

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: H.B. 1429

SHORT TITLE: Set Reg. Fees/Company Exams

SPONSOR(S): Representative Wilson

FISCAL IMPACT

Yes (X) No () No Estimate Available ()

(Millions)

FY 1998-99 FY 1999-00 FY 2000-01 FY 2001-02 FY 2002-03

REVENUES

Utilities Special Fund	\$8.34	(\$.51 million increase over FY 1997-98)
Insurance Regulatory Fund	\$19.20	(\$1.09 million increase over FY 1997-98)
General Fund - Exam. Fees		\$100,000 every five years

EXPENDITURES:

General Fund - Exam. Fees Equal to the cost of examination.

PRINCIPAL DEPARTMENT(S) &

PROGRAM(S) AFFECTED: Department of Insurance, North Carolina Utilities Commission and Public Staff.

EFFECTIVE DATE: Section 1 of this act becomes effective July 1, 1998. The remainder becomes effective when it becomes law.

BILL SUMMARY: This bill has several parts. Section 1 sets the percentage rate used in calculating the public utilities regulatory fee at 0.09% of each public utility's North Carolina revenues. Section 2 sets the insurance regulatory charge at 6% of the total insurance premiums tax liability. Section 3 expands the types of records and assets an insurance company can maintain outside the state. Sections 4 through 6 modify the "Examination Law" to require the examined insurer to reimburse the Department of Insurance for the actual expenses related to the examination when 1) the insurer maintains part of its records or assets outside of the state, 2) the insurer requests an examination of its records or assets, or 3) the insurer is impaired, insolvent, or unlikely to meet their known financial obligations. The bill caps the reimbursement at \$100,000, unless the Insurance Commissioner and the insurer agree on a higher amount. Section 7 provides guidance to the Insurance Commissioner on the types of information used to determine minimum valuation reserves. Section 8 instructs the Commissioner to conduct a

regular examination of insurers at least once every five years. (Currently the statute requires an examination once every three years). Section 9 authorizes the Insurance Commissioner to adopt rules for audits and opinions that are substantially similar to the NAIC model rule, and lets the Commissioner change the Departments rules to reflect changes in the NAIC model rule. Section 10 modifies the Commissioner’s ability to adopt temporary rules. Section 11 sets the effective dates.

ASSUMPTIONS AND METHODOLOGY:

Section 1: Utilities Commission and Public Staff Fund

Section one of the bill sets the utilities regulatory fee at 0.09% of each public utilities’ North Carolina jurisdictional revenues earned during each quarter that begins on or after July 1, 1998. **(This maintains the current 0.09% rate set in fiscal year 1997-98.)** The revenue generated from this fee supports the operations of the North Carolina Utilities Commission and Public Staff.

Per G.S. 62-302(b)(2), the percentage rate established by the General Assembly and assessed by the Commission “may not exceed the amount necessary to generate funds sufficient to defray the estimated cost of the operations of the Commission and Public Staff for the upcoming fiscal year, including a reasonable margin for a reserve fund.” Combined operations of the Commission and the Public Staff in FY 1998-99 will require expenditures of not less than \$9,297,845. Revenues generated by the utilities regulatory fee will amount to \$8,340,000. The balance will be derived from other revenues generated by Commission fees and charges, or from the Accumulated Fee Margin Reserve Account.

The Utilities Commission indicates that the status of the Accumulated Fee Margin Reserve is as follows:

Balance as of 6/30/98	\$ 8,990,813
Add: Estimated Collections and Interest for FY 1998-99	\$ 9,356,285
Total Funds Available	\$18,347,098
Less: Estimated FY 1998-99 Expenditures Reimbursable from Fees	(\$9,297,845)*
Estimated Margin Reserve for Period Ending 6/30/99	\$ 9,049,253

** Not included in FY 1997-98 and 1998-99 are the estimated costs incurred by the Legislative Study Commission on the Future of Electric Service in North Carolina. Study Commission expenses are to be refunded from the Utilities Commission and Public Staff Fund (Chapter 483, Section 10.1, 1997 Session Laws). The amount is expected to be in excess of \$450,000.*

Based on the projected Fee Margin Reserve, the fee of 0.09% should be sufficient to cover the operations of the Utilities Commission and Public Staff.

Section 2: Insurance Regulatory Fund

Section two of the act sets the insurance regulatory charge effective for calendar year 1998 at 6.0%. (This is a decrease from the 8.75% rate established for calendar year 1997.) The charge is based on a percentage of a company's premiums tax liability for the taxable year. Every insurance company subject to the premiums tax levied under G.S. 105-228.5 must pay the insurance regulatory charge. The percentage rate, set annually, cannot exceed the rate necessary to generate funds sufficient to defray the estimated cost of operating the Department of Insurance for the upcoming year. The revenue collected from the charge is deposited into the Insurance Regulatory Fund invested with the State Treasurer and managed by the Office of State Budget and Management. Funds generated by the regulatory charge are used to reimburse the General Fund for the amount appropriated to the Department of Insurance.

	<u>FY 1996-97</u>	<u>FY 1997-98</u>	<u>FY 1998-99</u>
Estimated Gross Premiums Tax	\$208 mil.	\$207 mil.	\$320 mil.
Insurance Regulatory Charge	<u>x .075</u>	<u>x .0875</u>	<u>x .060</u>
	\$15.08 mil.	\$18.11 mil.	\$19.2 mil.

If the gross premiums tax continues to increase through calendar year 1998 then, it is possible the rate for 1999 could be less than the proposed 6.0% rate for 1998.

Sections 3-10: Insurance Examination Fees/Regulations

The proposed act expands the types of records and assets an insurance company can maintain outside the State. Under G.S. 58-7-55, certain exemptions exist that allow a domestic insurance company to maintain financial and accounting records outside the State so long as a company makes a written request and the Commissioner approves.

In the event approval is given to a company to hold certain records and assets outside the State the Commissioner of Insurance can charge for the examination of records in certain circumstances. An insurance company can be required to pay up to \$100,000 of the Department's cost of examinations when the insurer maintains part of its records and or assets out of the State, when the insurer requests the Department examine its records, and when an insurer's solvency is in question. The cost can exceed \$100,000 if the insurer and the Commissioner agree to a greater amount.

The Commissioner of Insurance is given the authority to regulate the issuance and sale of funding agreements in G.S. 58-7-16(f). Section 5 of this act, allows the Commissioner to use any relevant actuarial guidelines, regulations, interpretations or papers published by the Society of Actuaries or the American Academy of Actuaries in carrying out his authority to determine minimum valuation reserves to be maintained by the issuer.

The Department of Insurance does not expect many domestic companies to take advantage of this regulatory change except in certain circumstances. There is expected to be at least one that would be subject to this act within a three year period. Data provide by the Department of Insurance.

TECHNICAL CONSIDERATIONS: Lengthening the maximum period between required examinations of insurance companies may have an impact on staffing and other Department of

Insurance needs. However, the Department hopes to use this opportunity to pursue other matters such as participating in “foreign exams”.

FISCAL RESEARCH DIVISION

733-4910

PREPARED BY: Warren Plonk, Jennifer Herrera, and Linda Struyk Millsaps.

APPROVED BY: Tom Covington

DATE: July 8, 1998



Signed Copy Located in the NCGA Principal Clerk's Offices