



**City of Milwaukee
Budget and Management
Intra-Office Memo**

To: Alderman Michael Murphy

From: Renee Joos

Date: December 4, 2007

Subject: 2007 Worker's Compensation Shortfall

In 2007, \$11,555,000 was budgeted for Worker's Compensation with \$11,530,000 for the claims account and \$25,000 for the law compliance account. At this time, the account is projected to go over budget by approximately \$450,000 or 3.9% for a total of \$12,005,000 in 2007. Over the past five years, Worker's Compensation expenditures have exceeded the amount budgeted by an average of \$998,000 or 12.4%. In 2006, total expenditures were \$951,000 or 8.8% over the budget allocation. In 2001, actual expenditures exceeded the amount budgeted by almost \$2 million.

Recordable cases are the largest driver of Worker's Compensation costs. Although the number of recordable cases has remained relatively flat and decreased from 2005 to 2006, Worker's Compensation costs continue to increase largely due to medical claims costs. During the last five years the average cost per recordable case has increased 54.5% from \$6,674 to \$10,311.

A fund transfer of \$800,000 is being requested to cover the anticipated \$450,000 shortfall and provide enough funding to cover end-of-year payments before reimbursements are recorded in the account from Water, Parking, and MPS. The Worker's Compensation account is budgeted on a net basis and reimbursements from other entities offset total monthly expenditures. Typically reimbursable payments, which average \$301,000 per month, are received at the end of each month or the beginning of the next month. This can lead to premature shortfalls at the end of each year when all funds have been expended and monthly claim expenses remain prior to final year reimbursements being received.

This year's circumstances are exacerbated by the launch of the new Worker's Compensation system in January 2008. The current system will not be available to make payments from December 21st through January 11th when the data is being transferred from the old system to the new system. All weekly payments that are known in advance will need to be made prior to the system shutdown on December 21st.

The \$800,000 fund transfer will provide enough funding to cover the anticipated shortfall, maintain enough account liquidity to cover normal end-of-year payments, and allow the account to make any advance payments that are necessary due to the launch of the new Worker's Compensation system.

Once all 2007 reimbursements are received and end-of-year accruals are completed, a remaining, unreserved balance of \$300,000 is expected in the Worker's Compensation account which could be carried over to 2008 or lapse to the Tax Stabilization Fund.

cc: Marianne Walsh
Leslie Silletti