January 15, 2002

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative cited as the "Fairness for Injured Workers Amendment" (File No. SA2001RF0047).

Key Provisions

The measure amends the State Constitution to require that workers' compensation benefits for injuries that occur on and after January 1, 2003 be based on the state average weekly wage and be increased annually thereafter. To implement this provision, the measure specifies the minimum and maximum injury and death benefits and ties them to the state average weekly wage for the previous calendar year. The specified amounts are higher than the benefits provided under current law.

Current law requires that workers, who are temporarily or permanently disabled due to injuries sustained in the course of their employment, receive benefits equal to two-thirds of their average weekly earnings, subject to minimum and maximum benefit amounts. The law also specifies minimum and maximum wage amounts for calculating benefit payments to injured workers. In addition, dependent survivors of workers killed on the job receive death benefits calculated in a similar fashion. Currently, these disability and death benefit payments do not increase to account for inflation.

Fiscal Effect

The state and local governments currently spend about $2.5 billion a year for workers' compensation costs. This measure would increase these costs annually by the mid-to-high hundreds of millions of dollars, beginning in 2003. These costs would increase annually thereafter. These costs would be offset by savings in public assistance benefits of potentially several million dollars.

In terms of its impact on governmental revenues, the measure would most likely result in a net gain, ranging from a minor amount to the mid tens of millions of dollars. This net revenue effect reflects two offsetting factors. First, there would likely be an increase in the high tens of millions of dollars in insurance gross premium taxes, depending on the extent to which increased workers' compensation claims result in increased workers' compensation insurance premiums. Second, there would likely be a reduction in the mid-to-high tens of millions of dollars in income taxes. This effect will depend on such factors as the extent to which businesses subject to either higher premiums or increased claims costs would otherwise owe income taxes, and the degree to which these higher costs would be deductible expenses for California income tax purposes.

Fiscal Summary. This measure would result in net state and local government costs in the mid-to-high hundreds of millions of dollars in 2003. These costs would increase annually thereafter.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance