

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 19, 2023

TO: Honorable Tom Oliverson, Chair, House Committee on Insurance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1217 by Middleton (relating to the Texas Windstorm Insurance Association.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1217, Committee Report 2nd House, Substituted : a negative impact of (\$15,994,000) through the biennium ending August 31, 2025. Additionally, regarding excess losses incurred by the Texas Windstorm Insurance Association; the timing and amounts of any excess losses are unknown and the amounts loaned from state investment arrangements (Economic Stabilization Fund), member assessments, or the issuance of public securities are unknown; therefore the fiscal impact cannot be determined at this time.

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:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2024	(\$8,015,000)
2025	(\$7,979,000)
2026	(\$8,216,000)
2027	(\$8,595,000)
2028	(\$8,971,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue Gain/(Loss) from General Revenue Fund 1	Probable Revenue Gain/(Loss) from Foundation School Fund 193
2024	(\$6,011,000)	(\$2,004,000)
2025	(\$5,984,000)	(\$1,995,000)
2026	(\$6,162,000)	(\$2,054,000)
2027	(\$6,446,000)	(\$2,149,000)
2028	(\$6,728,000)	(\$2,243,000)

Fiscal Analysis

The bill would amend the Insurance Code to require the Texas Windstorm Insurance Association (TWIA) to adjust various aspects of administration and operations of the organization, including adding the Public Insurance Counsel to the nine-member board. The bill would exempt TWIA from the insurance premium tax or insurance maintenance tax or fee. The bill would take effect September 1, 2023.

Methodology

Certain insurance premiums in this state are subject to an insurance premium tax rate (1.6%) written in a given calendar year. According to the Comptroller of Public Accounts (CPA), based on information from the Texas Department of Insurance (TDI) and Texas Windstorm Insurance Association (TWIA), estimated TWIA premiums written in calendar year 2022 were \$521,191,000. Under current law, those premiums are subject to the insurance premium tax and have an estimated premium tax liability of \$8,339,000 in fiscal 2023.

Starting in calendar year 2023, this bill would remove the premium insurance tax placed upon TWIA premiums written in this state, impacting anticipated premium tax liabilities in fiscal year 2024. Additionally, insurance premium taxes are allocated 75 percent to General Revenue Fund 0001 and 25 percent to Account 0193 – Foundation School Fund. This analysis assumes that the amount of TWIA premiums written would increase at the rate of growth of the median home price. Therefore, based on this assumption, the total revenue loss is estimated to be \$15,994,000; \$11,995,000 in General Revenue and \$3,999,000 in General Revenue Account - School Foundation Fund 0193 for the 2024-25 biennium.

Based on this analysis of the Department of Insurance (TDI) and the Office of Public Insurance Counsel, any duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing agency resources. Additionally, the provisions of the bill relating to the Insurance Maintenance Tax would have no effect on aggregate maintenance tax collections as the TDI sets the maintenance tax liability in amounts sufficient to fund operations.

The bill would modify the manner in which excess losses of TWIA are paid. Under current law, excess losses are paid for by the issuance of public securities and by member assessments. The bill would require that excess losses be paid by member assessments not to exceed \$1 billion per catastrophe year; money received from state investment arrangements not to exceed \$1 billion; and the issuance of public securities not to exceed, in aggregate, \$1 billion at any one time. TWIA members could not recoup an assessment through a premium surcharge or tax credit. According to the CPA, the fiscal impact on the state cannot be estimated as the timing and amounts of any excess losses and infrastructure grants are unknown.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 359 Office of Public Insurance Counsel, 454 Department of Insurance

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