



Colorado Legislative Council Staff
STATE
FISCAL IMPACT

Drafting Number: LLS 06-0236
Prime Sponsor(s): Rep. Coleman
 Sen. Tochtrop

Date: January 10, 2006
Bill Status: House Business Affairs and Labor
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TITLE: CONCERNING THE CREATION OF THE COLORADO CONSUMER INSURANCE BOARD FOR THE PURPOSE OF PROVIDING COUNSEL TO THE DIVISION OF INSURANCE.

Fiscal Impact Summary	FY 2006/2007	FY 2007/2008
State Revenues		
General Fund	(\$49,611)	(\$132,049)
State Expenditures		
General Fund	\$204,825	\$681,875
Cash Fund - Division of Insurance Cash Fund	49,611	132,049
Cash Fund Exempt - Transfer to Department of Law*	52,205	174,015
FTE Position Change	1.4 FTE	4.1 FTE
Effective Date: August 9, 2006, unless a referendum is filed.		
Appropriation Summary for FY 2006/2007:		
Department of Regulatory Agencies, Colo. Consumer Insurance Board: \$204,825 GF		
Department of Regulatory Agencies, Division of Insurance: \$ 49,611 CF and 1.0 FTE		
Department of Law: \$ 52,205 CFE* and 0.4 FTE		
Local Government Impact: None		

**This amount is included in the General Fund expenditure total.*

Summary of Legislation

This Interim Committee on Auto Insurance bill creates the Colorado Consumer Insurance Board (board). The Governor, with the consent of the Senate, shall appoint 11 members to the board representing various interests and having expertise in insurance by March 1, 2007. The duty of the board is to represent the public interest of insurance policyholders by providing the Insurance Commissioner guidance and oversight in the performance of his statutory duties and responsibilities. Specific powers and duties of the board include the following:

- providing general policy guidance regarding rule-making matters, legislative projects, and priorities of the Division of Insurance;
- gathering information, formulating policy positions and preparing analysis and testimony for the commissioner for use at public hearings;
- reviewing the performance of the commissioner; and
- hiring contractors to carry out the duties of the board.

State Revenues

General Fund revenues are anticipated to decrease \$49,611 in FY 2006-07 and \$132,049 in FY 2007-08. The Department of Regulatory Agencies, Division of Insurance, is funded from a diversion of premium tax revenue that would otherwise be credited to the General Fund. Since this bill requires increased expenditures from the Division of Insurance Cash Fund, a corresponding negative General Fund revenue impact is expected.

State Expenditures

This bill creates the Colorado Consumer Insurance Board (board) and specifies that it is to provide guidance and oversight to the Insurance Commissioner in the performance of his or her statutory duties. This language gives the board broad latitude in the depth of its activities. While there are certain firm costs associated with this bill for both the Division of Insurance and the board, **the majority of the expenses will depend on the specific activities of the board.**

Total estimated expenditures for this bill are \$254,436 in FY 2006-07 and \$813,924 in FY 2007-08. It should be noted that the bill is not clear as to the organizational structure of the board nor its funding mechanism. At this time, the fiscal note assumes that the board will be "housed" under the Department of Regulatory Agencies and that expenses of the board (\$204,825 in FY 2006-07) will be paid through the General Fund. The remaining \$49,611 in expenses will be paid from the Division of Insurance Cash Fund. Table 1 shows the estimated costs under HB06-1043.

Table 1.		
Estimated Expenditures for the Department of Regulatory Agencies		
	FY 2006/07	FY 2007/08
Division of Insurance		
Personal Services	\$46,106	\$115,629
FTE	1.0	2.8
Operating & One-time Costs	\$3,505	\$16,420
Subtotal for Division of Insurance	\$49,611	\$132,049
Colorado Consumer Insurance Board		
Contract Services	\$150,000	\$500,000
Legal Services - transfer to Dept. of Law	\$52,205	\$174,015
Meeting Expenses	\$2,620	\$7,860
Subtotal for board expenses	\$204,825	\$681,875
Total Expenses	\$254,436	\$813,924

Colorado Consumer Insurance Board. The board is expected to incur expenses of \$204,825 in FY 2006-07 and \$681,875 in FY 2007-08. These expenses are based on the 11-member board holding 2 meetings in the first year and 6 meetings in subsequent years due to the March 1, 2007, start date. The following assumptions were made:

- the board will contract for administrative, actuary, economics and other services to carry out its duties (estimated at \$500,000 per full fiscal year, but this is highly dependent on the decisions of the board - see further description below);
- the Office of the Attorney General will advise the board in all legal matters estimated to take 2,700 hours per full fiscal year (legal hours are also highly dependent on the activities of the board); and
- the board will have 5 out-of-town members.

As noted above, the bill allows the board to contract with experts to carry out its duties. Thus, the decisions of the board as to the level of guidance and oversight it wishes to give to the commissioner will determine the type of contractors it hires and the extent of its work. In addition, the bill does not authorize the board to have regular employees for ongoing administrative and other tasks. The fiscal note assumes contractors will be hired to provide necessary services totaling \$150,000 in FY 2006-07 and \$500,000 in FY 2007-08. These are rough estimates and will vary greatly depending on the board's activities.

Department of Regulatory Agencies, Division of Insurance. The division is expected to incur expenses of \$49,611 in FY 2006-07 and \$132,049 in FY 2007-08 as a result of this bill. Following is a description of the anticipated expenses:

- the board will recommend, and the commissioner will accept, 5 changes to rule in the first year and 15 in the second and subsequent years (100 hours of division time are estimated for each rule change);
- the division will provide the board a simple report with summary information on all rate filings (18,000 per year) and the board will request full information on 25 percent of those resulting in estimated printing and postage costs of \$8,910 starting in FY 2007-08;
- the division will provide information to the board to assist in its review of the commissioner's performance requiring 100 hours in FY 2007-08 and subsequent years; and
- the division will receive, handle, sort, file, track, and make available to the public written public comments on changes recommended by the board requiring 0.6 FTE in FY 2006-07 and 2.0 FTE in FY 2007-08 (this cost is highly dependent on the activities of the board).

In addition, the division is expected to revise three regulations to allow the board to review rate filings requiring 260 hours in FY 2006-07 only. Costs involved with legislative projects are expected to be determined in specific future legislation, and costs associated with the Commissioner's responsibility to communicate with and take into account the board's recommendations on proposed legislation are not estimated at this time.

Note: The Department of Regulatory Agencies identified a maximum cost resulting from this bill of \$1,729,119 in FY 2006-07 and ongoing expenses of \$1,478,744 for both the Division of Insurance and board expenses. The primary difference in these figures compared to the fiscal note

assumptions is the activity level of the board including the number of board recommended rule changes, the number of full rate filings the board requests, and the amount of legal representation the board needs. Further detail about these differences can be found in the Legislative Council Fiscal Note Section.

Department of Law. Expenditures for the department are anticipated to be \$52,205 cash funds exempt and 0.4 FTE in FY 2006-07, and \$174,015 cash funds exempt and 1.3 FTE in FY 2007-08. The bill specifies that it is the duty of the Attorney General to advise the board in all legal matters and to provide representation in proceedings in which the board participates. Thus, the activities of the board will determine the amount of legal advice or counsel and representation the board will require. If the board decides to be involved in every hearing and all other matters of the division, legal expenses could equal that of the division (\$554,478 in FY 2005-06). However, the fiscal note assumes the board's need for legal hours to be significantly lower, or 810 hours in FY 2006-07 (810 hours X \$64.45 = \$52,205) increasing to 2,700 hours in FY 2007-08 (2,700 hours X \$64.45 = \$174,015) and subsequent years.

State Appropriations

The fiscal note indicates the following appropriations for FY 2006-07:

- Department of Regulatory Agencies, Colorado Consumer Insurance Board - \$204,825 General Fund;
- Department of Regulatory Agencies, Division of Insurance - \$49,611 from the Division of Insurance Cash Fund and 1.0 FTE; and
- Department of Law - \$52,205 cash fund exempt and 0.4 FTE.

Departments Contacted

Law Regulatory Agencies