



House Bill 5031

AN ACT MAKING DEFICIENCY APPROPRIATIONS

FOR THE FISCAL YEAR ENDING JUNE 30, 2026

Testimony of the Department of Administrative Services

Appropriations Committee

March 20, 2026

Senator Osten, Representative Walker, Senator Somers, Representative Nuccio, and distinguished members of the Appropriations Committee. I am Michelle Gillman, Commissioner of The Department of Administrative Services (DAS). Thank you for the opportunity to testify on **House Bill 5031: An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2026.**

DAS Workers' Compensation (GF and STF)

The Governor's deficiency bill represents deficiencies as projected on January 20, 2026, however OPM is currently projecting a net shortfall of \$18.7 million in Workers' Compensation Claims. The deficiency is driven by a range of factors, with some of the largest shortfalls emerging in the line items for the 24/7 operations; DOC, DMHAS, and DESPP While each agency faces unique operational pressures, several overarching trends are consistent across all three:

- Escalating medical care costs, driven by higher treatment intensity and utilization;
- Higher claim volume; and
- Sustained growth in indemnity payments.

Below is a summary of the primary agency-specific cost drivers contributing to the FY2026 projected deficiencies:

- DOC's shortfall is driven by a 15% increase in indemnity costs, rising from \$16.5 million in FY2025 YTD to over \$19 million in FY2026, an increase of approximately \$2.5 million. At the same time, DOC is also experiencing substantial growth in medical benefit expenditures, with FY2026 medical spending up approximately 20% over last year.

Notable medical increases include: a 370% increase in ambulatory surgical centers, 1,070% increase in hospital inpatient care, 126% increase in anesthesia and a 72% increase in pain clinic utilization.

- DMHAS has experienced sustained high claims activity throughout the fiscal year. Medical expenses have increased 36% over FY2025 with key cost drivers being: a 48% increase in orthopedic surgery, 85% increase in physiotherapy, 78% increase in neurosurgery and 35% increase in prescriptions. Indemnity payments have increased by approximately 30%, representing \$2.5 million more in FY2026 YTD compared with FY2025. This growth is tied to higher temporary total and temporary partial disability payments.
- DESPP experienced a 22% increase in claim volume in FY2026 compared with FY2025. Medical costs have nearly doubled, increasing approximately 90%, driven primarily by large spikes in major medical treatment categories. Those include: a 388% increase in inpatient hospitalization, 108% increase in treating physician services, 75% increase in ambulatory surgical centers and a 64% increase in orthopedic surgery. Indemnity payments have increased approximately 20%.

For the Special Transportation Fund (STF), a \$500,000 shortfall is anticipated. While there are no significant year-over-year spikes in FY2026 compared to FY2025, the account also experienced deficiencies last year. The continued shortfall reflects the same statewide trends seen in the General Fund – higher medical costs, increased claim volume and growing indemnity expenditures.

Thank you for the opportunity to submit testimony and present before you today. I am happy to answer any questions of the committee.