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DATE PREPARED: March 06, 2007
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LB 117

Revision: 02

FISCAL NOTE

Revised on 3/6/07 to reflect revised impact on corporate income tax.

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2007-08		FY 2008-09	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		($30,000)		($30,000)
CASH FUNDS	See Below	See Below	See Below	See Below
FEDERAL FUNDS				
PERMANENT SCHOOL FUND		$2,500		$2,500
TOTAL FUNDS	See Below	See Below	See Below	See Below

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

LB 117 changes various provisions relating to insurance. The following sections of the bill have a fiscal impact:

Section 1 establishes a $300 fee for articles of incorporation or documents filed with the Secretary of State relating to the domestication of an insurance company. Two-thirds of the fee is credited to the General Fund and one-third to the Corporation Cash Fund. The Secretary of State indicates the bill replaces the current fee structure with a flat fee of $300, of which the Secretary of State receives $100 and the General Fund receives $200.

The Secretary of State has received approximately $90,000 of filing fees from seven redomesticated insurance companies in the last six years. Using historical averages it is assumed there will be a revenue reduction for the Corporation Cash Fund of about $14,883 per year ($15,000 less the $100 new filing fee). If so, the General Fund will have decreased annual revenue of slightly less than $30,000.

Section 2 establishes a $500 fine for insurers or assessment associations if a bank fails to notify the Department of Insurance of the release or replacement of a security held by the bank to secure policyholders claims. Revenue from fines is deposited in the Permanent School Fund. The Department of Insurance estimates a $2,500 increase in revenue for the Permanent School Fund in the first two years. The interest from the Permanent School Fund is distributed to schools on an annual basis.

Section 23 defines an industrial insured for purposes of the Surplus Lines Insurance Act. Section 24 requires industrial insured's to pay an annual 3% tax to the Department of Insurance on the total gross premiums for policies procured through nonadmitted insurers. These entities are also required to pay fire insurance taxes. The department projects an annual increase of at least $16,000 of cash funds from the tax.

Sections 35 – 52 are the Captive Insurers Act. The bill authorizes a company to create a domestic captive insurance entity to provide insurance and reinsurance to the parent company, an affiliated entity or both. The bill also allows domestic life insurers to create a special purpose financial captive insurer to cede life insurance risks to pursuant to the special purpose financial captive insurer contract. The captive insurer must obtain a certificate of authority from the Director of Insurance to operate and submit a plan of operation that is to be approved by the Director. An annual financial report is also required to be filed with the Director. The Director may examine the financial condition and management of a captive insurer. Captive insurers, with exception of special purpose captive insurers, may only write certain lines of property casualty insurance and may not transact directors and officers insurance or motor vehicle insurance. Administrative fines may be imposed by the Director for violations of up to $1,000 per violation. Captive insurers are to pay a premium tax of .25% of the amount of premiums written during the preceding calendar year.

The fiscal impact of these provisions of the bill cannot be determined because it depends upon how many captive insurers are formed in the state. The Department of Insurance does not anticipate a great number of these companies will be formed. Increased cash fund revenue will be received by the Department of Insurance from an annual $500 certificate of authority fee. Other applicable filing fees will also increase cash revenue for the department. The increase is not projected to be significant. Any administrative fines imposed pursuant to the bill will accrue to the Permanent School Fund. Premium tax payments required of the captive insurers will increase revenue for the General Fund, Mutual Finance Assistance Fund, schools, cities and counties beginning in 2008-09.

The Department of Insurance may have increased expenditures to examine captive insurers. The cost of the examinations will be billed to the company being examined. The Department of Revenue indicates the bill will have an immaterial net fiscal impact for the General Fund in terms of decreased corporate income taxes paid and increased insurance premium taxes received.

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Joe Wilcox	DATE 2/6/07	PHONE 471-2526
COMMENTS DEPARTMENT OF INSURANCE: No basis to dispute agency analysis.			