LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 6, 2011

TO: Honorable John Carona, Chair, Senate Committee on Business & Commerce

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

IN RE: **SB1889** by Jackson (Relating to the operation of the Texas Windstorm Insurance Association and to the resolution of certain disputes concerning claims made to that association.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1889, As Introduced: an impact of $0 through the biennium ending August 31, 2013.

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
2012	$0
2013	$0
2014	$0
2015	$0
2016	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *Appropriated Receipts* 666	Probable Savings/(Cost) from *Appropriated Receipts* 666
2012	$750,000	($750,000)
2013	$0	$0
2014	$0	$0
2015	$0	$0
2016	$0	$0

Fiscal Analysis

The bill would amend the Insurance Code relating to the operation of the Texas Windstorm Insurance Association (TWIA) and to the resolution of certain disputes concerning claims made to that association.

The bill would clarify that the chapter applies to qualified inspectors, allow TWIA to establish an annual renewal period for qualified inspectors, and amend the enforcement authority and disciplinary action TWIA has over qualified inspectors. The bill would add requirements for open meetings and add requirements to the plan of operation for TWIA.

The bill would require the Texas Department of Insurance (TDI) to appoint a panel of experts to advice the Commissioner of Insurance concerning the matter in which following a storm, TWIA should evaluate the extent to which a loss to insurable property was incurred as a result of wind, waves, tidal surges, rising waters not caused by waves or surges, and wind-driven rain associated with the storm. The bill would require that following a storm, the panel would again be convened to recommend to the insurance commissioner standardized data necessary to evaluate the extent to which a loss to insurable property was incurred as a result of wind, waves, tidal surges, rising waters not caused by waves or surges, and wind-driven rain associated with the storm. The bill would require the commissioner, after consideration of the panel's recommendations, to adopt a rule regarding standardized data as part of the formula that TWIA will use to settle claims following the storm.

The bill would allow for Class 1 Securities to be issued in an amount not to exceed $1 billion per occurrence or series of occurrences in a calendar year that result in insured losses, allow for Class 2 Securities to be issued in an amount not to exceed $1 billion per occurrence or series of occurrences in a calendar year that result in insured loss, and allow for Class 3 Securities to be issued in an amount not to exceed $500 million per occurrence or series of occurrences in a calendar year that result in insured losses.

The bill would make changes to insurance coverage, cancellation, required policy provisions, certain claims periods, and limitations on the amount available that can be recovered. The bill would add an exception to structures TWIA can insure, provide alternative eligibility for coverage, and allow for insurance premium discounts and credits.

The bill would add that the maximum principal for public securities may not exceed the amount of public securities determined to be marketable and that public securities may be issued if the amount of marketable securities in the preceding class is insufficient to pay excess losses.

The bill would clarify the policies that the premium surcharge to pay Class 2 securities will be assessed on and clarify that to pay Class 3 securities the association shall not assess the members in excess of $500 million per occurrence or series of occurrences.

The bill would require the Commissioner of Insurance to appoint an advisory committee to advise TDI and TWIA concerning building code standards.

The bill states that the changes only apply to an appeal from a decision made by TWIA on or after January 1, 2012 and that TWIA shall conform their plan of operation by January 1, 2012.
The bill would take effect immediately upon receiving a two-thirds majority vote in each house. If the bill does not receive a two-thirds vote in each house, the bill would take effect September 1, 2011.

Methodology

The changes to the Insurance Code regarding the issuance of public securities will require the Texas Public Finance Authority (TPFA) to revise the commercial paper program documents prepared for the sale of Class 1 public securities. Additionally, revisions to the source of revenue for repayments of all classes of public securities will require TPFA to obtain a new opinion from bond counsel on whether debt can be issued as taxable or tax exempt. Based on the analysis provided by TPFA, implementation of the bill will cost $750,000 in fiscal year 2012 for professional services to revise the commercial paper program documents and to obtain a new opinion from bond counsel on all classes of public securities. If debt is issued, the cost would be reimbursed by proceeds for costs of the issuance. Since the timing of a natural disaster that would require the issuance cannot be predicted, it is assumed that TWIA will fund this cost in fiscal year 2012 and recoup the expense from a future debt issuance.

Based on the analysis provided by the Texas Department of Insurance (TDI), it is assumed that all duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing resources.

Based on the analysis provided by the Bond Review Board, the public securities are obligations solely of TWIA and do not create a pledge, gift, or loan of the faith, credit, or taxing authority of this state. Since the issuance of TWIA debt is not and may not constitute a legal or moral obligation of the state, it should have no direct impact on the fiscal health of the state. Based on the analysis provided by the

Comptroller of Public Accounts, it is assumed that all duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing resources.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 347 Public Finance Authority, 352 Bond Review Board, 454 Department of Insurance

LBB Staff: JOB, AG, MW, CH, JJO