

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3833-01
Bill No.: SB 877
Subject: Insurance - Property; Insurance Dept.; Emergencies
Type: Original
Date: February 19, 2008

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Missouri Catastrophe	(\$161,497)	(Unknown less than 246,378)	(Unknown less than \$254,610)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$161,497)	(Unknown less than \$246,378)	(Unknown less than \$254,610)

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA) - Division of Accounting, COA - Administrative Hearing Commission, COA - General Services/Risk Management, Department of Public Safety (DPS) - Director's Office, DPS - State Emergency Management Agency, Office of the Governor, Missouri Senate, and Office of State Treasurer** assumes the proposal will have no fiscal impact on their organizations.

Officials from the **COA - Division of Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to the BAP.

The act establishes the Missouri Catastrophe Fund to help protect property and casualty insurers against insolvencies caused by earthquakes. Insurers will pay a reimbursement premium into the fund. This will increase general and total state revenues by an unknown amount.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal for Administrative Rules 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)** the department has many duties under this proposal. The DIFP will require one FTE Insurance Regulatory Manager, Band 1, two FTEs Insurance Product Analyst II, one 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 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 insurance regulatory manager, insurance product analysts and the actuary would also support the Missouri Catastrophe Fund Advisory Council in its duties.

ASSUMPTION (continued)

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 that 315 property and casualty insurance companies covering residential structures may pay the initial \$1,000 premium to startup the administration of the fund (315 insurers X \$1,000 = \$315,000). 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.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
MISSOURI CATASTROPHE FUND			
<u>Income - DIFP</u>			
Premium revenue	\$321,615	Unknown over \$100,000	Unknown over \$100,000
<u>Costs - DIFP</u>			
Personal service costs (4.0 FTE)	(\$174,370)	(\$214,475)	(\$219,836)
Fringe benefits	(\$78,920)	(\$97,071)	(\$99,498)
Equipment and expense	(\$29,822)	(\$14,832)	(\$15,276)
Contract programming	<u>(\$200,000)</u>	<u>(\$20,000)</u>	<u>(\$20,000)</u>
Total Costs - DIFP	(\$483,112)	(\$346,378)	(\$354,610)
FTE Change - DIFP	4.0 FTE	4.0 FTE	4.0 FTE
ESTIMATED NET EFFECT ON MISSOURI CATASTROPHE FUND	<u>(\$161,497)</u>	<u>(Unknown under \$246,378)</u>	<u>(Unknown under \$254,610)</u>
Estimated Net FTE Change for Missouri Catastrophe Fund	4.0 FTE	4.0 FTE	4.0 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011

\$0

\$0

\$0

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 establishes the Missouri Catastrophe Fund to help pay covered residential property damage insurance claims in the aftermath of an earthquake which affects Missouri homeowners and their property/casualty insurers. The fund, which will consist of premiums paid by insurers, bond revenues, and appropriated state funds, will provide a backstop for insurance companies to insure against covered catastrophic losses to avoid the collapse of the property insurance market in the wake of a major earthquake.

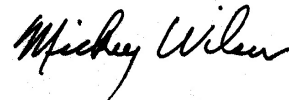
REIMBURSEMENT PREMIUMS - Reimbursement premiums for the backstop coverage shall be set by the Director of the Department of Insurance, Financial Institutions and Professional Regulation, who shall select an independent consultant to develop a formula for determining the actuarially indicated premium. The director will calculate premiums based upon the insured values under the insurer's covered policies, as reported annually to the director. In order to provide startup moneys for the administration of the fund, insurers are required to pay to the fund an advance premium of \$1,000.

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

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Office of Administration -
 Division of Accounting
 Administrative Hearing Commission
 Division of Budget and Planning
 General Services/Risk Management
Department of Insurance, Financial Institutions and Professional Registration
Department of Public Safety -
 Director's Office
 State Emergency Management Agency
Office of the Governor
Missouri Senate
Office of Secretary of State
Office of State Treasurer



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February 19, 2008