

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 646
SHORT TITLE: Assist Volunteer Safety Workers/AB
SPONSOR(S): Committee Substitute - Finance
FISCAL IMPACT: **Expenditures:** **Increase (X)** **Decrease ()**
 Revenues: **Increase (X)** **Decrease ()**
 No Impact ()
 No Estimate Available ()

FUND AFFECTED: **General Fund () Highway Fund () Local Govt. ()**
 Other Funds (X) (Volunteer Safety Workers Assistance
 Fund

BILL SUMMARY: The bill would: 1) establish a Volunteer Safety Workers' Compensation Fund for volunteer fire, rescue, and emergency medical personnel; 2) increase the monthly pension benefits for these workers from \$110.00 to \$135.00; 3) increase the monthly pension fund contribution for these workers from \$5.00 to \$10.00; 4) direct the Treasurer to reimburse volunteer fire departments and rescue squads for highway use tax paid on its purchase of emergency service vehicles; 5) alter the credit against the insurance premiums tax for guarantor fund payments so that no more than 10 percent (currently 20 percent) of the payment can be taken in credit each year; 6) cap the amount of guarantor payment credits that can be taken in total each year at the greater of \$10 million or the amount attributable to credits taken for payments made before January 1, 1995; 7) create the Volunteer Safety Worker's Assistance (VSWA) Fund as a non-reverting, interest-bearing, special revenue fund into which the additional collections attributable to the changes in the credits will be deposited; and 8) allocate amounts from the VSWA Fund to pay for the costs of the other elements of the bill.

EFFECTIVE DATE: The change in the calculation of premiums tax credits is effective for taxable years beginning on or after January 1, 1995. The provision for reimbursement of the highway use tax is effective October 1, 1995. All other provisions are effective July 1, 1995.

	FISCAL IMPACT				
	<u>95-96</u>	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>	<u>99-00</u>
GENERAL FUND (in \$millions)					
Premiums Tax	\$23.7	\$19.2	\$15.9	\$12.4	\$9.1
Transfer to					
VSWA Fund	-\$23.7	-\$19.2	-\$15.9	-\$12.4	-\$9.1
Net Change	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
 VOLUNTEER SAFETY WORKERS ASSISTANCE FUND (in \$millions)					
Starting Balance	\$0.0	\$14.1	\$24.2	\$31.4	\$35.4

Transfer from GF	\$23.7	\$19.2	\$15.9	\$12.4	\$9.1
Expenditures	-\$10.5	-\$10.5	-\$10.5	-\$10.5	-\$10.5
Interest at 6%	\$0.8	\$1.4	\$1.8	\$2.0	\$2.0
Ending Balance	\$14.1	\$24.2	\$31.4	\$35.4	\$36.0

ASSUMPTIONS AND METHODOLOGY:

Premiums Tax Credits

Currently, insurers are allowed to claim premiums tax credits for payments made to satisfy assessments by either of the State's insurance guaranty associations. The guaranty associations are responsible for protecting policy holders of insolvent insurance companies from financial loss. In order to acquire the funds necessary to pay such policy holders, the associations are allowed to assess funds from each insurer doing business in the State. Insurers are allowed tax credits for the amounts that they pay to the associations for these assessments. Insurers may take credits equal to 20 percent of the payment amount for the five taxable years following the year in which the payment is made. The amount of credit may not exceed the amount of tax liability.

Under the bill, insurers would only be allowed to take 10 percent of the payment amount each year for ten years. For payments for which credits have already been taken, insurers may take 10 percent of the remaining amount. In addition, the total amount of credits claimed each year by all insurers may not exceed the greater of: 1) the amount of credits applicable to payments made prior to January 1, 1995, or 2) \$10,000,000.

Projections of the additional revenues to be gained by changing the guaranty assessment credits are based on the value of payments made prior to January 1, 1994, and on projections of future payments. Projections of future payments were provided by officials of the guaranty associations and the Department of Insurance. The table below shows the revenue loss from guaranty assessment credits under current law and the loss under the bill:

	<u>95-96</u>	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>	<u>99-00</u>
Revenue Loss From					
Credits (\$ millions)					
Current Law	\$26.9	\$28.7	\$26.6	\$23.1	\$19.8
SB 646	<u>\$3.2</u>	<u>\$9.5</u>	<u>\$10.7</u>	<u>\$10.7</u>	<u>\$10.7</u>
Difference	\$23.7	\$19.2	\$15.9	\$12.4	\$9.1

The difference line above represents the additional revenues that would be available as a result of the changes to the credit formula.

Expenditures

The annual expenditure amount is composed of the following elements:

<u>Element</u>	<u>(\$ Millions)</u>
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Workers' Compensation Fund	\$4.4
Pension Fund Requirements	\$4.4
Reimburse Highway Use Tax	\$0.3
Rural Volunteer Fire Department Fund	\$0.7

Workers' Compensation Fund - The Department of Insurance's Fire and Rescue Services Division estimates that approximately \$5.8 to \$6.0 million would be required each year to support a worker's compensation fund for volunteer fire and rescue workers. The bill would require the State to pay \$4.4 million of this cost, with the remainder paid from a \$35-\$50 contribution from each covered employee.

Pension Fund Requirements - The official actuarial note for this portion of the bill provides two independent estimates of the annual cost of the pension increase, one by the System Accuracy and one by the General Assembly Actuary. The System Accuracy estimates the cost at \$4,447,900 per year, while the General Assembly Accuracy estimates the cost at \$4,304,000 per year. Based on these estimates, the bill allocates \$4,400,000 for pension fund requirements.

Reimbursement of Highway Use Tax - The bill would direct the Treasurer to reimburse volunteer fire departments and rescue squads for highway use tax paid on its purchase of emergency service vehicles.

The NC State Firemen's Association membership represents over 90% of all fire departments in North Carolina. Of a total departmental membership of 1159 units:

- 47 consist of paid personnel only
- 917 consist of volunteers only
- 195 operate with both paid and volunteer personnel

The bill requires that fire departments not be part of a unit of local government. Because it is not known which of the departments meet this criteria, it is assumed that those departments with only paid personnel will not be eligible for reimbursements.

Based on the average prices and weights of new emergency services vehicles used by fire departments, as provided by the NC Firemen's Association, it is assumed that all eligible vehicles pay the \$1000 maximum tax rate available to commercial vehicles. In addition, it is assumed that: 1) firefighting vehicles have a life span of 20 years; 2) fire departments own an average of two emergency service vehicles; and 3) departments purchase one replacement vehicle every 10 years.

For rescue squads, it is assumed that: 1) 1300 ambulances and 1000 rescue vehicles are owned statewide by rescue squads; 2) 90 percent of these vehicles are purchased by eligible rescue squads; 3) these vehicles are replaced every three years; and 4) the vehicles are pay the \$1000 maximum tax rate for commercial motor vehicles. Based on these assumptions, the cost of the reimbursements would be as follows:

222 firefighting vehicles X \$1000	=	\$222,000
690 rescue squad vehicles X \$1000	=	\$690,000
TOTAL		\$912,000

Rural Volunteer Fire Department Fund - The Rural Volunteer Fire Department Fund is currently funded from 25 percent of the collections of premiums taxes on fire and lightning insurance policies. The \$1.5 million annual collection for the Fund is not sufficient to fund all of the grant requests approved by the Department of Insurance's Fire and Rescue Services Division. The Division estimates that an additional \$750,000 would be sufficient to fund the remaining requests each year.

FISCAL RESEARCH DIVISION

733-4910

PREPARED BY: Karl Knapp

APPROVED BY: Tom Covington TomC

DATE:

[FRD#001]

UPDATED FISCAL NOTE FOR SB 646 - JUNE 5, 1995
NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: Proposed Committee Substitute for Senate Bill 646

SHORT TITLE: Assist Volunteer Safety Workers/AB.

SPONSOR(S): Senator Kerr

FUNDS AFFECTED: General (X) Highway () Local ()

BILL SUMMARY: Increases the monthly contribution paid by members from \$5 to \$10 and increases the monthly benefit to members and retirees in the North Carolina Firemen's and Rescue Squad Workers' Pension Fund from \$110 to \$135 effective July 1, 1995.

EFFECTIVE DATE: July 1, 1995

SYSTEM OR PROGRAM AFFECTED: North Carolina Firemen's and Rescue Squad Workers' Pension Fund

ESTIMATED IMPACT ON STATE:
SYSTEM ACTUARY

	1995-96	1996-97	1997-98	1998-99	1999-2000
GENERAL FUND	\$4,447,900	\$4,447,900	\$4,447,900	\$4,447,900	
	\$4,447,900				

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GENERAL ASSEMBLY ACTUARY

	1995-96	1996-97	1997-98	1998-99
1999-2000 GENERAL FUND		\$4,304,000	\$4,304,000	\$4,304,000
	\$4,304,000	\$4,304,000		

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ASSUMPTIONS AND METHODOLOGY: The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 1994 actuarial valuation of the fund. The data included 27,544 active members and 6,425 retired members in receipt of annual pensions totaling \$8.3 million. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (b) the 1974 George B. Buck Mortality Table for deaths after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the entry age normal method with open-end unfunded accrued liability. Detailed information concerning these assumptions and methods is shown in the actuary's report which is available upon request from Stanley Moore.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Dilts, Umstead & Dunn

FISCAL RESEARCH DIVISION: The above information is provided in accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives.

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