

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1223S.02C
Bill No.: SCS for HB 585
Subject: Insurance - General; Workers' Compensation; Banks and Financial Institutions;
Commerce and Insurance, Department of; Insurance - General; Insurance -
Property; Mortgages and Deeds
Type: Original
Date: May 1, 2023

Bill Summary: This proposal enacts provisions relating to services regulated by the department of commerce and insurance.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	Up to (\$266,460)	Up to (\$532,919)	Up to (\$532,919)
Total Estimated Net Effect on General Revenue	Up to (\$266,460)	Up to (\$532,919)	Up to (\$532,919)

*Oversight notes the above cost are associated with the OA's supplemental charges by the SIF. Oversight notes this is a **continuance** of an existing supplemental surcharge allowance that is currently set to expire at the end of 2023. Oversight reflects the maximum beginning in FY 2024 (6 Mo) and annually after at 1% until 2026.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
State Road Fund (0320)	Up to (\$45,000)	Up to (\$90,000)	Up to (\$90,000)
Colleges & Universities	(Unknown)	(Unknown)	(Unknown)
Second Injury Fund (0653)*	Up to \$8,144,251	Up to \$16,288,501	Up to \$16,288,501
Division of Finance Fund	\$77,800 to \$77,961	\$221,400 to \$221,489	\$221,400 to \$221,489
Total Estimated Net Effect on <u>Other</u> State Funds	Less than \$8,177,212	Less than \$16,509,990	Less than \$16,509,990

Numbers within parentheses: () indicate costs or losses.

*This proposal (§287.715) extends the sunset date of an up to a 1 % supplemental surcharge allowance paid into the Second Injury Fund, currently it is set to expire on December 31, 2023. The proposal extends the date to 2026.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☒ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Sections 287.690 and 287.921-379.1869 – Property and Casualty Insurance

In response to a similar proposal from this year (HCS for SB 101), officials from the **Department of Commerce and Insurance**, the **Department of Corrections**, the **Department of Revenue**, the **Department of Labor and Industrial Relations**, the **Department of Public Safety- Missouri Highway Patrol** and the **Missouri Office of Prosecution Services** each assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies for these sections.

§287.715 – Sunset extension of 1% Supplemental Surcharge till CY 2026

In response to the similar proposal, SCS for HCS for HB 655 – 2023, officials from the **Department of Labor and Industrial Relations (DOLIR)** assumed the proposal will have no additional fiscal impact beyond its current collection amount, on their organization.

Oversight notes the current law, as per SB 303 (TAFP) and signed by the Governor in 2021, requires that Missouri employers contribute a 2.5% supplemental surcharge into the Second Injury Fund for calendar year 2023.

Oversight notes, on average, DOLIR collects \$16.28 million for each 1% of supplemental surcharge from Missouri employers each fiscal year. (Please see the breakdown of charges for last five years below).

Oversight extracted DOLIR's Second Injury Fund surcharge collections from 2017 to 2021 period shown below:

CY	5% - 6 % Collections	1% collections	FY 1% Surcharge Collections
2017	\$ 107,413,994	\$ 17,902,332	

2018	\$ 102,442,325	\$ 17,073,721	\$ 17,488,027
2019	\$ 86,683,062	\$ 17,336,612	\$ 17,205,167
2020	\$ 87,401,807	\$ 14,566,968	\$ 15,951,790
2021	\$ 84,308,838	\$ 14,451,073	\$ 14,509,021
			\$ 16,288,501

<https://labor.mo.gov/data>

Oversight calculated the potential impact to the SIF for FY 2024, and beyond, by dividing the total FY annual collections by 4 years totaling \$16,288,501 (\$65,154,004/4).

Oversight shows the potential maximum collection in FY 2024 to FY 2026 below:

Fiscal Year	FY 2024	FY 2025	FY 2026
Totals	\$16,288,501	\$16,288,501	\$ 16,288,501

Therefore, **Oversight** will note the continued positive fiscal impact to the Second Injury Fund in the fiscal note in FY 2024 (6 Mo.), FY 2025 and FY 2026.

Oversight notes, upon further conversation with the DOLIR, the Department annually reviews the Actuarial Report determining the solvency of the fund. The Director, as per RSMO 287.690 is also required to announce the relevant rate no later than October 31, each year, in order to adjust the rate accordingly.

Oversight notes, as per conversation with the DOLIR, the DWC announced the rate for CY 2023 and set the rate at 0% surcharge. Therefore, **Oversight** will note the maximum impact Up to potential 1% collection amount \$16,288,501 (as the maximum allowed collection amount per the proposal if 1% is announced by the DOLIR by October 31st of 2023) in the fiscal note.

In response to a similar proposal from this year (SB 521), officials from the **Missouri Department of Transportation (MoDOT)** and the **Office of Administration (OA)** both assumed the proposal will have no fiscal impact on their organization.

In response to a similar proposal from 2021 (SB 303), officials from MoDOT noted:

Currently, MoDOT pays a 3% Second Injury Fund (SIF) surcharge and a supplemental rate of 0%. This amount will vary based on each year's premiums, but for 2020, they paid \$405,512 for the SIF surcharge and \$270,347 for the supplemental rate. They pay quarterly, but these are the annual figures.

2017-2019 had a 3% SIF surcharge and a 3% supplemental rate. They paid the following annually:

2019 - \$400,919 for each (surcharge and supplemental)
2018 - \$403,463 for each
2017 - \$413,749 for each

Oversight notes that MoDOT paid approximately \$270,000 annually for 3% supplemental surcharge in FY 2021; therefore, **Oversight** will show \$90,000 in FY 2024 and beyond as a representation of the 1% supplemental surcharge.

In response to a similar proposal from 2021 (SB 303), officials from the **Office of Administration (OA)** assumed:

Section 287.715.6 – This legislation changes the maximum supplemental surcharge from 3% to 2.5% in CY 2023. If the division of workers' compensation collects the maximum of 2.5%, this change could decrease the total supplemental surcharge the state would pay by a total of \$184,156.20 for GR and \$2,953.11 for Conservation.

However, the division of workers' compensation currently collects 2%, which is less than their maximum allowed amount; therefore, the proposed legislation would result in an increase in costs to the state as compared to the actual amount collected by the division of workers' compensation. This is based on expenditures shown below for 3% SIF and 2% surcharge:

FY21 expenditures for CY2020 taxes GR: \$1,841,562.00
FY21 expenditures for CY2020 taxes Conservation: \$29,531.06

Increasing the surcharge to 2.5% could increase general revenue costs by \$184,156.20 and Conservation by \$2,953.11. Current figures based on 2020 payroll, 2020 insurance rates and 2020/21 experience modification. Other factors that could increase/decrease FY22/23 would be CY2021/22 payroll, insurance rates and experience modification changes.

Summary of OA's surcharge paid into SIF:

FY	Summary of Total Tax Collected into Second Injury Fund by OA
2022	\$ 2,492,987
2021	\$ 2,539,533
2020	\$ 2,482,810
2019	\$ 2,539,133
2018	\$ 3,268,504
Average	\$ 2,664,593

Source: https://oa.mo.gov/sites/default/files/FY_2020_Executive_Budget_Final.pdf

Oversight notes that the OA pays its Workers' Compensation tax and Second Injury Fund assessments based on billings received from the Department of Revenue and the Division of Workers' Compensation.

Oversight notes MoDOT and OA both will be required to continue to make up to 1 % surcharge supplemental payments into the Second Injury Fund because of the extension of the surcharge payment until 2028 under the proposal. Oversight will note Up to an average 1 % surcharge tax expense of **\$532,919** ($\$2,664,593 / 5 \times 1$) to the general revenue in the fiscal note, until FY 2026.

Officials from the **City of Kansas City** assumed the proposal will have an undetermined positive fiscal impact.

Officials from the **City of Springfield** assumed the proposal would have an undetermined negative fiscal impact.

In response to a similar proposal from this year (SB 521), officials the **City of Saint Louis – Budget Division** noted:

The proposal reduces the supplemental surcharge charged to employees who pay into the state's Second Injury Fund from 3% to 2.5% and extends the supplemental surcharge until 2028. The City of St. Louis pays \$859,714 annually into this fund. This fee is made up of the 3% surcharge plus a 1% supplemental surcharge. Reducing the supplemental surcharge from 3% to 2.5% will have no fiscal impact on the City because the City currently pays a 1% supplemental surcharge. However, extending the supplemental surcharge until 2028 will have a fiscal impact. Extending this supplemental surcharge will keep the City's payment at \$859,714 annually until 2028; if the supplemental surcharge were allowed to sunset, the City's payment would be \$644,785 a decrease of \$214,928. Extending the supplemental surcharge will cost the City a total of \$1M ($\$214,928 \times 5$) over the next five years until 2028.

The above local political subdivisions noted the proposal would have a direct fiscal impact on their organizations due to the extension of the supplemental surcharge beyond CY 2023. Therefore, **Oversight** will reflect a negative unknown cost to the local political subdivisions in the fiscal note until FY 2026.

Officials from the **Missouri State University** assumed the proposal will have no fiscal impact on their organization.

Officials from the **University of Central Missouri** assumed the proposal will have an indeterminate fiscal impact on their organization.

Oversight notes colleges and universities will be responsible for a continuous payment, 1 % supplemental surcharge, to be submitted on behalf of its employees if DOLIR announce the 1% new rate for FY 2024. Therefore, **Oversight** will reflect a negative unknown cost to the colleges and universities in the fiscal note.

Sections 361.020-367.140 & 407.640 & 408.500

In response to a similar proposal from this year (SCS for SB 13), officials from the **Department of Commerce and Insurance (DCI)** state the changes to 361.715.2 and 361.715.3 increase the annual license fee and amended license fee for the sale of checks/money transmitters by \$100 per license or amended license. The license year for these lenders runs from April 15 through April 14; therefore, DOF anticipates an increase in revenue of \$18,700 beginning with licenses and amended licenses issued on or after April 15, 2024. This revenue would be deposited into the Division of Finance Fund.

The change to 364.030.3 increases the annual license fee for financing companies by \$100 per license. The license year for these lenders runs from January 1 through December 31; therefore, DOF anticipates an increase in revenue of \$6,300 beginning with licenses issued on or after January 1, 2024. Though the statute states the fees collected would be deposited into the general revenue fund, pursuant to 361.170.4, RSMo, which supersedes this older section, all consumer licensing fees are credited to the Division of Finance Fund and have been since 1991 as would the increase in these annual licensing fees.

The change to 364.105.2 increases the annual license fee for premium financing companies by \$100 per license. The license year for these lenders runs from July 1 through June 30; therefore, DOF anticipates an increase in revenue of \$5,200 beginning with licenses issued on or after July 1, 2024. This revenue would be deposited into the Division of Finance Fund.

The change to 365.030.3 increases the annual license fee for motor vehicle financing companies by \$100 per license. The license year for these lenders runs from January 1 through December 31; therefore, DOF anticipates an increase in revenue of \$17,400 beginning with licenses issued on or after January 1, 2024. This revenue would be deposited into the Division of Finance Fund.

The change to 367.140.1 increases the annual license fee for small loan and consumer installment lenders by \$100 per license. The license year for these lenders runs from July 1 through June 30; therefore, DOF anticipates an increase in revenue of \$131,500 beginning with licenses issued on or after July 1, 2024. This revenue would be deposited into the Division of Finance Fund.

The change to 407.640.5 increases the annual license fee for credit service organizations by \$100 per license. The license year for these lenders runs from July 1 through June 30; therefore, DOF anticipates an increase in revenue of \$6,900 beginning with licenses issued on or after July 1, 2024. This revenue would be deposited into the Division of Finance Fund.

The change to 408.500.1 increases the annual license fee for pay day lenders by \$100 per license. The license year for these lenders runs from January 1 through December 31; therefore, DOF anticipates an increase in revenue of \$35,400 beginning with licenses issued on or after January 1, 2024. This revenue would be deposited into the Division of Finance Fund.

For the purposes of this estimate, DOF assumes the number of each of these types of lenders will

remain flat in the next three years. Listed below are the projected number of licenses and amendments for each type of lender and the amount of revenue each is expected to generate based on these fee changes.

CONSUMER LICENSE LENDERS BY TYPE WITH PROJECTED REVENUE

RSMo.	Type of License	ACTUAL LICENSES			PROJECTED LICENSES				License Year Start Date	ESTIMATED REVENUE		
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026		FY 2024	FY 2025	FY 2026
361.715.2	Sale of Checks/Money Transmitters	162	176	182	182	182	182	182	April 15	\$18,200	\$18,200	\$18,200
361.715.3	Amended Sale of Checks	7	10	5	5	5	5	5		\$500	\$500	\$500
364.030.3	Financing Company	86	60	63	63	63	63	63	January 1	\$6,300	\$6,300	\$6,300
364.105.2	Premium Financing Company	53	53	53	53	53	52	52	July 1		\$5,200	\$5,200
365.030.3	Motor Vehicle Finance Company	170	185	191	174	174	174	174	January 1	\$17,400	\$17,400	\$17,400
367.140.1	Small Loans	398	434	425	425	425	425	425	July 1		\$42,500	\$42,500
367.140.1	Consumer Installment Loans	927	917	890	890	890	890	890	July 1		\$89,000	\$89,000
407.640.5	Credit Service Organizations	48	51	69	69	69	69	69	July 1		\$6,900	\$6,900
408.500.1	Pay Day Loans	567	421	354	354	354	354	354	January 1	\$35,400	\$35,400	\$35,400
Total		2,418	2,307	2,232	2,215	2,215	2,214	2,214		\$77,800	\$221,400	\$221,400

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the estimated revenue by DCI generated by proposal to the Division of Finance Fund (0550).

Officials from the **Department of Public Safety - Missouri Highway Patrol**, the **Office of the State Public Defender** and the **Missouri Office of Prosecution Services** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

In response to a previous version, officials from the **Office of the State Courts Administrator** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for OSCA.

Sections 287.921 & 375.1275

In response to a similar proposal from this year (HB 277), officials from the **Department of Commerce and Insurance** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these sections.

Oversight notes Sections 287.900 – 287.920 RSMo, creating the Missouri Employers Mutual Insurance Company were established in law in 1993 (SB 251) and the sections have not been altered in subsequent years.

§427.300 – Commercial Financing Product Disclosure

In response to a similar proposal from this year, (HCS for SCS for SB 187), officials from the **Department of Commerce and Insurance- Division of Finance (DOF)** state there are very few companies that provide the types of commercial financing products described in this section of the proposal, though DOF does not have an exact number. When California passed something similar, they had two companies. DOF assumes Missouri will have less than five.

Revenue

The initial registration would be set at \$100 each, so up to \$500 total revenue in the first year. If all of the companies renewed annually, at \$50 each, subsequent years' revenue would be \$250.

Expense

The registration process is not work intensive and would cost about \$32.20 to process (½ hour for an AOSA @\$20.76/hour + ½ hour for an Examiner @ \$43.63/hour = \$32.195). For five registrations, each year would cost \$161. Since there is no review or enforcement authority granted in the language, that is the extent of the fiscal impact.

In summary, DCI assumes a revenue of \$0 to \$339 in FY 2024, \$0 to \$89 in FY 2025 and FY 2026 as a result of the implementation of the changes in this proposal.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the revenue as estimated by DCI to the Division of Finance Fund.

Oversight also notes §427.300.6 requires that any person who violates this section shall be punished by a fine of \$500 per incident, not to exceed \$20,000 for all aggregated violations. Any person who violates this section after receiving written notice of prior violation from the AGO shall be punished by a fine of \$1,000 per incident, not to exceed \$50,000 for all aggregated violations. Oversight will assume any potential fine revenue generated from this subsection will be distributed to local school districts instead of being credited to the state's Merchandising Practices Revolving Fund. For simplicity, Oversight will reflect a \$0 or Unknown amount of fine revenue received by school districts. Oversight notes these amount may act as a deduction in the following year school funding formula; however, Oversight will simply reflect a possible positive impact to schools from the fine revenue.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and 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 office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Cost</u> – OA - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23 p.5	<u>Up to</u> <u>(\$266,460)</u>	<u>Up to</u> <u>(\$532,919)</u>	<u>Up to</u> <u>(\$532,919)</u>
NET EFFECT ON GENERAL REVENUE	<u>Up to</u> <u>(\$266,460)</u>	<u>Up to</u> <u>(\$532,919)</u>	<u>Up to</u> <u>(\$532,919)</u>
STATE ROAD FUND (0320)			
<u>Cost</u> - MoDOT - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23 p.5-6	<u>Up to</u> <u>(\$45,000)</u>	<u>Up to</u> <u>(\$90,000)</u>	<u>Up to</u> <u>(\$90,000)</u>
NET EFFECT ON STATE ROAD FUND	<u>Up to</u> <u>(\$45,000)</u>	<u>Up to</u> <u>(\$90,000)</u>	<u>Up to</u> <u>(\$90,000)</u>
SECOND INJURY FUND (0653)			
<u>Revenue Gain</u> - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23 p.5-6	<u>Up to</u> <u>\$8,144,251</u>	<u>Up to</u> <u>\$16,288,501</u>	<u>Up to</u> <u>\$16,288,501</u>
NET EFFECT ON SECOND INJURY FUND	<u>Up to</u> <u>\$8,144,251</u>	<u>Up to</u> <u>\$16,288,501</u>	<u>Up to</u> <u>\$16,288,501</u>
COLLEGES AND UNIVERSITIES			

<u>Cost</u> - Section 287.715.6 – supplemental surcharge extended beyond 12/31/23	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON COLLEGES AND UNIVERSITIES	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
DIVISION OF FINANCE FUND (0550)			
<u>Revenue</u> – DCI Increase in annual license fees §§361.020 - 408.500 p. 8-9	<u>\$77,800</u>	<u>\$221,400</u>	<u>\$221,400</u>
<u>Revenue</u> – DCI Registration Fees §427.300 p. 9-10	<u>\$0 to \$161</u>	<u>\$0 to \$89</u>	<u>\$0 to \$89</u>
ESTIMATED NET EFFECT TO THE DIVISION OF FINANCE FUND	<u>\$77,800 to \$77,961</u>	<u>\$221,400 to \$221,489</u>	<u>\$221,400 to \$221,489</u>

<u>FISCAL IMPACT – Local Government</u>	<u>FY 2024 (10 Mo.)</u>	<u>FY 2025</u>	<u>FY 2026</u>
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost</u> – §287.715 - continuance of supplemental surcharge past beyond 12/31/2023 – 1%	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

This proposal would increase the cost of licenses for certain lenders annually. An impact to small credit card lenders could be expected as a result of this proposal.

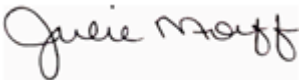
FISCAL DESCRIPTION

The proposed legislation modifies various provisions relating to services regulated by the Department of Commerce and Insurance.

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

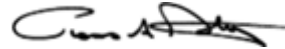
SOURCES OF INFORMATION

Department of Commerce and Insurance
Office of Administration
Department of Labor and Industrial Relations
Missouri Department of Transportation
City of Kansas City
City of Saint Louis – Budget Division
City of Springfield
University of Central Missouri



Julie Morff
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May 1, 2023



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May 1, 2023