

STORAGE NAME: h0385.fpr.doc

DATE: January 26, 2002

**HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FISCAL POLICY AND RESOURCES
ANALYSIS**

BILL #: HB 385

RELATING TO: Property and Casualty Insurers

SPONSOR(S): Representative Lee

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) ECONOMIC DEVELOPMENT AND INTERNATIONAL TRADE YEAS 7 NAYS 0
 - (2) FISCAL POLICY AND RESOURCES
 - (3) COUNCIL FOR COMPETITIVE COMMERCE
 - (4)
 - (5)
-

I. SUMMARY:

In 1998, the Legislature created an exemption from insurance premium taxes, excise taxes that benefit firefighters' and police pension funds, and regular assessments (but not emergency assessments) of the Residential Property and Casualty Joint Underwriting Association (RPCJUA) and the Florida Windstorm Underwriting Association (FWUA) for residential property insurance policies issued by minority-owned property and casualty insurers. Qualifying insurers are eligible for the exemptions for up to 5 years from the date of receiving a certificate of authority. Under current law, all exemptions terminate on July 1, 2003.

House Bill 385 would extend the tax and assessment exemptions available to minority-owned property and casualty insurers for a period not to exceed 10 years. The bill changes the repeal date for the exemptions from July 1, 2003, to December 31, 2010.

The Revenue Impact Conference reviewed this bill on December 14, 2001, and estimated it would have a \$100,000 negative effect in fiscal year 2002-2003 on the General Revenue.

The bill amends section 624.4072, F.S., and would take effect upon becoming a law.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Section 624.4072, Florida Statutes, exempts minority-owned property and casualty insurers from:

- the insurance premium tax imposed by s. 624.509, F.S.;
- regular assessments (but not emergency assessments) by the Residential Property and Casualty Joint Underwriting Association (RPCJUA) and the Florida Windstorm Underwriting Association (FWUA) for residential insurance policies;
- excise taxes imposed on property insurance premiums by a municipality or other entity that has a lawfully established pension fund or other means of providing pension benefits to firefighters (s. 175.191, F.S.); and,
- excise taxes imposed on casualty insurance premiums by a municipality or other entity that has a lawfully established police officers' retirement trust fund or other means of providing pension or relief benefits to police officers (s. 184.108, F.S.).

In order to qualify for the exemptions, the insurer has to be 51 percent owned by minority persons, as defined in s. 288.703(3), F.S., 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 one percent of its in-force Florida residential policies in enterprise zones designated under s. 290.0065, F.S.

Insurers qualifying under this section are eligible for an exemption for a period not to exceed 5 years from the date of receiving a certificate of authority. All exemptions under this section terminate on July 1, 2003. The exemptions apply only to personal lines and commercial lines of residential property insurance policies as defined in s. 627.4025, 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. Under current law other eligible insurers could qualify for the exemption until July 1, 2003.

C. EFFECT OF PROPOSED CHANGES:

House Bill 385 would extend the exemption from premium taxes, assessments from the RPCJUA and the FWUA, and excise taxes to benefit police and firefighters' pension funds for minority-owned property and casualty insurers for up to 10 years from the date the certificate of authority is issued. All exemptions from taxes and assessments would terminate effective December 31, 2010, rather than on July 1, 2003.

D. SECTION-BY-SECTION ANALYSIS:

See Effect of Proposed Changes.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Impact Conference reviewed this bill on December 14, 2001, and estimated it would have a \$100,000 negative effect in fiscal year 2002-2003 on the General Revenue Fund. The estimate is based on the assumptions that:

- Only one insurance company would continue to qualify for the exemptions under this section; and
- The insurance company would have premiums of \$10 million for the 2003 tax year, taxable at 1%.

2. Expenditures:

None

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Certain minority-owned insurers could qualify for exemptions from excise taxes, premium taxes, and RPCJUA and FWUA assessments under this bill. This could create more of a burden on other insurers for regular assessments levied by the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association.

D. FISCAL COMMENTS:

Since the bill extends the tax exemptions for residential property insurance policies issued by minority-owned insurance companies, the impact of the bill would depend both on the number of eligible minority-owned insurers that might be formed between the time the exemptions take effect and the proposed December 31, 2010 expiration date and on the premium volume of residential property insurance policies written by these companies.

The bill could negatively affect the amount of excise taxes collected and deposited in the Firefighters' Pension Trust Fund and the Municipal Police Officers' Retirement Trust Fund (ss. 175.101 and 185.08, F.S.)

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None

B. RULE-MAKING AUTHORITY:

None

C. OTHER COMMENTS:

The Department of Revenue advises there is no fiscal impact on the agency to administer the bill. The Department feels that they do not have the expertise to determine an individual's minority status. The Department suggests that another agency certify to the Department an individual's minority status.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

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VII. SIGNATURES:

COMMITTEE ON FISCAL POLICY AND RESOURCES:

Prepared by:

Staff Director:

Lisa C. Gonzalez

J. Paul Whitfield, Jr.

AS REVISED BY THE COMMITTEE ON FISCAL POLICY AND RESOURCES:

Prepared by:

Staff Director:

Adam Shamy

Lynne Overton