

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 688 (Chairman, Economic Matters Committee)
(Departmental - Maryland Insurance Administration)
Economic Matters Referred to Finance

Maryland Insurance Administration - Funding

This enrolled bill alters the method for determining the allocation of valuation fees among insurers and sets a sunset date of June 30, 1998 for the new method. A fee will be collected in advance from each insurer and the total amount of the fees, which are based on the total valuation fees collected for fiscal 1997, will be apportioned in relation to the percentage of total premiums written by an insurer during a year. These provisions of the bill take effect July 1, 1997.

The bill also establishes an Advisory Committee to Study Funding Mechanisms for the Maryland Insurance Administration (MIA). The 13-member committee will develop a proposal which (1) apportions the cost of regulation fairly and equitably among the regulated entities; (2) takes into account the economic impact of the mechanism; (3) reduces the current cost of imposing and collecting fees; and (4) takes into account possible retaliatory actions by other states. Members of the committee may not receive compensation but are entitled to reimbursement for expenses under the standard State travel regulations. These provisions of the bill take effect June 1, 1997 and sunset May 31, 1998.

Fiscal Summary

State Effect: None. The bill would not substantively change the finances or operations of the Maryland Insurance Administration (MIA) as discussed below.

Local Effect: None.

Small Business Effect: MIA has determined that this bill has minimal or no impact on small

businesses. Fiscal Services concurs with the attached assessment, but notes there is a potential meaningful impact on a limited number of small businesses as discussed below. (The attached assessment does not reflect amendments to the bill.)

Fiscal Analysis

Background: In response to a request in the 1996 Joint Chairmen's Report, Fiscal Services evaluated the current funding mechanism for MIA. It was determined that the use of an assessment mechanism, where the agency's total budget is allocated across insurance companies based on volume of activity, would address the issues of (1) the cumbersome nature of the agency's budget with its combination of special and general funds; and (2) the question of whether fees paid by the insurance industry match the costs of regulation. Fiscal Services determined that MIA's fee revenues have closely matched MIA's budget in recent years, with the notable exception of fiscal 1996. In fiscal 1996, the merger of two large insurance companies resulted in an unexpected windfall of about \$2 million in fees. The correlation between fees paid by the insurance industry and MIA's budget in recent years has been achieved without a mechanism forcing parity. This parity could be lost if changes in the insurance industry change the magnitude of fees collected or if the agency's budget increases or decreases significantly.

The fiscal 1998 appropriation for MIA is \$14.5 million, with \$11.8 million from general funds and \$2.7 million from special funds.

State Revenues: MIA would continue to collect approximately \$1.4 million in valuation fees (based on actual valuation fees for fiscal 1996).

State Expenditures: Advisory committee members would be reimbursed for expenses under the standard State travel regulations. Any such expenditures would depend upon the time, location, and frequency of the committee's meetings. Expenses are assumed to be minimal and absorbable within existing agency resources.

Small Business Effect: To the extent that the few insurers that are small businesses face increased fees, there could be a meaningful impact on those small businesses. It is known that at least one title insurer as well as two nonprofit vision plans and a few nonprofit dental plans are small businesses.

Information Source(s): Maryland Automobile Insurance Fund, Maryland Insurance Administration, Department of Fiscal Services

Fiscal Note History: First Reader - February 12, 1997
brd Revised - House Third Reader - April 1, 1997
Revised - Enrolled Bill - April 29, 1997

Analysis by: Sarah Dickerson
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710