COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3969-01
Bill No.: HB 1231
Subject: Insurance - General; Insurance Dept.
Type: Original
Date: March 8, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue Fund	$0	$4,688,065	$0
Total Estimated Net Effect on General Revenue Fund	**$0**	**$4,688,065**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Insurance Dedicated Fund	$0	($4,688,065)	$0
Total Estimated Net Effect on All State Funds	**$0**	**($4,688,065)**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA)- Division of Budget and Planning (BAP)** assume the proposal will have no fiscal impact on their organization. However, the proposal could positively impact general revenue. The BAP defers to the Department of Insurance for specific impacts.

Officials from the **COA - Division of Accounting** assume the proposal will have no fiscal impact on their organization.

Officials from the **Office of State Treasurer (STO)** state the proposal changes the amount of the "Department of Insurance Dedicated Fund's" exemption from the biennial transfer from two (2) times the amount of its revenues to 10% of the revenues. The fund currently has $6.2 million for this fiscal year. If this legislation passes, the transfer would apply to the FY 05 biennium and a transfer would occur in FY 06. Given the current balance of $6.2 million and an exemption amount based on FY 03 receipts of $1 million ($10 million X 10%), the fiscal impact would be $5.2 million transfer to General Revenue in FY 06. As this would be a transfer from the Insurance Dedicated Fund, the net impact would be $0.

Officials from the **Department of Insurance (INS)** state revenues to be deposited into the Insurance Dedicated Fund during FY04 are estimated at $9,119,357. This estimate is based on 8
ASSUMPTION (continued)

months actual and 4 months projected at same rate of collection. Revenue collections for the first 8 months of FY04 are 9.6% less than the same time period for the previous year. If this trend continues then the funds collected may actually be less. The proposal states that any amount above 10% of the funds collected and deposited into the fund will transfer to General Revenue (GR) at the end of the biennium year. The INS estimates that the fund balance will be $5.6 million on 7/1/04. This estimate may be high if revenues continue to fall as the first 8 months indicate. The INS estimates a fund balance transfer from the Insurance Dedicated Fund to GR on July 1, 2004 of $4,688,065 [($9,119,357 x 10% = $911,935); ($5,600,000 - $911,935 = $4,688,065 fund balance transfer)].

The INS will begin fiscal year with a $911,935 balance. The INS's monthly expenditures have ranged from $561,993 to $823,100 during FY04 depending on when building rent, cost allocations, workers comp and unemployment transfers occur as well as when general operating costs are due. A fund balance at this level could severely impact cash-flow within the INS for several months into the fiscal year, depending on revenue collected. Without a fund balance and, if revenues continue to decrease, cuts to core may be needed in order to stay within available funds.

The INS estimates that after the initial transfer to GR, additional transfers in future biennium years will not occur or will be minimal. During any two-year cycle, the INS estimates it will have an ending balance at or below 10% of revenues collected.

Oversight assumes a transfer of $4,688,065 from the Insurance Dedicated Fund to GR in FY 06 as the STO estimate is based on the fund balance at the end of FY 03.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Transfer-In - Department of Insurance			
Transfer from Insurance Dedicated Fund	$0	$4,688,065	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$4,688,065**	**$0**

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007

INSURANCE DEDICATED FUND

Transfer-Out - Department of Insurance Transfer to General Revenue	$0	($4,688,065)	$0
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	**$0**	**($4,688,065)**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

Under current law, all moneys received from fees by the Department of Insurance are deposited into the Department of Insurance Dedicated Fund and are used to cover operating expenses. Money left over each year does not lapse into general revenue unless, and only to the extent to which, the unencumbered balance at the close of the biennium year exceeds two times the total amount transferred into the fund during the last fiscal year. This proposal changes the formula from two times to 10% of the amount of money transferred into the fund.

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

HWC:LR:OD (12/02)

Office of Administration -
Division of Budget and Planning
Division of Accounting
Department of Insurance
Office of State Treasurer

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March 8, 2004