

**COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION**

FISCAL NOTE

L.R. No.: 1527-02
Bill No.: SB 477
Subject: Consumer Protection; Contracts and Contractors; Insurance Dept.; Insurance -
General; Motor Vehicles
Type: Original
Date: February 24, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(Unknown exceeding \$250,000)	(Unknown exceeding \$250,000)	(Unknown exceeding \$250,000)
Total Estimated Net Effect on General Revenue Fund	(Unknown exceeding \$250,000)	(Unknown exceeding \$250,000)	(Unknown exceeding \$250,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
County Foreign Insurance Fund	(Unknown exceeding \$250,000)	\$0	\$0
Insurance Dedicated Fund	(Unknown less than \$97,623)	(Unknown less than \$110,602)	(Unknown less than \$113,429)
Total Estimated Net Effect on Other State Funds	(Unknown exceeding \$250,000)	(Unknown less than \$110,602)	(Unknown less than \$113,429)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	(Unknown exceeding \$250,000)	(Unknown exceeding \$250,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Courts Administrator** assume the proposal will not fiscally impact their organization.

Officials from the **Office of the Secretary of State (SOS)** state this proposal regulates the sale of motor vehicle extended service contracts. These rules would be published in the *Missouri Register* and the *Code of State Regulations*. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Insurance could require as many as 10 pages in the *Code of State Regulations*. For any given rule, roughly one-half again as many pages are published in the *Missouri Register* as are published in the Code because cost statements, fiscal notes and notices are not published in the Code. The estimated cost of a page in the *Missouri Register* is \$23.00. The estimated cost of a page in the *Code of State Regulations* is \$27.00. The actual costs could be more or less than the numbers given. The fiscal impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. The SOS estimates the cost of this legislation to be \$615 [(10 pp x \$27) + (15 pp x \$23)].

ASSUMPTION (continued)

HW-C:LR:OD (12/02)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Insurance (INS)** state in order to enforce provisions of this proposal, the INS estimates it would require one additional Financial Analyst Specialist II to process registrations, review company financial statements, examine the reserve accounts, review any 10Ks filed, and verify company net worth. The INS also estimates that an additional Investigator II would be required to handle provisions of Section 407.1224 which allows for conducting investigations and examinations for the protection of policyholders. The INS cannot estimate how many companies will be registered, but assumes it would be less than 100. If numbers are considerably more, then additional staff will need to be requested.

Revenue will be generated as a registration fee is required to be paid annually (i.e. \$100 annual fee). The INS is unable to estimate the number of companies, so therefore, revenue is unknown. The legislation also does not indicate where fees will be deposited, but INS has assumed the fees would be deposited into the Insurance Dedicated Fund, where other such fees are currently deposited.

Section 407.1203.1.4 exempts provider fees from premium taxes and also premiums for reimbursement insurance policies from applicable taxes. Currently premiums for reimbursement insurance policies handled through insurance companies pay a premium tax of 2% of premiums written. Premium taxes are split 50/50 between General Revenue and the County Foreign Insurance Fund. This will result in an unknown loss of revenue to General Revenue and the County Foreign Insurance Fund, but INS anticipates it would be over \$500,000 annually. Funds in the County Foreign Insurance Fund is later distributed to school districts, so they would experience a reduction in funds.

FISCAL IMPACT - State Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

GENERAL REVENUE

Loss - Department of Insurance

Loss of premium tax revenue from
 exemption of certain provider fees and
 reimbursement insurance policies

(Unknown
 exceeding
 \$250,000)

(Unknown
 exceeding
 \$250,000)

(Unknown
 exceeding
 \$250,000)

**ESTIMATED NET EFFECT ON
 GENERAL REVENUE FUND**

(Unknown
 exceeding
 \$250,000)

(Unknown
 exceeding
 \$250,000)

(Unknown
 exceeding
 \$250,000)

**COUNTY FOREIGN INSURANCE
 FUND**

Savings - Department of Insurance

Funds no longer transferred to school
 districts

\$0

Unknown
 exceeding
 \$250,000

Unknown
 exceeding
 \$250,000

Loss - Department of Insurance

Loss of premium tax revenue from
 exemption of certain provider fees
 and reimbursement insurance
 policies

(Unknown
 exceeding
 \$250,000)

(Unknown
 exceeding
 \$250,000)

(Unknown
 exceeding
 \$250,000)

**ESTIMATED NET EFFECT ON
 COUNTY FOREIGN INSURANCE
 FUND**

(Unknown
 exceeding
 \$250,000)

\$0

\$0

FISCAL IMPACT - State Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

INSURANCE DEDICATED FUND

Income - Department of Insurance

Registration fees	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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Costs - Department of Insurance

Personal service costs (2 FTE)	(\$56,918)	(\$70,009)	(\$71,760)
Fringe benefits	(\$23,035)	(\$28,333)	(\$29,041)
Equipment and expense	(\$17,670)	(\$12,260)	(\$12,628)
Total <u>Costs</u> - Department of Insurance	<u>(\$97,623)</u>	<u>(\$110,602)</u>	<u>(\$113,429)</u>

ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>(Unknown less than \$97,623)</u>	<u>(Unknown less than \$110,602)</u>	<u>(Unknown less than \$113,429)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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SCHOOL DISTRICTS

Loss - School Districts

Loss of premium tax revenue transferred from the County Foreign Insurance Fund		<u>(Unknown exceeding \$250,000)</u>	<u>(Unknown exceeding \$250,000)</u>
	<u>\$0</u>		

ESTIMATED NET EFFECT ON SCHOOL DISTRICTS		<u>(Unknown exceeding \$250,000)</u>	<u>(Unknown exceeding \$250,000)</u>
	<u>\$0</u>		

FISCAL IMPACT - Small Business

This proposal would have an unknown fiscal impact on small companies that issue extended service contracts on vehicles.

DESCRIPTION

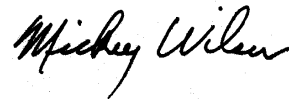
This proposal regulates the sale of motor vehicle extended service contracts for the repair, replacement or maintenance of motor vehicles. The proposal does not apply to warranties,

maintenance agreements, commercial transactions and service contracts sold to non-consumers. The proposal requires those providing service under a motor vehicle extended service contract to demonstrate financial responsibility by insuring the service contracts under reimbursement insurance policies or by other means such as providing a surety bond. Service contract administrators are required to register with the Department of Insurance. The proposal provides for the requirements of a reimbursement insurance policy for insuring a motor vehicle extended service contract. The proposal specifies the form and content of motor vehicle extended service contracts and requires contract administrators to maintain certain records. This proposal provides for civil penalties for violating the act and gives the Director of the Department of Insurance various powers to enforce the proposal's provisions.

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 State Courts Administrator
Department of Insurance
Office of Secretary of State



MICKEY WILSON, CPA
DIRECTOR
FEBRUARY 24, 2003