

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 21, 2009

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

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

IN RE: SB14 by Fraser (Relating to the operation of the Texas Windstorm Insurance Association and the Texas FAIR Plan Association; making an appropriation.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB14, Committee Report 2nd House, Substituted: an impact of \$0 through the biennium ending August 31, 2011.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	\$0
2011	\$0
2012	\$0
2013	(\$315,000)
2014	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from <i>Dept Ins Operating</i> <i>Acct</i> 36	Probable Revenue (Loss) from <i>Dept Ins Operating</i> <i>Acct</i> 36	Probable Savings from <i>Insurance Maint Tax</i> <i>Fees</i> 8042	Probable Revenue (Loss) from <i>Insurance Maint Tax</i> <i>Fees</i> 8042
2010	\$1,000,000	(\$1,000,000)	\$610,740	(\$610,740)
2011	\$1,000,000	(\$1,000,000)	\$610,740	(\$610,740)
2012	\$1,000,000	(\$1,000,000)	\$610,740	(\$610,740)
2013	\$1,000,000	(\$1,000,000)	\$610,740	(\$610,740)
2014	\$1,000,000	(\$1,000,000)	\$610,740	(\$610,740)

Fiscal Year	Probable Revenue Gain from <i>General Revenue Fund</i> 1	Probable (Cost) from <i>General Revenue Fund</i> 1	Change in Number of State Employees from FY 2009
2010	\$0	\$0	(28.0)
2011	\$0	\$0	(28.0)
2012	\$0	\$0	(28.0)
2013	\$0	(\$315,000)	(25.8)
2014	\$198,569	(\$198,569)	(25.0)

Fiscal Analysis

The bill would amend the Insurance Code relating to the operations of the Texas Windstorm Insurance Association (TWIA) and the Texas FAIR Plan Association.

The bill would transfer the windstorm inspection program from TDI to the TWIA, which would result in a reduction of \$1,610,740, due to staffing reductions of 28 FTEs and the elimination of the windstorm field offices. This program is partially funded from approximately \$1 million deposited in Fund 36 annually in investment income from the Catastrophe Reserve Trust Fund (CRTF) to subsidize inspections. The bill would eliminate the transfer, leaving the funding in the CRTF. The bill would require TDI to adopt rules relating to the implementation of the bill.

The bill would restructure the revenues collected and deposited into the CRTF, which is held outside the Treasury and therefore was not included in this analysis. The bill would restructure the assessments on insurance companies for claim payments following natural disasters. The bill would authorize the assessments after certain other funding options had been exhausted and certain insurance company assessments would qualify for premium tax credits.

This bill would require the Sunset Advisory Commission (SAC) to review TWIA, but does not subject the entity to abolishment. The bill would require that the review be conducted as if the association were scheduled to be abolished September 1, 2015. The bill would require TWIA to pay the costs incurred by the Sunset Commission upon receipt of a statement from the Sunset Commission.

The bill would require the State Auditor's Office (SAO) to conduct an audit of TWIA at least once every four years.

The bill would authorize the Office of Public Insurance Counsel (OPIC) to file a written request with the TDI commissioner for additional supporting information relating to a TWIA rate filing.

The bill would create the windstorm insurance legislative oversight board, composed of three members from each house, to monitor TWIA and review proposed legislation. The bill would require the board to produce a biennial report on the board's recommendations.

The bill would take effect immediately if it receives a vote of two-thirds of all members of each house, or September 1, 2009 if it does not receive the two-thirds vote.

Methodology

Based on the analysis from the Comptroller of Public Accounts, the premium tax credits would result in a potential negative fiscal impact to General Revenue for up to 5 years subsequent to a natural disaster that would result in claims requiring an assessment. Due to the nature of the current assessments and the unpredictability of hurricanes and hailstorms, the specific negative impact could not be determined.

Based on analysis from TDI, the reduction of 28 full-time-equivalent positions (FTEs) in fiscal years (FY) 2010-2014 would decrease costs to TDI in the amount of \$1,297,573 for salaries and associated costs. Additionally, the reduction in FTEs would decrease benefits costs to the state by \$313,167 in FY2010-2014.

Since TDI is required to generate revenues equivalent to its costs of operation under current law, this analysis assumes that any savings realized would remain in the fund or the maintenance tax would be set to recover a lower level of revenue the following year.

Based on the analysis from the SAC, implementation of this legislation would require 3 new FTEs for FY 2014-15 at a cost to General Revenue of \$194,319 each year for salaries and benefits and additional travel costs of \$4,000 in FY2014. TWIA would reimburse the SAC for these costs.

Based on the analysis from OPIC, any costs associated with the agency implementing this bill could be absorbed within existing resources.

This analysis assumes the first audit of TWIA would occur in fiscal year 2013. Based on the analysis provided by the SAO, the bill would have no significant fiscal impact in fiscal years 2010-2012. In fiscal year 2013, the bill would cost \$315,000 in General Revenue and require 2.2 FTEs to conduct the initial audit of TWIA. In accordance with current Government Code 321.013, all additional duties and responsibilities prescribed by the bill would be proposed in the SAO's annual audit plan for Legislative Audit Committee approval.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 116 Sunset Advisory Commission, 308 State Auditor's Office, 359 Office of Public Insurance Counsel, 454 Department of Insurance, 304 Comptroller of Public Accounts

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