

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1948-01  
Bill No.: SB 619  
Subject: Insurance - General; Insurance Dept.; Bonds - Surety  
Type: Original  
Date: March 17, 2003

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
General Revenue Fund*	(Unknown less than \$100,000)	(Unknown less than \$100,000)	(Unknown less than \$100,000)
<b>Total Estimated Net Effect on General Revenue Fund *</b>	<b>(Unknown less than \$100,000)</b>	<b>(Unknown less than \$100,000)</b>	<b>(Unknown less than \$100,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
County Foreign Insurance Fund*	(Unknown less than \$100,000)	(Unknown less than \$100,000)	(Unknown less than \$100,000)
<b>Total Estimated Net Effect on Other State Funds *</b>	<b>(Unknown less than \$100,000)</b>	<b>(Unknown less than \$100,000)</b>	<b>(Unknown less than \$100,000)</b>

**\*The fiscal impact would be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts ) if some of the taxes were not paid because of defaults by the surplus lines insurers.**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Local Government *</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\*The fiscal impact would be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts ) if some of the taxes were not paid because of defaults by the surplus lines insurers.**

### FISCAL ANALYSIS

#### ASSUMPTION

Officials from the **Department of Economic Development** state the proposal would have no fiscal impact on their organization.

Officials from the **Department of Insurance (INS)** state removing the bond requirement may potentially decrease surplus lines tax collected by the state. Currently the state can collect payment against the bond when a licensee defaults. This has happened twice in the last four years for a total of \$10,600 in taxes. Without the bond, this potentially could increase as the state would have little recourse for collection. The INS estimates an unknown loss of revenue to the General Revenue and County Foreign Insurance Fund.

Based on information provided to **Oversight**, the INS currently collects between \$8 and \$10 million annually in taxes from surplus lines insurers. There are currently 257 surplus lines insurers in the state. Therefore, the average surplus lines insurer pays between \$31,000 and \$38,000 annually in taxes. **Oversight** assumes, based on this information that four (4) surplus lines insurers would have to default annually for the fiscal impact to exceed \$100,000. For fiscal note purposes only, **Oversight** assumes the fiscal impact to be unknown less than \$100,000 annually.

**This proposal could result in a loss in Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
	(10 Mo.)		

#### **GENERAL REVENUE FUND**

Loss - Department of Insurance

Decrease in surplus lines tax collected*	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>
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**ESTIMATED NET EFFECT ON  
 GENERAL REVENUE FUND\***

<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>
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**COUNTY FOREIGN INSURANCE  
 FUND**

Loss - Department of Insurance

Decrease in surplus lines tax collected*	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>
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**ESTIMATED NET EFFECT ON  
 COUNTY FOREIGN INSURANCE  
 FUND\***

<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>
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FISCAL IMPACT - Local Government

FY 2004  
 (10 Mo.)

FY 2005

FY 2006

\$0\*

\$0\*

\$0\*

**\*The fiscal impact would be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts ) if some of the taxes were not paid because of defaults by the surplus lines insurers.**

FISCAL IMPACT - Small Business

This proposal may impact small business insurance companies as it would eliminate the bonding requirements.

DESCRIPTION

This proposal repeals the requirement that applicants for a surplus lines insurance license file a bond with the Director of the Department of Insurance.

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

Department of Economic Development  
Department of Insurance

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

MICKEY WILSON, CPA  
DIRECTOR  
MARCH 17, 2003