

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1054-04  
Bill No.: Perfected HCS for HB 221  
Subject: Business and Commerce: Consumer Protection; Motor Vehicles  
Type: Original  
Date: March 7, 2007

Bill Summary: Changes the laws regarding motor vehicle service contracts and product service agreements

**FISCAL SUMMARY**

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

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

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

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

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Attorney General** assume that any potential costs arising from this proposal can be absorbed with existing resources.

Officials from the **Department of Revenue** and the **Department of Economic Development - Public Service Commission** and **Office of Public Counsel** state this proposal will have no fiscal impact on their respective agencies.

Officials from the **Office of Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact to the SOS office for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed in a given year and that collectively the costs may be in excess of what the SOS can sustain with their core budget. Any additional required funding would be handled through the budget process.

Officials from the **Department of Insurance, Finance, and Professional Regulation Legislation (DIFP)** state this proposal revises the motor vehicle extended service contract provisions of law to appear in chapter 385 rather than in chapter 407 and adopts a similar regulatory structure for product service agreements.

This proposed legislation will establish a regulatory structure for product service agreements (which are extended service contracts on property other than real estate and motor vehicles). This proposal is similar to the regulatory structure for motor vehicle extended service contracts. Differences between the two regulatory schemes include allowing a provider to meet financial responsibility requirements through purchase of a reimbursement insurance policy issued by a surplus lines insurer and allowing reimbursement insurance policies to state some required provisions non-conspicuously.

With the addition of product service contract providers using reimbursement contracts under this proposed legislation, the workload of insurance product analysts will increase. It is anticipated that DIFP will receive an influx of filings so that providers can be in compliance. DIFP is requesting one Insurance Product Analyst II to review reimbursement contracts received. DIFP would use existing staff to implement the financial analysis and investigation provisions of this

ASSUMPTION (continued)

proposal. DIFP cannot estimate how many companies will register but estimates it will be around 100. If numbers are considerably higher, additional staff may need to be requested. (*§ 385.300 through § 385.320*)

Revenue will be generated since a registration fee for product service contracts is required to be paid annually up to a \$300 annual fee. 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 but the department has assumed it would be deposited into the Insurance Dedicated Fund where other such fees are deposited. (*§ 385.302.1*)

The proposal 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. DIFP has not made any estimates for additional revenues being collected, but indicates it will not be a significant amount. (*§ 385.302.5*)

<u>FISCAL IMPACT - State Government</u>	FY 2008 (6 Mo.)	FY 2009	FY 2010
<b>INSURANCE DEDICATED FUND</b>			
<u>Income</u> - DIFP - Fee Income ( <i>§ 385.302</i> )	\$30,000	\$30,000	\$30,000
<u>Cost</u> - DIFP - Personal Costs - Insurance Product Analyst (1 FTE) ( <i>§ 385.300 through § 385.320</i> )			
Salary	(\$15,584)	(\$31,947)	(\$32,746)
Fringe Benefits	(\$7,053)	(\$14,459)	(\$14,821)
Equipment & Expense	<u>(\$4,280)</u>	<u>(\$3,614)</u>	<u>(\$3,721)</u>
Total Personal Costs	<u>(\$26,917)</u>	<u>(\$50,020)</u>	<u>(\$51,288)</u>
<b>ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND</b>	<b><u>\$3,083</u></b>	<b><u>(\$20,020)</u></b>	<b><u>(\$21,288)</u></b>
Estimated Net FTE Change for Insurance Dedicated Fund	1 FTE	1 FTE	F 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

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

§ 385.302

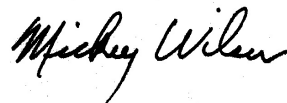
This proposed legislation changes the laws regarding service contracts. It prohibits any person from issuing or selling a product service contract without registering and paying a fee with the Director of the Department of Insurance, Financial Institutions, and Professional Registration.

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

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 Economic Development  
    Public Service Commission  
    Office of Public Counsel  
Department of Insurance, Finance, and Professional Regulation  
Department of Revenue  
Office of Secretary of State  
    Administrative Rules Division



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Director  
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