

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1031-01  
Bill No.: HB 367  
Subject: Emergencies; Insurance - General; Insurance Dept.  
Type: Original  
Date: March 17, 2009

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Bill Summary: Establishes the Missouri Catastrophic Fund to pay for various insurance losses in accordance with a reimbursement contract.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>       |                    |                                      |                                      |
|---|--------------------|--------------------------------------|--------------------------------------|
| FUND AFFECTED   | FY 2010            | FY 2011                              | FY 2012                              |
| General Revenue   | (\$133,112)        | (Unknown less than \$246,378)        | (Unknown less than \$254,610)        |
|   |                    |                                      |                                      |
| <b>Total Estimated Net Effect on General Revenue Fund</b> | <b>(\$113,112)</b> | <b>(Unknown less than \$246,378)</b> | <b>(Unknown less than \$254,610)</b> |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>              |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2010    | FY 2011    | FY 2012    |
| Missouri Catastrophe  | \$0        | \$0        | \$0        |
|   |            |            |            |
| <b>Total Estimated Net Effect on <u>Other</u> State Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                  |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2010    | FY 2011    | FY 2012    |
|   |            |            |            |
|   |            |            |            |
| <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> |          |          |          |
|---|----------|----------|----------|
| FUND AFFECTED   | FY 2010  | FY 2011  | FY 2012  |
| Missouri Catastrophe                                      | 4        | 4        | 4        |
|   |          |          |          |
| <b>Total Estimated Net Effect on FTE</b>                  | <b>4</b> | <b>4</b> | <b>4</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> |            |            |            |
|--|------------|------------|------------|
| FUND AFFECTED                              | FY 2010    | FY 2011    | FY 2012    |
| <b>Local Government</b>                    | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

Officials from the **Office of Administration (COA) - Administrative Hearing Commission, COA - Division of General Services/Risk Management, COA - Division of Accounting, Department of Public Safety (DPS) - State Emergency Management Agency, DPS - Director's Office, Office of the Governor, Missouri Senate, and Office of State Treasurer** assume 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 proposal 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 Revenue and total state revenues by an unknown amount.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS realizes this is a small amount and does not expect that additional funding would be required to meet these costs. The SOS 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 that the office can sustain within 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.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the department has many duties under this proposal. The DIFP will require one (1) Insurance Regulatory Manager, Band 1 FTE, two (2) Product Analyst II FTEs, one (1) 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 contract procedures. The insurance product analysts would review policies, administer the reimbursement contract, assist the 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. The contract programming is needed to setup the appropriate database for tracking, monitoring and disbursing fund moneys as well as capturing company information.

ASSUMPTION (continued)

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 350 property and casualty insurance companies covering residential structures may pay the initial \$1,000 premium to startup the administration of the fund (350 companies X \$1,000 = \$350,000). 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.

**Oversight** assumes since the initial premiums are not enough to cover anticipated expenses, that General Revenue funds would be used to make up the difference between premiums and costs incurred by the DIFP for the Missouri Catastrophe Fund.

| <u>FISCAL IMPACT - State Government</u>             | FY 2010<br>(10 Mo.)       | FY 2011                                     | FY 2012                                     |
|---|---------------------------|---|---|
| <b>GENERAL REVENUE FUND</b>                         |                           |   |   |
| <u>Transfer-Out to DIFP</u>                         |                           |   |   |
| To cover costs of Missouri Catastrophe Fund         | (\$133,112)               | <u>(Unknown less than \$246,378)</u>        | <u>(Unknown less than \$254,610)</u>        |
| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b> | <u><b>(\$133,112)</b></u> | <u><b>(Unknown less than \$246,378)</b></u> | <u><b>(Unknown less than \$254,610)</b></u> |

| <u>FISCAL IMPACT - State Government</u>                  | FY 2010<br>(10 Mo.) | FY 2011                                 | FY 2012                                 |
|--|---------------------|---|---|
| <b>MISSOURI CATASTROPHE FUND</b>                         |                     |   |   |
| <u>Income - DIFP</u>                                     |                     |   |   |
| Initial setup premium                                    | \$350,000           | \$0                                     | \$0                                     |
| Premiums   | <u>\$0</u>          | <u>Unknown over</u><br><u>\$100,000</u> | <u>Unknown over</u><br><u>\$100,000</u> |
| Total <u>Income</u> - DIFP                               | <u>\$350,000</u>    | <u>Unknown over</u><br><u>\$100,000</u> | <u>Unknown over</u><br><u>\$100,000</u> |
| <u>Transfer-In to DIFP</u>                               |                     |   |   |
| To cover cost of Missouri Catastrophe Fund               | \$133,112           | Unknown less than \$246,378             | Unknown less than \$254,610             |
| <u>Costs - DIFP</u>                                      |                     |   |   |
| Personal service (4 FTE)                                 | (\$174,370)         | (\$214,475)                             | (\$219,836)                             |
| Fringe benefits  | (\$78,920)          | (\$97,071)                              | (\$99,498)                              |
| Equipment and expense                                    | <u>(\$229,822)</u>  | <u>(\$34,832)</u>                       | <u>(\$35,276)</u>                       |
| Total <u>Cost</u> - DIFP                                 | <u>(\$483,112)</u>  | <u>(\$346,378)</u>                      | <u>(\$354,610)</u>                      |
| FTE Change   | 4 FTE               | 4 FTE                                   | 4 FTE                                   |
| <b>ESTIMATED NED EFFECT ON MISSOURI CATASTROPHE FUND</b> | <b><u>\$0</u></b>   | <b><u>\$0</u></b>                       | <b><u>\$0</u></b>                       |
| Estimated Net FTE Change for Missouri Catastrophe Fund   | 4 FTE               | 4 FTE                                   | 4 FTE                                   |
| <u>FISCAL IMPACT - Local Government</u>                  | FY 2010<br>(10 Mo.) | FY 2011                                 | FY 2012                                 |
|  | <b><u>\$0</u></b>   | <b><u>\$0</u></b>                       | <b><u>\$0</u></b>                       |
| <u>FISCAL IMPACT - Small Business</u>                    |                     |   |   |

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.

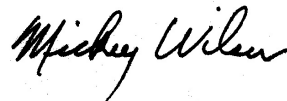
## FISCAL DESCRIPTION

This proposal creates the Missouri Catastrophe Fund to help pay for covered residential property damage insurance claims after a catastrophe involving an earthquake. In its main provisions, the proposal: (1) Requires the Director of the Department of Insurance, Financial Institutions and Professional Registration to establish the premium rate as determined by an actuarial formula developed by an independent consultant. The premiums will be paid by insurers, bond revenues, and appropriated state funds. The insurer's premiums will be calculated based on the amount of insurance coverage it provides; (2) Allows an insurer covered under the fund to be reimbursed based on a percentage of its losses in excess of the insurer's retention, plus 10% of that amount to cover loss adjustment expenses. Insurers may elect to be reimbursed at 45%, 75%, or 90%, which can be adjusted under certain circumstances. Reimbursement amounts will not be reduced because of reinsurance payable to the insurer; however, the total amount received cannot exceed 100% of the insurer's losses from covered events. Any excess must be returned to the fund, unless agreed to otherwise; (3) Allows the department director to issue bonds if moneys in the fund are insufficient to reimburse at the agreed to levels. If the actuarially indicated premiums are insufficient to fund revenue bonds to pay the reimbursement contracts, the department director will levy an emergency assessment to each property and casualty insurer in the state; (4) Allows the General Assembly to appropriate, beginning in Fiscal Year 2011, from 10% to 35% of the investment income of the fund from the prior fiscal year in a fiscal year when no outstanding obligations are incurred for the purpose of funding programs intended to improve catastrophe preparedness, reduce potential losses, educate the public, and protect infrastructure; (5) Establishes the Missouri Catastrophe Fund Advisory Council within the department to provide the department director with information and advice regarding the fund and to develop prevention and mitigation standards that prevent or significantly reduce the potential damage from natural or man-made, covered losses; and (6) Requires the department director, upon the establishment of a similar federal or multistate program, to recommend to the General Assembly whether to coordinate with the program, terminate Missouri's fund, or take other appropriate action.

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 Administration -  
    Division of Budget and Planning  
    Division of General Services/Risk Management  
    Administrative Hearing Commission  
    Division of Accounting  
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



Mickey Wilson, CPA  
Director  
March 18, 2009