State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2022-H-7797

Date of State Budget Office Approval: **Thursday, May 12, 2022**

Date Requested: **Tuesday, April 26, 2022**

Date Due: **Friday, May 6, 2022**

Impact on Expenditures		***Impact on Revenues***	
FY 2022	$0	FY 2022	Indeterminate
FY 2023	$0	FY 2023	Indeterminate
FY 2024	$0	FY 2024	Indeterminate

Explanation by State Budget Office:

This bill amends R.I. Gen. Laws 35-4-27 entitled "State Funds" by exempting accounts related to administrative expenses for workers' compensation operations from the state's ten percent indirect cost recovery charge on cash receipts.

Comments on Sources of Funds:

Restricted receipts within the Department of Labor and Training would increase due to the assessments booked in the accounts in the Injured Workers Services' division of this department, and the revenue transferred to the general revenue fund would decrease.

Summary of Facts and Assumptions:

A ten percent indirect cost recovery charge to cash receipts applies to all restricted receipt accounts, which is recorded as general revenues in the general fund unless prohibited by federal law or regulation, court order, or court settlement. RIGL 35-4-27 includes a list of restricted receipt accounts that are not subject to the ten percent indirect cost recovery charge.

This bill would add three funds, "Workers' Compensation Administrative Fund," "Rhode Island Uninsured Protection Fund," "Rhode Island Uninsured Employers' Fund" to the list of accounts exempt from the statutory ten percent indirect cost recovery charge on cash receipts.

The funds listed in this bill exist in statute – Workers' Compensation Administrative Fund (RIGL 28-37-1), Rhode Island Uninsured Protection Fund (RIGL 28-53-3), Rhode Island Uninsured Employers' Fund (28-53-7) – however, there are multiple accounts across a few relevant state agencies that make up the statutory functions of these funds. The Department of Labor and Training sets the workers' compensation rate for all functions under the provisions of the Workers' Compensation Act, chapter 37 of Title 28. This includes overseeing the state's funds listed in this bill and ensure that the agencies that support the statutory duties, are financed appropriately.

Per RIGL 28-37-1, the Insurance Regulation division at the Department of Business Regulation is statutorily charged with the evaluation of rate filings, review, and pricing procedures. The division informs the Department of Labor and Training how much they seek to collect each year, which is then included as a separate line item in DLT's annual assessment bill. These expenditures are only paid by insurers and are apportioned based upon the premium included on workers' compensation policies by each insurer.

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The Workers' Compensation Court in the Judiciary is financed entirely with restricted receipts from the Department of Labor and Training. The Judiciary determines the funding level needed to carry out the statutory duties under the provisions of the Workers' Compensation Act, chapter 29-38 of Title 28, and the provisions of RIGL 45-21.2-9.

Though there are multiple accounts that make up the statutory functions of the listed funds in this bill, these funds themselves can not be added to the list of exemption in RIGL 35-4-27. Rather, the specific restricted receipt accounts must be added to the statute.

Due to the statutory requirements to explicitly list restricted receipt accounts in order for the accounts to be exempt, it is not clear which accounts this bill intends to exempt, or how, if enacted, it would be implemented within the state's chart of accounts.

In order to provide a fiscal impact of this bill, the note includes estimates based on DLT's main receipt collection account – Claims Monitoring and Data Processing Unit Workers' Compensation. In the Injured Workers' Services division in the department, the Claims Monitoring and Data Processing Unit Workers' Compensation account is the primary account that the department uses to budget out the collected receipts across each of the relevant accounts, to create the annual cost assessment bill. As note above, the provisions of this bill would be unlikely to meet the exemption requirements outlined in RIGL 35-4-27. This fiscal note includes the below fiscal impact analysis in order to provide contextual information about the magnitude of the indirect cost recovery that this bill intends to exempt.

Fiscal Impact:
FY 2022:($883,377)
FY 2023:($897,511)
FY 2024:($1,077,013)

FY 2022:
$997,787 (FY 19) + $741,104 (FY 20) + $911,240 (FY 21) / 3 Fiscal Years = $883,377 revenue loss.
A three-year average of indirect cost recovery charges on DLT's Claims Monitoring and Data Processing Workers' Compensation account was used to project the FY 2022 estimate of this bill.

FY 2023:
$883,377 FY 22 Estimate + $14,134 (1.6% FY 23 CPI to FY 22 est.) = $897,511 revenue loss.

FY 2024:
$897,511 FY 23 Estimate + $179,502 (2.0% FY 24 CPI to FY 23 est.) = $1,077,013 revenue loss.

The November 2021 CEC Consumer Price Indexes for FY 2023 and FY 2024 were used to project the out-year estimates of this bill.

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Summary of Fiscal Impact:	As noted above, the provisions of this bill would be unlikely to meet the exemption requirements outlined in RIGL 35-4-27. This fiscal note includes a discussion of the potential fiscal impact, above, in order to provide contextual information about the magnitude of the indirect cost recovery that this bill might intend to exempt.

Budget Office Signature: Digitally signed by Joseph Codega
Date: 2022.05.12 09:50:18 -04'00'

Fiscal Advisor Signature:

See attached comments

House Fiscal Advisor Comments H 7797:

The Budget Office accurately notes that the bill inadvertently references statutory language regarding the sources of funding, not the specific accounts to exempt from the indirect cost recovery as required by statute; there are ten accounts across three agencies. The Budget Office suggests the loss would be $0.9 million if the exemption was meant to apply only to one, primary Labor and Training account associated with the identified funding sources. If the sponsor intended the exemption to extend to all accounts described in the narrative of the fiscal note, the impact would be closer to $3.5 million annually. This is based on the actual and estimate cost recovery for FY 2019 through FY 2022.