F I S C A L   I M P A C T   R E P O R T

SPONSOR Leavell **DATE TYPED** 2/4/04 **HB**

SHORT TITLE Create Insurance Operations Fund **SB** 172

ANALYST Garcia

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
	$4,631.4			Recurring	OSF
			See Narrative	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates HB 240

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	$4,631.4		Recurring	Insurance Operations Funds
	($1,111.7)	Decreasing Negative Recurring Impact, See Narrative	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Regulation Commission (PRC)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

The bill creates the "insurance operations fund." This fund will receive receipts from the Insurance Department suspense fund attributable to fees charged for insurers' certificates of authority and agents' licenses and appointments. According to PRC, annual deposits are expected to be $4.63 million in FY 2005, which is the amount for agent's annual license fees. Under current

law, these fees are transferred to the general fund.
Appropriations from the "insurance operations fund" will be used for the operations of the Insurance Division of the Public Regulation Commission (PRC). At the end of each fiscal year, the balance in the "insurance operations fund" greater than 50 percent of that year's appropriation will revert to the general fund.

Significant Issues

1) The PRC contends that a dedicated funding stream for Insurance Division operations will allow the Commission to hire more professional staff, which will increase premium tax collections. The Insurance Division has not presented any information to support this claim. In fact, it is arguable that increased staff will increase premium tax collections.

2) The Insurance Division claims this bill is necessary because they have been historically underfunded. However, the division received a 14.7 percent general fund increase or $550 thousand in addition to their FY 2004 budget. This recurring increase is reflected in the LFC budget recommendation (adopted by HAFC subcommittee) and is a 20 percent increase over FY03 actual expenditures.

FISCAL IMPLICATIONS

The bill creates the "insurance operations fund" and proposes to "earmark" a portion of the insurance fees collected by the Insurance Division to support the division's FY05 operating budget. The bill specifies that these fees for operating purposes would still be subject to the annual legislative appropriation process.

Currently, the proposed "earmarked" fees are transferred to the general fund. General fund dollars are then appropriated to the Insurance Division for operating expenses. Under this bill, the net decrease in revenue to the general fund is estimated at $1,111.7 for FY05 based on the following:

1. The "earmarked" fees are estimated at $4.63 million.
2. The FY05 LFC budget recommendation for the Insurance Division includes $3,519.7 in general fund.
3. The difference in general fund revenue is $1,111.7

The bill includes a provision where any balance in the "insurance operations fund" at the end of a fiscal year greater than one-half of that fiscal year's appropriation shall be reverted. According to PRC, the general fund impact in subsequent years will decrease. For example, the FY06 general fund impact is estimated at roughly $898 thousand, when taking into account estimated fees of approximately $4.7 million and an 8 percent increase in the Insurance Division operating budget. Beyond FY06, the general fund impact will reduce roughly $200 thousand for each fiscal year to roughly $698 thousand in FY07 and so on.

Consequently, due to likely increases in the Insurance Division operating budget and a slower rate of increase in agent's annual license fees, the provision of reverting the balance of the "insurance operations fund" when that balance is greater than one-half of that fiscal years appropriation will be moot in the future (beyond FY08). At that point, the likely general fund impact would be roughly $100 to $200 thousand recurring. Additionally, the "insurance operations fund" would likely have balance of around $2 million.

Continuing Appropriations

This bill creates a new fund and provides for continuing appropriations. The LFC objects to including continuing appropriation language in the statutory provisions for newly created funds. Earmarking reduces the ability of the legislature to establish spending priorities.

DG/lg:yr:dm