PREPARED BY: Sandy Sostad
DATE PREPARED: January 26, 2016
PHONE: 471-0054

LB 837

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)

	FY 2016-17		FY 2017-18	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		($16,000)	See Below	($32,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS		($16,000)		($32,000)

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 837 pertains to surplus lines insurance and premium taxes paid by brokers of such insurance. The act is operative on January 1, 2017.

Surplus Lines Premium Taxes: LB 837 provides for a flat 3% premium tax to be paid by surplus lines insurers covering properties, risks, or exposures both in and out of state. Currently, premium taxes paid on portions of out of state risk insured by surplus lines insurers are based on a rate as established by each state or territory applicable to the properties, risks, or exposures located or performed outside of the state. Premium taxes paid for insurance on in state risks are set at 3%.

The change to a 3% premium tax rate for all insurance written by surplus lines producers may change the amount of premium taxes received by the state. The Department of Insurance (DOI) indicates that premium tax rates currently levied vary from state to state, insured risks may change location or in-state insurers may begin offering coverage for risks currently insured by surplus lines carriers. So, the amount collected each year varies.

The fiscal note provided by DOI shows the premium taxes collected from surplus lines insurers for the past three years and an estimate for the 2015 calendar year. The change to a 3% rate would have decreased premium tax receipts by a range of $50,123 to $80,684 in CY2012 to CY2014. Based on this information, DOI estimates the bill will decrease premium tax revenue by an estimated $80,000 per year. The entities which will have decreased revenue are: General Fund ($32,000); Mutual Finance Assistance Fund ($8,000); Municipal Equalization Fund ($12,000); counties ($4,000) and schools ($24,000).

TEEOSA Impact: The premium taxes provided to school districts decrease the amount of General Fund aid required to fund the Tax Equity and Educational Opportunities Support Act (TEEOSA). A $24,000 decrease in premium tax revenue will increase the amount of general funds needed to fund TEEOSA by a like amount. The change in TEEOSA aid will begin in FY2017-18.

Nonadmitted Insurance Multi-State Agreement: The bill eliminates provisions in current law regarding the Nonadmitted Insurance Multi-State Agreement which was an agreement between states to facilitate the collection, allocation and disbursement of premium taxes from non-admitted insurers. The elimination of this provision has no fiscal impact because the agreement is not currently functioning.

Premium Tax Payment Dates: The bill changes the dates on which surplus lines insurers and exempt commercial purchasers must file quarterly premium tax statements and pay taxes. The date changes should not impact the total amount of premium tax revenue collected from these entities but could result in a slight decrease in interest earned in initial year the change is implemented (2017).

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 837	AM:	AGENCY/POLT. SUB: Department of Insurance
REVIEWED BY: Robin Kilgore	DATE: 1-19-16	PHONE: 471-4180
COMMENTS: No basis to disagree with agency estimate of fiscal impact.		

Please complete ALL (5) blanks in the first three lines. **2016**

LB(1) 837 FISCAL NOTE

State Agency OR Political Subdivision Name: (2) Nebraska Department of Insurance

Prepared by: (3) Robert M. Bell **Date Prepared: (4)** January 15, 2016 **Phone: (5)** (402) 471-4650

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2016-17		FY 2017-18	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		($28,000)		($56,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS		($12,000)		($24,000)
TOTAL FUNDS		($40,000)		($80,000)

Explanation of Estimate:

The legislation proposes to change the way surplus lines tax is calculated from a calculation based upon the tax rate of the state where the risk is located to a flat 3% rate. The current amount collected can vary. Some states have higher rates and some have lower rates. From year to year, risk can change location (i.e. equipment can move, etc.) and admitted insurers can begin writing insurance that covers risk that previously was written by surplus lines carriers. Based upon the amount of surplus lines premium paid by Nebraska businesses on non-Nebraska risk, the Department estimated the following impact on revenue had the proposed 3% tax rate been in effect:

Period	Non-Neb. Premium	Multi-State Tax pd	Proposed 3% rate	Revenue Impact
2012	$9,144,341	$326,453	$274,330	($52,123)
2013	$12,833,831	$464,104	$385,015	($79,089)
2014	$12,230,694	$447,605	$366,972	($80,684)
2015 (3Q & 4Q est)	$15,786,020	$549,097	$473,580	($75,517)

The Department estimates that the amount of surplus lines tax premium will decrease annually an average of $80,000. Premium tax from surplus lines is distributed as follows, 40% to the General Fund and 10% to the Mutual Finance Assistance Fund. 50% is provided to the Insurance Tax Fund, which is distributed as follows: 10% counties, 30% to the Municipal Equalization Fund, and 60% to TEEOSA (it is presumed that the reduction in TEEOSA will in turn impact the General Fund). The complete breakdown is as follows:

General Fund 40%	($32,000)
Mutual Assistance Fund (10%)	($8,000)
Counties (5%)	($4,000)
Municipal Equalization Fund (15%)	($12,000)
TEEOSA (30%)	($24,000)

It is presumed that the reduction to TEEOSA will impact the General Fund. The legislation has a proposed January 1, 2017 operative date.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS 16-17	17-18	2016-17 EXPENDITURES	2017-18 EXPENDITURES
Benefits……………………………...……				
Operating………………………...……….				
Travel………………………………………..				
Capital outlay…………………...…………..				
Aid…………………………………………...				
Capital improvements……………………...				
TOTAL……………………………….….				