

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0507-01
Bill No.: SB 197
Subject: Insurance Dept.; Contracts and Contractors; Licenses - Professional; Motor Vehicles
Type: Original
Date: February 8, 2007

Bill Summary: Modifies law with respect to motor vehicle extended service contracts and enacts similar provisions relating to other types of service contracts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Insurance Dedicated	\$3,083	(\$20,020)	(\$21,288)
Total Estimated Net Effect on <u>Other</u> State Funds	\$3,083	(\$20,020)	(\$21,288)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Insurance Dedicated	1	1	1
Total Estimated Net Effect on FTE	1	1	1

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 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Attorney General (AGO)** assume that any costs associated with this proposal could be absorbed with existing resources. The AGO assumes that the provisions being transferred out of Chapter 407 were already regulated by the Department of Insurance. As a result, the AGO does not anticipate any new costs associated with the transfers of these sections out of Chapter 407.

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 and Professional Regulation (DIFP)** state with the addition of product service contract providers using reimbursement contracts under this proposal, the workload of insurance product analysts will increase. It is anticipated that the department will receive an influx of filings so that providers can be in compliance.

The DIFP is requesting one Insurance Product Analyst II (\$30,408 annually) to review reimbursement contracts received. The department would use existing staff to implement the financial analysis and investigation provisions of this proposal. The DIFP cannot estimate how many companies will register, but estimates it will be around 100. If numbers are considerably more, additional staff may need to be requested.

Revenue will be generated as a registration fee for product service contracts is required to be paid annually, up to a \$300 annual fee. The DIFP estimates that approximately 100 companies will be registered, for a yearly revenue amount of \$30,000. The proposal does not indicate where fees will be deposited , so the department has assumed they would be deposited into the Insurance Dedicated Fund, where other such fees are deposited.

Subsection 385.302.5. exempts provider fees from premium taxes but requires tax be paid on premiums for reimbursement insurance policies. Premium tax is currently collected for premiums for reimbursement insurance policies handled through insurance companies. The DIFP has not made any estimates for additional revenues being collected.

The provisions of this proposal are effective January 1, 2008.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (6 Mo.)	FY 2009	FY 2010
INSURANCE DEDICATED FUND			
<u>Income - Department of Insurance, Financial and Professional Regulation</u>			
Registration fees	<u>\$30,000</u>	<u>\$30,000</u>	<u>\$30,000</u>
<u>Costs - Department of Insurance, Financial and Professional Regulation</u>			
Personal service (1.0 FTE)	(\$15,584)	(\$31,947)	(\$32,746)
Fringe benefits	(\$7,053)	(\$14,459)	(\$14,821)
Equipment and expense	(\$4,280)	(\$3,614)	(\$3,721)
Total <u>Cost</u> - Department of Insurance, Financial and Professional Regulation	<u>(\$26,917)</u>	<u>(\$50,020)</u>	<u>(\$51,288)</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$3,083</u>	<u>(\$20,020)</u>	<u>(\$21,288)</u>
Estimated Net FTE Change for Insurance Dedicated Fund	1.0 FTE	1.0 FTE	1.0 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2008 (6 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

The proposal may impact small businesses if they choose to purchase motor vehicle or other product service contracts.

FISCAL DESCRIPTION

The proposal modifies the laws regarding motor vehicle service contracts and product service agreements.

The proposal repeals the existing provisions relating to motor vehicle extended service contracts found in Chapter 407 and transplants the provisions into Chapter 385. With respect to motor

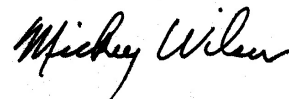
FISCAL DESCRIPTION (continued)

vehicle extended service contracts, the proposal defines the term "fronting company" as a dealer that authorizes a third-party administrator or provider to use its name or business to evade or circumvent a sale, an offer for sale, or a solicitation of a sale of a service contract to a consumer. The proposal further prohibits an unlicensed motor vehicle or boat dealer from selling a motor vehicle service contract to a consumer and prohibits a dealer from acting as a fronting company. The proposal further creates similar provisions for service contracts, to wit, the proposal prohibits persons from issuing or selling service contracts without registering and paying applicable fees to the Department of Insurance; sets forth financial reserve requirements for service contract providers; and requires providers to furnish written statements to consumers outlining their obligations, conveying terms and restrictions.

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 Attorney General
Department of Insurance, Financial and Professional Regulation
Office of Secretary of State



Mickey Wilson, CPA
Director
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