

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 1305 (Third Edition)

SHORT TITLE: Beach Plan Changes.

SPONSOR(S): Representative Holliman

FISCAL IMPACT					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUES:					
General Fund	* \$300,000 - \$350,000 increase in gross premiums tax revenue – See assumptions and methodology *				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue; NC Department of Insurance					
EFFECTIVE DATE: Becomes effective when law.					

BILL SUMMARY:

House Bill 1305 makes various changes to Article 45 of Chapter 58 of the General Statutes. These changes include the following:

- Renames the Beach Plan the "Coastal Property Insurance Pool."
- Requires that the surplus of the Association be retained to pay losses, purchase reinsurance, and pay operating expenses and provides that the surplus may not be distributed to member companies.
- Sets maximum coverage limits by statute and decreases those limits to \$750,000 for homeowners and dwelling policies (currently \$1.5M) and limits contents coverage to 40% of building value (currently 70%).
- Increases homeowners coverage surcharges to 10% above approved voluntary market rates for separate wind and hail coverage (currently 5%) and 20% for wind and hail as a part of a homeowner's policy (currently 15%).
- Provides that surcharges may be applied to dwelling and commercial policies, not just homeowners policies.
- Requires the Beach Plan to set a minimum deductible for wind and hail coverage of one percent (1%) of the insured value of the property.
- Requires the Association to file a schedule of credits for policyholders based on mitigation and construction features.

- Requires the Association to submit to the Commissioner an installment plan for premium payments.
- Provides that when losses incurred by the Association result in an assessment against insurers of \$1B, the Association may, subject to the approval and order of the Commissioner, institute a catastrophic assessment recoupment on residential and commercial property holders statewide to recover any assessment exceeding \$1B. Recoupment or recoupments shall not exceed an aggregate amount of 10% of the annual policy premium on any one policy of insurance.
- Requires insurers to report by February 1 of each year the amount of homeowner's insurance written in the Beach and Coastal areas.
- Requires the N.C. Rate Bureau to revise, monitor, and review territories in the Beach and Coastal areas.
- Requires public notice in at least two newspapers with statewide distribution of filings for increases in residential property insurance rates.

ASSUMPTIONS AND METHODOLOGY:

A State tax of 1.9% of gross premiums is levied on insurance carriers. An additional fire and lightning tax of 0.74% applies to gross premiums on insurance contracts for property coverage. The 1.9% gross premiums tax is a General Fund revenue source. The fire and lightning tax is distributed as follows: 45% General Fund; 30% Volunteer Fire Fund and 25% Fireman's Relief Fund.

According to the Department of Insurance, the proposed increase in the Beach Plan surcharge and expansion of the surcharge to dwelling policies is expected to generate approximately \$17 million in additional taxable premiums. Applying the 1.9% premium tax to this amount results in additional revenue of approximately \$320,000. Because the premium estimate is an approximation, a range estimate of \$300,000 to \$350,000 is used. The fire and lightning tax of 0.74% would generate an additional \$125,000 to be distributed according to the percentages indicated above.

SOURCES OF DATA: NC Department of Insurance

TECHNICAL CONSIDERATIONS: None

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