

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: House Bill 1569
SHORT TITLE: Expand Regulatory Charge
SPONSOR(S): Representative Ives, et. al.

(\$ MILLIONS)					
FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
REVENUES	\$2.4 to \$2.6 Annually, Depending on the Regulatory Rate set for 1998				
EXPENDITURES					
Recurring	\$ 1.4 Annually				
Non-recurring	.21				
Total	\$1.61				
POSITIONS:	20				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Department of Insurance				
EFFECTIVE DATE:	When it becomes law and applies to service corporations and health maintenance organizations in calendar year 1998 and subsequent calendar years.				

BILL SUMMARY:

The proposed act extends the Insurance Regulatory Charge to service corporations and to health maintenance corporations. Under current law, service corporations, organized under Article 65, and health maintenance organizations, organized under Article 67, are not subject to the insurance regulatory charge. All other insurance companies, having gross premiums from doing business in the State, pay the regulatory charge. The insurance regulatory charge is based on a percentage of a company's gross premiums tax liability for the taxable year. The revenue derived from this charge is used to fund the operations of the Department of Insurance for the up-coming year.

Health maintenance organizations are not liable for the gross premiums tax and nothing in this act subjects these organizations to taxation under G.S. 105-228.5. Service corporations are liable for the gross premiums tax. However, the insurance regulatory charge for both of these types of companies will be based on their gross premiums from doing business, in this state for the taxable year, as if they were subject to the gross premiums tax at 1.9%. In the bill, this defining measure is referred to as a “presumed premium tax liability”. The 1.9% rate is the same rate applied to insurance contracts under G.S. 105-228.5(d)(2). The charge is due, for health maintenance organizations by the 15th of March following the end of each taxable year. Service corporations are to remit the charge with their premiums tax.

The percentage rate that defines the insurance regulatory charge, is set annually, by the General Assembly and 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 bills introduced, in the 1998 session of the General Assembly, that establish the insurance regulatory charge for 1998 are HB 1429 and SB 1552. The revenue collected from the charge is deposited into the Insurance Regulatory Fund held with the State Treasurer and managed by the Office of State Budget and Management.

The additional funds generated by extending the regulatory charge to service corporations and to health maintenance organizations are to be used by the Department to expand staff and equipment to carry-out the statutory requirement that these companies be examined every three years. The resources used to satisfy the examination requirement, in the past, have come from the regulatory charge paid by those insurance companies other than service corporations and health maintenance organizations. The number of health maintenance organizations licensed to do business in the State has increased by 200% since 1992 and the number of insurance complaints has increased 25% in the past two years.

ASSUMPTIONS AND METHODOLOGY:

The expected revenue is based on a presumed premiums tax rate of 1.9%. The presumption is that these companies will calculate the amount of premiums tax they would owe the State if they were required to pay a premiums tax. The Insurance Regulatory Charge is then applied to this presumed tax liability and the rate has yet to be determined by the General Assembly for 1998. The Senate has proposed a rate of 6.5% and the House has a proposed rate of 6%. The rate set for calendar year 1997 was 8.75%. The most recent year for which an estimate is available on HMO and service corporations premiums is 1996.

Rate Calculations at 6.5%:

HMO	Service	Total
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Premiums:	\$1,024,714,242	\$1,115,670,877	
Presumed Premiums Tax Rate:	x 1.9%	x 1.9%	
Presumed Premiums Tax:	19,469,571	21,197,747	
Regulatory Rate	x 6.5%	x 6.5%	
Expected Revenue	\$ 1,265,522	\$ 1,377,554	\$ 2,643,076

Rate Calculations at 6%:

	HMO	Service	Total
Premiums :	\$1,024,714,242	\$1,115,670,877	
Presumed Premiums Tax Rate:	x 1.9%	x 1.9%	
Presumed Premiums Tax:	19,469,571	21,197,747	
Regulatory Rate	x 6.0%	x 6.0%	
Expected Revenue	\$ 1,168,174	\$ 1,271,865	\$ 2,440,039

Data provided by the Department of Insurance.

FISCAL RESEARCH DIVISION

733-4910

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