claims revenue and typically, these activities generate at least five dollars of savings for every dollar in administrative expense.

He also suggested there be a provision to include negotiating with any willing practitioner. In other words, some of the managed care programs simply negotiate with whomever they choose and there's no opportunity for other practitioners to even bid on contracts even if they were willing to accept the same terms that are offered to the selected who were selected. That could be an anti-competitive situation and in the long term could actually increase total health care costs under workers' compensation.

He supported the Governor's safety and training initiative. Data suggests strongly that this program can be cost effective.

Third, he suggested another type of prevention which is preventing abusive services being rendered through physician arrangements whereby the physician owns a clinic to which he/she refers patients for services. California data shows that 10% of the total comp health costs result from excessive referrals to physical therapy and other health services. The state of Florida found that the cost per episode of care in a physician-owned physical therapy clinic was one-third higher than the independent clinics.

The fourth area he discussed was the question of litigation. While workers' comp is a no-fault system, there is extensive litigation which has rather a dramatic effect on costs. Oregon has been successful, as have other states, in turning over disputes to administrative arbitration -- hearing officers rather than a very heavy attorney involvement in the court system.

Finally he suggested Montana look at a variety of innovative service delivery arrangements in regard to comp reform. One of those might be allowing claimants to seek physical therapy without first having to visit a physician. Twelve other non-physician professions in Montana are permitted to see patients directly without a physician referral; he believed it would be appropriate to include physical therapists as well.

He said this was not only an issue of access but it also could be a cost savings approach. Not only would it avoid the initial physician visit but data suggests that physical therapists have to have lower charges than physicians rendering similar services.

He believed that both in prevention and acute treatment and longer term rehab, physical therapists have a role to play in workers' comp reform.

Questions From Committee Members and Responses:

REP. BERGSAGEL asked if he was including chiropractic physicians as part of the physical therapy.

Dr. Rasmussen replied that under Montana chiropractic law they do render chiropractic services.

REP. BERGSAGEL said anytime anybody starts to talk about managed care he got nervous because he lived where a person could drive 100 miles just to get to a general practitioner. Also, in his area Canadians come across the border to receive medical services because of managed care. He asked Dr. Rasmussen to comment. From a rural standpoint, REP. BERGSAGEL said just keeping a doctor in the community is difficult; in his area it could be three hundred miles to a managed care setting.

Dr. Rasmussen agreed that access was the most compelling difficulty facing managed care. The intent of managed care is to limit the population of practitioners and there's already access problem. Certainly that could potentially get worse. He thought that this also suggests that if we did consider a managed care arrangement, it would need to be tailored and flexible to meet the needs of rural communities.

There being no further questions of Dr. Rasmussen, CHAIRMAN HIBBARD introduced Michelle Graham.

Informational Testimony:

Michelle Graham, Director of Critical Claims and Vocational Unit in Oregon, State Appropriations Unit shared some of the reform concepts adopted as a result of Oregon's workers' compensation crises. In 1988, Safe Corporation was losing approximately \$1 million every week. At that time, they recognized that unless they took a pro-active role in the workers' compensation arena and other insurance companies, they were going to be put out of business. In addition, Oregon workers and employers were leaving the state in droves because, obviously, Oregon was not an attractive business-related state.

The first action was to initiate an anti-fraud campaign. She wholeheartedly agreed that many systems, especially the workers' compensation system, when it pays to be ill or injured, are riddled with fraud. Since 1990, they had received over \$1.7 million in restitution for crimes committed by medical providers, employers and workers. The highest percentage of fraud in the workers' compensation system in Oregon was related to medical provider fraud; out of the \$1.7 million in restitution they received, medical providers accounted for \$1.04 million.

She said that some of the major reforms that occurred were reforms that Governor Racicot discussed. For instance, even though she said the anti-fraud campaign was not legislatively mandated, she believed it was one of the most important tools in getting the state of Oregon under control.

She pointed out another reform - MCO (Managed Care Organization) - which is a topic of interest in the state of Montana. Oregon is comprised of several urban areas. In each of those areas, they contracted with MCO providers. They had yet to contract with any MCO provider in rural eastern Oregon and she recommended it did not have to be all encompassing. They hope to develop some type of program to effectively manage care in the rural areas, but they had yet been unable to complete that task.

Another reform regarded medical disputes. Prior to SB 1197 that passed in May of 1990, hearings referees were charged with the responsibility of determining whether or not a specific treatment protocol was appropriate and related to the original workers' compensation claim. Through several studies they found attorneys were not in the best position to make that decision but rather, medical peers were. The entire medical dispute resolution process was transferred from the court system to the regulatory agency, the Department of Insurance and Finance. They believe it's the best possible way to determine medical necessity.

Another reform was the development of the 14-member management labor advisory committee. Their task was to make sure the reform bill was implemented not only by the Safe Corporation, but other insurance companies. They continue to meet to review specific

issues that have arisen out of the reform.

Injured workers were given three years of reinstatement rights to return to their regular job even if somebody else had been placed in that position. All of them had seen situations where workers' disability has been extended perhaps because of the chronic nature of the condition. If, at sometime within that three-year period of time they are capable of returning to the job they held at the time of injury, it is their job. All they have to do is ask for it.

Medical doctors and attending physicians' status changed dramatically in Oregon. They went from an open system to really having three types of physicians designated as attending physicians. They included medical doctors, osteopaths and oral surgeons. They are the only three physicians that can authorize time loss benefits and rate permanent disability.

Chiropractors were limited to 30 days of treatment from the time the injury occurred or 12 visits. If they are enrolled in an MCO, they may take on some of the responsibilities of attending physician status if the primary care physician makes the referral.

Lastly, but very important reform-wise, to help them become competitive as employers within the state of Oregon, they also analyzed the benefit schedules in place for injured workers. They were very low on the national average. Hearing and vision loss claims were increased from \$145.00 to \$305.00 per degree. So, if a worker lost his arm prior to SB 1197, he received approximately \$28,000 in permanent, partial disability benefits. After SB 1197, that benefit increased to \$60,000.

In conclusion, she said that reform works but cautioned Montana not to adopt ideas across the board from other states. Montana is in the unique position of having many small employers. There are many options available, and the state must insist that everyone within the state of Montana participate in this reform.

Questions From Committee Members and Responses:

REP. EWER asked about the three types of attending physicians. Did it include family physicians or did they allow internists as well?

Ms. Graham replied that general practitioners encompassed internists. General practitioners and internists may be excluded if they had not received their medical license in the state.

REP. COCCHIARELLA questioned Ms. Graham as to her comment that all special interest groups should be involved in the reform - how did they involve claimants' and plaintiffs' attorneys and how did they make sure that side of the issue was heard in the

process?

Ms. Graham said in this reform everyone was invited to participate and voice their opinion. She said when she talked about reform, she meant what occurred once it was recognized there were problems and that changes needed to occur. In Oregon, the workers are expected to participate in their own recovery rather than to become disabled. They went from 123 permanent total disability awards in 1988 to 16 in 1992. In 1992, as a result of aggressive case management, the involvement of plaintiffs' attorneys helping them to assist workers to return to the work force or making decisions to end their relationship through settlements, they were able to reduce that number to 16.

In answer to a question from REP. BERGSAGEL, Ms. Graham said the fraud percentage varies; in fact, she said it was less than 5%. Recoveries are only part of what an anti-fraud campaign can accomplish. They cannot measure that but they know they do not have as many Monday morning claims filed as in the past or after-holiday claims; nor do they have medical providers trying to slip through duplicate billing. They know they are being watched and that the state is willing to prosecute.

REP. BERGSAGEL asked whether the doctor contacts the managed care unit or the employee does it.

Ms. Graham explained managed care in Oregon and said that each insurance company in Oregon has the opportunity to negotiate a specific contract with the MCO provider within the limitations imposed by the legislature. They had not negotiated for discounts but were concerned about quality care and early return-to-work services.

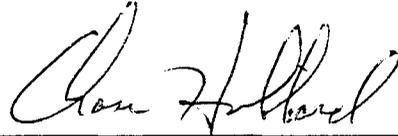
REP. BERGSAGEL asked Ms. Graham if Oregon had a review procedure for what might be considered unnecessary tests. Ms. Graham replied that for every injury type, the managed care organization had developed treatment protocol they expect every physician to follow. Obviously, there are times that one would deviate from the norm. If they do, they are only required to provide written justification.

Ms. Graham said one of the reasons they increased their benefits was because they were lower than surrounding states. However, they also recognized that in their intercorporate population, or when claims were filed, 90% of those individuals were filing legitimate claims.

CHAIRMAN HIBBARD thanked Ms. Graham and Dr. Rasmussen for their presentations.

ADJOURNMENT

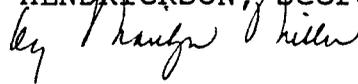
Adjournment: 5:45 P.M.



REP. CHASE HIBBARD, Chairman



EVY HENDRICKSON, Secretary



CH/eh

Analysis of Montana Payroll Base

- ▶ Description of Derivative Methodologies
- ▶ Payroll Base: 1958 to 1990
- ▶ Total Employment Within Payroll Base: 1958 to 1990
- ▶ Internal Rates of Growth in Payroll Base and Employment
- ▶ Graph N° 1: Montana Payroll and Employment Base
- ▶ Graph N° 2: Montana Payroll Tax Collections: 1991 to 2020

Description of Derivative Methodologies

Information on reported payroll subject to Montana's payroll tax is only available for the period following inception of the tax on July 1, 1987. In order to get an historical perspective on the payroll tax base and to have adequate data on which to make reasonable projections, historical payroll and payroll employment data series were compiled, primarily from data available from the US Bureau of Economic Analysis (BEA). The compiled historical data closely matches the payroll (wages and salaries) subject to the payroll tax. Information was compiled for the 32-year period, 1958 - 1990.

Historical Payroll

The Montana workers' compensation payroll tax base is very broad. All payroll workers are included, except for federal employees, interstate railroad workers, private household workers, real estate sales people paid only by commission plus a few other very small classes of employees. Covered wages include in addition to regular wages the following: commissions, bonuses, profit-sharing payments, tips, and meals/housing or other "in-kind payments". In compiling the historical payroll series, information published by the BEA was adjusted by subtracting out payroll data for the above-mentioned employee groups. Preliminary information for 1990, provided by the BEA, was further refined using payroll information collected by the Montana Department of Labor and Industry in connection with the unemployment insurance tax program. This latter data forms the base on which the BEA constructs its comprehensive data series.

Historical Payroll Employment

Payroll employment information consistent with the payroll data series was available from the BEA for the period 1969 - 1989. This information was adjusted downward for the employee groups not covered by the payroll tax, paralleling the adjustment for wages and salaries. Conceptually similar employment information for the non-agricultural industries was available for the Montana Department of Labor and Industry for 1958 - 1968. Small adjustments were made to this information to make it consistent with the BEA data. Agricultural payroll employment information for the 1958 - 1968 period was estimated from total agricultural employment data published by the Montana Department of Labor and Industry, using the relationship over time of this total agricultural employment data series to the BEA agricultural payroll employment information. Employment for 1990 was estimated from available data collected as part of the unemployment insurance program to be consistent with the BEA data series.

**Payroll Base For Montana Payroll Taxes
 1958 - 1990**

<u>Year</u>	<u>Total Payroll (000's)</u>	<u>% Change From Previous Year</u>
1958	\$ 606,088	
1959	\$ 634,274	4.7%
1960	\$ 660,623	4.2%
1961	\$ 581,385	3.1%
1962	\$ 732,511	7.5%
1963	\$ 758,878	3.6%
1964	\$ 781,752	3.0%
1965	\$ 841,457	7.6%
1966	\$ 891,362	5.9%
1967	\$ 915,824	2.7%
1968	\$ 971,132	6.0%
1969	\$ 1,055,094	8.6%
1970	\$ 1,129,498	7.1%
1971	\$ 1,228,416	8.8%
1972	\$ 1,369,604	11.5%
1973	\$ 1,540,411	12.5%
1974	\$ 1,740,875	13.0%
1975	\$ 1,917,049	10.1%
1976	\$ 2,148,381	12.1%
1977	\$ 2,412,956	12.3%
1978	\$ 2,778,174	15.1%
1979	\$ 3,103,972	11.7%
1980	\$ 3,359,061	8.2%
1981	\$ 3,695,488	10.0%
1982	\$ 3,817,631	3.3%
1983	\$ 3,984,526	4.4%
1984	\$ 4,148,414	4.1%
1985	\$ 4,186,145	0.9%
1986	\$ 4,161,740	-0.5%
1987	\$ 4,255,869	2.3%
1988	\$ 4,483,541	5.3%
1989	\$ 4,711,378	5.1%
1990	\$ 4,972,423	5.5%

Source: US Bureau of Economic Analysis. Industries or classes of workers not covered by workers' compensation are excluded, namely federal employees, interstate railroad workers, private household workers, and real estate salespeople paid by commission only.

**Total Employment Within Payroll Base
 1958 - 1990**

<u>Year</u>	<u>Total Employment</u>	<u>% Change From Previous Year</u>
1958	158,833	
1959	160,704	1.2%
1960	162,286	1.0%
1961	161,653	-.04%
1962	166,107	2.8%
1963	168,686	1.6%
1964	170,293	1.0%
1965	174,888	2.7%
1966	180,419	3.2%
1967	180,553	0.1%
1968	184,726	2.3%
1969	192,116	4.0%
1970	195,640	1.8%
1971	202,038	3.3%
1972	212,073	5.0%
1973	223,636	5.4%
1974	233,093	4.3%
1975	233,406	0.1%
1976	244,073	4.6%
1977	263,540	3.9%
1978	269,632	6.3%
1979	276,153	2.4%
1980	274,136	-0.7%
1981	276,792	1.0%
1982	271,208	-2.0%
1983	273,293	0.8%
1984	278,185	1.8%
1985	274,014	-1.5%
1986	271,032	-1.1%
1987	272,412	0.5%
1988	279,074	2.4%
1989	287,070	2.9%
1990	294,192	2.5%

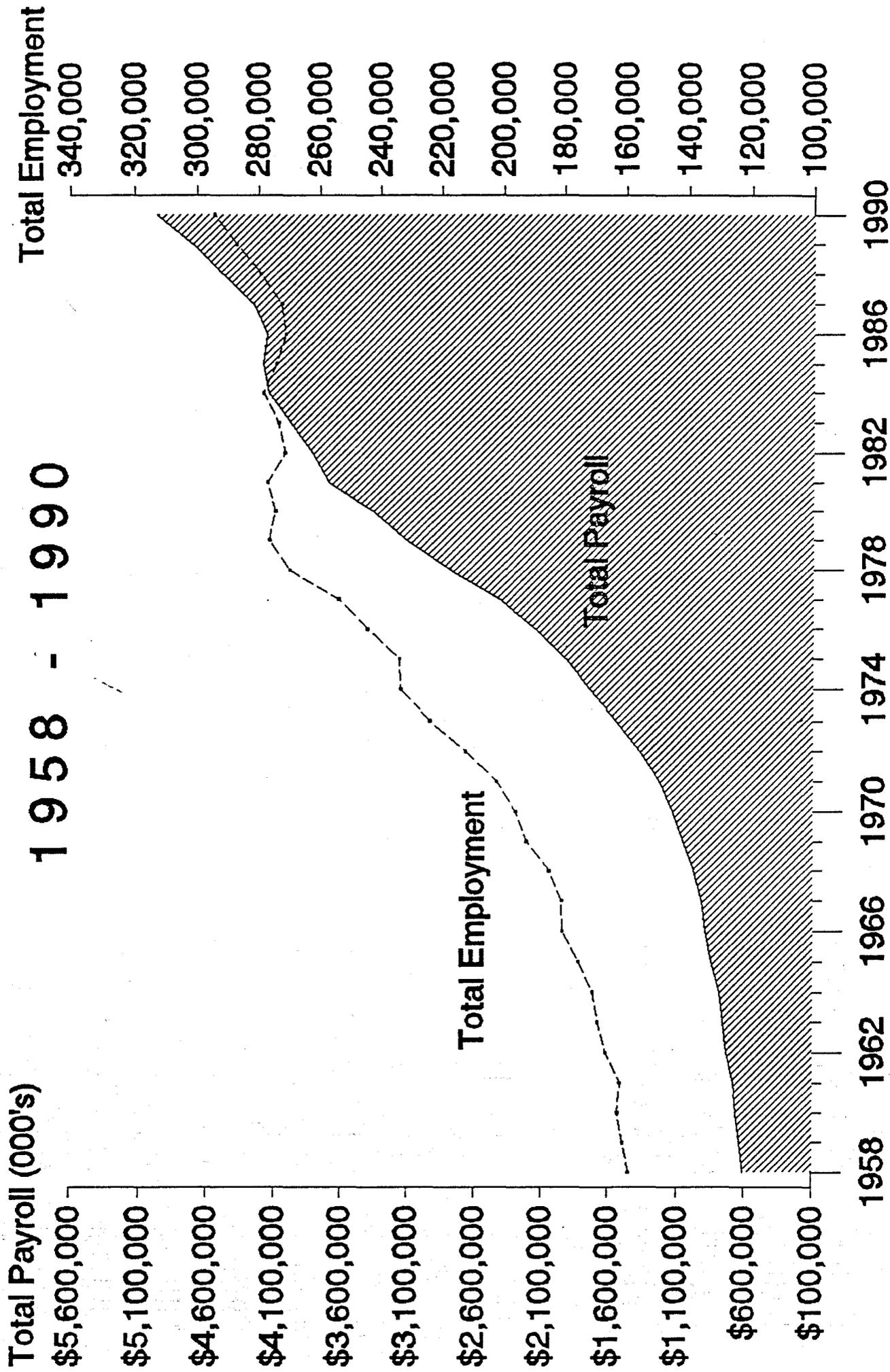
Source: US Bureau of Economic Analysis for 1969 - 1989; Montana Department of Labor and Industry for 1958 - 1968 and 1990, adjusted to be consistent with the 1969 - 1989 data.

**Internal Rates of Growth in Payroll Base and Employment**

The payroll and employment bases subject to Montana's payroll tax have shown the following compound annual growth rates for the periods shown.

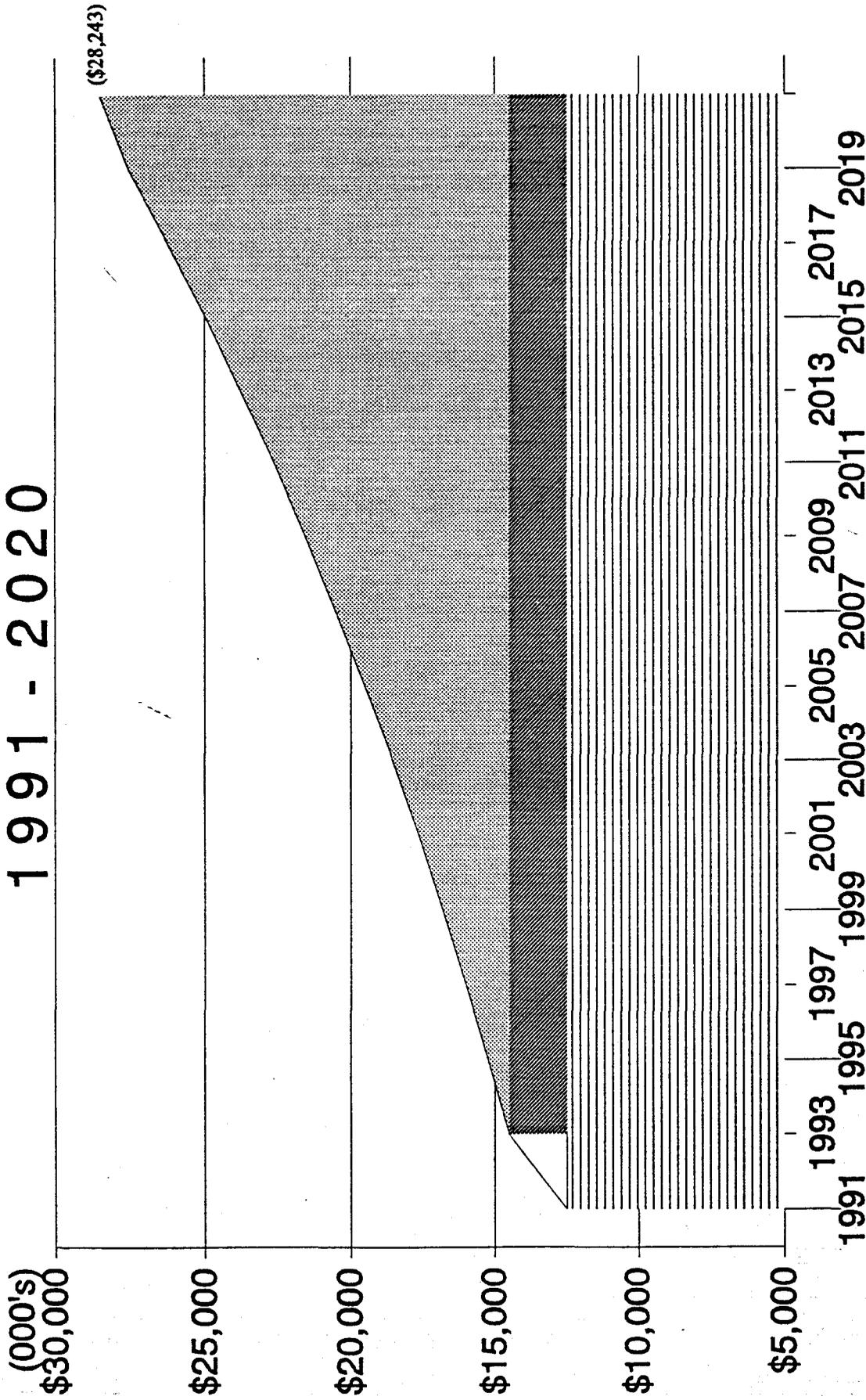
<u>Period</u>	<u>Growth In Payroll</u>	<u>Growth In Employment</u>
1960 - 1970	5.51%	1.89%
1970 - 1980	11.51%	3.43%
1980 - 1990	4.00%	.71%
1960 - 1990	6.96%	2.00%
1970 - 1990	7.69%	2.06%
1980 - 1990	4.00%	.74%
1985 - 1990	3.50%	1.43%

Montana Payroll & Employment Base



Montana Payroll Tax Collections

1991 - 2020



FISCAL YEAR

-  Debt service requirements, including 10% debt service coverage requirement, on Series 1991 Bonds (\$12,455,000)
-  Future payroll tax collections, assuming estimated FY 1993 payroll tax collections remain constant through 2020 (at \$14,500,000)
-  Future payroll tax collections, assuming estimated FY 1993 payroll tax collections grow at a compound annual growth rate of 2.5% per annum.

EXHIBIT 18
DATE 1-15-93
HB _____

PRESENTATION

PAYROLL TAX FUNDING OPTIONS

**STATE OF MONTANA
WORKER'S COMPENSATION FUND
OLD FUND LIABILITIES**

JANUARY 15, 1993

**STATE OF MONTANA
OPTIONS FOR FUNDING OLD FUND LIABILITIES**

SUMMARY TABLE

	10 Years (2003 Maturity)	20 Years (2013 Maturity)	27 Years (2020 Maturity)
Additional Funds that can be raised with .28% Payroll Tax (1)			
Limited Tax	\$11,883,138	\$18,362,057	\$21,051,007
Flexible Tax	\$23,182,865	\$50,396,961	\$68,315,978
Payroll Tax Rate Required to Fund 1993-95 Biennium Needs (2)			
Limited Tax	.677%	.523%	.487%
Flexible Tax	.596%	.419%	.369%
Payroll Tax Rate Required to Fund All Liabilities (3)			
Limited Tax	1.254%	.896%	.812%
Flexible Tax	1.105%	.719%	.617%

- (1) This amount is in addition to the currently outstanding \$142,095,000 of bonds, the proceeds of which are already spent.
- (2) This is the total tax rate required to pay the existing bonds and the amount of new bonds required to fund \$132,407,000 which is sufficient to pay all claims through July 1, 1995.
- (3) This is the total tax rate required to pay the existing bonds and the amount of new bonds required to fund \$373,000,000 which is sufficient to pay for all future claims liabilities.

EXHIBIT 1B
DATE 1-15-93

SUMMARY OF KEY ASSUMPTIONS

Projection of Old Fund Liabilities and Fund Balance - We have used the liability figures projected from most recent actuarial information provided for the State Fund.

Reported Payroll Subject to Tax - We have used the actual numbers reported for the 1992 fiscal year and an estimate for the 1993 fiscal year contained in the November, 1992 Worker's Compensation Payroll Tax Report prepared by the Montana Office of Budget and Program Planning and the Department of Revenue.

Inflation Factor for Payroll Growth - For all of the limited tax options we have assumed no growth above 1993 fiscal year levels. For all of the flexible tax options we have used an annual growth factor of 2.5%. This assumption has been deemed appropriate and fully supportable by the State's Economist based upon regression analysis of historical growth rates.

Interest Rate for Additional Bond Issues - We have assumed an average coupon interest rate of 6.25%. We have also factored into our net bond proceeds calculation similar percentages for costs of issuance, bond insurance premiums, original issue discount and debt service reserves as the state experienced on its 1991 issue. The interest rate is slightly conservative compared to current market rates. The assumption of a debt service reserve requirement similar to the 1991 issue is conservative for a flexible tax option.

Required Debt Service Coverage - For the limited tax bond options we have assured a 1.10 annual coverage requirement calculated in the same manner as for the 1991 Payroll Tax Bonds. For the flexible tax options we have also assumed a 1.10 annual coverage requirement. For the limited tax bonds this clearly represents the best coverage factor attainable. For the flexible tax options, the coverage factor is conservative and could possibly be as low as 1.00 times debt service.

EXHIBIT 1B
DATE 1-15-93

DATE 1-15-93

SENATE COMMITTEE ON W.C.

BILLS BEING HEARD TODAY: 2

Name	Representing	Bill No.	Check One Support Oppose	
<i>Ann Marshall Gray</i>	_____	HB13		

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

