

LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: SB 259 SLS 08RS 665

Bill Text Version: ORIGINAL

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:



Date:	May 5, 2008	6:00 AM	Author:	GAUTREAUX, N.
Dept./Agy.:	Treasury		Analyst:	Travis McIlwain
Subject:	LA Consumer's Catastrophe Preparedness & Protection Plan			

INSURANCE DEPARTMENT

OR INCREASE GF EX See Note

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Provides for a state catastrophic fund and implementation of the Louisiana Consumer's Catastrophe Preparedness and Protection Plan. (1/1/09)

Proposed legislation creates the Louisiana Consumers Catastrophe Preparedness and Protection Corporation with the state treasury as the chief executive, which will be governed by the board of directors. Proposed legislation provides for the board members to be: state treasurer, commissioner of insurance, legislative auditor, 12 members appointed by the governor in consultation with the Speaker of the House and Senate President. Those 12 members shall be: actuary, meteorologist, engineer, representative of insurers, insurance agents, reinsurers, consumers, labor, law enforcement, firefighters, member from the Uniform Construction Code Council, member from the Governor's Office of Homeland Security & Emergency Preparedness. Proposed legislation creates the Louisiana State Catastrophe Fund subject to legislative appropriation with the source of revenue for the fund being assessments and fees imposed by the Louisiana Consumers Catastrophe Preparedness and Protection Corporation. Proposed legislation provides for coverage levels of 90%, 75% and 45%. Effective January 1, 2009.

EXPENDITURES	2008-09	2009-10	2010-11	2011-12	2012-13	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$6,382,138	\$6,374,318	\$6,516,023	\$6,579,967	\$6,771,788	\$32,624,234
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$6,382,138	\$6,374,318	\$6,516,023	\$6,579,967	\$6,771,788	\$32,624,234

REVENUES	2008-09	2009-10	2010-11	2011-12	2012-13	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$650,260,000	\$1,300,000,000	\$1,300,000,000	\$1,300,000,000	\$1,300,000,000	\$5,850,260,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Annual Total	\$650,260,000	\$1,300,000,000	\$1,300,000,000	\$1,300,000,000	\$1,300,000,000	\$5,850,260,000

EXPENDITURE EXPLANATION

Although proposed legislation provides for all administrative costs associated with administering the newly created catastrophe fund be funded with monies dedicated to the treasury will need seed monies in order to adequately adhere to the mandates of this bill, which will result in an estimated first year cost of approximately \$6.4 million total expenditures and 9 T.O. positions. **To the extent insurers pay their required \$1,000 startup payment sooner than March 31, 2009 deadline, state general fund expenditure impact could be mitigated in the amount of \$260,000. Thus, the catastrophe fund could support the administrative expenditures in the amount of \$260,000 with the remaining expenditures being state general fund.** All subsequent fiscal year costs will be funded with the catastrophe fund. The State Treasurer, designated as the Chief Executive Officer, will have the following requirements as outlined within this proposed bill.

1.) Create the catastrophe fund within the state treasury (State Trust Fund)

2.) Calculate the retention multiple

3.) Enter into contracts with each insurer seeking reinsurance coverage from fund

4.) Publish in state register statement of fund's anticipated borrowing capacity and current fund balance

5.) Contract with consultant to develop formula to determine premium to be paid to the fund

6.) Issue revenue bonds, if needed (not considered debt of the state)

(Continued on Page 2)

REVENUE EXPLANATION

Creating the Louisiana State Catastrophe Fund could generate approximately \$1.3 billion in statutory dedicated revenues annually. According to the Department of Insurance (DOI), there are approximately 260 insurers currently writing residential property insurance in Louisiana. To extent those insurers pay their \$1,000 startup payment by March 31, 2009, and pay an average annual premium of \$4.9 million to the fund in subsequent fiscal years, this fund will generate \$650,260,000 in FY 09 and approximately \$1.3 billion in subsequent fiscal years. NOTE: Revenue impact in FY 09 represents a half of plan year since this measure is not effective until January 2009.

The annual premium payment is the average payment insurers currently pay to the Florida Catastrophe Fund, which is the only other one of its kind in the country. During Florida's FY 07-08, 195 companies bought reinsurance from the fund and the fund collected \$947,724,700 in premiums for an average annual premium payment of approximately \$4.9 million (\$947,724,700/195=\$4.9 million - rounded up)(\$4.9 million x 260=\$1.3 billion - rounded up). The amount the Louisiana Catastrophe Fund will collect is contingent upon the state treasurer who is charged with the responsibility of determining insurers' premiums to be paid into the fund each fiscal year through the calculation and use of the retention multiple.

(Continued on Page 2)

Senate	Dual Referral Rules	House	
<input checked="" type="checkbox"/> 13.5.1 >= \$500,000 Annual Fiscal Cost		<input checked="" type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost	
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change		<input checked="" type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease	<div>Robert E. Hosse</div> <div>Robert E. Hosse</div> <div>LFO Staff Director</div>

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CONTINUED EXPLANATION from page one:

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CONTINUED EXPENDITURE EXPLANATION:

- 7.) Provide for advance premium payments by insurers into the fund of \$1,000 no later than March 31, 2009
- 8.) Levy emergency assessments on direct premiums for all property and casualty policies
- 9.) Procure reinsurance up to 75% of total risk assumed by the fund itself
- 10.) Borrow from any other market source
- 11.) Review any plans for a federal/multi-state catastrophe fund effort

Costs estimated for state treasury are based upon the cost the State of Florida incurs for the administration of its catastrophe fund. Treasury estimates the need for 9 T.O. positions and approximately \$6.4 million in FY 09. The specific expenditure breakdown is as follows: \$609,663 - salaries, \$24,000 - other compensation, \$188,232 - related benefits, \$75,000 - travel, \$68,843 - operating services, \$5,000 - supplies, \$5,372,800 - professional services, \$38,600 - acquisitions. The bulk of the expenditures are projected to be within 2 specific professional services contracts: \$2.5 million - accounting/auditing services and \$2.0 million - actuarial services. The Treasury does not have any insurance expertise, therefore additional personnel and contract services will be needed in order to provide for the requirements of this legislation. The expenditure impact in subsequent fiscal years is contingent upon the parameters of the professional service contracts and personal services expenditure increase approximately 4% each fiscal year.

The position titles for the individuals who administer the Florida Hurricane Catastrophe Fund (FHCF) and their salary ranges as provided by the FHCF include:

Senior FHCF Officer	\$95,388 - \$185,477
Director of Operations	\$60,942 - \$125,859
Senior Attorney	\$50,343 - \$119,235
Audit Program Manager	\$46,369 - \$100,688
Sr. Mgmt. Review Analyst	\$41,070 - \$79,490
Financial Examiner Analyst	\$31,796 - \$66,242
Budget Analyst	\$31,796 - \$66,242
Audit Program Analyst	\$27,822 - \$56,968
Administrative Assistant	\$27,822 - \$59,617

Legislation also provides for the potential of the Louisiana State Catastrophe Fund to also partner with federal or multi-state catastrophic fund programs. This potential agreement is subject to the approval of the Joint Legislative Committee on the Budget (JLCB).

State Catastrophe Fund is the type of fund created to take the place of private reinsurance by providing low-cost reinsurance to insurance companies. Reinsurance is bought by insurance companies to pay for claims beyond a certain level in major disasters. The goal of this fund will be to assist in stabilizing the reinsurance market after a disaster.

CONTINUED REVENUE EXPLANATION:

After complying with immediate obligations of the fund program, 35% of the income remaining within the fund, not less than \$10.0 million, will be distributed for the following programs: 1.) \$1.0 million - disaster prevention and mitigation programs administered by volunteer firefighters, 2.) \$2.0 million for programs administered by professional firefighters, 3.) \$2.0 million for programs administered by state police, 4.) \$2.0 million for local law enforcement, 5.) \$1.0 million for parish and municipal organizations, 6.) \$1.0 million for housing programs to mitigate and retrofit homes from catastrophes, 7.) \$1.0 million for flood plain management, flood hazard mitigation, preparedness, warning and recovery programs.

Legislation also provides for between 10% to 35% of interest income to be appropriated to local governments, state agencies, public/private educational institutions and nonprofit organizations to support programs intended to improve natural catastrophe preparedness, prevent and reduce potential losses from a covered loss, provide research into means to prevent and reduce such losses, educate the public how to reduce losses from covered events, assist the public in determining the appropriateness of particular upgrades to structures, provide for the enforcement of natural catastrophe appropriate building codes, or protect local infrastructure from potential damage from a covered loss.

Background Information:

Proposed legislation appears to be similar to the Florida Hurricane Catastrophe Fund (FHCF), which was created in 1993 after Hurricane Andrew. The FHCF utilizes insurers' exposure data to calculate the required plan year premium to be paid to the fund. The FHCF also utilizes the retention multiple, as proposed within this bill, in determining the insurers deductible for the contract year. In FY 07-08, the retention multiple are as follows for fund coverage levels: 90% - 6.1812, 75% - 7.4174, 45% - 12.3624. Retention is defined as the amount of losses below which an insurer is not entitled to reimbursement from the fund (deductible). The insurers calculated premiums are then multiplied by the multiple depending upon coverage level to determine full retention (deductible) for contract year. The reimbursement capacity of the FHCF is limited each contract year. For example, in FY 07-08 the FHCF cannot exceed \$15.845 billion. The claims paying capacity is based upon the total cash balance of the fund plus the amount the fund corporation can raise through the issuance of revenue bonds and the purchase of reinsurance or other financial instruments. These similar provisions are contained within this bill for the Louisiana Catastrophe Fund.

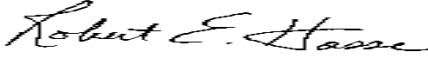
Senate

Dual Referral Rules

House

- ☒ 13.5.1 >= \$500,000 Annual Fiscal Cost
- ☒ 13.5.2 >= \$500,000 Annual Tax or Fee Change

- ☒ 6.8(F) >= \$500,000 Annual Fiscal Cost
- ☒ 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease


Robert E. Hosse
LFO Staff Director



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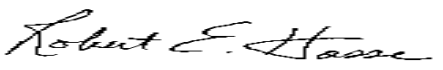
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