

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION**

**May 22, 2007**

**TO:** Honorable Tom Craddick, Speaker of the House, House of Representatives

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

**IN RE: HB2960** by Smithee (Relating to operation of the Texas Windstorm Insurance Association and the Texas FAIR Plan Association, including funding of coverage for certain catastrophic events through the issuance of public securities. ), **As Passed 2nd House**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB2960, As Passed 2nd House: an impact of \$0 through the biennium ending August 31, 2009.

**General Revenue-Related Funds, Five-Year Impact:**

| Fiscal Year | Probable Net Positive/(Negative)<br>Impact to General Revenue Related<br>Funds |
|-------------|--|
| 2008        | \$0  |
| 2009        | \$0  |
| 2010        | \$0  |
| 2011        | \$0  |
| 2012        | \$0  |

**All Funds, Five-Year Impact:**

| Fiscal Year | Probable Savings from<br><i>DEPT INS</i><br><i>OPERATING ACCT</i><br>36 | Probable Revenue<br>(Loss) from<br><i>DEPT INS</i><br><i>OPERATING ACCT</i><br>36 | Probable Savings from<br><i>INSURANCE MAINT</i><br><i>TAX FEES</i><br>8042 | Probable Revenue<br>(Loss) from<br><i>INSURANCE MAINT</i><br><i>TAX FEES</i><br>8042 |
|-------------|---|---|--|--|
| 2008        | \$1,000,000   | (\$1,000,000)   | \$833,280  | (\$833,280)  |
| 2009        | \$1,000,000   | (\$1,000,000)   | \$833,280  | (\$833,280)  |
| 2010        | \$1,000,000   | (\$1,000,000)   | \$833,280  | (\$833,280)  |
| 2011        | \$1,000,000   | (\$1,000,000)   | \$833,280  | (\$833,280)  |
| 2012        | \$1,000,000   | (\$1,000,000)   | \$833,280  | (\$833,280)  |

| Fiscal Year | Probable (Cost) from<br><i>GENERAL REVENUE</i><br><i>FUND</i><br>1 | Probable Revenue<br>Gain from<br><i>GENERAL REVENUE</i><br><i>FUND</i><br>1 | Change in Number of<br>State Employees from<br>FY 2007 |
|-------------|--|---|--|
| 2008        | \$0  | \$0   | (32.0)   |
| 2009        | \$0  | \$0   | (32.0)   |
| 2010        | (\$189,886)  | \$189,886   | (29.0)   |
| 2011        | (\$185,636)  | \$185,636   | (29.0)   |
| 2012        | \$0  | \$0   | (32.0)   |

**Fiscal Analysis**

The bill would amend Insurance Code Chapter 2210 relating to the operations and funding of the

Texas Windstorm Insurance Association (TWIA). The bill provides for Sunset review of TWIA as if TWIA was scheduled to be abolished September 1, 2011 and requires TWIA to pay the costs incurred by the Sunset Commission. The bill sets a priority for funding TWIA's losses due to catastrophic events in excess of premiums and other revenue and operating expenses. The bill provides for the issuance of pre and post-event bonds. The bonds would be issued by the Texas Public Finance Authority (TPFA), at the request of TWIA and with the approval of the Commissioner of Insurance. The bill would make TWIA responsible for inspecting structures that are constructed, repaired or to which additions are made for the purpose of obtaining a certificate of compliance. This certificate of compliance is necessary to obtain insurance from TWIA.

The bill would take effect immediately upon a two-thirds vote, otherwise the bill would take effect September 1, 2007.

## **Methodology**

Under current law the Texas Department of Insurance (TDI) is responsible for inspecting structures that are constructed, repaired or to which additions are made for the purpose of obtaining the certificate of compliance that is necessary to obtain insurance from TWIA. It is assumed that the transfer of this responsibility to TWIA would result in a reduction at TDI of 32 FTEs. Salaries and associated expenses for these FTEs total \$883,280 each fiscal year. Since TDI is required to generate revenues equivalent to its costs under current law, this analysis assumes that all savings incurred as a result of the bill would result in an equivalent decrease in insurance maintenance tax revenues.

Under current law TDI uses \$1,000,000 in investment income from the trust fund to fund the mitigation and preparedness plan. Since TDI is required to generate revenues equivalent to its costs under current law, this analysis assumes that savings incurred as a result of the elimination of this requirement would result in an equivalent revenue loss to General Revenue Dedicated Account Fund 36.

Based on the analysis of the Comptroller of Public Accounts, it is assumed that the bill would repeal the tax credit under current law that insurers subject to the CRTF are allowed to take against their insurance premium tax liability. Because future credits cannot be predicted, this analysis does not assume that provision of the bill would have a fiscal impact on the state. However, in the event that a future covered catastrophe of such magnitude were to occur to elicit creditable TWIA assessments, it is assumed that implementation of the provisions of the bill would result in a positive fiscal impact to the state relative to current law.

It is assumed the Sunset Advisory Commission would incur costs in fiscal years 2010 and 2011 to review TWIA. It is assumed these costs would include salaries and associated benefit costs for 3 FTEs, travel, and production costs totaling \$189,886 in fiscal year 2010 and \$185,636 in fiscal year 2011. It is assumed these costs would be paid from General Revenue and that TWIA would reimburse the State to pay for these costs.

## **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 116 Sunset Advisory Commission, 347 Public Finance Authority, 454 Department of Insurance, 304 Comptroller of Public Accounts

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