

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION**

**April 25, 2005**

**TO:** Honorable John T. Smithee, Chair, House Committee on Insurance

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE: HB1890** by Smithee (Relating to the operation and funding of the Texas Windstorm Insurance Association, including funding of coverage for certain catastrophic events and for reinsurance through the establishment of revenue bond programs.), **As Introduced**

The bill would amend Insurance Code Article 21.49 and Chapters 941 and 942, relating to the operations and funding of the Texas Windstorm Insurance Association (TWIA).

Under the bill, insurers would no longer be able to take credits against insurance premium tax liability for any assessments paid into the Catastrophe Reserve Trust Fund. As a result, insurance premium tax revenue collected by the State would increase.

The bill would also authorize two new revenue bond programs. Assuming the maximum amount of bonds are issued on January 1, 2006 at a 6% interest rate with a 10-year level debt service amortization (payments on 2/1 and 8/1), the estimated debt service costs for both programs would be \$735,780,000 for fiscal year 2006 and \$1,261,333,200 for fiscal year 2007. These costs would be paid from the service fees assessed to the insurers. Both the bond proceeds and the service fees would be held in new trust funds outside the Treasury.

This bill would amend Insurance Code Article 21.49 and Chapters 941 and 942, relating to the operations and funding of the Texas Windstorm Insurance Association (TWIA).

The bill would revise the procedures for making payments from, and assessments to, the Catastrophe Reserve Trust Fund. Under the bill, insurers would no longer be able to take credits against insurance premium tax liability for any assessments paid into the trust fund. By eliminating these provisions, this bill would increase insurance premium tax revenue to the State.

Instead, insurers would be allowed to charge a premium surcharge to policyholders for reimbursement of the assessment, at a rate and over the same period of time as is currently applicable with respect to the premium tax credit.

The bill would establish a revenue bond program for TWIA operations and the payment of claims. At the request of TWIA, and with the approval of the Commissioner of Insurance, the Texas Public Finance Authority could issue bonds, not to exceed in the aggregate \$2 billion, at a maturity of not more than ten years. Any funds generated from the issuance of such bonds would be held by the Comptroller in a new fund outside the State Treasury.

Debt service would be payable from, among other authorized sources, a debt service fee administered by TWIA and assessed against member insurers, including TWIA and the FAIR Plan Association. All service fees collected by TWIA would be deposited in a fund held by the Comptroller outside the State Treasury. Insurers would be allowed to pass through the service fee to policyholders via a premium surcharge.

The bill would establish a Texas Windstorm Reinsurance Facility and a Texas Reinsurance Trust Fund. The trust fund would be kept and maintained by the Texas Department of Insurance but administered by the Comptroller.

In addition, the bill would establish a windstorm reinsurance revenue bond program, with a maximum issuance not to exceed \$7 billion, similar to the TWIA bond program outlined above, and with a similar service charge/premium surcharge payment mechanism.

Assuming the maximum amount of bonds are issued on January 1, 2006 at a 6% interest rate, with a 10-year level debt service amortization (payments on 2/1 and 8/1), the estimated debt service costs for both programs would be \$738,780,000 for fiscal year 2006 and \$1,261,333,200 for fiscal year 2007. These costs would be paid from the service fees assessed to the insurers.

This legislation would create two trust funds outside of the Treasury. The new trust funds included in this bill would be subject to funds consolidation review by the current Legislature. If the Legislature does not include the new trust funds in funds consolidation legislation, the new trust funds would not be established.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 347 Public Finance Authority, 454 Department of Insurance

**LBB Staff:** JOB, JRO, WP, DLBe