



**Testimony of the Association of Oregon Counties and
League of Oregon Cities on
SB 96-A
to the
House Committee on Business & Labor
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SB 96-A gives Oregon cities and counties in a qualified self-insured workers' compensation group the same opportunity that individually self-insured cities and counties already have to prove their ability to pay workers' compensation claims.

Currently, individual cities and counties that are self-insured for workers' compensation can show the State of Oregon through financial audits that they have enough money set aside in a dedicated reserve to pay the workers' comp claims of their employees. SB 96-A expands that opportunity to qualified self-insured groups – those that are public corporations or municipal corporations that file annual audits with the Secretary of State.

If a qualified group meets the criteria in ORS 656.407 for a sound financial condition, the Workers' Compensation Division (WCD) can exempt the group from the requirement to provide a security deposit. This can reduce both direct and administrative costs to the cities and counties that participate in the self-insured group, while still providing certainty that the obligations to injured workers and to WCD will be met.

SB 96-A was recommended for passage by the Management-Labor Advisory Committee (MLAC) at its March 8 meeting, and was passed by the Senate April 3 on a 28-2 vote.

Background

ORS 656.407 requires that employers in Oregon maintain Workers' Compensation coverage either by obtaining coverage from an insurer, or by self-insuring the coverage. In order to self-insure, employers must prove they have staff qualified to administer Workers' Compensation claims. Employers must also prove they have the financial ability to make payments of all compensation and other payments due to the Department of Consumer and Business Services, Workers' Compensation Division (WCD).

Proof of financial ability to maintain self-insurance includes establishment of a security deposit in accordance with WCD rules. The security deposit is used to fund compensatory payments and payments due to WCD in the event the self-insured

employer is unable to pay. WCD accepts either a fidelity bond or an irrevocable letter of credit to satisfy the security deposit requirement.

However, ORS 656.407 also allows self-insured cities and counties to apply to WCD for exemption from the security deposit provided they:

- Are certified by WCD.
- Have been self-insured for three consecutive years.
- Maintain a workers' compensation coverage loss reserve account that is actuarially sound and adequately funded as determined by annual audit.
- File annual audits with the Secretary of State.
- Have executed a resolution by their governing body establishing the loss reserve.
- Provide a statement giving the amount of current reserves for both current and future liabilities.

SB 96-A adjusts ORS 656.407 to allow groups of self-insured employers that are municipal or public corporations to apply to WCD for exemption from the security deposit requirement, just as individually self-insured cities and counties do.

Currently, the CIS Trust is the only self-insured workers' compensation group of which we're aware that would meet the criteria in SB 96-A. CIS has 224 members in its workers' compensation group; just under 90%, are cities and counties. The remainder are public bodies created by cities and counties to perform services that the city or county could otherwise provide itself.

CIS is a public corporation as defined in ORS 297.405. It currently obtains annual independent audits that are submitted to the Secretary of State, and conducts annual actuarial studies to establish the liabilities of the workers' compensation loss fund.

Under current law and regulation, CIS provides to WCD a letter of credit in the amount of \$7.1 million. The direct cost to the membership is about \$6,000, but to obtain that letter, CIS has to provide \$8.9 million in collateral - \$1.8 million more than the letter of credit itself. The collateral funds produce interest, but can't be invested with the rest of the pool's assets. Additionally, obtaining the letter of credit is an onerous process each year. Basically, the bank treats it like a new loan every time, requiring significant staff time and effort to complete.

SB 96-A does not automatically grant an exemption from the security deposit requirement. It simply provides an opportunity for cities and counties self-insured as a group to apply. We appreciate the Committee's consideration.