

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1264 (Second Edition)

SHORT TITLE: Regulatory Fees

SPONSOR(S): Representative Miner

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ million)				
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
REVENUES					
Utilities Special Fund	\$12.6				
Insurance Reg. Fund	\$24.1				
EXPENDITURES					
POSITIONS: (cumulative)					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Utilities Commission, North Carolina Department of Insurance					
EFFECTIVE DATE: Part I becomes effective July 1, 2004; Part II becomes effective when the bill becomes law.					

BILL SUMMARY: Part I, Section 1.1.(a) keeps the regulatory fee rate for the Public Utilities Commission at 0.12%. This rate must be set annually and remains the same as in the previous year. Section 1.1.(b) sets the regulatory fee for the electric membership corporations at a flat \$200,000. This fee has remained the same since it was first imposed in 1999.

Part II addresses the annual establishment of the insurance regulatory fee. Section 2.1.(a) keeps the insurance regulatory charge at 5%. The rate remains the same as in the previous year.

ASSUMPTIONS AND METHODOLOGY:

PART I: UTILITIES COMMISSION REGULATORY FEE

Part I of the bill sets the fees for regulation by the North Carolina Utilities Commission (Commission.) Section 1.1.(a) of the bill sets the public utility regulatory fee rate at 0.12% for FY 2004-05. Revenue from this fee, which is assessed against regulated public utilities, is used to support the operations of both the Commission and the Public Staff. The Commission estimates the 0.12% regulatory fee will produce \$12,600,000 in FY 2004-05. For the same period, the Commission estimates that the combined operations of the Commission and Public Staff will require total expenditures of not less than \$12,616,620. The cash balance in the Commission's Accumulated Fee Margin Reserve Account and other special funds as of May 30, 2004 was \$7.9 million. This represents approximately 7.5 months of operating reserve. At fiscal year end, the Commission estimates it will have a cash balance of approximately \$6.95 million in the fund.

Section 1.1.(b) of the bill sets the public utility regulatory fee to be paid by the North Carolina Electric Membership Corporation for the 2004-05 fiscal year at \$200,000. In 1999, the initial fee of \$200,000 was developed as a result of discussions between the industry and the Utilities Commission, based on what the Utilities Commission believed to be the cost associated with regulating the electric membership cooperatives. In 2001 the Utilities Commission provided information to the General Assembly's Fiscal Research illustrating that these fees supported approximately 4000 hours of accounting, engineering, and legal time. This fee amount must be set by the General Assembly each year.

PART II: INSURANCE REGULATORY CHARGE

Part II of the bill sets the insurance regulatory charge at 5% for calendar year 2004.

This fee is assessed against the 1.9% premiums tax paid by insurers or against the presumed premiums tax that would be paid by HMOs and Article 65 companies (Blue Cross/Blue Shield) if taxed at 1.9% (they are taxed at 1%). The revenue is used to reimburse the General Fund for appropriations to the Department of Insurance to pay expenses incurred in regulating the insurance industry and other industries and to other departments as specified in G.S. 58-6-25(d).

The premiums tax collections for 2004-2005 is estimated to be \$319.5 million. The presumed premium tax for the HMOs and Article 65 companies is estimated to be \$69.3 million. With the premiums tax collections of \$319.5 million and the presumed premiums tax of \$69.3 million from the HMOs and Article 65 companies, the total base against which the insurance regulatory charge will be assessed is estimated to be \$388.8 million. Applying the 5% regulatory fee to the \$388.8 million base would generate \$24.10 million in regulatory fee revenue.

The Department estimates that the operating expenses will be \$25.9 million for 2004-2005 and that the reserve will have a balance of \$13.85 million at the beginning of 2004-2005. The total available from the reserve fund of \$13.85 million and the estimated collections of \$24.10 million will be \$37.95 million. The total available less the estimated operating expenditures of

\$25.9 million will leave a year-end reserve balance of \$12.05 million. This reserve is above one-third of the estimated operating expenditures.

Based on the above, the regulatory surcharge rate of 5%, assessed against companies that pay a premiums tax as well as HMOs and Article 65 companies, is sufficient to defray the estimated cost of the operations of the Department and provide for a reserve fund.

SOURCES OF DATA: North Carolina Utilities Commission, North Carolina Department of Insurance

TECHNICAL CONSIDERATIONS: N/A

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Signed Copy Located in the NCGA Principal Clerk's Offices