SB 24-149

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 24-0592	**Date:**	February 22, 2024
Prime Sponsors:	Sen. Hinrichsen	**Bill Status:**	Senate Business, Labor, & Tech.
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Bill Topic:	**WORKERS' COMPENSATION STATE EMPLOYEES**
Summary of Fiscal Impact:	☐ State Revenue ☐ State Transfer ☐ Local Government ☒ State Expenditure ☐ TABOR Refund ☐ Statutory Public Entity The bill prohibits the state from self-insuring for workers' compensation and restricts the use of certain conditions in workers' compensation settlements. It increases state expenditures on an ongoing basis beginning in FY 2024-25.
Appropriation Summary:	For FY 2024-25, the bill requires an appropriation of $8 million to the Department of Personnel and Administration.
Fiscal Note Status:	The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 24-149

		Budget Year FY 2024-25	Out Year FY 2025-26
Revenue		-	-
Expenditures	General Fund	$8.0 million	-
	Reappropriated Funds[1]	-	$7.0 million
	Total Expenditures	**$8.0 million**	**$7.0 million**
Transfers		-	-
Other Budget Impacts	General Fund Reserve	$1.2 million	-

[1] *In FY 2025-26 and beyond increased costs will be paid using reappropriated funds from all state agencies based on each agencies workers' compensation claims, which will be adjusted through the annual budget process. These appropriations will originate from a mix of General Fund, cash funds, and federal funds.*

Summary of Legislation

Under current law, the state self-insures against workers' compensation claims. The bill prohibits the state from self-insuring and prohibits the state from barring an employee from future state employment as a settlement condition when negotiating with claim filers.

Background and Assumptions

The existing state employee workers' compensation program operates in the Department of Personnel and Administration (DPA) at a cost of approximately $35 million per year. The fiscal note assumes that the operational costs of running the workers' compensation program will be substantially similar between the state and a third-party insurer. Because the scope of the state's program is so large, the fiscal note further assumes that the market for third-party insurance will be limited and that the DPA will pay up to 20 percent in additional overhead costs to a third-party workers' compensation insurer.

State Expenditures

Based on the assumptions above, the bill is expected to increase expenditures in DPA by $8 million in FY 2024-25 from the General Fund and $7 million in FY 2025-26 from the State Employee Workers' Compensation Account. This cost increase is primarily from outsourcing workers' compensation functions. Costs in FY 2024-25 also reflect payments for existing vendor contracts that cannot be terminated before the third-party contract is required. Staffing costs in the DPA will also decrease from no longer directly managing the program and shifting to oversight of the third-party contractor. Additional detail on these potential savings may be added in a future fiscal note after further analysis.

In addition, prohibiting the state from barring future employment with the state as a settlement condition will allow more former state employees to be covered by the state's workers' compensation policies. This may increase expenditures to the extent that employees, if reinjured, are more likely to file claims due to familiarity with the workers' compensation system. Any increase in expenditures will be addressed through the annual budget process.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

Technical Note

The process for soliciting bids from insurers and executing a contract may take six to twelve months, which will delay the bill's implementation. In addition, DPA estimates costs for workers' compensation actuarially and receives reappropriated funds from state agencies to the State Employee Worker's Compensation Account, which requires significant lead time to account for changes in policy. Changing the bill's effective date to July 1, 2025, or later is expected to reduce overall expenditures, eliminate the bill's need for a direct General Fund appropriation in FY 2024-25, and better ensure compliance.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2024-25, the bill requires a General Fund appropriation of $8,000,000 to the Department of Personnel and Administration.

Departmental Difference

In addition to the costs of using third-party insurance, DPA estimates that expenditures will increase by up to $9 million per year for additional workers' compensation payments to employees who would have agreed not to seek future employment with the state if the bill did not prohibit such settlement terms for workers' compensation claims. The fiscal note instead assumes that cases in which an employee is rehired by the state, reinjured, and due payments in the first year will be minimal and that any future increases, if they are incurred, will grow incrementally over time and be addressed through the annual budget process as needed.

State and Local Government Contacts

Labor and Employment	Law	Personnel and Administration

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the General Assembly website.