

**1999 SENATE APPROPRIATIONS  
SB 2024**

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2024

Senate Appropriations Committee

Conference Committee

Hearing Date January 19, 1999

Tape Number	Side A	Side B	Meter #
1		X	5,190
2	X		1-end
2	X		1-239
2-4-99		X	3,312
Committee Clerk Signature			

Minutes:

**SENATOR NETHING:** Opened the hearing on SB2024; A BILL FOR AN ACT TO PROVIDE AN APPROPRIATION FOR DEFRAYING THE EXPENSES OF THE WORKERS COMPENSATION BUREAU AND ITS DIVISIONS.

**TAMMY DOLAN:** Director of Accounting at the Workers Compensation Bureau to testify in support of SB2024 (written testimony (tape 1, side B 5225-end, tape 2, side A 1-1125)).

**SENATOR GRINDBERG:** Does the bureau have an organizational chart?

**TAMMY DOLAN:** Yes, we can get one.

**SENATOR GRINDBERG:** On the line item for hiring employees, 3 new FTE for information services at about \$90,000 for three people per year. Your not going to be able to hire programmers for \$30,000 a year.

**TAMMY DOLAN:** Those employees are to be hired in the second year of biennium so they will be paid more.

**SENATOR TOMAC:** On page 80, the lack of benefits for full time temporary help, I don't understand, is this exclusive to Workers Compensation or other State agencies.

**TAMMY DOLAN:** I believe other State agencies also have temporary employees. If you don't have an FTE for that position, you cannot give them benefits.

**SENATOR BOWMAN:** Did the board set the wage increase at 5% and along with the 12% increase in insurance, how do they justify the extra in insurance because that is also part of wages and why when no one else is getting do you?

**TAMMY DOLAN:** Regan will also cover in his testimony. The board reviewed the wages and everything from 1%-9% and figured in an average of 5%.

**SENATOR BOWMAN:** Is this fixed cost all going to be spent. A fixed cost next biennium, because you have increased someone considerably this biennium, benefits a percentage increase. They'll automatically get the biggest part of the next increase.

**TAMMY DOLAN:** All increases were based on performance. Next biennium performance will be reviewed.

**SENATOR SOLBERG:** Item 9 in your budget, seems like there was a big jump in the lease. Was this part of the lease?

**TAMMY DOLAN:** The multiplier has several factors too it; utility costs, biggest component in the lease that our landlord has with Burlington Northern for the land on which the building sits. That increased in the past year from \$9,300 to \$28,000.

**SENATOR SOLBERG:** Did you know this was going to happen when you went into the building?

**TAMMY DOLAN:** We were aware that it would be increasing. At that time we were not aware how much it would increase, but it was written in the lease that there would be an increase.

**SENATOR SOLBERG:** You moved into the building in--1992. So you knew this was basically going to happen when the lease was signed?

**TAMMY DOLAN:** I wasn't involved with the lease negotiations but, we weren't aware of how significantly it was going to increase. We knew it was going but, even our landlords were not aware of how much it would increase.

**SENATOR KRAUTER:** Asked if the agency had an vacant positions.

**TAMMY DOLAN:** As of December 31, we had 4 positions that were vacant, that were filled in January or will be filled by March.

**SENATOR KRAUTER:** Do we have a lot of individuals working that are temporary positions?

**TAMMY DOLAN:** Yes, these are temporary. On page 8, there are 8 temporary full-time employees, we currently have 12.

**SENATOR KRAUTER:** We have temporaries that have been hired since 1994 and temporary status. This is correct those types of situations?

**TAMMY DOLAN:** Yes, exactly.

**SENATOR ROBINSON:** Do we have individuals that have been in temporary positions since '94 or have we had several temporaries.

**TAMMY DOLAN:** We have had one individual for sure the other I have to check on who has been temporary since 1994 and 1995.

**SENATOR ROBINSON:** Don't we have some state policy that limits the temporaries to two or three years to prevent this sort of thing from happening.

**REAGAN PUFALL:** Yes, I believe there is, we will get that information to you.

**SENATOR KRAUTER:** With your special funds what do you anticipate to be your ending dollars?

**TAMMY DOLAN:** Our appropriation is funded totally through special funds - no general funds. Any money we do not spend is turned back to the Workers Compensation fund for going to a general fund, directly sent back to our employers. In 1993/1995, we had a 16% unspent appropriation which reverts to our general fund, \$3.8M. In 1995/1997 we turned back 7.2%, \$1.577M. For 1997/1999 we anticipating a turn back in the range of 2-3%, \$500,000-\$600,000.

**REAGAN PUFALL:** Chief Operating Officer and General Counsel for Workers Compensation to testify in support of SB2024 (testimony attached (tape 2, side A, 2400-4085).

**SENATOR ST. AUBYN:** Will the budget as submitted affect rates and how much?

**REAGAN PUFALL:** No, we are looking at premium rate reduction in near future. We are proposing several scenarios to try and reduce rates for the employers of North Dakota.

**SENATOR SOLBERG:** Question for Kathy: The IT plan is basically in compliance with plan submitted. Are you capable of tying your systems with Job Service.

**KATHY:** Yes, the plan is in compliance; and yes, we can share data. No direct access either way because of security and confidentially reasons, but sharing of data.

**SENATOR KRAUTER:** In trying to find ways to lower premiums or give dividends. How do you explain for the increase in the investment.

**MR. PUFALL:** We believe there are three places to put that money. 1. Rate relief to employers; 2. Benefit increases for injured workers. 3. To reinvest in the fund. This investment fund is only half way to where we should be financially to have a truly secure Workers Compensation fund. If we were a regulated insurance company, we would not have sufficient funds to offer it. To reach zero discounting and build up a capital surplus equal to one years premium, we would have to further improve our financial position by \$376M to comply.

**SENATOR ROBINSON:** In terms of salary administration, the rest of our State payroll is not anywhere near that. You have special people working for the Bureau but, we have special people working throughout State government. The Governor's concern over that and the reduction of \$388,000, was that a discussion topic when you reached this decision on salary administration. Does that play any role at all in your decision on where you should be in terms of salary administration?

**REAGAN PUFALL:** This maybe a question you should ask Chuck Peterson, our Chairman of the Board of Directors because he does of course directly represent the premium payers who unanimously voted at the Board meeting, that they want to spend this money to get the service that they think they deserve. The short answer to your question is no, the pay that the General Funds State employees may or may not receive, plays no roll in our business plan and it shouldn't. We are a Worker's Compensation Fund that has been granted the special privilege of a monopoly market in North Dakota and we are careful stewards of employers money, because they have no choice but to pay it to us, and to be good guardians of the benefits of the injured workers. That is our only mission and that's the only thing we consider when developing our budget. All we look at is our premium dollars and the customers we have to serve.

**CHUCK PETERSON:** Chairman of the Workers Compensation Bureau to testify in support of SB2024 (tape 2, side A, 5015-5780). The Board is a year underway and many served on the advisory board prior to that time. Have had the opportunity to work with staff that has been very energetic in their efforts to provide the services that we employers think that we need in the administration of the Workers Compensation Bureau. We are very cognizant that it is our oath, our employer money, that we are spending and the decisions that are being made by the Board are made by very tried, hardened business people that have spent the time figuring out how they might best manage their businesses and spend their dollars. They have an acute interest that the Bureau is run properly. In our efforts we have always believed that we need to run this as a business. We are forever aware of the fact that a good business is run by good management. If you have good management, you can account for a great deal. Along with that you're going to need an inspired employee work force. We've built on that. We feel the greater majority of the people at the Bureau are keepers (Chuck gave example of good employees). When we start to talk about giving money back, this is not just a benevolent program, this is giving money back with the intention of motivating employers to drive on to greater safety. We spent a great deal of time on the budget and the concepts behind it and the needs of the bureau. We actually sent the budget back to Pat Traynor and his staff asking them for cuts and reductions in certain areas in

order to get to the point that we felt we had a budget that we could present to the Governor. We presented the 95% budget and it came back with four changes in it. Two of which we would ask for you to turnaround.

**SENATOR ANDRIST:** Performance is good. I come from a district where the large majority of employers have maybe six to twelve people. They saw the big increases and most of them are small businesses that never have any claims. Seems all benefits have been for larger organizations with established, better safety programs.

**CHUCK PETERSON:** We have had about 20% reductions in premiums. We want these problems to be for large and small alike. We are talking about two tier system. Safety plan will be put into place and several other possible safety and discount services to small businesses.

**SENATOR KRAUTER:** Has there been a change at the agency? I thought that the Director would be here to give testimony or present this budget.

**CHUCK PETERSON:** No, there is no change. Pat Traynor is still very much the Director of the organization. It is not necessary for the Director to be here with able staff to convey our position to you and I'm here as the Chairman of the Board, which leaves me ultimately responsible for whatever goes on their.

A subcommittee was formed. SENATOR BOWMAN, Chairman; SENATOR KRINGSTAD, SENATOR ROBINSON will serve on it.

The hearing was closed on SB2024.

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2-05-99

**SENATOR NETHING:** Reopened the hearing on SB2024 (tape 1, side B 3312).

**SENATOR NETHING:** Called for the motion on the amendment to SB2024.

**SENATOR BOWMAN:** Moved a Do Pass on the amendment to SB2024.

**SENATOR ROBINSON:** Seconded the motion.

**ROLL CALL: 11 YEAS; 2 NAYS; 1 ABSENT & NOT VOTING.**

Yeas: Nething; Naaden; Solberg; Lindaas; Tallackson; Robinson; St. Aubyn; Grindberg; Kringstad; Bowman; Andrist.

Nays: Tomac; Krauter.

Absent & Not Voting: Holmberg

**SENATOR NETHING:** Called for the motion on SB2024 as amended.

**SENATOR BOWMAN:** Moved a Do Pass as Amended on SB2024.

**SENATOR ROBINSON:** Seconded the motion.

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Senate Appropriations Committee

Bill/Resolution Number SB2024L

Hearing Date ~~January 19, 1999~~

7-05-99

**ROLL CALL: 13 YEAS; 0 NAYS; 1 ABSENT & NOT VOTING.**

Yeas: Nething; Naaden; Solberg; Lindaas; Tallackson; Tomac; Robinson; Krauter; St. Aubyn;  
Grindberg; Kringstad; Bowman; Andrist.

Absent & Not Voting: Holmberg.

Date: 2-4-99  
 Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES  
 BILL/RESOLUTION NO. SB 2024

Senate APPROPRIATIONS Committee

- Subcommittee on \_\_\_\_\_  
 or  
 Conference Committee

Legislative Council Amendment Number 98046.0101

Action Taken \_\_\_\_\_

Motion Made By SENATOR Bowman Seconded By SENATOR Robinson

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman	✓				
Senator Naaden, Vice Chairman	✓				
Senator Solberg	✓				
Senator Lindaas	✓				
Senator Tallackson	✓				
Senator Tomac		✓			
Senator Robinson	✓				
Senator Krauter		✓			
Senator St. Aubyn	✓				
Senator Grindberg	✓				
Senator Holmberg					
Senator Kringstad	✓				
Senator Bowman	✓				
Senator Andrist	✓				

Total (Yes) 11 No 2

Absent 1

Floor Assignment —

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



Date: 2-4-99  
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2024

Senate APPROPRIATIONS Committee

- Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number 98046.0101

Action Taken Do Pass As Amended

Motion Made By SENATOR BOWMAN Seconded By SENATOR ROBINSON

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman	✓				
Senator Naaden, Vice Chairman	✓				
Senator Solberg	✓				
Senator Lindaas	✓				
Senator Tallackson	✓				
Senator Tomac	✓				
Senator Robinson	✓				
Senator Krauter	✓				
Senator St. Aubyn	✓				
Senator Grindberg	✓				
Senator Holmberg					
Senator Kringstad	✓				
Senator Bowman	✓				
Senator Andrist	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment SENATOR BOWMAN

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

**REPORT OF STANDING COMMITTEE**

**SB 2024: Appropriations Committee (Sen. Nething, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2024 was placed on the Sixth order on the calendar.

Page 1, line 9, replace "15,129,163" with "15,467,814"

Page 1, line 10, replace "7,280,549" with "7,380,549"

Page 1, line 13, replace "23,744,965" with "24,183,616"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

DEPARTMENT 485 - WORKERS COMPENSATION BUREAU

SENATE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$15,129,163	\$338,651	\$15,467,814
Operating expenses	7,280,549	100,000	7,380,549
Equipment	1,206,840		1,206,840
Managed care/TPA	<u>128,413</u>		<u>128,413</u>
Total all funds	\$23,744,965	\$438,651	\$24,183,616
Less special funds	<u>23,744,965</u>	<u>438,651</u>	<u>24,183,616</u>
General fund	\$0	\$0	\$0
FTE	179.00	0.00	179.00

Detail of Senate changes to the executive budget includes:

	PAY FOR PERFORMANCE FUNDING	INFORMATION TECHNOLOGY FUNDING	TOTAL SENATE CHANGES
Salaries and wages	\$338,651		\$338,651
Operating expenses		\$100,000	100,000
Equipment			
Managed care/TPA			
Total all funds	\$338,651	\$100,000	\$438,651
Less special funds	<u>338,651</u>	<u>100,000</u>	<u>438,651</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

Senate changes narrative:

This amendment restores \$338,651 of the \$388,651 reduction, made in the executive budget, for the department's pay for performance funding. The amendment also restores \$100,000 of information technology plan funding, which had been removed in the executive budget.

**1999 HOUSE APPROPRIATIONS**

**SB 2024**

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2024

House Appropriations Committee

Conference Committee

Hearing Date March 11, 1999

Tape Number	Side A	Side B	Meter #
1		x	0-52.4
Committee Clerk Signature <i>Roxanne Stone</i>			

Minutes:

**A Bill for an Act to provide an appropriation for defraying the expenses of the workers compensation bureau and its divisions.**

**Pat Traynor, Director Workers Compensation** testified in favor of the bill. Made brief introductions of staff.

**1B: 1.1 Chuck Peterson, Chairman Board of Directors, Owner Allied Van Lines** testified in favor of the bill (See attached written testimony).

**1B: 6.6 Reagan Pufall, COO and General Counsel** testified in favor of the bill (See attached written testimony).

**1B: 11.6 Rep. Poolman** asked about the pay performance package regarding raises in 1997? Replied that they were given money in 1997 regarding pay performance. Rep. Poolman further asked if across the board raises were given in 1997. Replied no.

**1B: 12.5 Rep. Byerly** asked about the turnover rate regarding pay zone. Replied turnover in 1995 is very high. The turnover now has dropped 10% below national average and will continue drop. People who used to be employees at Workers Compensation are returning.

**1B: 13.8 Rep. Gulleason** asked for a for that shows pay performance, the actual process of criteria and ratings. Replied will provide information to committee.

**1B: 14.9 Rep. Poolman** asked if exit interviews are done? Replied yes and he reviews every single one including pay performances. Rep. Poolman asked about low level of staffing, is staff overworked, is that why they are leaving? Replied the reason for leaving is due to change in management and people left due to moving because of spouse. Stress levels have since gone down.

**1B: 17.2 Tammy Dolan, Director Accounting** testified in favor of bill (See attached written testimony).

**1B: 21.8 Rep. Poolman** asked if all PCs are being replaced. Replied the commission replaces 1/3 rd of PCs each year to keep up to date with technology/operational needs. Rep. Poolman asked if we can expect that line item to always be increased. Replied yes. Rep. Poolman asked if there are any ISD costs associated with the commission and ISD problems. Replied their system will not have ISD costs eventually and is not aware of any past problems with ISD.

**1B: 25.4 Rep. Wald, District 37** testified in favor of bill as a private citizen. Commented on attachments 8, 9, and 10 of the written testimony from commission regarding comparisons to other states.

**1B: 33.5 Rep. Byerly** asked about addition FTEs. Replied they are replacing temp positions and other positions that are contracted out.

**1B: 34.3 Rep. Poolman** asked how long positions have been temps. Replied: refer to page 9 of testimony for information.

**1B: 39.3 Rep. Huether** asked about approval ratings among customers and employers? Replied a survey is done twice a year since 1996. Very comfortable with results of surveys, positive. Referred to surveys in written testimony.

**1B: 40.4 Rep. Poolman** asked what the response ratio like for returns. Replied they do workers surveys by phone, very high. Employers by letter, very high.

**1B: 42.9 Rep. Gulleon** asked about a survey in response to finality of claim? Replied there is a third survey done for seriously injured cases.

**1B: 45.8 Dick Johnsen, Audit Committee Board Member** testified in favor of bill. Commented on performance of commission and direction, focus of bureau. Doesn't see any major changes coming just fine tuning.

**1B: 49.5 Rep. Huether** asked about the makeup of the board. Replied there are 10 members, 9 of which are voting. The medical member is non voting. Feels comfortable with the board size and input from both employees and employers.

Chairman Byerly closed the hearing on Senate Bill 2024.

## General Discussion

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Date March 17, 1999			
Tape Number	Side A	B Side	Meter #
1	x		0-11.0
Committee Clerk Signature <i>Roxanne Kone</i>			

Minutes:

Chairman Byerly opened the discussion on Senate Bill 2024.

**1A: Rep. Byerly** briefly explained amendments to committee: put the budget into single line items, remove 11 FTE positions - some conversion from part time to full time employees, \$15 million relates to the FTEs, decrease operating line item by \$7 million, equipment line item by \$1 million.

**1A: 4.7 Rep. Carlisle** asked about the removal of the fraud department employee. Rep. Byerly replied there was discussion regarding the employee and because they are going to a single line item the board could contract an employee. They will still have the flexibility to do that.

**1A: 5.9 Rep. Huether** asked if there will still be oversight of the wage increase. Rep. Poolman replied the increase was never at 5 and 5 straight across the board because it is based on pay performance. No one received a standard raise.

**1A: 9.0 Rep. Poolman** moved to adopt the amendments. Rep. Gulleason 2nd the motion. On a voice vote the motion carried. On a Roll Call Vote the motion carried for a DO PASS AS AMENDED. 6 voting Yes, 0 voting No, 0 voting Absent, Carrier: Rep. Byerly

## General Discussion

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Date March 19, 1999			
Tape Number	Side A	B Side	Meter #
1	x		56.0-END
1		x	0-END
Committee Clerk Signature <i>Roxanne Kone</i>			

Minutes:

Chairman Dalrymple opened the discussion on Senate Bill 2024.

**1A: 56.6 Rep. Byerly** discussed amendment 98046.0302 with committee: combined all of the line items into a single line item...reason for jack potting entire budget is because they are a totally specially funded agency. They are controlled by a board. It would be best to give them flexibility to handle the budget. They were seeking an additional 11 FTES: 3 were to replace contracted, one new employee, and to convert temp to full time employees. When subcommittee sat down and looked at list, most temps had only been there for 6 months or less. Two temps had been there since 1994: those were granted full time status, others were not. Disallowed: one fraud employee and 3 IT employees. Equipment reduction: \$306,000. Text on front page of amendment was requested by Workers Compensation regarding joint reporting session. Giving them permission to go forward on Internet site. Rep. Byerly moved to ADOPT the amendment. Rep. Carlisle 2nd the motion.

**1B: .2 Rep. Carlson** asked what the discussions were with the bureau regarding conversion of 6 temps and removal of FTE and informational services people. What was there response and defense? Rep. Byerly replied it was more of a philosophical thing because we have got a

significant number of agencies with temp employees to be converted to full time employees. Subcommittee came to conclusion after discussions with bureau that they did not have a requirement for that particular person. Rep. Carlson asked about changes to compensation package. Rep. Byerly replied that is in Senate Bill 2015.

**1B: 2.0 Rep. Aarsvold** asked what Rep. Byerly's definition is of "jack potting." Rep. Byerly replied it is basically terminology used when you combine line items, which is what we did. They will never have separate line items, they will have a single line budget. This particular agency is similar to what we do in a few agencies in the state of North Dakota. The board can have maximum flexibility in running this enterprise.

**1B: 3.1 Rep. Lloyd** asked about joint reporting session and if a report was ever made. Rep. Byerly replied yes, quite often.

**1B: 4.5 Rep. Carlson** made a substitute motion to reinstate FTE fraud department and reinstate 3 FTEs in information services. Rep. Bernstein 2nd the motion. Rep. Carlson further commented he didn't agree with them being removed. Believes department has plenty of justification for employees. Will concede temps are a questionable call. But sees value to other positions. Fraud unit has saved a tremendous amount of money.

**1B: 6.0 Rep. Lloyd** asked how many employees are currently in the fraud department now. OMB replied four currently.

**1B: 8.2 Rep. Timm** asked if going to one line item would still require them to justify costs. What if we don't agree with the way they spend the money? Rep. Byerly replied yes. There would still be detail presented to legislature. Last session we gave the board control of that agency. They can literally do what they want. This is a reflection of that action. We will still have the same detail.

**1B: 10.2 Rep. Monson** asked if there will still be a separate FTE line item. Rep. Dalrymple replied yes, even in a single line item budget.

**1B: 10.5 Rep. Delzer** asked how many current ISD employees do we have. Rep. Byerly replied there are 37. That does include the additional 3 contracted employees.

**1B: 11.5 Rep. Gulleason** commented that House Bill 1296 grants the bureau 7 additional safety employees.

**1B: 12.0** On a Roll Call Vote the motion by Rep. Carlson failed. 6 voting Yes, 13 voting No, 1 Absent.

**1B: 12.8 Rep. Bernstein** made a motion to restore the FTE in the fraud unit. Rep. Delzer 2nd the motion. On a Roll Call Vote the motion carried. 13 voting Yes, 6 voting No, 1 Absent.



**1B: 14.2 Rep. Wentz** asked the status of the 5 and 5 salary adjustment. Rep. Byerly replied House Bill 2015 deals with that particular salary pool. OMB and Legislative Council further commented on history of 5 and 5.

**1B: 16.5 Rep. Byerly** commented that the employees of the bureau are not part of central personnel, at will employees. Their pay plan does not work the same way as regular state employees. Commented on Pay Performance Plan and intent language in bill.

**1B: 19.0 Rep. Carlson** asked where the salary money is located, which budget. Rep. Byerly replied the money is in Senate Bill 2024. The intent language is in 2015.

**1B: 19.6 Rep. Dalrymple** asked if we were to take the current salary line and apply the current 2 and 2 formula. What would the amount be? Legislative Council replied it would have to be recalculated.

**1B: 21.7 Rep. Carlson** asked why intent language is in Senate Bill 2015. Rep. Dalrymple replied part of that may be due to different status employees.

**1B: 22.9 Rep. Byerly** cautioned the committee on how to deal with Pay Performance Plan. It is not like an ordinary agency.

**1B: 23.1 Rep. Wentz** asked where the 5 and 5 comes in. Rep. Byerly replied not everyone is guaranteed a pay increase. They took the salary and wages line item and multiplied it by 5 and took that number and multiplied by 5 to come up with the salary pool.

**1B: 24.4 Rep. Hoffner** asked where the 5 and 5 came from. Rep. Byerly replied it was originally 3 and 3 and Senate came up with 5 and 5.

**1B: 25.3 Rep. Wentz** replied she has problems with the entire budget. Talk about it as a special agency but it is still a state agency and need to give it the same careful scrutiny that we give to all other special fund agencies. Doesn't feel right about the huge raise that was given to the director during the interim, it doesn't look right in the eyes of the public. Doesn't feel right about a 5 and 5 raise for the employees when all other state employees are at the 2 and 2.

**1B: 26.0 Rep. Wentz** made a motion to have the salary line item adjusted to reflect an amount comparable to an overall increase of 2 plus 2 and to include the computation for a \$35 minimum. Rep. Aarsvold 2nd the motion.

**1B: 29.6 Rep. Carlisle** asked how the board at Workers Comp would deal with Pay Performance if it goes to 2 and 2. Rep. Carlson replied that we have to remember that we are creating a pool of money. If I understand Rep. Wentz motion we are just reducing the amount of the pool of money. The board still has the authority to implement pay performance. Rep. Dalrymple replied the salary line item will be reduced by about \$570,000. There is not a cap of 2 and 2.

**1B: 36.1** On a Roll Call Vote the motion carried 13 voting Yes, 6 voting No, 1 voting Absent.

**1B: 37.1 Rep. Aarsvold** made a motion to go back to the line that is labeled House Changes, column 3. I believe the totals are the same as the House version that is amended to be a "jack potted" budget. Rep. Kerzman 2nd the motion. Rep. Aarsvold further commented on concerns of a single line item budget.

**1B: 39.3 Rep. Byerly** replied that he hoped the committee would resist the motion. This agency is like some other agencies in that we have jack potted their budgets, an example - Highway Department. Especially when we are dealing with special fund agencies.

**1B: 40.3 Rep. Dalrymple** commented he would support the motion. We may set a precedent that is not good. Going to a single line is not in our best interest as policy makers.

**1B: 40.9** On a Roll Call Vote the motion carried 13 voting Yes, 6 voting No, 1 voting Absent.

**1B: 41.7 Rep. Byerly** asked for a clarification of Rep. Aarsvold motion. Heard it would be returned back to the House version that would imply that any other motions that we have made up to this point in time our moot. Rep. Aarsvold replied he did identify column 3 which I think reflects the same total as the House version in the 4th column. Rep. Byerly replied that none of the changes that we have taken so far are in that column. Rep. Dalrymple replied that the funding level we have been referring to all along has been further divided and is not in conflict with the motions we have accepted.

**1B: 45.8 Rep. Byerly** made a motion to adopt the amendments (.0302) that have been further modified. On a Roll Call Vote the motion carried 13 voting Yes, 6 voting No, 1 voting Absent.

**1B: 47.5 Rep. Byerly** moved to reinstate \$306,840 to the equipment line item. Rep. Carlisle 2nd the motion.

**1B: 49.7 Rep. Gulleason** replied she would resist the motion. They have been using the same method of reduction with all budgets and reduce it by 30%. Rep. Aarsvold commented he would also resist the motion and should apply the same rules to all agencies regarding the 30%. On a voice vote the motion carried.

**1B: 51.5 Rep. Byerly** moved for a DO PASS AS AMENDED. Rep. Carlisle 2nd the motion.

**1B: 52.0 Rep. Carlson** commented on reorganization of the board has stabilized the employment and increased the benefits of the employee and employer. It seems we are hell bent to penalize them. I will vote against the bill and speak against it on the floor. Pay Performance is not like a standard 2 and 2 where everyone gets the same raise. It is not run like a state agency. I appreciate what they have done and they have been very successful. I would hope we would resist this and get it fixed to reflect the good work that they have done.

General Discussion

Page 5

House Appropriations

March 19, 1999

**1B: 55.2 Rep. Delzer** agreed with Rep. Carlson and thinks merit pay is a good idea.

**1B: 55.6** On a Roll Call Vote the motion failed. 9 voting Yes, 10 voting No, 1 voting Absent.

No further action was taken on the bill.

### General Discussion

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Date March 22, 1999			
Tape Number	Side A	B Side	Meter #
1	x		0-30.0
Committee Clerk Signature <i>Casey Davis</i>			

Minutes:

#### SB 2024

**CHAIRMAN DALRYMPLE** opened discussion on SB 2024.

**1A: 0.6 REP. BYERLY** made a motion to reconsider actions on this bill that were taken on March 19, 1999. The motion was seconded by Rep. Huether. A voice vote was taken and the motion carried.

**1A: 1.8 CHAIRMAN DALRYMPLE** explained amendments 0304 to SB 2024.

**1A: 3.7 REP. CARLSON** made a motion to further amend by changing the line item for salaries to \$600,000. The motion was seconded by Rep. Poolman. Rep. Carlson noted that his intent was to keep percentage out of the salary line item altogether.

**1A: 6.4 REP. CARLISLE** asked if there would not be a \$35 minimum. Rep. Carlson replied that the \$35 minimum would be gone, and they would work from a pool of salary funds.

**1A: 9.9 CHAIRMAN DALRYMPLE** asked how the 2% and 2% would affect the budget as compared to Carlson's proposal. Rep. Carlson stated that the 2% and 2% would be just under \$400,000. The line item came out of the Senate with \$919,000. Carlson's proposal would bring that to \$600,000.

**1A: 13.0 A Roll call vote** was taken and the motion failed with 8 yeas, 9 nays, and 4 absent and not voting.

**1A: 13.4 REP. BYERLY** made a motion to strike all amendments and return to the Engrossed bill as it came from the Senate. The motion was seconded by Rep. Carlson. A roll call vote was taken and the motion carried with 12 yeas and 8 nays.

**1A: 16.7 REP. DELZER** made a motion to further amend by reducing the \$919,000 salary line item to \$500,000. The motion was seconded by Rep. Boehm. A roll call vote was taken and the motion carried with 13 yeas and 7 nays.

General Discussion

Page 2

House Appropriations

March 22, 1999

**1A: 18.2 REP. GULLESON** made a motion to remove the three new information services FTEs and the associated salaries of \$186,000. The motion was seconded by Rep. Nichols. A roll call vote was taken and the motion failed with 7 yeas and 13 nays.

**1A: 22.0 REP. CARLSON** presented amendment 0306 and moved to adopt them. The motion was seconded by Rep. Poolman. A voice vote was taken and the motion carried.

**1A: 26.2 REP. BYERLY** made a motion for a Do Pass as amended. The motion was seconded by Rep. Carlson.

**1A: 26.6 REP. AARSVOLD** said he was concerned with treating this agency differently than other state agencies. A great number of new positions were made available to them. If this treatment were given to all agencies the state would be better off.

**1A: 28.0 A roll call vote** was taken and the motion carried with 15 yeas and 5 nays. Rep. Byerly will carry the bill to the house floor.

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2024

Page 1, line 9, replace "15,518,850" with "14,807,655"

Page 1, line 13, replace "24,234,652" with "23,523,457"

Page 1, after line 13, insert:

**"SECTION 2. INTERNET WEB APPLICATION.** The appropriation in section 1 of this Act includes funding for the bureau to develop an internet web application with electronic commerce capability, including the ability for employers to file payroll reports for workers compensation coverage electronically through the internet. It is the intent of the fifty-sixth legislative assembly that in developing this internet web application, the bureau communicate with job service North Dakota and investigate ways in which the application can accommodate combined or streamlined reporting of common payroll and employment data to the bureau and to job service North Dakota."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

DEPARTMENT 485 - WORKERS COMPENSATION BUREAU

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE VERSION	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$15,129,163	\$15,518,850	(\$711,195)	\$14,807,655
Operating expenses	7,280,549	7,380,549		7,380,549
Equipment	1,206,840	1,206,840		1,206,840
Managed care/TPA	128,413	128,413		128,413
Bureau operations				
Total all funds	\$23,744,965	\$24,234,652	(\$711,195)	\$23,523,457
Less special funds	<u>23,744,965</u>	<u>24,234,652</u>	<u>(711,195)</u>	<u>23,523,457</u>
General fund	\$0	\$0	\$0	\$0
FTE	179.00	179.00	(10.00)	169.00

Detail of House changes to the Senate version includes:

	CHANGE 6 OF THE 8 NEW FTEs BACK TO TEMPS INSTEAD OF FTEs	CHANGE RECORDS MANAGEMENT NEW FTE TO A TEMP POSITION	CHANGE SALARY FUNDING TO REFLECT 2/2 WITH \$35 PER MONTH MINIMUM	REMOVE INFORMATION SERVICES 3 NEW FTEs	TOTAL HOUSE CHANGES
Salaries and wages			(\$524,574)	(\$186,621)	(\$711,195)
Operating expenses					
Equipment					
Managed care/TPA					
Bureau operations					
Total all funds	\$0	\$0	(\$524,574)	(\$186,621)	(\$711,195)
Less special funds			<u>(524,574)</u>	<u>(186,621)</u>	<u>(711,195)</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	(6.00)	(1.00)	0.00	(3.00)	(10.00)

House changes narrative:

The amendment changes the following seven FTE positions from permanent FTEs to temporary positions:

- 1 FTE Records management
- 1 FTE Administrative assistant - Research, statistics, and internal audit
- 1 FTE Registration clerk - Records management
- 1 FTE Document processing specialist I - Records management
- 1 FTE Clerk I - Policyholder services
- 1 FTE Collection specialist I - Policyholder services
- 1 FTE Information specialist - Information services

The amendment removes three new FTEs and \$186,621 from the Information Services Division.

The amendment provides for salary increase funding based on two percent per year with a minimum of \$35 per month. (Other state agencies are only funded based on the two percent per year).

This amendment also adds a section directing the bureau to develop an Internet application which is to allow employers to file payroll reports electronically through the Internet.

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2024

Page 1, line 10, replace "7,380,549" with "7,508,962"

Page 1, line 11, replace "1,206,840" with "1,206,840"

Page 1, remove line 12

Page 1, after line 13, insert:

**"SECTION 2. INTERNET WEB APPLICATION.** The appropriation in section 1 of this Act includes funding for the bureau to develop an internet web application with electronic commerce capability, including the ability for employers to file payroll reports for workers' compensation coverage electronically through the internet. It is the intent of the fifty-sixth legislative assembly that in developing this internet web application, the bureau communicate with job service North Dakota and investigate ways in which the application can accommodate combined or streamlined reporting of common payroll and employment data to the bureau and to job service North Dakota."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

DEPARTMENT 485 - WORKERS COMPENSATION BUREAU

HOUSE - This amendment moves the managed care/TPA funding into the operating expenses line item. These costs are primarily administrative costs for the contracting for these services and are being moved to operating expenses where the other contracted service costs are located. The amendment also adds a section directing the bureau to develop an Internet application which is to allow employers to file payroll reports electronically through the Internet.



PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2024

Page 1, line 9, replace "15,518,850" with "15,098,851"

Page 1, line 10, replace "7,380,549" with "7,508,962"

Page 1, line 11, replace "1,206,840" with "1,206,840"

Page 1, remove line 12

Page 1, line 13, replace "24,234,652" with "23,814,653"

Page 1, after line 13, insert:

**"SECTION 2. INTERNET WEB APPLICATION.** The appropriation in section 1 of this Act includes funding for the bureau to develop an internet web application with electronic commerce capability, including the ability for employers to file payroll reports for workers' compensation coverage electronically through the internet. It is the intent of the fifty-sixth legislative assembly that in developing this internet web application, the bureau communicate with job service North Dakota and investigate ways in which the application can accommodate combined or streamlined reporting of common payroll and employment data to the bureau and to job service North Dakota."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

DEPARTMENT 485 - WORKERS COMPENSATION BUREAU

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE VERSION	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$15,129,163	\$15,518,850	(\$419,999)	\$15,098,851
Operating expenses	7,280,549	7,380,549	128,413	7,508,962
Equipment	1,206,840	1,206,840		1,206,840
Managed care/TPA	<u>128,413</u>	<u>128,413</u>	<u>(128,413)</u>	
Total all funds	\$23,744,965	\$24,234,652	(\$419,999)	\$23,814,653
Less special funds	<u>23,744,965</u>	<u>24,234,652</u>	<u>(419,999)</u>	<u>23,814,653</u>
General fund	\$0	\$0	\$0	\$0
FTE	179.00	179.00	0.00	179.00

Detail of House changes to the Senate version includes:

	REDUCE PAY FOR PERFORMANCE FUNDING	MOVE MANAGED CARE/ TPA LINE ITEM INTO OPERATING EXPENSES	TOTAL HOUSE CHANGES
Salaries and wages	(\$419,999)		(\$419,999)
Operating expenses		\$128,413	128,413
Equipment			
Managed care/TPA		<u>(128,413)</u>	<u>(128,413)</u>
Total all funds	(\$419,999)	\$0	(\$419,999)
Less special funds	<u>(419,999)</u>		<u>(419,999)</u>
General fund	\$0	\$0	\$0

FTE

0.00

0.00

0.00

House changes narrative:

The amendment reduces the pay for performance system funding by \$419,999, from \$919,999 to \$500,000. The amendment also moves the managed care/TPA funding into the operating expenses line item because the costs are primarily administrative costs for contracting for the services. The amendment also adds a section directing the bureau to develop an Internet application which is to allow employers to file payroll reports electronically through the Internet.

Date: 3-17-99  
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2024

House APPROPRIATIONS - Government Operations Committee

Subcommittee on gov't operations  
or  
 Conference Committee

Legislative Council Amendment Number 98046.0302

Action Taken DO PASS AS AMENDED

Motion Made By POOLMAN Seconded By GULLESON

Representatives	Yes	No	Representatives	Yes	No
Rex R. Byerly	/				
Ron Carlisle	/				
Ben Tollefson	/				
Robert Huether	/				
Pam Gulleison	/				
Jim Poolman	/				

Total (Yes) 6 No 0

Absent 0

Floor Assignment REP. BYERLY

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

Date: 3.22.99

Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2024

House Appropriations Committee

Subcommittee on \_\_\_\_\_

or

Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Amendment to move salary line item to \$600,000

Motion Made By Carlson Seconded By Poolman

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple		✓	Nichols		✓
Vice-Chairman Byerly	✓		Poolman	✓	
Aarsvold		✓	Svedjan		
Bernstein	✓		Timm	✓	
Boehm	✓		Tollefson		✓
Carlson	✓		Wentz		
Carlisle		✓			
Delzer		<del>✓</del>			
Gulleson		✓			
Hoffner		✓			
Huether	✓				
Kerzman					
Lloyd	✓				
Monson		✓			

Total (Yes) 8 No 9

Absent 4

Floor Assignment FAILS

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

Date: 3-22-99

Roll Call Vote #: 2

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2024

House Appropriations Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken am. to strike all amendments and go back to Eng. Senate version

Motion Made By Byerly Seconded By Carlson

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	✓		Nichols		✓
Vice-Chairman Byerly	✓		Poolman	✓	
Aarsvold		✓	Svedjan	✓	
Bernstein	✓		Timm	✓	
Boehm	✓		Tollefson	✓	
Carlson	✓		Wentz	✓	
Carlisle	✓				
Delzer	✓				
Gulleson		✓			
Hoffner		✓			
Huether		✓			
Kerzman		✓			
Lloyd		✓			
Monson		✓			

Total (Yes) 12 No 8

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

Date: 3-22-99

Roll Call Vote #: 3

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2024

House Appropriations Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Move sal. line from \$919,999 to \$500,000

Motion Made By Delzer Seconded By Boehm

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	✓		Nichols		✓
Vice-Chairman Byerly	✓		Poolman		✓
Aarsvold		✓	Svedjan	✓	
Bernstein	✓		Timm	✓	
Boehm	✓		Tollefson	✓	
Carlson	✓		Wentz	✓	
Carlisle	✓				
Delzer	✓				
Gulleson		✓			
Hoffner		✓			
Huether		✓			
Kerzman		✓			
Lloyd	✓				
Monson	✓				

Total (Yes) 13 No 7

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

3-22-99

Date:  
Roll Call Vote #: 4

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2024

House Appropriations Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Remove 3 new FTE for info serv. + assoc. salary \$186,000

Motion Made By Gulleson Seconded By Nichols

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple		✓	Nichols	✓	
Vice-Chairman Byerly		✓	Poolman		✓
Aarsvold	✓		Svedjan		✓
Bernstein		✓	Timm		✓
Boehm	✓		Tollefson		✓
Carlson		✓	Wentz		✓
Carlisle		✓			
Delzer		✓			
Gulleson	✓				
Hoffner	✓				
Huether	✓				
Kerzman	✓				
Lloyd		✓			
Monson		✓			

Total (Yes) 7 No 13

Absent \_\_\_\_\_

Floor Assignment Fails

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

waiting for  
am. from LC

Date: 3-22-99

Roll Call Vote #: 5

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2024

House Appropriations Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number 0306 and sal. item to \$500,000

Action Taken Do Pass as amended

Motion Made By Byerly Seconded By Carlson

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	✓		Nichols		✓
Vice-Chairman Byerly	✓		Poolman	✓	
Aarsvold		✓	Svedjan	✓	
Bernstein	✓		Timm	✓	
Boehm	✓		Tollefson	✓	
Carlson	✓		Wentz	✓	
Carlisle	✓				
Delzer	✓				
Gulleson		✓			
Hoffner		✓			
Huether	✓				
Kerzman		✓			
Lloyd	✓				
Monson	✓				

Total (Yes) 15 No 5

Absent \_\_\_\_\_

Floor Assignment Byerly

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



**REPORT OF STANDING COMMITTEE**

SB 2024, as engrossed: Appropriations Committee (Rep. Dalrymple, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (15 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2024 was placed on the Sixth order on the calendar.

Page 1, line 9, replace "15,518,850" with "15,098,851"

Page 1, line 10, replace "7,380,549" with "7,508,962"

Page 1, line 11, replace "1,206,840" with "1,206,840"

Page 1, remove line 12

Page 1, line 13, replace "24,234,652" with "23,814,653"

Page 1, after line 13, insert:

**"SECTION 2. INTERNET WEB APPLICATION.** The appropriation in section 1 of this Act includes funding for the bureau to develop an internet web application with electronic commerce capability, including the ability for employers to file payroll reports for workers' compensation coverage electronically through the internet. It is the intent of the fifty-sixth legislative assembly that in developing this internet web application, the bureau communicate with job service North Dakota and investigate ways in which the application can accommodate combined or streamlined reporting of common payroll and employment data to the bureau and to job service North Dakota."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

DEPARTMENT 485 - WORKERS COMPENSATION BUREAU

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE VERSION	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$15,129,163	\$15,518,850	(\$419,999)	\$15,098,851
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Equipment	1,206,840	1,206,840		1,206,840
Managed care/TPA	<u>128,413</u>	<u>128,413</u>	<u>(128,413)</u>	<u>                    </u>
Total all funds	\$23,744,965	\$24,234,652	(\$419,999)	\$23,814,653
Less special funds	<u>23,744,965</u>	<u>24,234,652</u>	<u>(419,999)</u>	<u>23,814,653</u>
General fund	\$0	\$0	\$0	\$0
FTE	179.00	179.00	0.00	179.00

Detail of House changes to the Senate version includes:

	REDUCE PAY FOR PERFORMANCE FUNDING	MOVE MANAGED CARE/ TPA LINE ITEM INTO OPERATING EXPENSES	TOTAL HOUSE CHANGES
Salaries and wages	(\$419,999)		(\$419,999)
Operating expenses		\$128,413	128,413
Equipment			
Managed care/TPA	<u>                    </u>	<u>(128,413)</u>	<u>(128,413)</u>
Total all funds	(\$419,999)	\$0	(\$419,999)

**REPORT OF STANDING COMMITTEE (410)**  
**March 23, 1999 4:40 p.m.**

**Module No: HR-52-5438**  
**Carrier: Byerly**  
**Insert LC: 98046.0308 Title: .0400**

Less special funds	<u>(419,999)</u>	_____	<u>(419,999)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

House changes narrative:

The amendment reduces the pay for performance system funding by \$419,999, from \$919,999 to \$500,000. The amendment also moves the managed care/TPA funding into the operating expenses line item because the costs are primarily administrative costs for contracting for the services. The amendment also adds a section directing the bureau to develop an Internet application which is to allow employers to file payroll reports electronically through the Internet.

**1999 TESTIMONY**

**SB 2024**

**Senate Bill No. 2024**

**Fifty-sixth Legislative Assembly  
Before the Senate Appropriations Committee  
January 19, 1999  
Testimony of Reagan Pufall and Tammy Dolan  
Regarding the Appropriation for the Workers Compensation Bureau**

Mr. Chairman, Members of the Committee:

My name is Reagan Pufall. I am the Chief Operating Officer and General Counsel for the Workers Compensation Bureau. With me is Tammy Dolan, the Bureau's Director of Accounting. We are here to testify in support of 1999 Senate Bill No. 2024, the appropriation for the Workers Compensation Bureau, and to offer amendments to that bill.

I will review the state of the workers compensation fund and the key events of the 1997-1999 biennium. Tammy Dolan will then present the details of our budget for the 1999-2001 biennium. Following that I will discuss two proposed changes to the budget, with further testimony on those proposed changes then presented by Mr. Chuck Peterson, Chairman of the Workers Compensation Board of Directors.

**I. STATUS OF THE FUND**

**1. Unfunded Liability Eliminated, Surplus Achieved**

The 1997-99 biennium witnessed a historic turning point for the Workers Compensation Fund: after many years of operating with an unfunded liability, the fund became solvent. **Fiscal year 1997 closed with a \$1 million surplus, a dramatic improvement over the \$240 million unfunded liability in 1993.** At the close of FY 1998, the surplus had grown to \$27 million, an improvement in the fund's financial status of \$267 million in just five years.

In addition, the contingency reserve created by the Bureau in 1996 has grown to \$115 million. This reserve is set aside to cover unforeseen, catastrophic events, ensuring that the Bureau to provide needed benefit payments in such an event without having to impose a reactive increase in premium rates as a result.

The growth of the contingency reserve together with the elimination of the unfunded liability and the growth of the fund surplus amounts to a **\$382 million improvement in the fund's financial status in a period of five years.**

A graph showing these developments in the fund's status is attached as **Attachment 1.**

Although these achievements represent a dramatic improvement in the fund's financial condition, further improvement is vital to the long-term health of the fund. Currently, the

Bureau discounts its future liabilities by 6% when calculating its reserves. In other words, it is assumed that the Bureau's financial assets will earn 6% each year into the future. Generally in the insurance industry, future liabilities are not discounted, and in addition, insurers carry a capital and surplus account based on a percentage of their annual premium income. The Bureau believes it should meet private industry standards. As an example, for the Bureau to achieve fund solvency without discounting, plus establish a reserve equal to 100% of its annual premium income, the Bureau would have to further improve its current financial position by approximately \$376 million.

Therefore, now that the fund is no longer in a state of financial crisis, the Bureau will pursue a strategy in which future improvements in its financial condition will be allocated to three areas: first, continue to build up the fund's financial reserves; second, grant further premium rate decreases to employers; and third, propose legislation containing targeted increases in benefits for injured workers.

## **2. Premium Rates Decreased**

The Bureau continued to decrease its premium rates during the 1997-99 biennium, continuing the pattern that began in 1995 with an 8.5% overall decrease in rates and continued in 1996 with a 3% decrease. **In 1997 the Bureau decreased overall premium rates by 8.5% and again in 1998 by 9.4%.** This is in contrast to the period from 1989 through 1994, when premium rates increased by as much as 60% in a single year. Employers' workers compensation premiums increased by a total of 328% in a six year period. A graph showing the history of rate changes is attached as **Attachment 2.**

The Bureau has prepared a bill that has been introduced as House Bill 1296 by Representatives Carlson, Boucher, and Berg and by Senators Nelson and Solberg, which would enhance the Bureau's ability to reward employers with good safety records, recognizing that effective workplace safety programs help make premium rate reductions possible. Enactment of House Bill 1296 would **allow the Bureau to return money to employers through high deductible and dividend programs**, while also protecting the health of workers by providing additional incentives for workplace safety.

## **3. Benefits Increased**

The improved financial situation allowed the Bureau to propose legislation in the 1997 session increasing a number of benefits. The bills, all of which were enacted by the Legislative Assembly, increased benefits for the surviving spouses and dependent children of workers who die as a result of work injuries, created a scholarship for those spouses and children, increased coverage for funeral costs, created an additional benefit for disabled workers after retirement, and increased funding for adaptations to homes and vehicles to better accommodate disabled workers.

In light of the fund's continued positive financial performance, **the Bureau and its Board propose even greater benefit increases in the current session.** Pending

legislation would provide further increases in death benefits and make the higher benefit rates available to more recipients, increase wage-loss benefits for seasonal workers, raise North Dakota's maximum wage-loss benefit rate to among the highest in the country, raise the maximum scholarship award, and increase the value of permanent impairment awards.

#### 4. Summary

The Bureau and its Board will continue the approach of providing prudent premium rate decreases and supporting prudent benefit increases, while continuing to build the financial status of the fund for the future.

## II. BOARD OF DIRECTORS AND INDEPENDENT PERFORMANCE AUDIT

Two more milestones for the Bureau during the 1997-99 biennium were the creation of the Workers Compensation Board of Directors and the completion of the first Independent Performance Audit.

### 1. Board of Directors

As a result of 1997 legislation, the Bureau was placed under the supervision of a Board of Directors. Board members represent large and small employers, workers, and medical providers. The first appointive Board members were seated in January, 1998. **The Bureau now works directly for its customers: the employers who pay premiums to fund the system, and the workers who receive benefits from the system when they are injured.** This has substantially increased the accountability of the Bureau, as our performance is now directly monitored by those groups who have the greatest interest in the efficiency and quality of our operations. The Board has adopted Governance Policies based on the Carver model of board governance, to achieve the highest level of effective oversight and leadership of the Bureau. Major initiatives of the Board include reallocation of fund investments, oversight of the independent performance audit, preparation of the 1999 legislative package, and preparation of the appropriations budget that is being considered today.

### 2. Independent Performance Audit

The Bureau's first Independent Performance Audit was completed in the spring of 1998. In the 1997 legislative session, the Bureau prepared and supported legislation requiring that a performance audit of the Bureau's operations be performed by an independent industry expert selected by the State Auditor every two years. This was in keeping with the Bureau's philosophy of accountability and continual improvement. Because we have been granted the privilege of a statewide monopoly on workers compensation coverage, we believe we should be held highly accountable for the quality and efficiency of the services we provide.

**The Independent Performance Audit was a success, generating 89 recommendations in 9 departments.** To ensure the Bureau's customers get the maximum value from this audit, the Board of Directors has directed the creation a tracking system that will monitor the implementation and impact of all 89 recommendations. **See Attachment 3.**

### **III. CONTINUED IMPROVEMENTS IN SERVICE AND PERFORMANCE**

Under the leadership of the Board, Bureau employees continued to achieve significant improvements in performance and customer service during the 1997-99 biennium. Here are just a few of the highlights:

- In 1998, 82% of claims were processed within 21 days after being filed, compared to 1995 when only 43% of claims were processed within 21 days.
- The number of employers earning 5% discounts by participating in the Risk Management Program increased to 1012, meaning that 55% of the state's workers are now covered by approved workplace safety programs.
- Better workplace safety and claims management reduced the number of wage-loss claims in 1998 to 3,107, a 17% decrease compared to 1994.
- Out of a total of 20,683 claims filed in 1998 for workplace injuries, only 455 went into litigation, compared to 1400 litigated cases in 1994. The litigation rate in 1998 was only about 2%, which is low compared to other states. **See Attachment 4.**
- In quarterly customer satisfaction surveys **injured workers awarded the Bureau a "4+" on a scale of 1 to 5 for their overall satisfaction** with the service they received from the Bureau, in the past five surveys in a row. **See Attachment 5.**
- In customer satisfaction surveys **employers awarded the Bureau a "4+" on a scale of 1 to 5 for their overall satisfaction** with the service they received from the Bureau, in the past six surveys in a row. **See Attachment 6.**

The Bureau created its annual Goals program in 1997. This program sets ambitious goals targeted at key areas for improvement, and evaluates the achievement of those goals. A central component of the 1999 Goals program are "Best Practices" goals, requiring various departments, and the Bureau as a whole, to specifically identify the best practices in the workers compensation industry and develop specific business plans for the Bureau to meet or exceed those practices. **The Bureau's goal is to become an industry leader in practices and outcomes within the next two to four years.**

Tammy Dolan will now review the 1999-2000 budget.

My name is Tammy Dolan, and I am the Director of Accounting at the Workers Compensation Bureau. Below is a table showing the line items in the Bureau's budget, with the dollar amounts for each line item from the 1997-1999 biennium from the Governor's budget and from the budget prepared by the Workers Compensation Board of Directors. There are two line items for which the Governor's budget and the Board budget provide different amounts, and those line items are highlighted in bold:

Workers Compensation Bureau  
1999 – 2001 Appropriation Overview

	Current 1997 - 1999 Appropriation	Governor's Recommended 1999 – 2001 Budget	Change from 97/99	WCB Board of Directors Request	Change from 97/99
<b>Salaries &amp; Wages</b>	<b>\$ 13,299,049</b>	<b>\$ 15,129,163</b>	<b>13.8%</b>	<b>\$ 15,517,814</b>	<b>16.7%</b>
<b>Operating Expenses</b>	<b>\$ 4,814,609</b>	<b>\$ 7,280,549</b>	<b>51.2%</b>	<b>\$ 7,380,549</b>	<b>53.3%</b>
Equipment	\$ 476,000	\$ 1,206,840	153.5%	\$ 1,206,840	153.5%
WC Contingency	\$ 100,000		\$ -100.0%	\$ -	-100.0%
Information Re- engineering	\$ 3,250,000		\$ -100.0%	\$ -	-100.0%
Managed Care	\$ 758,386	\$ 128,413	-83.1%	\$ 128,413	-83.1%
<b>Grand Total</b>	<b>\$ 22,698,044</b>	<b>\$ 23,744,965</b>	<b>4.6%</b>	<b>\$ 24,233,616</b>	<b>6.8%</b>
FTE	166.0	179.0	13.0	179.0	13.0

Each of the budget line items will now be reviewed in greater detail.



## 1. Salaries and Wages

<b>1997 - 1999</b>	<b>Governor's Recommended 1999 - 2001</b>	<b>Change from Current</b>	<b>WCB Board of Directors Requested 1999 - 2001</b>	<b>Change from 1997-1999</b>
\$13,299,049	\$15,129,163	13.8%	\$15,517,814	16.7%
166 FTE	179 FTE	13 FTE	179 FTE	13 FTE

<b>Current Appropriation</b>	<b>\$13,299,049</b>
To continue paying current salaries	\$ 754,207
Pay-for-Performance salary increases	\$ 970,000
3 New FTE in Information Services	\$ 186,621
1 New FTE in Records Management	\$ 47,514
1 New FTE in Fraud	\$ 101,041
8 FTE for Current Full-time Employees	\$ 0
Health Insurance Increase	\$ 159,382
<b>1999 - 2001 Request</b>	<b><u>\$15,517,814</u></b>

Currently, the Workers Compensation Bureau has 166 FTE employees, 12 full-time temporary employees, and one part-time employee. Bureau employees are not "classified" as are other State employees. As in the private sector, they are employed on at "at-will" basis. The 1999 - 2001 appropriation request for salaries and wages has several components. They are:

1. **To Continue Paying Current Salaries** – To continue paying the salaries of current employees during the next biennium at the level they will reach at the end of the current biennium, with no pay increases at all, would require an additional **\$754,207** over the 1997-1999 appropriation.
2. **Pay-for-Performance** - Bureau employee salary increases are based on job performance, including objective performance measurements. Performance appraisals for department directors and managers are tied to the goals and achievement program.

In preparing the Bureau's budget, the Board of Directors determined that **\$970,000** is necessary to fund the pay-for-performance program at a level that would effectively motivate employees to achieve higher performance. This would place the midpoint for the schedule of possible pay increases at 5%. No across-the-board increases will be given. The average pay increase awarded in fiscal

year 1998 was about 5% but pay increases in the pay-for-performance guidelines ranged from zero to 9% depending on the employee's work performance.

The Governor's budget includes **\$581,349**, a lower funding level that would place the midpoint for possible pay increases at 3%.

As Reagan Pufall will explain shortly, the Board of Directors does not believe this funding level is adequate. They respectfully request that the budget be restored to the **\$970,000** level approved at their June 25, 1998 budget meeting. This would require an amendment to SB 2024 restoring **\$388,651** to our salaries and wages line item.

3. **Information Services – 3 FTE - \$186,621** - The Bureau currently contracts for certain computer services. These services cost approximately \$65 per hour, for a total cost of \$405,600 per year. Adding 3 new FTE in the Information Services Department will allow these services to be performed in-house, creating a savings of approximately \$200,000 in the 1999 – 2001 biennium.
4. **Records Management – 1 FTE - \$47,514** - Currently, all Claims Department and Legal Department documents are imaged by the Records Management Department. The imaging process scans all documents into a computer system allowing multiple people access to the same documents at the same time. The Bureau will begin imaging Policyholder Services Department (PHS) mail (including payroll reports and billings) in the 1999 – 2001 biennium.

Currently approximately 2,700 documents are processed daily, or 338 per employee in the Records Management Department. It is estimated that PHS mail will generate another 650 documents every day. All Claims and Legal department mail is now imaged and available for use **the same day** it is received into the Bureau. With the influx of PHS mail, without the addition of at least one position, same day turnaround would not occur. This would cause delays in claims processing, medical bill payment, and premium billings, costing the fund money in increased claims costs and lost interest income, as well as harming customer service.

5. **Fraud Department – 1 FTE - \$101,041** - Currently, the Fraud Department consists of a co-director in charge of employer fraud, a co-director in charge of employee & provider fraud, one in-house case manager, and an administrative assistant. All remaining case and investigative work is contracted with outside companies, and paid off-budget as an allocated loss adjustment expense.

The Board budget and the Governor's budget both include one new FTE to add another in-house case manager. Annually, a full-time contracted investigator would cost approximately \$166,500, or \$333,000 for the biennium. Adding another employee in lieu of a contracted position will save the Workers Compensation Fund almost \$116,000 each year, or \$232,000 over the biennium.

6. **8 FTE for Current Full-Time Temporary Employees** – Currently, there are 12 full-time, temporary status employees at the Bureau. After evaluating the positions held by 8 temporary status employees, it was determined that each of these positions was necessary to maintain effective operations in their departments. None of these individuals receives the state's benefit package. However, after successful completion of their probationary period, each is given a pay adjustment to partially offset the lack of benefits. Therefore, the dollar impact by adding these FTE positions is minimal. The positions are as follows:

Department	Job Title	Temporary Hire Date
Research, Statistics & Internal Audit	Administrative Assistant	9/1/97
Records Management	Clerk III	10/3/94
Records Management	Clerk II	4/10/95
Records Management	Registration Clerk	1/4/99
Records Management	Document Processing Specialist I	8/24/98
Policyholder Services	Clerk I	9/1/98
Policyholder Services	Collection Specialist I	5/26/98
Medical Services	Medical Services Technician	12/9/96

Of the remaining four full-time temporary status employees, two work in the Worker Adviser Program (WAP). This department was created by the 1995 Legislature in a law that contained a sunset clause, ending the program June 30, 1999. A bill, HB 1325, is currently being considered by the Legislature to continue this essential program and give FTEs to these two employees.

Two more full-time temporary status employees (one in the Information Services Department and one in the Human Resource Department) were hired after the July 15 budget deadline. Each of these is absolutely essential to their department, but an FTE was not specifically requested for their position due to the timing of their hire.

7. **Health Insurance Increase - \$159,382** – The cost of the state's health insurance is increasing by 12%. Insurance premiums are paid completely by each agency. Therefore, Governor Schafer added the required funding to the budget. This is the same increase given to every other state agency.

**2. Operating Expenses & Information Reengineering**

<b>Appropriation Line</b>	<b>1997 - 1999</b>	<b>Governor's Recommended 1999 - 2001</b>	<b>Change from 97-99</b>	<b>WCB Board of Directors Requested 1999 - 2001</b>	<b>Change from 97-99</b>
Operating Expenses	\$4,814,609	\$7,280,549	51.2%	\$7,380,549	53.3%
Information Reengineering	\$3,250,000	\$0	-100.0%	\$0	-100.0%
Total	\$8,064,609	\$7,280,549	-9.7%	\$7,380,549	-8.5%

Since 1993, the Bureau has been re-engineering its information technology system. The related expenses were accounted for in a special line item in the Bureau previous two budgets. All major new development projects will be substantially completed during the 1997/99 biennium. Therefore, in this funding request, all maintenance and enhancement costs for these systems are included in the operating expense and equipment line items, rather than the previous special line item for new computer systems.

Thus, while this request shows significant increase of 51.2% in the operating expense line item, there is a corresponding 100% decrease in the Information Reengineering special appropriation line. Overall, this request reflects a decrease in operating expense funding of 8.5%. Specific areas affected by this budget line item shift were lease/rent – equipment, repairs, office supplies (software), and professional services. These account for nearly all the largest changes in the detailed operating expense budget.

Another “big ticket” item is the increase in the building lease multiplier (Lease/Rent – Building). The Bureau annually reimburses the building owner for the cost of janitorial services, property taxes, railroad lease costs, and utilities over and above a base amount established in the lease. As these costs rise, our budget must be increased. Operating Fees & Services increased by 22% over the current budget due to a significant increase in the volume of legal notices generated by the Policyholder Services Collections Department.

### 3. Equipment

1997 - 1999	Governor's Recommended 1999 - 2001	Change from Current	WCB Board of Directors Requested 1999 - 2001	Change from Current
\$476,000	\$1,206,840	153.5%	\$1,206,840	153.5%

Both the Board's budget and the Governor's budget contain \$235,500 to replace, upgrade or purchase new pieces of office equipment. These include photocopiers, fax machines, Herman Miller workstations, a dictation system, a portable laptop projector, a small printer, and paper shredders.

The majority of the equipment request, \$971,340, consists of computer hardware items. The Bureau's operating systems (those that process claims, medical payments, and employer billings) reside on a client-server system maintained at the Bureau. Each of our employees works at a personal computer that is necessary to perform their job duties. These PC's are linked through a local area network.

This intricate information system is supported by multiple pieces of hardware and software, each of which must be periodically upgraded and/or enhanced to ensure that it is functioning properly. Failure of the computer system would leave the Bureau unable to perform most of its vital functions, including processing claims and paying benefits. Without this technology funding, the Bureau simply could not operate.

Specific items included are:

PC and Printer Replacement	\$243,500
Data Warehouse	\$350,000
FileNet OSAR Server Replacement	\$159,840
Internet Server	\$ 45,000
NT, Novell, AIX upgrades/replacement	\$ 50,000
UNIX Server upgrades/replacement	<u>\$120,000</u>
	\$971,340

#### 4. Managed Care

<b>1997 - 1999</b>	<b>Governor's Recommended 1999 - 2001</b>	<b>Change from Current</b>	<b>WCB Board of Directors Requested 1999 - 2001</b>	<b>Change from Current</b>
\$758,386	\$128,413	83.1%	\$128,413	83.1%

Both the Board's budget and the Governor's budget contain \$128,413 for the Managed Care line item. Costs included in this line item relate to cost containment programs such as provider profiling and the new hospital liaison program. Because many of these expenses are "claim specific," meaning their costs can be allocated to a specific claim, they can be paid off-budget as allocated loss adjustment expenses. In the 1997 session, the Legislature approved a continuing appropriation for all claims adjudication expenses.

Due to administrative problems in tracking these costs by claim number, it has not been possible to allocate the costs to claim files in past years. Now, technology has increased to a level that makes this process feasible. All future requests for proposals for vendor services in the managed care area will include a requirement for billing by claim number.

The remaining funding (\$128,413) in this special line item provides for the development of a hospital fee schedule, which cannot be charged as allocated loss adjustment expense.

## 5. Contingency

<b>1997 - 1999</b>	<b>Governor's Recommended 1999 - 2001</b>	<b>Change from Current</b>	<b>WCB Board of Directors Requested 1999 - 2001</b>	<b>Change from Current</b>
\$100,000	\$0	-100%	\$0	-100%

In past years, the Bureau has included a contingency amount for unexpected events that could require administrative resources. These could include unfavorable Supreme Court decisions, catastrophic events, new programs, etc.

This line item was eliminated to meet the 95% budget requirement. If additional emergency funding were to be required in the coming biennium, an emergency appropriation would be requested of the Budget Section.

This concludes my testimony on the Bureau's 1999-2001 budget. Reagan Pufall will now address the two line items for which we are requesting increased funding.

## **REQUEST FOR REINSTATEMENT OF BOARD'S BUDGET IN TWO AREAS**

As was outlined in Tammy Dolan's testimony, we are requesting, on behalf of the Board, that SB 2024 be amended to reinstate the amounts originally provided in the Board's budget, rather than the lower amounts included in the Governor's budget for those line items. The two budget items at issue are funding

This request is made pursuant to specific statutory authority. Section 65-02-03.2 of the Century Code provides that the Board shall:

Prepare, with the assistance of the bureau, a bureau budget ... The bureau shall present the budget to the governor for inclusion in the governor's budget. If the governor makes adjustments to the budget, the board may concur in the adjustments or may present testimony to the appropriations committees of the legislative assembly, requesting amendments to the budget to remove adjustments made by the governor.

The Governor's budget made four adjustments to the budget prepared by the Board. At its December meeting, the Board voted to concur in two of the adjustments and to request that the other two adjustments be reversed.

### **1. Information Technology Plan**

The Bureau is fortunate to have a Director of Information Services, Cathie Forsch, who not only has expertise in computer technology but also has strong leadership and managerial skills. She leads a staff of highly qualified computer professionals. Cathie and her staff prepared a comprehensive Information Technology (IT) Plan for the 1999-2001 biennium, for review and approval by the Board of Directors. In the development of this IT Plan, the Bureau's Information Services (IS) Department focused on reducing costs to the lowest possible level.

For example, the IS Department did a comprehensive analysis of all the Bureau's computer hardware, including the expected operating life and current "age" of each item. They determined with equipment would need to be replaced the coming biennium in order for the Bureau to operate, and researched the best purchase prices expected to be available. This resulted in an equipment purchase budget of \$1,644,000.

In light of the Governor's request for a 95% budget, the IS Department then re-examined that budget. By developing creative methods to achieve certain goals through the use of alternative technology approaches, the computer equipment purchase budget was reduced to \$1,374,000.

Not content with those savings, the IS Department then explored the option of leasing equipment rather than purchasing it. They also eliminated one useful, but not business critical, item from the budget. This reduced the cost to \$960,340, which was the amount



approved by the Board for the Bureau's budget. The Bureau had achieved an overall savings of \$683,660 before the budget was even forwarded to the Governor's office.

This illustrates the high level of scrutiny and analysis that went into the preparation of the Bureau's Information Technology Plan, which was incorporated into the Board's budget. Funding for this plan was reduced by \$100,000 in the Governor's budget. These dollars were budgeted for the maintenance and enhancement of information operating systems that are critical to the Bureau's ability to perform its core functions. Cathie Forsch and her staff have again reviewed the IT Plan and the budget carefully, but they cannot identify any way in which the \$100,000 can be cut without damaging mission-critical information services.

As a result of five years of intensive technology development, the Bureau is now at a high level of computerization. This has made possible dramatic improvements in efficiency and customer service. However, at this point the Bureau simply cannot operate unless all its major information systems are operating well. Even at the full level of funding in the Board's budget, keeping all those systems upgraded and operating effectively during the next biennium will demand very careful planning and management. Reducing that budget by \$100,000, which was included in the budget specifically for the upgrading and maintenance of critical systems, puts the core functions of the Bureau, including the payment of wage-loss benefits and medical bills, at genuine risk.

On behalf of the Bureau, at the direction of the Workers Compensation Board of Directors, I respectfully request that you restore \$100,000 to the Operating Expenses & Reengineering line item as it was provided in the Board's budget.

## **2. Pay-For-Performance Funding**

As Tammy Dolan outlined earlier, the budget approved by the Board of Directors included \$970,000 to fund the Bureau's pay-for-performance system. The Governor's budget included \$581,349 for that item, a reduction of \$388,651

Pay-for-performance has been the central factor that has made all of the achievements of the past four years possible. Pursuant to 1995 legislation, Bureau employees are not within the central personnel system. They are not "classified" employees, but rather are "at will" employees just like workers in the private sector. It is their performance that has generated the dramatic improvements in service and performance during the past four years, and future improvements depend on their continued motivation and innovation.

The Bureau's current pay-for-performance program was launched by Governor Schafer in his 1997 Budget Address, in which he recommended that pay raises at the Bureau "be based 100 percent on merit and performance, enabling the Bureau to reward excellence appropriately." As I briefly outlined earlier, the results have been impressive, with pay-for-performance leading to substantial improvements in virtually all areas of

service and performance, and achieving high levels of customer satisfaction among injured workers and employers. As Hal Rosenbluth declared in his pathbreaking book "The Customer Comes Second," a customer service organization like the Bureau can ensure that its customers will be treated well only by treating its own employees well. After all, it is those employees who will be dealing directly with the customers.

One important result of pay-for-performance has been a substantial decrease in staff turnover at the Bureau. In 1996 Bureau employee turnover was 22%. This was a major problem, particularly in the Claims Department, with injured workers voicing their unhappiness at continually having new, inexperienced staff assigned to handle their claims. In 1998 the staff turnover rate had decreased to only 10%, which is below the national average of 13.3%. Without adequate funding for the pay-for-performance system, we believe employee turnover will begin to rise again, once again causing disruptions in our customer service.

Pay-for-performance is particularly important at the Bureau because of the low level of staffing we maintain. A recent analysis of our staffing level compared to other workers compensation funds revealed that North Dakota ranked second to last in staffing, and was far below the national average. See Attachment 7. This analysis adjusted for the different sizes of the various workers compensation funds, and therefore is an "apples to apples" comparison. In fact, even if the number of Bureau employees was doubled, we would still be only about average compared to the staffing levels at the other funds. Pay-for-performance incentives allow us to expect more, and get more, performance from our staff to try to make up for this gap in staffing.

The pay-for-performance funding does not represent any overspending by the Bureau. In fact, the Bureau's administrative overhead ranks fourth lowest in the nation compared to other workers compensation funds. See Attachment 8.

The pay-for-performance system has been funded with a 5% midpoint target for the past two years, and has produced great results. As Attachment 9 illustrates, the appropriated administrative budget of the Bureau is only a small part of the true cost of the system, most of which consists of claims-specific payments. For the employers who fund the system with their premium payments, their concern is not the size of the slice of the pie representing the appropriated budget, but the size of the whole pie, which represents the total cost of the system. To the extent that underfunding the pay-for-performance system will tend to decrease effective management of overall claims costs, this line item reduction is "penny wise but pound foolish."

On behalf of the Bureau, at the direction of the Workers Compensation Board of Directors, I respectfully request that you restore \$388,651 to the Salaries & Wages line item as it was provided in the Board's budget.

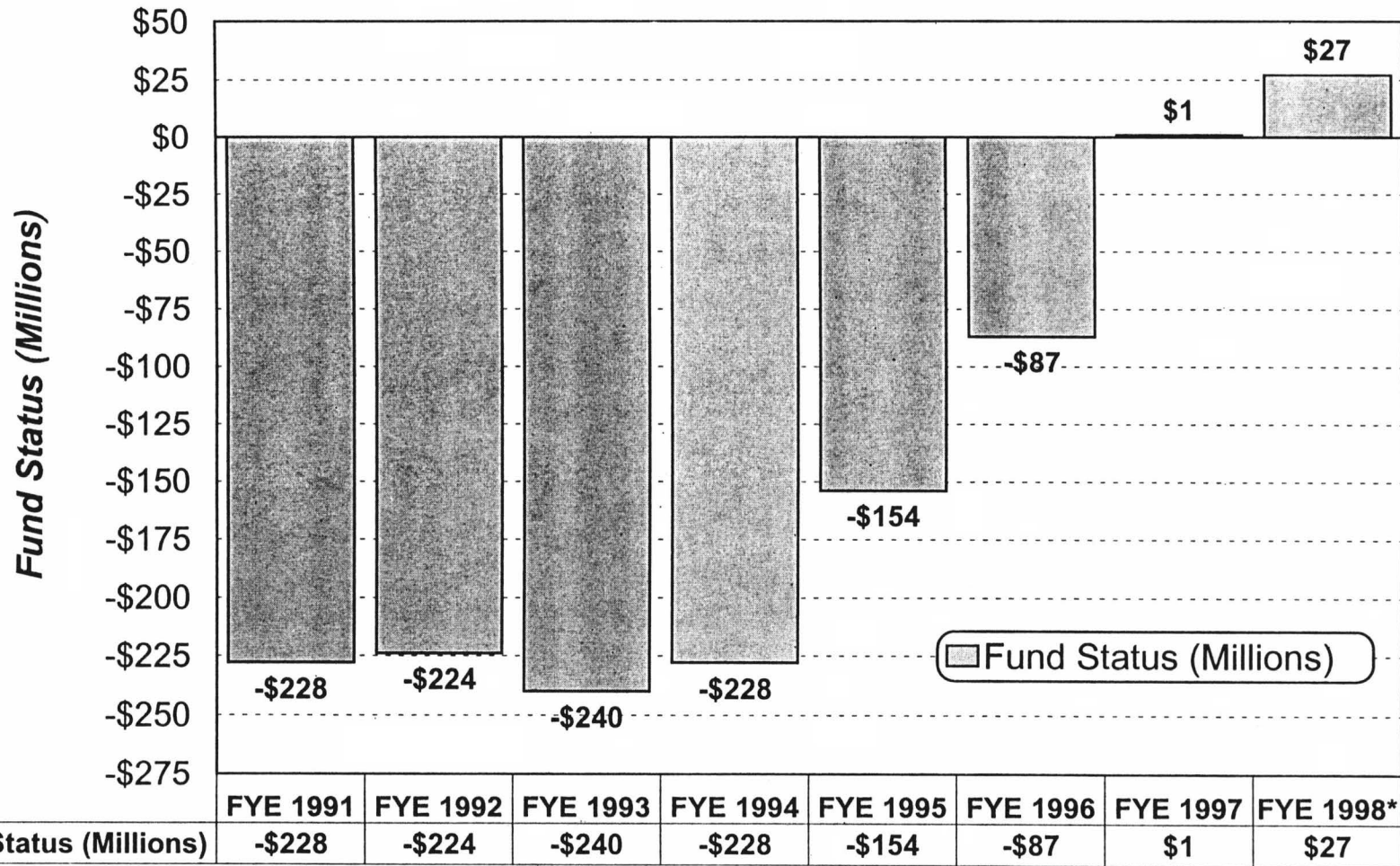
### **3. Conclusion**

In considering this request, it should be noted that the Bureau's appropriation does not include any general fund tax dollars. The Bureau's operations and benefit payments are funded entirely by employer premium payments. The six Board members representing the premium-paying employers of North Dakota voted unanimously to reinstate the higher dollar amounts for these two line items.

I will be happy to answer any of your questions at this time, and if there are no questions, I will now introduce Mr. Chuck Peterson, the Chairman of our Board of Directors, who has some additional comments on this matters.

# NDWCB Fund Status

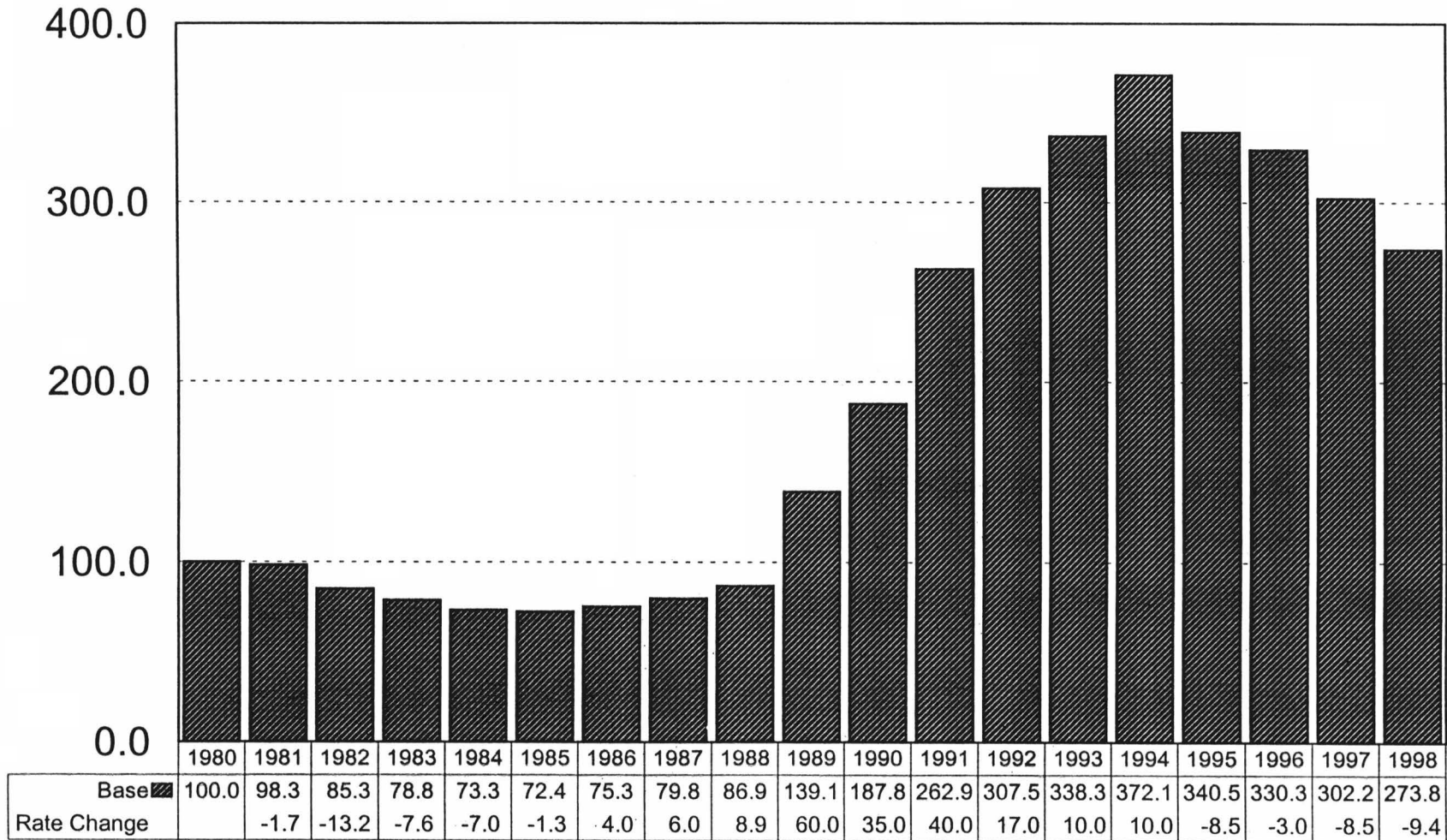
*by Fiscal Year*



*\*the fund status as of June 30, 1998 includes a \$115 million contingency reserve*

# NDWCB

## Rate Change History



Base Year 1980 = 100

# 1998/99 Independent Performance Audit: Board Audit Committee Monitoring Grid

Recommendation Number	Accountable Department	Recommendation Status	Implementation Target Date	Comments
1	Policyholder Services	Acted On	October-98	Complete
2	Policyholder Services	Will Implement Alternative	March-99	Projected Comp Date is 10/1/99
3	Policyholder Services	Will Implement Alternative	December-99	Projected Comp Date is 7/99
4	Policyholder Services	Acted On	January-98	Complete
5	Policyholder Services	Acted On	July-98	Complete
6	Policyholder Services	Acted On	June-99	Complete
7	Policyholder Services	Acted On	August-98	Complete
8	Policyholder Services	Will Be Acted On	June-99	Danita - awaiting PICS implementation
9	Policyholder Services	Will Be Acted On	June-99	Awaiting PICs Implementation
10	Policyholder Services	Will Be Acted On	July-99	Board to consider discounts for pre-payment of premiums
11	Quality Assurance	Will Be Acted On	March-99	Dec 98 rpt rec'd
12	Legal	Acted On	June-99	Complete
13	Legal	Will Be Acted On	June-99	K Renewal Issue
14	Legal	Acted On	August-98	Complete
15	Legal	Acted On	August-98	Complete
16	Legal	Acted On	August-98	Complete
17	Legal	Acted On	August-98	Complete
18	Legal	More to do	June-99	Complete until CMS Implementation
19	Legal	Will Be Acted On	June-99	K Renewal Issue
20	Legal	Will Be Acted On	June-99	K Renewal Issue
21	Legal	Acted On	August-98	Complete
22	Legal	Acted On	August-98	Complete
23	Legal	Will Be Acted On	June-99	D. Thiele
24	Legal	Acted On	December-98	Complete
25	Legal	Will Be Acted On	June-99	Awaiting CMS Implementation
26	Loss Prevention	Will Be Acted On	December-98	Projected Comp Date is 1/31/99
27	Loss Prevention	Acted On	August-98	Complete
28	Loss Prevention	Acted On	September-98	Complete
29	Loss Prevention	Acted On	September-98	Complete
30	Fraud	Will Implement Alternative	January-99	Projected Completion Date - 1/31/98
31	Fraud	Acted On	August-98	Complete
32	Fraud	Acted On	September-98	Complete
33	Fraud	Acted On	September-98	Complete
34	Fraud	Acted On	December-98	Complete
35	Fraud	Acted On	April-98	Complete
36	Fraud	Acted On	May-98	Complete

ATTACHMENT 3

Recommendation Number	Accountable Department	Recommendation Status	Implementation Target Date	Comments
37	Board	Acted On	January-98	Complete
38	Board	Acted On	October-98	Complete
39	Board	Acted On	June-98	Complete
40	Research and Statistics	Acted On	December-98	Complete
41	Claims/Rehabilitation	Will Implement Alternative	December-99	Estimated Completion 12/99
42	Claims/Rehabilitation	Acted On	July-98	Complete - Ongoing
43	Claims/Rehabilitation	Acted On	July-98	Complete
44	Claims/Rehabilitation	Acted On	January-99	Complete
45	Claims/Rehabilitation	Acted On	June-98	Complete
46	Claims/Rehabilitation	Will Be Acted On	April-99	Estimated Completion - Apr 99
47	Claims/Rehabilitation	Will Be Acted On	July-99	Estimated Completion - Jul 99
48	Claims/Rehabilitation	Will Be Acted On		Estimated Completion - Aug 99
49	Claims/Rehabilitation	Other	January-98	Complying with prior to audit
50	Claims/Rehabilitation	Acted On		Complete
51	Claims/Rehabilitation	Acted On	September-98	Complete - Ongoing
52	Claims/Rehabilitation	Acted On	November-98	Complete
53	Claims/Rehabilitation	Acted On	May-98	Complete
54	Claims/Rehabilitation	Acted On	November-98	Complete
55	Claims/Rehabilitation	Acted On	November-98	Complete
56	Claims/Rehabilitation	Other		Complying with prior to audit
57	Claims/Rehabilitation	Acted On	January-99	Complete
58	Claims/Rehabilitation	Acted On	August-98	Complete
59	Claims/Rehabilitation	Acted On	December-98	Complete
60	Claims/Rehabilitation	Will Be Acted On	December-98	Input from Research & Statistics
61	Claims/Rehabilitation	Acted On	January-99	Complete
62	Claims/Rehabilitation	Acted On	January-99	Complete
63	Claims/Rehabilitation	Acted On	January-99	Complete
64	Claims/Rehabilitation	Will Be Acted On	June-99	Research & Statistics
65	Claims/Rehabilitation	Will Be Acted On	December-99	J Bitz & G David
66	Claims/Rehabilitation	Will Be Acted On	June-99	Research & Statistics
67	Claims/Rehabilitation	Will Be Acted On	June-99	D Paaverud
68	Claims/Rehabilitation	Will Be Acted On	June-99	J Bitz & G David
69	Claims/Rehabilitation	Acted On	December-98	Complete
70	Claims/Rehabilitation	Other		Complying with
71	Claims/Rehabilitation	Will Be Acted On	December-99	J Bitz , G David & D Paaverud
72	Claims/Rehabilitation	Acted On		Complete
73	Claims/Rehabilitation	Acted On	November-98	Complete
74	Claims/Rehabilitation	Will Be Acted On	July-99	M Selzler & R Halvorson
75	Claims/Rehabilitation	Other		Information available on system
76	Claims/Rehabilitation	Will Be Acted On	December-99	J Bitz & D Paaverud

Recommendation Number	Accountable Department	Recommendation Status	Implementation Target Date	Comments
77	Claims/Rehabilitation	Acted On	October-98	Complete
78	Claims/Rehabilitation	Will Be Acted On	October-99	D Paaverud
79	Claims/Rehabilitation	Will Be Acted On	October-99	D Paaverud
80	Claims/Rehabilitation	Will Be Acted On	December-99	Seven parts to recommendation
81	Claims/Rehabilitation	Will Be Acted On	June-99	Nine parts to recommendation--to be implemented at various stages
82	Claims/Rehabilitation	Other		Complying with prior to audit
83	Claims/Rehabilitation	Will Be Acted On	January-99	Implemented in part
84	Claims/Rehabilitation	Acted On	January-99	Complete
85	Claims/Rehabilitation	Will Be Acted On	March-99	Awaiting Documentation
86	Claims/Rehabilitation	Will Be Acted On		Ongoing - J Bitz & M Collins
87	Claims/Rehabilitation	Will Be Acted On	December-98	Research & Statistics
88	Claims/Rehabilitation	Will Be Acted On	March-99	J Bitz & D Paaverud
89	WAP	Will Be Acted On	April-99	Legislative Initiative



# Independent Audit Recommendation Status Summary Report

Department	Status:	Recommendation Acted On	Recommendation Will Be Acted On	Will Implement Alternative	Other	Total
Policyholder Services		5	3	2	0	10
Quality Assurance		0	1	0	0	1
Legal		8	6	0	0	14
Loss Prevention		3	1	0	0	4
Fraud		6	0	1	0	7
Board		3	0	0	0	3
Res & Stats		1	0	0	0	1
Claims		18	23	2	5	48
WAP		0	1	0	0	1
<b>Total</b>		<b>44</b>	<b>35</b>	<b>5</b>	<b>5</b>	<b>89</b>
<b>Percent</b>		<b>49.4%</b>	<b>39.3%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>100.0%</b>

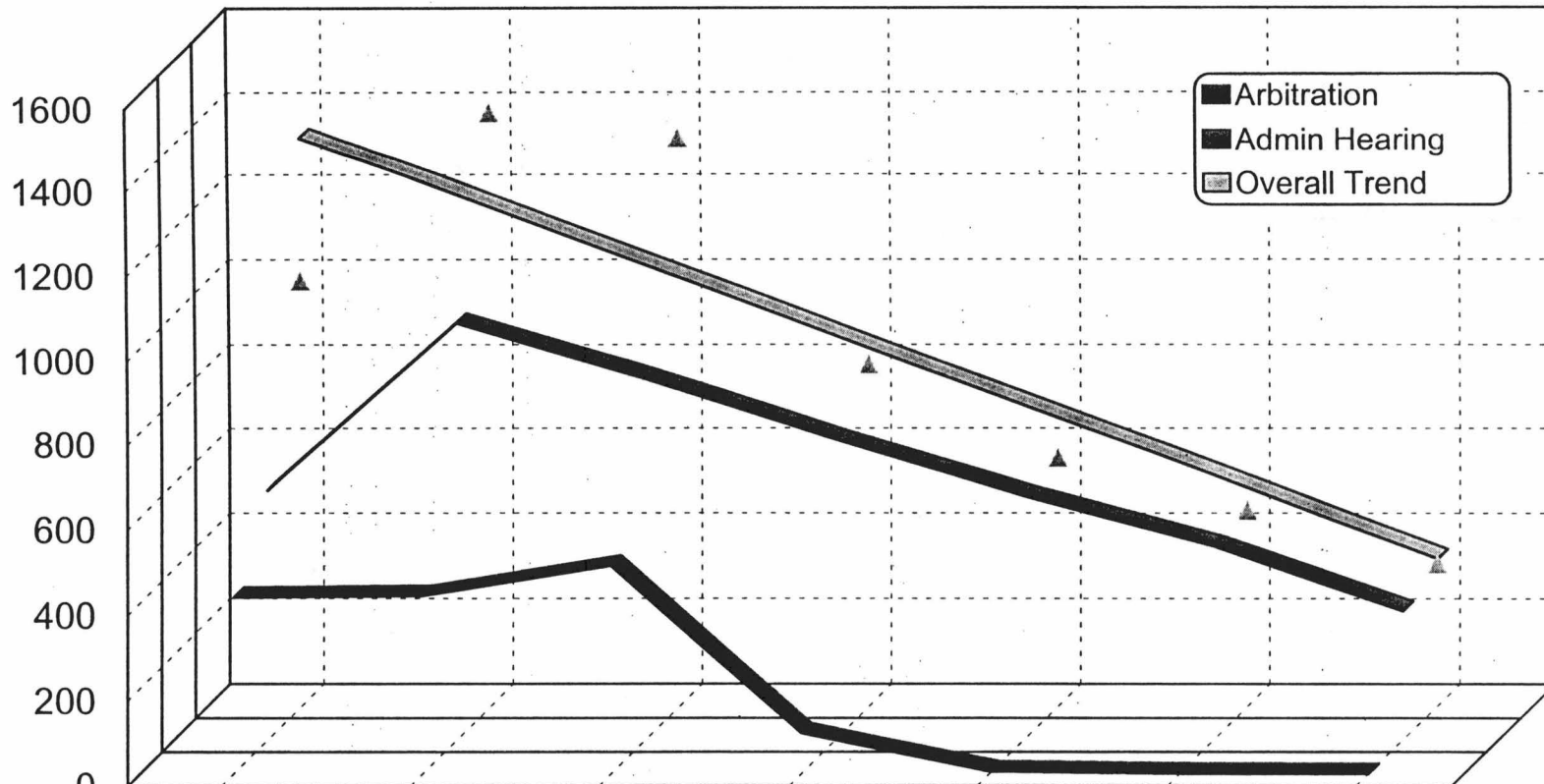
**Recommendations to be acted on by year end:**

Rec #	Acct Dept	Target Date	
4	PHS	October-98	Complete
77	Claims	October-98	Complete
52	Claims	November-98	Complete
54	Claims	November-98	Complete
73	Claims	November-98	Complete
24	Legal	December-98	Complete
26	Loss Prevention	December-98	Rept Avail 1/31/99
40	Res & Stats	December-98	Complete
55	Claims	December-98	Complete
59	Claims	December-98	Complete
60	Claims	December-98	Jeff/Halvy Issue
69	Claims	December-98	Complete
83	Claims	December-98	Reserve Audit
87	Claims	December-98	Jeff/Halvy Issue



# Workers Compensation Bureau Legal Department

## Formal Hearing/Arbitration Request Trend



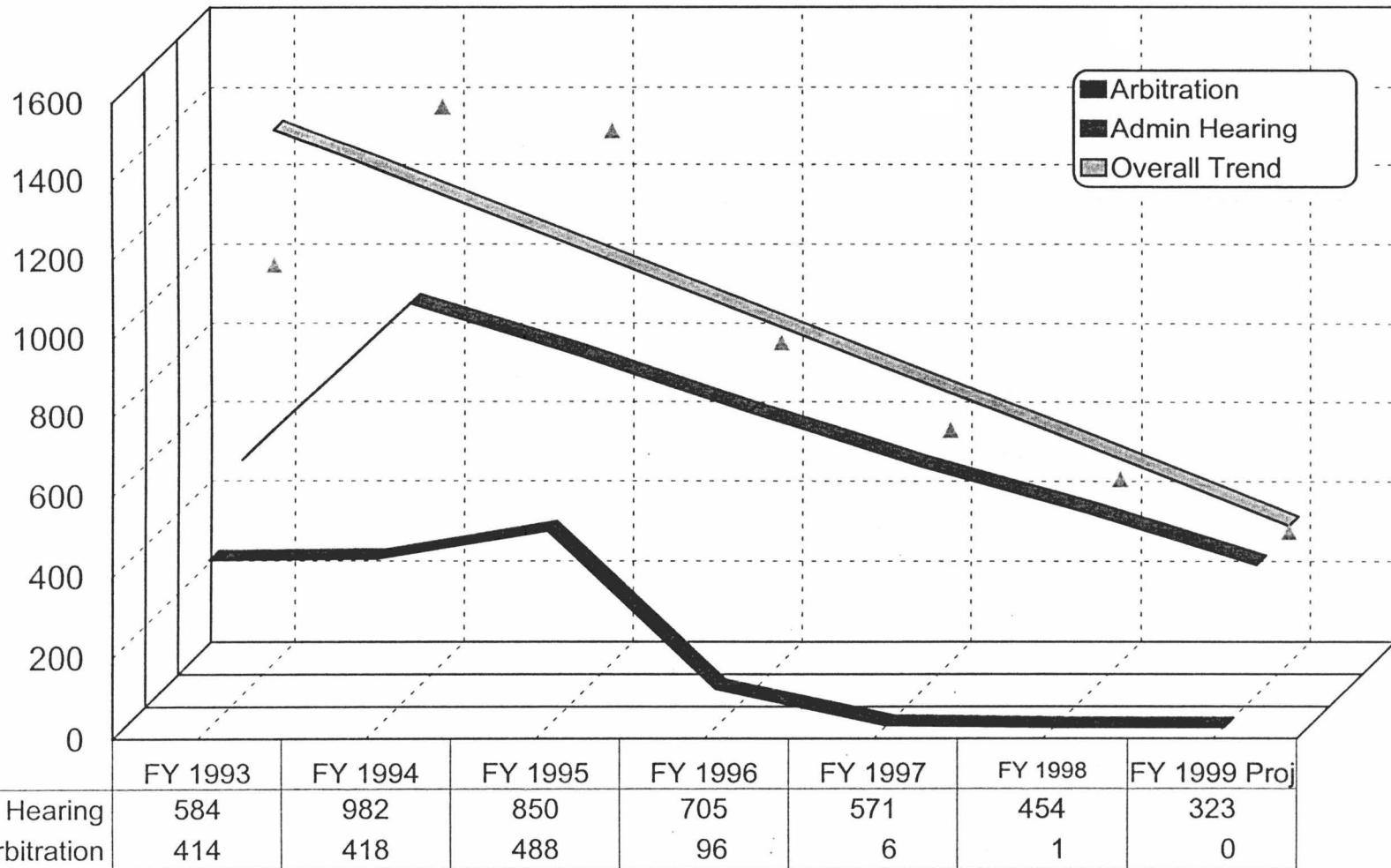
	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999 Proj
Overall Trend	998	1400	1338	801	577	455	330
Admin Hearing	584	982	850	705	571	454	302
Arbitration	414	418	488	96	6	1	0

As Of: 7 Jan 99



# Workers Compensation Bureau Legal Department

## Formal Hearing/Arbitration Request Trend

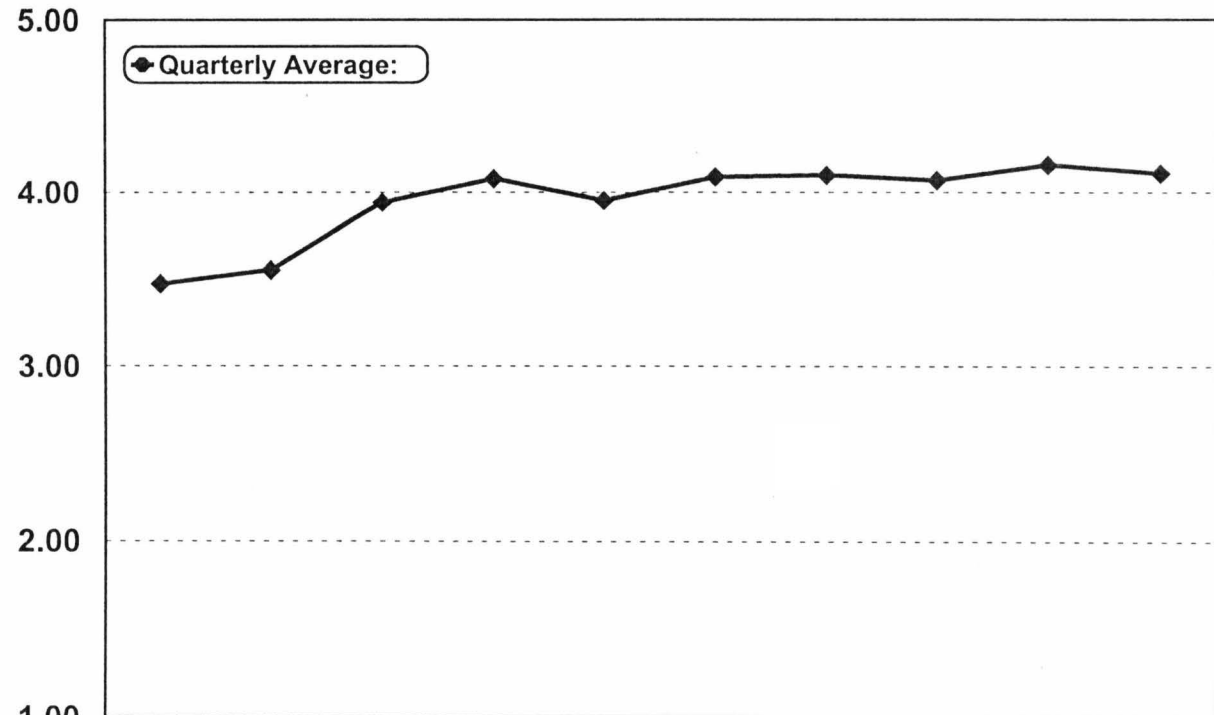


ATTACHMENT 4

As Of: 3 Mar 99

# Claimant Customer Satisfaction Survey

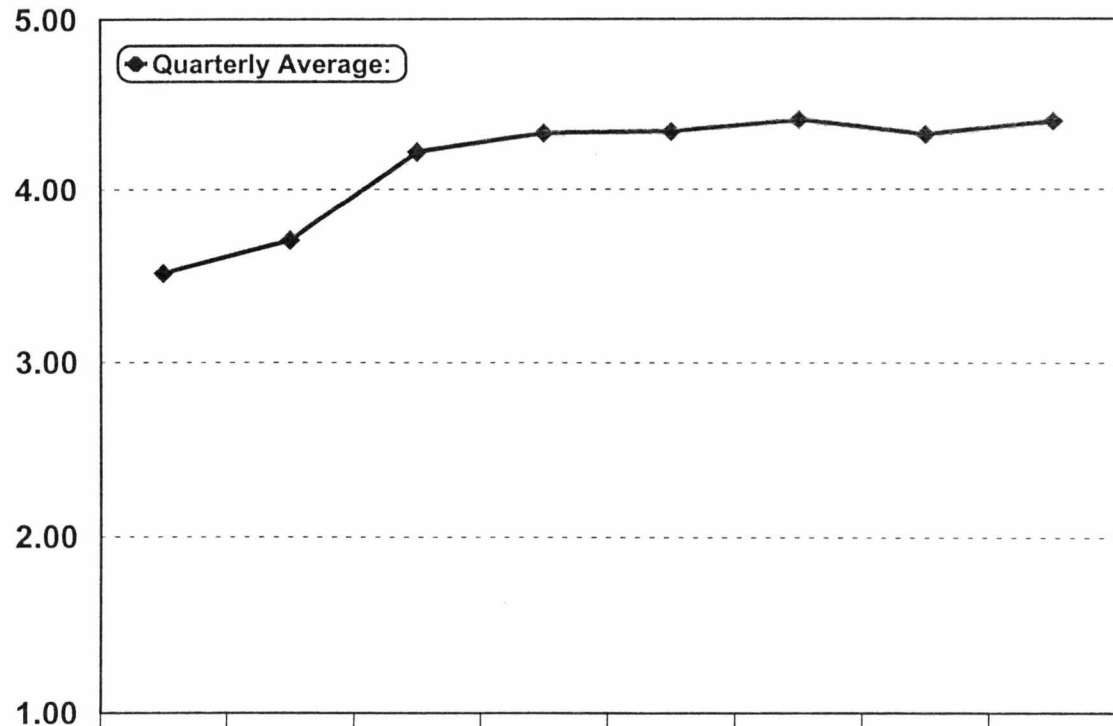
The Bureau started conducting quarterly surveys on July 1, 1996. Each quarter we randomly select 500 claimants who experienced work related injuries and were 60 to 90 days post claim acceptance. The graph to the right indicates the results of the surveys conducted to date. We asked claimants to rate us in terms of services provided for the categories listed below (a 1 would indicate least satisfied with a 5 being most satisfied).



	3rd Qtr '96	4th Qtr '96	1st Qtr '97	2nd Qtr '97	3rd Qtr '97	4th Qtr '97	1st Qtr '98	2nd Qtr '98	3rd Qtr '98	4th Qtr '98
Accepting/Denying Claim in Timely Manner:	3.36	3.41	3.94	4.06	3.93	4.11	4.19	4.09	4.15	4.25
Paying Benefits in a Timely Manner:	3.31	3.29	3.79	3.93	3.71	3.90	3.92	3.89	4.03	4.03
Providing Polite and Helpful Assistance:	3.63	3.88	4.16	4.32	4.23	4.30	4.33	4.38	4.29	4.44
Returning Phone Calls in a Timely Manner:	3.55	3.62	3.83	4.01	4.01	4.08	3.85	3.91	4.11	3.43
Overall Handling of Claim:	3.49	3.56	3.98	4.07	3.89	4.07	4.21	4.09	4.20	4.42
Quarterly Average:	3.47	3.55	3.94	4.08	3.95	4.09	4.10	4.07	4.16	4.11

# Employer Customer Satisfaction Survey

The Bureau started conducting quarterly surveys on July 1, 1996. Each quarter we randomly select 500 claimants who experienced work related injuries and were 60 to 90 days post claim acceptance. The Employers of these claimants are contacted to determine the level of satisfaction of services provided by the Bureau. The graph to the right indicates the results of the surveys conducted to date. We asked employers to rate us in terms of services provided for the categories listed below (a 1 would indicate least satisfied with a 5 being most satisfied).



	3rd Qtr '96	4th Qtr '96	1st Qtr '97	2nd Qtr '97	3rd Qtr '97	4th Qtr '97	2nd Qtr '98	4th Qtr '98
Accepting/Denying Claim in Timely Manner:	3.38	3.67	4.19	4.33	4.36	4.43	4.38	4.45
Keeping the Employer Informed of Bureau Actions:	3.35	3.50	4.09	4.22	4.17	4.33	4.12	4.21
Providing Polite and Helpful Assistance:	3.81	3.92	4.43	4.56	4.58	4.61	4.48	4.58
Returning Phone Calls in a Timely Manner:	3.53	3.76	4.15	4.26	4.28	4.32	4.29	4.32
Overall Handling of Claim:	3.47	3.67	4.24	4.30	4.31	4.37	4.33	4.42
Quarterly Average:	3.51	3.70	4.22	4.33	4.34	4.41	4.32	4.40

## Staffing Level Comparison for the 26 Workers Compensation State Funds

State Fund	Number of Active Policies	Number of Accidents Reported	Number of Full-Time Employees (FTE)	Number of Policies per FTE		Number of Accidents Reported per FTE	
				Ratio	Rank	Ratio	Rank
<i>Arizona</i>	48,546	50,522	744	65	18	68	15
<i>California</i>	229,831	89,116	5,836	39	22	15	26
<i>Colorado</i>	53,156	51,773	598	89	12	87	12
<i>Idaho</i>	21,321	20,065	172	124	3	117	3
<i>Kentucky</i>	18,303	5,888	88	208	1	67	16
<i>Louisiana</i>	30,041	11,315	435	69	16	26	25
<i>Maine</i>	20,418	18,565	175	117	5	106	6
<i>Maryland</i>	30,016	26,339	296	101	9	89	10
<i>Minnesota</i>	4,116	11,287	145	28	25	78	13
<i>Missouri</i>	13,500	12,851	240	56	20	54	20
<i>Montana</i>	25,474	16,506	250	102	8	66	17
<i>Nevada</i>	44,850	57,609	979	46	21	59	18
<i>New Mexico</i>	7,337	4,130	72	102	7	57	19
<i>New York*</i>	190,414	133,796	3,109	61	19	43	22
<b>NORTH DAKOTA</b>	<b>21,333</b>	<b>20,428</b>	<b>150</b>	<b>142</b>	<b>2</b>	<b>136</b>	<b>2</b>
<i>Ohio</i>	275,260	320,541	3,638	76	13	88	11
<i>Oklahoma</i>	25,491	17,294	383	67	17	45	21
<i>Oregon</i>	35,823	43,165	1,074	33	24	40	23
<i>Pennsylvania</i>	40,000	24,633	355	113	6	69	14
<i>Rhode Island</i>	8,875	11,837	119	75	15	99	7
<i>South Carolina</i>	635	9,292	95	7	26	98	9
<i>Texas</i>	45,898	36,385	1,250	37	23	29	24
<i>Utah</i>	28,500	30,874	313	91	11	99	8
<i>Washington</i>	154,172	176,688	1,600	96	10	110	5
<i>West Virginia</i>	40,500	62,000	540	75	14	115	4
<i>Wyoming</i>	13,215	17,875	110	120	4	163	1
<b>Industry Totals</b>	<b>1,427,025</b>	<b>1,280,774</b>	<b>22,766</b>	<b>63</b>		<b>56</b>	

\*-indicates 1996 data was unavailable so 1995 data was used

Data Source: 1997 AASCIF Fact Book

## PAY FOR PERFORMANCE INCREASE GUIDELINES

Performance Levels	Zone Placement		
	Zone C	Zone B	Zone A
Needs Improvement	0%	0%	0%
Effective	0% - 6%	0% - 5%	0% - 3%
Highly Effective	0% - 9%	0% - 8%	0% - 6%

**Note:** In keeping with the Bureau's compensation objectives, increases in individual pay levels may be awarded, subject to our budget and/or other limitations imposed upon its operations. The figures contained in this table represent guidelines only, to be used by management to assist in the implementation of the Bureau's pay for performance program. These guidelines are discretionary and do not represent a guarantee of any salary increase for an employee. The Bureau reserves the right to modify or terminate usage of these guidelines without notice at any time and for any reason.

### PROCEDURE

A performance review is required prior to recommending a pay adjustment. Recommendations for pay adjustments must be prepared by the appropriate director, manager, or supervisor by the 15<sup>th</sup> of the month in advance of the effective payroll date and approved by the appropriate Director/COO, Accounting Manager, Human Resources, and Executive Director. All requests for exceptions to the program guidelines must be documented in writing and submitted to both the Human Resources Director and Executive Director for consideration. The Executive Director must approve all exceptions to the program guidelines. **Employees are not to be advised of a pending increase until all written approvals have been received.**

## Staffing Level Comparison for the 26 Workers Compensation State Funds

State Fund	Number of Active Policies	Number of Accidents Reported	Number of Full-Time Employees (FTE)	Number of Policies per		Number of Accidents Reported per	
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\*-indicates 1996 data was unavailable so 1995 data was used

Data Source: 1997 AASCIF Fact Book



1998 AASCIF ACT BOOK  
COMPARISON OF 1997 INDUSTRY RATIOS

STATE	# OF PERSONNEL	# ACCIDENTS REPORTED	# ACTIVE POLICIES	# ACCIDENTS PER FTE	# POLICIES PER FTE	ANNUAL EARNED PREMIUM (in thousands)	ANNUAL INCURRED LOSSES (in thousands)	ANNUAL OPERATING EXPENSES (in thousands)	OPERATING EXPENSE RATIO
1 HI	24	100	1,558	4	65	\$ 336	\$ 166	\$ 1,186	353.0%
2 OH	3,210	351,722	283,525	110	88	\$ 1,518,580	\$ 1,572,988	\$ 1,050,962	69.2%
3 TX	952	23,898	37,221	25	39	\$ 268,921	\$ 166,608	\$ 149,550	55.6%
4 CA	5,800	86,514	226,960	15	39	\$ 1,052,835	\$ 968,890	\$ 479,638	45.6%
5 LA	439	10,688	30,226	24	68	\$ 170,532	\$ 97,130	\$ 73,262	43.0%
6 NM	67	3,638	6,575	54	98	\$ 23,768	\$ 11,348	\$ 10,164	42.8%
7 MA	165	16,342	19,731	99	120	\$ 72,894	\$ 17,520	\$ 26,888	36.9%
8 UT	323	29,822	29,550	92	91	\$ 114,000	\$ 71,820	\$ 41,331	36.3%
9 MO	247	11,137	13,914	45	56	\$ 75,149	\$ 51,503	\$ 26,823	35.7%
10 MN	155	14,410	6,261	93	40	\$ 44,202	\$ 29,437	\$ 15,227	34.4%
11 OR	887	42,189	34,827	48	39	\$ 232,616	\$ 167,977	\$ 65,064	28.0%
12 AZ	746	43,998	47,936	59	64	\$ 240,855	\$ 226,050	\$ 61,777	25.6%
13 CO	480	40,318	52,447	84	109	\$ 243,170	\$ 218,060	\$ 60,953	25.1%
14 KY	108	5,788	16,391	66	152	\$ 69,360	\$ 51,875	\$ 16,985	24.5%
15 MD	297	21,843	27,111	74	91	\$ 101,769	\$ 151,145	\$ 24,539	24.1%
16 PA	347	12,816	30,833	37	89	\$ 130,672	\$ 168,308	\$ 30,609	23.4%
17 NY	3,044	113,066	188,082	37	62	\$ 1,427,254	\$ 1,019,060	\$ 329,742	23.1%
18 WA	1,600	188,460	156,775	118	98	\$ 695,510	\$ 1,100,248	\$ 160,200	23.0%
19 NV	993	56,295	46,315	57	47	\$ 472,669	\$ 69,104	\$ 78,518	16.6%
20 SC	95	8,883	635	94	7	\$ 35,330	\$ 25,676	\$ 5,503	15.6%
21 MT	232	13,656	24,823	59	107	\$ 88,154	\$ 77,744	\$ 12,636	14.3%
22 ID	198	19,111	23,400	96	118	\$ 129,005	\$ 55,434	\$ 17,894	13.9%
23 OK	383	14,424	21,353	38	55	\$ 136,433	\$ 124,636	\$ 16,635	12.2%
24 ND	166	20,448	21,216	123	128	\$ 125,848	\$ 80,278	\$ 12,357	9.8%
25 WV	570	62,820	41,121	110	72	\$ 509,849	\$ 477,037	\$ 44,785	8.8%
26 WY	110	17,526	13,916	159	127	\$ 125,329	\$ 70,172	\$ 7,020	5.6%
27 RI	117	10,146	8,164	87	70	\$ 430,125	\$ 345,196	\$ 22,726	5.3%
<b>STATE TOTALS</b>	<b>21,755</b>	<b>1,240,058</b>	<b>1,410,866</b>	<b>57</b>	<b>65</b>	<b>\$ 8,535,165</b>	<b>\$ 7,415,410</b>	<b>\$ 2,842,974</b>	<b>33.3%</b>

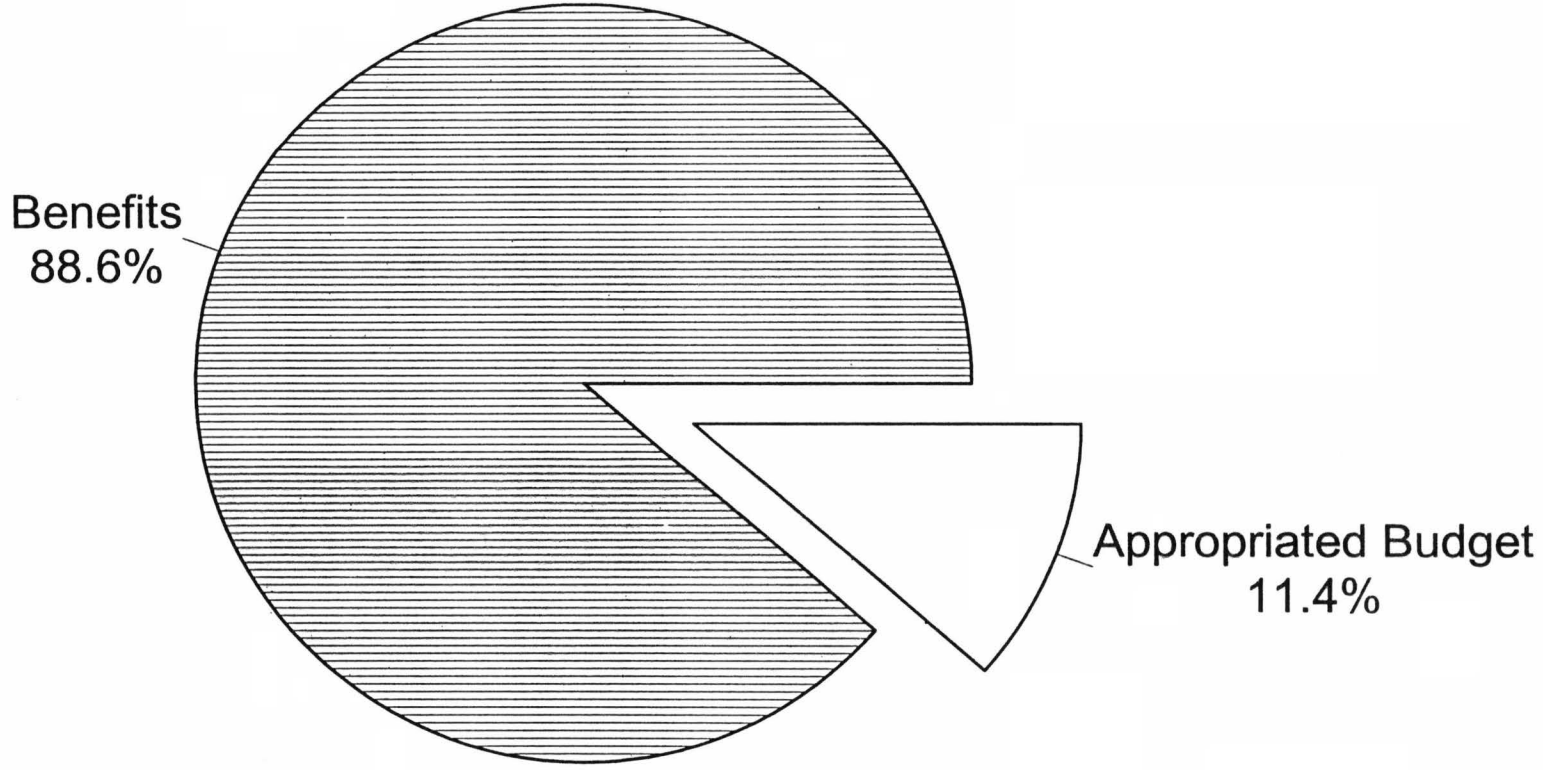
ATTACHMENT 9

NOTES:

AASCIF = American Association of State Compensation Insurance Funds

# North Dakota Workers Compensation Bureau

Distribution of Premium  
Fiscal Year 1998-99



**Engrossed Senate Bill No. 2024**

**Fifty-sixth Legislative Assembly  
Before the House Appropriations Committee –  
Government Operations Division**

**March 11, 1999**

**Testimony of**

**Chuck Peterson, Chairman of the Board of Directors  
Reagan Pufall, COO and General Counsel  
and Tammy Dolan, Director of Accounting**

**Regarding the Appropriation for the Workers Compensation Bureau**

**I. STATUS OF THE FUND**

**1. Unfunded Liability Eliminated, Surplus Achieved**

The 1997-99 biennium witnessed a historic turning point for the Workers Compensation Fund: after many years of operating with an unfunded liability, the fund is now solvent. Fiscal year 1997 closed with a \$1 million surplus, which grew to **a \$27 million surplus by the end of FY 1998, a dramatic improvement from the \$240 million unfunded liability in that existed in 1993.**

In addition, the contingency reserve created by the Bureau in 1996 has grown to \$115 million. This reserve is set aside to cover unforeseen, catastrophic events, ensuring that the Bureau will have the financial resources to provide needed benefit payments in such an event without having to impose a sudden unexpected increase in premium rates as a result.

The growth of the contingency reserve together with the elimination of the unfunded liability and the growth of the fund surplus amounts to a **\$382 million improvement in the fund's financial status in a period of five years.**

A graph showing these developments in the fund's status is attached as **Attachment 1.**

Although these achievements represent a dramatic improvement in the fund's financial condition, further improvement is vital to the long-term health of the fund. Currently, the Bureau discounts its future liabilities by 6% when calculating its reserves. In other words, it is assumed that the Bureau's financial assets will earn 6% every year in the future. Generally, future liabilities cannot be discounted in the insurance industry, and in addition, insurers are usually required to carry a capital and surplus account based on a percentage of their annual premium income. The Bureau believes it should meet private industry standards. For the Bureau to achieve fund solvency without discounting, plus establish a reserve equal to 100% of its annual premium income, the Bureau would have to further improve its current financial position by approximately \$376 million.

Therefore, now that the fund is no longer in a state of financial crisis, the Bureau will pursue a strategy in which future improvements in its financial condition will be allocated to three areas:

- Continue to build up the fund's financial reserves
- Grant further premium rate relief to employers
- Propose legislation increasing benefits for injured workers.

## **2. Premium Rates Decreased**

The Bureau decreased its premium rates during the 1997-99 biennium, continuing the pattern that began in 1995 with an 8.5% overall decrease in rates and continued in 1996 with a 3% decrease. **In 1997 the Bureau decreased overall premium rates by 8.5% and again in 1998 by 9.4%.** This is in contrast to the period from 1989 through 1994, when premium rates increased by as much as 60% in a single year. Employers' workers compensation premiums increased by more than 300% in a six-year period. A graph showing the history of rate changes is attached as **Attachment 2**.

1999 House Bill 1296 enhances the Bureau's ability to reward employers with good safety records, recognizing that effective workplace safety programs help make premium rate reductions possible. Enactment of House Bill 1296 will **allow the Bureau to return money to employers through high deductible and dividend programs, while also protecting the health of workers by providing additional incentives for workplace safety.** The bill also provides an additional appropriation of \$1,856,603 and includes 7 additional full-time employees to implement new workplace safety initiatives.

## **3. Benefits Increased**

The improved financial situation allowed the Bureau to propose legislation in the 1997 session increasing a number of benefits. The bills, all of which were enacted by the Legislative Assembly, increased benefits for the surviving spouses and dependent children of workers who die as a result of work injuries, created a scholarship for those spouses and children, increased coverage for funeral costs, created an additional benefit for disabled workers after retirement, and increased funding for adaptations to homes and vehicles to better accommodate disabled workers.

In light of the fund's continued positive financial performance, **the Workers Compensation Board of Directors approved proposed legislation to provide even greater benefit increases in the current session.** These bills will provide further increases in death benefits and make the higher benefit rates available to more recipients, increase wage-loss benefits for seasonal workers, raise North Dakota's maximum wage-loss benefit rate to among the highest in the country, raise the maximum scholarship award, and increase the value of permanent impairment awards.

## II. BOARD OF DIRECTORS AND INDEPENDENT PERFORMANCE AUDIT

Two more milestones for the Bureau during the 1997-99 biennium were the creation of the Workers Compensation Board of Directors and the completion of the first Independent Performance Audit.

### 1. Board of Directors

As a result of 1997 legislation, the Bureau was placed under the supervision of a Board of Directors. Board members represent large and small employers, workers, and medical providers. The first appointive Board members were seated in January, 1998. **The Bureau now works directly for its customers: the employers who pay premiums to fund the system, and the workers who receive benefits from the system when they are injured.** This has substantially increased the accountability of the Bureau, as the Bureau's performance is now directly monitored by the people who have the greatest interest in the efficiency and quality of our operations. The Board has adopted Governance Policies based on the "Carver Model of Board Governance" to achieve a higher level of effective oversight and leadership of the Bureau. Major initiatives of the Board include reallocation of fund investments, oversight of the independent performance audit, preparation of the 1999 legislative package, and preparation of the appropriations budget that is being considered today.

### 2. Independent Performance Audit

The Bureau's first Independent Performance Audit was completed in the spring of 1998. In the 1997 legislative session, the Bureau prepared and supported legislation requiring that a performance audit of the Bureau's operations be performed by an independent industry expert selected by the State Auditor every two years. This was in keeping with the Bureau's philosophy of accountability and continual improvement. Because the Bureau have been granted the privilege of a statewide monopoly on workers compensation coverage, we believe we should be held highly accountable for the quality and efficiency of the services the Bureau provides.

**The Independent Performance Audit was a success, generating 89 recommendations in 9 departments.** To ensure the Bureau's customers get the maximum value from this audit, the Board of Directors has directed the creation a tracking system that will monitor the implementation and impact of all 89 recommendations. **See Attachment 3.**

## III. CONTINUED IMPROVEMENTS IN SERVICE AND PERFORMANCE

Bureau employees achieved significant improvements in performance and customer service during the 1997-99 biennium. Here are just a few of the highlights:

- In 1998, 82% of claims were processed within 21 days after being filed, compared to 1995 when only 43% of claims were processed within 21 days.

- The number of employers earning 5% discounts by participating in the Risk Management Program increased to 1,012, meaning that 55% of the state's workers are now covered by approved workplace safety programs.
- Better workplace safety and claims management reduced the number of wage-loss claims in 1998 to 3,107, a 17% decrease compared to 1994.
- Out of a total of 20,683 claims filed in 1998 for workplace injuries, only 455 went into litigation, compared to 1,400 litigated cases in 1994. The litigation rate in 1998 was only about 2%, which is low compared to other states. **See Attachment 4.**
- In quarterly customer satisfaction surveys **injured workers awarded the Bureau a "4+" on a scale of 1 to 5 for their overall satisfaction** with the service they received from the Bureau, in the past five surveys in a row. **See Attachment 5.**
- In customer satisfaction surveys **employers awarded the Bureau a "4+" on a scale of 1 to 5 for their overall satisfaction** with the service they received from the Bureau, in the past six surveys in a row. **See Attachment 6.**

The Bureau created its annual Goals program in 1997. This program sets ambitious goals targeted at key areas for improvement, and evaluates the achievement of those goals. Central components of the 1999 Goals program are the "Best Practices" goals, which require departments of the Bureau to specifically identify the best practices in the workers compensation industry and develop specific business plans to meet or exceed those practices. **The Bureau's goal is to become an industry leader in practices and outcomes within the next two to four years.**

#### **IV. PAY FOR PERFORMANCE**

The Bureau budget approved by the Board of Directors included \$970,000 to fund the Bureau's pay-for-performance system, which is used to provide pay increases to Bureau staff. The Governor's budget reduced that item by \$388,651, providing \$581,349. SB 2024 was amended in the Senate to provide \$920,000 for pay-for-performance.

Important points to consider regarding pay-for-performance funding include the following:

**Employers want pay-for-performance fully funded with their premium dollars, so they can continue to get good results.** The six members of the Board of directors who represent employers voted unanimously to reinstate full funding for pay for performance after it was reduced in the Governor's budget. Board minutes reflect the following comments by an employer Board member:

**"He feels the Bureau should spend the employers' money in order to save the employers' money.** The Bureau has been able to decrease the premium three years in a row and he would like to see that trend continue and, at the same time, accomplishing the goals."

**Pay-for-performance does not increase the cost of workers compensation, it decreases the cost.** The total cost of the workers compensation in terms of total premiums payments was rising before pay-for-performance was implemented, and has been decreasing steadily ever since:

- 1993 = \$ 91,512,025
- 1994 = \$104,622,959
- 1995 = \$120,889,644
- 1996 = \$133,147,021
- 1997 = \$125,848,041
- 1998 = \$121,859,370

Similarly, premium rates were skyrocketing before pay-for-performance was implemented, rising more than 300% from 1989 to 1995. **Overall premium rates have dropped every year since implementation of pay-for-performance.** Fully funding pay-for-performance is important to keep reducing the cost of workers compensation in North Dakota through incentives for innovative and efficient performance.

**Pay-for-performance does not take money away from benefits, it has helped make benefit increases possible.** Prior to the implementation of pay-for-performance, legislation restricting benefits had to be enacted in response to the fund's financial crisis. Since pay-for-performance began, more efficient job performance has helped resolve the financial crisis, making it possible for benefits to be increased in 1997 and 1999. The Bureau has proposed 1999 legislation to increase:

- Death benefits
- Wage-loss benefits for seasonal workers
- Maximum wage-loss benefit rates (increased to be among the highest in the country)
- Maximum scholarship awards
- Permanent impairment cash awards

1999 legislation would also almost double both the Worker Adviser Program and the Safety and Loss Prevention Department, in order to provide more assistance and protection to workers.

**The Bureau does not receive any appropriation of general fund tax dollars.** It is funded 100% by employer premiums. Therefore, any money appropriated for the pay for performance program does not take away any general fund dollars that could be used to pay other state employees or to fund other state programs.

**Bureau employees are not part of the central personnel system.** Bureau employees are non-classified "at-will" employees – the same as in the private sector. At the Bureau, there is no such thing as an "across-the-board" raise. Raises are based on individual performance. **See Attachment 7.** For example, a claims analyst who decides cases quickly, gets positive comments from injured workers and employers, and helps injured workers return to work as soon as safely possible will receive a larger performance increase than a claims analyst performing at a lesser level. Objective

performance measurements have been implemented to measure job performance in all main operating areas.

**The Bureau is a lean operation.** North Dakota’s operating expense ratio ranks second lowest in the country. Part of the reason is its very low level of staffing. If the Bureau doubled the size of its staff, its staffing ratio would still only be about average compared to other workers compensation funds. The Bureau spends premium dollars to achieve maximum cost-savings and customer service improvements, not on any wasteful “extras.”

**Pay for performance has helped achieve dramatic improvements in customer service.** In 1996, employee turnover was 22%, which caused significant customer service problems. About 3,000 wage loss claims are filed each year, and each one costs about \$1,000 per month in wage-loss benefits. A delay of one month on each wage loss claim would equal an additional cost of \$3 million per year. In 1998, turnover has been reduced to just 10%, below the national average of 13.3%. Lower turnover has helped create the improvements in customer service that were highlighted above. Also, innovations by Bureau staff have increased dramatically under the pay for performance program and the Innovator of the Quarter program. As just one example, innovation by two staff members in the area of medical bill review recently generated annual savings of \$190,000 per year. Cutting pay for performance endangers the culture of continual improvement and incentives to strive for the levels of excellence that generated these innovations.

**Summary.** In light of these considerations, the Bureau will appreciate whatever support this committee can provide to the pay-for-performance program.

**Workers Compensation Bureau 1999 – 2001 Appropriation Overview**

Below is a table showing the dollar amounts for each line item from the 1997-1999 biennium and the budget in Engrossed House Bill 2024 for the 1999-2001 biennium.

	<b>Current 1997 - 1999 Appropriation</b>	<b>Engrossed Senate Bill 2024</b>	<b>Change from 97/99</b>
Salaries & Wages	\$ 13,299,049	\$ 15,518,850	16.7%
Operating Expenses	\$ 4,814,609	\$ 7,380,549	53.3%
Equipment	\$ 476,000	\$ 1,206,840	153.5%
WC Contingency	\$ 100,000	\$ -	-100.0%
Information Re-engineering	\$ 3,250,000	\$ -	-100.0%
Managed Care	\$ 758,386	\$ 128,413	-83.1%
Grand Total	\$ 22,698,044	\$ 24,234,652	6.8%
FTE	166.0	179.0	13.0

Each of the budget line items will now be reviewed in greater detail.



**1. Salaries and Wages**

1997 - 1999	Engrossed Senate Bill 2024	Change from 1997-1999
\$13,299,049	\$15,518,850	16.7%
166 FTE	179 FTE	13 FTE

<b>Current Appropriation</b>	<b>\$13,299,049</b>
To continue paying current salaries	\$ 754,207
Pay-for-Performance salary increases	\$ 920,000
3 New FTE in Information Services	\$ 186,621
1 New FTE in Records Management	\$ 47,514
1 New FTE in Fraud	\$ 101,041
8 FTE for Current Full-time Employees	\$ 0
Health Insurance Increase	\$ 210,418
<b>1999 – 2001 Request</b>	<b><u>\$15,518,850</u></b>

Currently, the Workers Compensation Bureau has 166 FTE employees, 11 full-time temporary employees, and two part-time employees. Bureau employees are not “classified” as are other State employees. **As in the private sector, they are employed on an “at-will” basis.** The 1999 – 2001 appropriation request for salaries and wages has several components. They are:

1. **To Continue Paying Current Salaries** – To continue paying the salaries of current employees during the next biennium at the level they will reach at the end of the current biennium, with no pay increases at all, would require an additional **\$754,207** over the 1997-1999 appropriation.
2. **Pay-for-Performance** - Bureau employee salary increases are based on job performance, including objective performance measurements. Performance appraisals for department directors and managers are tied to the goals and achievement program.

In preparing the Bureau’s budget, the Board of Directors determined that \$970,000 is necessary to fund the pay-for-performance program at a level that would effectively motivate employees to achieve higher performance and further cost-savings. This would place the midpoint for the schedule of possible pay increases at 5%. **Across-the board pay raises are not given at the Bureau.** The average pay increase awarded in fiscal year 1998 was about 5% but **individual pay increases ranged from zero to 9% depending on the employee’s work performance.**

The Governor's budget reduced that item by \$388,651, providing \$581,349, which would set the midpoint at 3%. The Senate amended SB 2024 to provide \$920,000, which would move the mid-point to about 4.75%. We believe this will be adequate to support this program area.

3. **Information Services – 3 FTE - \$186,621** - The Bureau currently contracts for certain computer services. These services cost approximately \$65 per hour, for a total cost of \$405,600 per year. Adding 3 new FTE in the Information Services Department will allow these services to be performed in-house, creating a savings of approximately \$200,000 in the 1999 – 2001 biennium.
4. **Records Management – 1 FTE - \$47,514** - Currently, all Claims Department and Legal Department documents are imaged by the Records Management Department. The imaging process scans all documents into a computer system allowing multiple people access to the same documents at the same time. The Bureau will begin imaging Policyholder Services Department (PHS) mail (including payroll reports and billings) in the 1999 – 2001 biennium.

Currently approximately 2,700 documents are processed daily, or 338 per employee in the Records Management Department. It is estimated that PHS mail will generate another 650 documents every day. All Claims and Legal department mail is now imaged and available for use the same day it is received into the Bureau. With the influx of PHS mail, without the addition of at least one position, same day turnaround would not occur. This would cause delays in claims processing, medical bill payment, and premium billings, costing the fund money in increased claims costs and lost interest income, as well as harming service to our customers.

5. **Fraud Department – 1 FTE - \$101,041** - Currently, the Fraud Department consists of a co-director in charge of employer & provider fraud, a co-director in charge of employee, one in-house case manager, and an administrative assistant. All remaining case and investigative work is contracted with outside companies, and paid off-budget as an allocated loss adjustment expense.

Engrossed SB 2024 includes one new FTE to add another in-house case manager. Annually, a full-time, privately contracted investigator would cost approximately \$166,500, or \$333,000 for the biennium. Adding another employee in lieu of a contracted position will save the Workers Compensation Fund almost \$116,000 each year, or \$232,000 over the biennium.

6. **8 FTE for Current Full-Time Temporary Employees –** Currently, there are 11 full-time, temporary status employees at the Bureau. After evaluating the positions held by 8 temporary status employees, it was determined that each of these positions was necessary to maintain effective operations in their departments. None of these individuals receives the state's benefit package.

However, after successful completion of their probationary period, each is given a pay adjustment to partially offset the lack of benefits. Therefore, the dollar impact by adding these FTE positions is minimal. The positions are as follows:

<b>Department</b>	<b>Job Title</b>	<b>Temporary Hire Date</b>
Research, Statistics & Internal Audit	Administrative Assistant	9/1/97
Records Management	Clerk III	10/3/94
Records Management	Clerk II	4/10/95
Records Management	Registration Clerk	1/4/99
Records Management	Document Processing Specialist I	8/24/98
Policyholder Services	Clerk I	9/1/98
Policyholder Services	Collection Specialist I	5/26/98
Information Services	Information Specialist	7/98

Of the remaining three full-time temporary status employees, two work in the Worker Adviser Program (WAP). This department was created by the 1995 Legislature in a law that contained a sunset clause, ending the program June 30, 1999. The Bureau introduced House Bill 1325 which continues this essential program and gives FTEs to these two employees. This bill also includes an appropriation of \$440,000 and three new positions, for a total of 5 FTE for the program.

One more full-time temporary status employee in the Human Resource Department was hired after the July 15 budget deadline. This position is essential to the operation of the department, but an FTE was not specifically requested due to the timing of the hire.

7. **Health Insurance Increase - \$210,418** – This funding is to accommodate the increase in health insurance premiums, which are paid completely by each agency. This is the same funding level given to every other state agency.

## 2. Operating Expenses & Information Reengineering

Appropriation Line	1997 - 1999	Engrossed Senate Bill 2024	Change from 97-99
Operating Expenses	\$4,814,609	\$7,380,549	53.3%
Information Reengineering	\$3,250,000	\$0	-100.0%
Total	\$8,064,609	\$7,380,549	-8.5%

Since 1993, the Bureau has been re-engineering its information technology system. The related expenses were accounted for in a special line item in the Bureau previous two budgets. All major new development projects will be substantially completed during the 1997/99 biennium. Therefore, in this funding request, all maintenance and enhancement costs for these systems are included in the operating expense and equipment line items, rather than the previous special line item for new computer systems. These expenses were also included in the Bureau's ISD-approved "Information Technology Plan."

Thus, while this request shows a significant increase of 51.2% in the operating expense line item, there is a corresponding 100% decrease in the Information Reengineering special appropriation line. **Overall, this request reflects a decrease in operating expense funding of 8.5%.** Specific areas affected by this budget line item shift were lease/rent – equipment, repairs, office supplies (software), and professional services. These account for nearly all of the largest changes in the detailed operating expense budget.

## 3. Equipment

1997 - 1999	Engrossed Senate Bill 2024	Change from 97 – 99
\$476,000	\$1,206,840	153.5%

This budget item contains \$235,500 to replace, upgrade or purchase new pieces of office equipment. These include photocopiers, fax machines, Herman Miller workstations, a dictation system, a portable laptop projector, a small printer, and paper shredders.

The majority of the equipment request, \$971,340, consists of computer hardware items. The Bureau's operating systems (those that process claims, medical payments, and employer billings) reside on a client-server system maintained at the Bureau. Each of our employees works at a personal computer that is necessary to perform their job duties. These PC's are linked through a local area network.

This intricate information system is supported by multiple pieces of hardware and software, each of which must be periodically upgraded and/or enhanced to ensure that it is functioning properly. Failure of the computer system would leave the Bureau unable to perform most of its vital functions, including processing claims and paying benefits. Without this technology funding, the Bureau simply could not operate.

Specific items included are:

PC and Printer Replacement	\$246,500
Data Warehouse	\$350,000
FileNet OSAR Server Replacement	\$159,840
Internet Server	\$ 45,000
NT, Novell, AIX upgrades/replacement	\$ 50,000
UNIX Server upgrades/replacement	<u>\$120,000</u>
	\$971,340

#### **4. Managed Care**

<b>1997 - 1999</b>	<b>Engrossed Senate Bill 2024</b>	<b>Change from 97 - 99</b>
\$758,386	\$128,413	-83.1%

This budget item contains \$128,413 for the Managed Care area. Managed care costs include cost containment programs such as provider profiling and the new hospital liaison program. Because many of these expenses are "claim specific," meaning their costs can be allocated to a specific claim, they can be paid off-budget as allocated loss adjustment expenses. In the 1997 session, the Legislature approved a continuing appropriation for all allocated claims adjudication expenses. Therefore, they are not included in this appropriation request.

The remaining funding (\$128,413) in this special line item provides for the development of a hospital fee schedule, which cannot be charged as allocated loss adjustment expense.

**5. Contingency**

1997 - 1999	Engrossed Senate Bill 2024	Change from 97 - 99
\$100,000	\$0	-100%

In past years, the Bureau has included a contingency amount for unexpected events that could require administrative resources. These could include unfavorable Supreme Court decisions, catastrophic events, new programs, etc.

This line item was eliminated to meet the 95% budget requirement. If additional emergency funding were to be required in the coming biennium, an emergency appropriation would be requested of the Budget Section.

This concludes the Bureau's testimony on its 1999-2001 budget. We would be happy to address any questions you may have at this time.

*9 Attachments  
combined with those  
of January 9, 1999*