PREPARED BY: Sandy Sostad
DATE PREPARED: March 31, 2011
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LB 70

Revision: 01

Revised on 3/31/11 based upon amendments adopted through 3/30/11.

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2011-12		FY 2012-13	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		See Below		See Below
CASH FUNDS		See Below		See Below
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 70 changes provisions relating to taxation of surplus lines of insurance placed, procured or effected on behalf of an insured whose home state is Nebraska with any nonadmitted insurer. The Department of Insurance indicates the federal government passed a Non-Admitted and Reinsurance Reform Act in 2010 which preempts the collection of some of the premium taxes levied by the state on surplus lines of insurance issued to insureds in the state. The tax rate is 3% on premiums written.

The bill allows the director of insurance to enter the nonadmitted Insurance Multi-State Agreement in order to facilitate the collection, allocation and disbursement of premium taxes attributed to nonadmitted insurance, provide uniform methods of allocation and reporting among nonadmitted insurance risk classifications and to share information among states regarding nonadmitted insurance premium taxes. States that enter into the agreement can allocate surplus lines taxes based on the location of the risk rather than the state in which the insured resides, as is required by the newly enacted federal law.

The Department of Insurance does not have data to indicate the amount of insurance premium tax revenue which will be lost pursuant to the federal law change, so the department is not able to estimate how much revenue the state will be able to retain pursuant to the passage of LB 70. The department indicates the state currently collects about $3.9 million in insurance premium taxes on surplus lines of insurance. The bill enables the department to continue to collect some portion of these taxes.

The General Fund receives 40% of total insurance premium tax receipts from surplus lines insurance and the Mutual Finance Assistance Fund receives 10%. The remaining 50% of the receipts are deposited in the Insurance Tax Fund which is allocated to counties (10%), cities (30%) and schools (60%). The bill will retain an unknown amount of revenue for these entities.

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Please complete ALL (5) blanks in the first three lines. **2011**

LB[1] 70 AM 82 FISCAL NOTE

State Agency OR Political Subdivision Name: [2] Department of Insurance

Prepared by: [3] Eric Dunning **Date Prepared:** [4] 02/28/11 **Phone:** [5] 471-4650

ESTIMATE PROVIDED BY STATE AGENCY OR POLICITCAL SUBDIVISION

	FY 2011-2012		FY 2012-2013	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				Indeterminate
FEDERAL FUNDS				
OTHER FUNDS				

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

As of the last reporting year, 2009, Nebraska currently collects $3,866,325.53 in Surplus Lines Taxes. The federal government will have preempted a significant portion of the surplus lines premium tax levied by the state of Nebraska by operation of the Non-Admitted and Reinsurance Reform Act ("NRRA") passed as part of 2010's federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173). Nebraska has no clear authority to collect the portion that states would be allowed to collect. The state will lose tax revenue after June 2011 if we do not alter the basis of taxation in this area.

The challenge is that NDOI has no reasonable way to determine how much money the state will lose as a result of no longer being able to collect money on risks located in the state that are insured by entities whose home state is not Nebraska. Nebraska does not maintain an electronic database which can identify each surplus lines policy written in this state, nor do the current forms utilized by Nebraska necessarily collect the needed detail policy level information to determine the fiscal impact of the federal government's decision to alter the basis for taxation.

AM 82 authorizes the NDOI to enter the Nonadmitted Insurance Multi-State Agreement, referred to as NIMA. NIMA was developed by the National Association of Insurance Commissioners in response to the federal Non-Admitted and Reinsurance Reform Act ("NRRA") passed as part of 2010's federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173). NIMA allows states to allocate Surplus Lines taxes amongst themselves based upon the location of the risk, rather than on the basis of the home state of the insured, as otherwise required by the federal law. This allows Nebraska to continue to collect Surplus Lines taxes on the existing basis to the fullest extent.

The fiscal impact of AM 82 is an indeterminate positive fiscal impact because it will allow NDOI to collect revenue that NDOI is currently tasked with collecting, but unable to collect after 2011 because of recent federal legislation. AM 82, by authorizing NDOI to enter NIMA will allow Nebraska to retain a greater share of the revenue that it is currently collecting.

MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS 11-12	NUMBER OF POSITIONS 12-13	2011-2012 EXPENDITURES	2012-2013 EXPENDITURES

	2011-2012	2012-2013
Benefits		
Operating		
Travel		
Capital outlay		