

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/CS/SB 320

SPONSOR: Finance and Taxation Committee, Banking and Insurance Committee and Senator Holzendorf

SUBJECT: Insurance (Minority-Owned Property Insurers)

DATE: February 6, 2002      REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Deffenbaugh	Deffenbaugh	BI	Favorable/CS
2.	Keating	Johansen	FT	Favorable/CS
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

## I. Summary:

In 1998, the Legislature created an exemption from state insurance premium taxes, municipal premium taxes, and regular assessments (but not emergency assessments) of the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association for residential property insurance policies issued by minority-owned property and casualty insurers licensed after May 1, 1998. Insurers qualifying under this section are eligible for exemptions for up to 5 years from the date of receiving a certificate of authority. All exemptions under this section terminate on July 1, 2003. Currently, only one insurer qualifies for this exemption.

The bill would extend the maximum time period for the exemption from 5 years to 10 years from the date an insurer's certificate of authority is issued. The bill limits the 5-year extension of the exemption to a minority-owned insurer initially issued a certificate of authority as an authorized insurer after May 1, 1998 and before January 1, 2002. All exemptions would terminate December 31, 2010, rather than July 1, 2003.

This bill substantially amends section 627.4072 of the Florida Statutes.

## II. Present Situation:

### Premium Taxes and Excise Taxes

Pursuant to s. 624.509, F.S., the gross premiums collected by insurers on property insurance policies are subject to a state premium tax of 1.75 percent, subject to various credits. In addition, pursuant to s. 175.101, F.S., cities and special fire control districts may levy an excise tax of 1.85

percent on the gross premiums on property insurance policies covering property within their boundaries to fund firefighter pension plans. Each city may also impose a 0.85 percent tax on the property insurance portion of the premium for casualty insurance policies, to fund police officers pension plans pursuant to s. 185.08, F.S.

### **Assessments by the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association**

When premium revenues and other resources are insufficient to pay claims, the boards of the Residential Property and Casualty Joint Underwriting Association (RPCJUA), and the Florida Windstorm Underwriting Association (FWUA), each have the authority to levy assessments against property insurers, in proportion to their statewide market share. *Regular assessments* may be made against property insurers, generally limited to 10 percent of the insurer's property insurance premium. If the deficit exceeds the maximum regular assessment, *emergency assessments* may be imposed on all new and renewal property insurance policies in the state, subject to certain limitations.

(s. 627.351(2) and (6), F.S.)

### **Exemption for Certain Minority-Owned Insurers**

In 1998, the Legislature created an exemption from the state insurance premium tax, the municipal police and fire premium taxes, and regular assessments (but not emergency assessments) of the RPCJUA and the FWUA for residential insurance policies issued by newly-formed, minority-owned property and casualty insurers. The exemption applies only to minority-owned property and casualty insurers issued a certificate of authority after May 1, 1998. Insurers qualifying under this section are eligible for an exemption not to exceed 5 years from the date of receiving a certificate of authority. All exemptions under this section terminate on July 1, 2003.

In order to qualify for the exemptions, the insurer must be 51 percent owned by minority persons, as defined in s. 288.703(3), F.S., which includes African Americans, Hispanic Americans, Asian Americans, Native Americans, and American women, and would be required to have:

- received its initial certificate of authority to do business in Florida after May 1, 1998;
- a home office or regional office in Florida;
- employees in Florida; and
- an average, in any given tax year or assessment year, of at least 10 percent of its in-force Florida residential policies in enterprise zones designated under s. 290.0065, F.S.

According to the Department of Insurance, only one insurer, which received its certificate of authority on January 29, 1999, has qualified for the exemption.

**III. Effect of Proposed Changes:**

The bill would extend the maximum time period from 5 years to 10 years, from the date an insurer's certificate of authority is issued, for the current exemption from state and local premium taxes and regular assessments from the RPCJUA and the FWUA for minority-owned property and casualty insurers. The bill limits the 5-year extension of the exemption to a minority-owned insurer initially issued a certificate of authority as an authorized insurer after May 1, 1998 and before January 1, 2002. Such exemptions from taxes and assessments would terminate effective December 31, 2010, rather than July 1, 2003. Otherwise, the same criteria for the exemption, summarized in Present Situation above, would still be required.

**IV. Constitutional Issues:****A. Municipality/County Mandates Restrictions:**

None.

**B. Public Records/Open Meetings Issues:**

None.

**C. Trust Funds Restrictions:**

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

The bill extends the time period for a current premium tax exemption for minority-owned insurers meeting certain criteria. Only the one insurer who currently qualifies for this exemption will qualify for the extension. This insurer had \$8.9 million in premiums for 1999.

The Revenue Estimating Conference estimates that the bill will have a recurring negative fiscal impact on General Revenue of \$100,000, beginning fiscal year 2003-04, assuming annual premiums of \$10 million for the one company and an effective tax rate of 1%.

**B. Private Sector Impact:**

The one insurer currently entitled to the premium tax and assessment exemption would continue the exemption from July 1, 2003, until December 31, 2010, if the required criteria continue to be met. This insurer had \$8.9 million in premiums for 1999. Based on an effective tax rate of between 0.5% and 1.0% that is typically paid by domestic insurers, that insurer saved between \$45,000 and \$90,000 in premium tax expense for 2000. Based on possible premium volume increase, this insurer may enjoy a savings of approximately \$100,000 in the years extended by the bill, plus an unknown amount that

could possibly be assessed by the RPCJUA and FWUA (as great as 10% of premium in any one year, or about \$1 million for this insurer, that could be assessed by each entity).

The exemption from regular assessments levied by the RPCJUA and the FWUA could negatively impact other insurers by increasing their share of assessments, but this impact is likely to be minimal.

**C. Government Sector Impact:**

Beginning fiscal year 2003-04, the amount of local police and fire premium taxes collected and deposited in the Firefighters' Pension Trust Fund and the Municipal Police Officers' Retirement Trust Fund would be decreased as a result of extension of the time period for the current exemption for the one minority-owned insurer. The extent of the decrease in revenues is not known, but should be similar to the impact on state revenues.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.