# California State Legislature
# Joint Republican Caucus

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Governor Gray Davis
State of California
State Capitol, First Floor
Sacramento, CA 95814

Dear Governor Davis:

We urge you to call a special session of the legislature to address California's growing workers' compensation crisis. Throughout the state, legislators have been meeting with local businessmen and women to discuss the impact of soaring workers' compensation costs on California's business climate. What we hear is disturbing.

From farmers to non-profit organizations, rates are dramatically rising, forcing many business entities to scale back services, raise costs, or lay off employees. The combination of escalating rates and recently enacted anti-business legislation is forcing many businesses to look outside the state when contemplating expansion, relocation, or simply shutting down.

California cannot afford to lose businesses because the revenues they generate provide the tax base to fund essential state services. Further, with a growing $26 billion deficit, California must attract new business and increase its revenue base, not diminish it. To this end, we must take concrete steps to make our workers' compensation system fair and affordable while eliminating the opportunity for fraud.

The problems in the current workers' compensation system are clear. Rates are skyrocketing for all businesses throughout the state for a number of reasons, including a reduced number of providers, rising medical costs, fraud, and increased benefits such as those mandated by AB 749. According to the Workers' Compensation Insurance Rating Bureau (WCIRB), the average workers' compensation premium rate increased 50 percent between 2001 and 2002. This rate is 15 percent greater than the previous high recorded in 1993, which prompted significant workers' compensation reforms that saved billions of dollars.

In addition, in a memo to businesses insured by California's insurer of "last resort," the State Compensation Insurance Fund (SCIF) rates have been increased an additional 10% as of January 1, 2003 and can expect an additional 10% increase beginning July 1, 2003. This will result in at least a 70% increase to California businesses.

Rising rates are but one aspect of the workers' compensation problem. While California's premium rate is among the highest in the nation, benefits paid directly to workers are among the lowest. Furthermore, despite increased safety programs and education efforts that have significantly reduced on-the-job injuries, costs continue to rise. The WCIRB estimates that the total average cost of a 2001 claim was approximately $45,000 – more than double what it was just six years ago.

We recognize that recent changes to the insurance market are contributing to this crisis. With the number of California domestic insurers shrinking rapidly and the SCIF is poised on the brink of insolvency, the growing concern among businesses about their ability to obtain insurance is clearly justified. Something must be done to ensure that workers' compensation insurance – a legal requirement to do business in the state – is both available and affordable.

California's fiscal health will only be restored when we have a healthy economy. Addressing the current workers' compensation problem will be a strong, positive step in the right direction. For these compelling reasons, we urge you to call a special session to focus attention on the problem and expedite a positive solution that will stimulate the economy and send a clear signal that California is serious about developing and maintaining a sound business climate.

Sincerely,

Ross Johnson

Sharon Runner

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