

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1345 House Committee Substitute

SHORT TITLE: Regulatory Fee Provisions

SPONSOR(S): House Committee on Appropriations

FISCAL IMPACT:           Expenditures:       Increase ( )       Decrease ( )  
                          Revenues:           Increase (X)       Decrease ( )  
                          No Impact ( )  
                          No Estimate Available ( )

FUND AFFECTED:       General Fund ( )    Highway Fund ( )   Local Govt. ( )  
                          Other Funds (X)   Insurance Regulatory Fund

Utilities Commission and Public Staff

Special Funds

**BILL SUMMARY:** This bill establishes the annual tax rate for the insurance regulatory charge and the public utility regulatory fee.

The rate established for the insurance regulatory charge is 7.25% of the gross premiums tax and is effective for the 1996 calendar year. The revenue from this surcharge is used to reimburse the General Fund for money appropriated to State agencies to pay the expenses incurred in regulating the insurance industry, in certifying statewide data processors for medical data collection and purchasing reports of patient data from statewide data processors. The rate is unchanged from 1995.

The rate established for the utilities regulatory fee is 0.10% of each public utilities' North Carolina jurisdictional revenues earned during each quarter that begins on or after July 1, 1996. The revenue generated from this fee supports the operations of the North Carolina Utilities Commission and Public Staff. The rate is unchanged from the 1995-96 fiscal year.

**EFFECTIVE DATE:**

The effective date for the insurance regulatory charge is January 1, 1996. The effective date for the utilities regulatory fee is July 1, 1996.

**PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:**

Insurance Regulatory Charge: Dept. of Insurance, Dept. of Justice & Dept. of Human Resources

Utilities Regulatory Fee: Department of Commerce, Utilities Commission and Public Staff

FISCAL IMPACT

(\$ Million)

	<u>FY</u> 1996-97	<u>FY</u> 1997-98	<u>FY</u> 1998-99	<u>FY</u> 1999-00	<u>FY</u> 2000-01
REVENUES:					
INSURANCE REG FUND	\$15.08mil	\$19.3 mil	\$19.3 mil	\$19.3 mil	\$19.3 mil
UTILITIES SPEC FUND	8.1 mil	8.1 mil	8.1 mil	8.1 mil	8.1 mil

(FY 97-98 through FY 00-01 is for information only)

EXPENDITURES

ASSUMPTIONS AND METHODOLOGY:

Insurance Regulatory Charge Assumptions:

Receipts needed in Insurance Regulatory Fund FY 96/97 = \$15.08 mil \*  
 Est. Gross Premiums Tax to which rate will apply = \$208 mil

Annual receipts needed in the Insurance Regulatory Fund, including interest of approximately \$300,000, is estimated to be \$19.3 million. This will require an ongoing rate of approximately 9.15% after FY 1996-97. (See technical considerations below for more information.)

Utilities Regulatory Fee Assumptions:

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 will require expenditures of not less than \$8,391,311. Revenues generated by the utilities regulatory fee will amount to \$8,153,531. The balance shall be derived from other revenues generated by Commission fees and charges, or from the Accumulated Fee Margin Reserve Account.

SOURCES OF DATA:

Insurance Regulatory Charge

Dept. of Insurance; G.S. 58-6-25 Insurance Regulatory Charge  
 Utilities Regulatory Fee

Utilities Commission, Dept. of Commerce; G.S. 62-302 Utilities  
 Regulatory Fee

TECHNICAL CONSIDERATIONS:

## Insurance Regulatory Charge

The current insurance regulatory surcharge rate of 7.25 is not sufficient to fund the change enacted by the General Assembly in 1995 relating to fees charged to insurance companies for audits conducted by the Dept. of Insurance. Prior to July 1, 1995, financial examination audits conducted by the Dept. of Insurance were billed directly to the insurance company being audited. General Statutes require that financial examinations be performed by the Dept. of Insurance on each domestic insurance company every three years. Billings for these audits amounted to approximately \$4.5 million in FY 94/95. The General Assembly felt that a more equitable distribution of these audit costs would be to recoup them through the insurance regulatory charge rather than billing each insurance company for the audit conducted by the department. In this manner the insurance industry still covers the cost of the audits, but no insurance company is charged with a sizable audit expense once every three years. Because the \$4.5 million is now covered by the insurance regulatory charge and not billed directly to the individual insurance companies, after FY 1996-97, the ongoing rate is estimated to be approximately 9.15%. If audits were still billed directly to the insurance companies and not covered by the regulatory charge, the current rate of 7.25% would be adequate to sustain the Insurance Regulatory Fund.

## Utilities Regulatory Fee

The current utilities regulatory fee is 0.10%. HB 1345 proposes to continue the current assessment rate for the 1996-97 fiscal year, which will produce fees totaling \$8,153,531. The Commission will require not less than \$8,391,311 to operate, with the balance derived from other fees and charges of the Commission, or from the Accumulated Fee Margin Reserve. The Utilities Commission indicated that the status of the Accumulated Fee Margin Reserve is as follows:

Balance as of 6/30/96	\$ 7,698,474
Add: Estimated Collections and Interest for FY 1996-97 at 0.10%	\$ 9,154,825
Total Funds Available	\$16,853,299
Less: Estimated FY 1996-97 Expenditures Reimbursable from Fees	\$(8,391,311)
Estimated Margin Reserve for Period Ending 6/30/97	\$ 8,461,988

Based on the projected Fee Margin Reserve, the fee of 0.10% should be sufficient to cover the operations of the Utilities Commission and Public Staff.

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