

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3881-01
Bill No.: HB 1468
Subject: Emergencies; Insurance - General; Insurance Dept.
Type: Original
Date: March 16, 2010

Bill Summary: Creates the Missouri Catastrophe Fund to help protect property and casualty insurers against insolvencies caused by earthquakes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$135,564)	(Unknown less than \$261,852)	(Unknown less than \$270,470)
Total Estimated Net Effect on General Revenue Fund	(\$135,564)	(Unknown less than \$261,852)	(Unknown less than \$270,470)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Missouri Catastrophe	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Missouri Catastrophe	4	4	4
Total Estimated Net Effect on FTE	4	4	4

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA) - Division of Accounting, COA - Division of General Services/Risk Management, Department of Public Safety (DPS) - State Emergency Management Agency, DPS - Missouri State Highway Patrol, Office of State Treasurer, and Missouri Senate** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of the Governor (GOV)** assume the proposal will have no fiscal impact on their organization. However, if additional duties are placed on the office related to appointments in other TAFP legislation, there may be the need for additional staff resources in future years.

Officials from the **DPS - Director's Office** assume any costs incurred as a result of this proposal can be absorbed within current funding levels.

Officials from the **COA - Division of Budget and Planning (BAP)** assume the proposal will have no fiscal impact on their organization. The BAP anticipates that the proposal would increase total state revenue and 18e, but defers to the Department of Insurance, Financial Institutions, and Professional Registration for specific estimates.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the department has many duties under this proposal. The DIFP will require one (1) Insurance Regulatory Manager, Band 1 FTE, two (2) Product Analyst II FTEs, one (1) Actuary FTE, \$200,000 in one-time contract programming and \$20,000 in ongoing contract programming to implement this program. The insurance regulatory manager would be responsible for supervision of personnel, developing rules, policies and contract procedures. The insurance product analysts would review policies, administer the reimbursement contract, assist with rule promulgation and publication of fund information in the Missouri Register, and review other documentation received by the fund. The actuary would be required to ensure the premiums paid into the fund are actuarially indicated, monitor the retention multiples and assist in selecting the independent consultant to determine the premiums collected by the fund. The

ASSUMPTION (continued)

insurance regulatory manager, insurance product analysts and the actuary would also support the Missouri Catastrophe Fund Advisory Council in its duties. The contract programming is needed to setup the appropriate database for tracking, monitoring and disbursing fund moneys as well as capturing company information.

The DIFP assumes if revenue bonds are required to be issued that the department would use an outside firm. The cost of issuing the revenue bonds, including the use of an outside firm, would be requested in future budget or supplemental budget requests.

The DIFP assumes 362 property and casualty insurance companies covering residential structures may pay the initial \$1,000 premium to startup the administration of the fund (362 companies X \$1,000 = \$362,000). The department has made no estimate on the amount of ongoing premium received into the fund. This will depend upon several factors that cannot be determined until the fund is created, i.e. insurance companies selection of the retention multiple.

Oversight assumes since the initial premiums are not enough to cover anticipated expenses that General Revenue funds would be used to make up the difference between premiums and costs incurred by the DIFP for the Missouri Catastrophe Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2011	FY 2012	FY 2013
	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Transfer-Out to DIFP</u>			
To cover costs of Missouri Catastrophe			
Fund	<u>(\$135,564)</u>	<u>(Unknown less than \$261,852)</u>	<u>(Unknown less than \$270,470)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
	<u>(\$135,564)</u>	<u>(Unknown less than \$261,852)</u>	<u>(Unknown less than \$270,470)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
MISSOURI CATASTROPHE FUND			
<u>Income - DIFP</u>			
Initial setup premium	\$362,000	\$0	\$0
Premiums	<u>\$0</u>	<u>Unknown over \$100,000</u>	<u>Unknown over \$100,000</u>
Total <u>Income</u> - DIFP	<u>\$362,000</u>	<u>Unknown over \$100,000</u>	<u>Unknown over \$100,000</u>
<u>Transfer-In to DIFP</u>			
To cover cost of Missouri Catastrophe Fund	\$135,564	Unknown less than \$261,852	Unknown less than \$270,470
<u>Costs - DIFP</u>			
Personal service (4 FTE)	(\$174,370)	(\$214,475)	(\$219,836)
Fringe benefits	(\$91,440)	(\$112,471)	(\$115,282)
Equipment and expense	<u>(\$231,754)</u>	<u>(\$34,906)</u>	<u>(\$35,352)</u>
Total <u>Cost</u> - DIFP	<u>(\$497,564)</u>	<u>(\$361,852)</u>	<u>(\$370,470)</u>
FTE Change	4 FTE	4 FTE	4 FTE
ESTIMATED NET EFFECT ON MISSOURI CATASTROPHE FUND			
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Estimated Net FTE Change for Missouri Catastrophe Fund	4 FTE	4 FTE	4 FTE
<u>FISCAL IMPACT - Local Government</u>			
	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

The proposal may impact small businesses if coverage for certain natural disasters, like earthquakes, becomes more readily available and more affordable in areas prone to these types of natural disasters.

FISCAL DESCRIPTION

This proposal creates the Missouri Catastrophe Fund to help pay for covered residential property damage insurance claims after a catastrophe involving an earthquake. In its main provisions, the proposal: (1) Requires the Director of the Department of Insurance, Financial Institutions and Professional Registration to establish the premium rate as determined by an actuarial formula developed by an independent consultant. The premiums will be paid by insurers, bond revenues, and appropriated state funds. The insurer's premiums will be calculated based on the amount of insurance coverage it provides; (2) Allows an insurer covered under the fund to be reimbursed based on a percentage of its losses in excess of the insurer's retention, plus 10% of that amount to cover loss adjustment expenses. Insurers may elect to be reimbursed at 45%, 75%, or 90%, which can be adjusted under certain circumstances. Reimbursement amounts will not be reduced because of reinsurance payable to the insurer; however, the total amount received cannot exceed 100% of the insurer's losses from covered events. Any excess must be returned to the fund unless agreed to otherwise; (3) Allows the department director to issue bonds if moneys in the fund are insufficient to reimburse at the agreed to levels. If the actuarially indicated premiums are insufficient to fund revenue bonds to pay the reimbursement contracts, the department director will levy an emergency assessment to each property and casualty insurer in the state; (4) Allows, beginning in Fiscal Year 2012, the General Assembly to appropriate from 10% to 35% of the investment income of the fund from the prior fiscal year in a fiscal year when no outstanding obligations are incurred for the purpose of funding programs intended to improve catastrophe preparedness, reduce potential losses, educate the public, and protect infrastructure; (5) Establishes the Missouri Catastrophe Fund Advisory Council within the department to provide the department director with information and advice regarding the fund and to develop prevention and mitigation standards that prevent or significantly reduce the potential damage from natural or man-made, covered losses; and (6) Requires the department director, upon the establishment of a similar federal or multistate program, to recommend to the General Assembly whether to coordinate with the program, terminate Missouri's fund, or take other appropriate action.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
 Division of Accounting
 Division of Budget and Planning
Department of Insurance, Financial Institutions, and Professional Registration
Department of Public Safety -
 State Emergency Management Agency
Office of the Governor
Missouri Senate
Office of Secretary of State
Office of State Treasurer



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Director
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