

FISCAL NOTE
Requested by Legislative Council
01/09/2017

Bill/Resolution No.: HB 1101

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures				\$(438,100)		\$(483,000)
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill reduces the frequency that the Fire and Tornado Fund is required to have the Insurance Services Office perform a historical loss analysis, thereby reducing that expenditure of the Fire and Tornado Fund.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 amends Section 26.1-22-14 to have premium and loss data submitted to the Insurance Services Office for a historical loss analysis every five years, instead of each biennium. This analysis is included in the computation of base rates. Other, more significant components to that calculation are building construction, occupancy, protection class, and exposure, which is all data already available to the Fund without additional cost. In determining rates, the Commissioner must also factor in the Fund's ending balance, operating expenses, and aggregate loss expenses.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

This bill has no fiscal impact to revenue.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Historically, the fees associated with this service have increased an average of 5% per year, with the most recent analysis costing the Fire and Tornado Fund \$397,400. Based on this, the projected cost is \$438,100 and \$483,000 for the 2017-2019 and 2019-2021 bienniums, respectively. Changing the frequency would not require the Fire and Tornado Fund to have another analysis performed until the 2021-2023 biennium.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

This bill has no fiscal impact to appropriations as the expenditure has continuing authority.

Name: Melissa Seifert

Agency: Insurance Department

Telephone: 328-2930

Date Prepared: 01/09/2017

2017 HOUSE INDUSTRY, BUSINESS, AND LABOR

HB 1101

2017 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee
Peace Garden Room, State Capitol

HB 1101
1/10/2017
26706

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Virginia Emureth

Explanation or reason for introduction of bill/resolution:

Assessments & reporting of premiums & losses for the state fire & tornado fund.

Minutes:

Attachment 1

Chairman Keiser: Opens the hearing of HB 1101.

Jeff Bitz-Director: Special Funds Division-ND Insurance Dept. I am in support of HB 1101. (Attachment 1) I suggest a do pass on the bill.

6:00

Rep Laning: Since you will be going to a 5 year instead of a 2 year, what is the cost increase?

Mr.Bitiz: The biggest difference is they are always looking at the things you are insuring now, and then the new buildings that are being added on an annual basis, so over the last 4 or 5 years the state political divisions have been on a building boom, so that doesn't count for the cost but the state has a core base. The biggest difference is the new buildings.

Rep Laning: How much difference is there in a book of business?

Mr.Bitiz: It is going to be a cost based on upon the number of buildings if the insurance service office has to send a representative out from the Chicago office to take a look at the fire district, the building classification code, there is going to be a flat per building of about \$250.00 per building.

Rep Ruby: There are several references in the 12-million-dollar reserve level How long has it been since that has been changed?

Mr.Bitiz: The 12 million have been on the books since the early 60's. It would be nice to see an increase because it helps in terms of planning a rate stability for our policy holders it also helps us from the stand point of rating the insurance. The surplus that we have shows the industry that we can pay for our losses and that they won't be out there holding the bag in

case something happens to the frontier fund should we have a string of losses under our retention of one million dollars.

Rep Ruby: If the insurance department regulates all the insurance in our state saying it is a gross victim in terms of what they have to add, it is embarrassing to hear you say the reserves that we manage should be higher but we haven't done anything about it.

Mr.Bitiz: There is a big difference in how they fund the personal private industry.

Chairman Keiser: You need to answer Rep Ruby's question.

Mr.Bitiz: The 12 million is basically a 4. We operate above that in terms of our surplus. We do generate premiums about 4.2 million dollars a year if we don't discount our rates. We do have money above the 12 million dollars that we set aside to pay those claims on that we currently have and the anticipated claims that we are to see through the year. we set aside

Rep Boschee: What is the balance of the fund?

Mr.Bitiz: It is about 22 million dollars.

Chairman Keiser: This is a large fiscal note. Why is this going to cost so much more

Rep Ruby: It's going down.

Rep Louser: We are going from 2 to 5, why not 10 years.

Mr.Bitiz: 10 years is too far out. We don't capture the loss history in terms of those policy owners who have frequent claims as well as severity. So we feel 5 years is better than the 2 year looking as what the private industry does in terms of what the loss is and then building into a raise the severity and frequently of those policy users of the fund. The people who are users of the fund should be paying for those services verses those who are not.

14:10

Chairman Keiser: Has anyone had a discussion with appropriations whether they want to see this every 2 years? Is that Financial information important?

Mr.Bitiz: No it is a continuing appropriation so it comes out of surplus of the fund, we have not talked to anyone.

Rep Keiser: We have a do pass on HB 1101.

Rep Sukut: I move a do pass on HB 1101

Rep Dovervich: I have a question about the 12 million whether that is something that should be fixed or what the amount should be or some building will be added or if the level of risk is higher since, we don't have that information I will second the motion.

House Industry, Business and Labor Committee

HB 1101

Jan 10, 2017

Page 3

Roll call was taken: Yes 14 No 0 Absent 0

Floor Asssignment: Rep. Louser.

Rep Keiser: Closes the hearing.

Date: 1-10-17Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES**
BILL/RESOLUTION NO. HB 1101

House _____ Industry, Business and Labor _____ Committee

☐ SubcommitteeAmendment LC# or
Description: _____**Recommendation**

- ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions

- ☐ Reconsider ☐ _____

Motion Made By Vice Chairman Sukut Seconded By Rep Dobervich

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Rep Laning	X	
Vice Chairman Sukut	X		Rep Lefor	X	
Rep Beadle	X		Rep Louser	X	
Rep R Becker	X		Rep O'Brien	X	
Rep Bosch	X		Rep Ruby	X	
Rep C Johnson	X		Rep Bosch	X	
Rep Kasper	X		Rep Dobervich	X	

Total (Yes) 14 No 0Absent 0Floor
Assignment Rep Louser

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1101: Industry, Business and Labor Committee (Rep. Keiser, Chairman)
recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).
HB 1101 was placed on the Eleventh order on the calendar.

2017 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1101

2017 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

HB 1101
2/8/2017
Job Number 28036

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Eva Liebelt

Explanation or reason for introduction of bill/resolution:

Relating to assessments and reporting of premiums and losses for the state fire and tornado fund

Minutes:

Attachment 1

Chairman Klein: Called the meeting to order.

Jeff Bitz, Director, Special Funds Division, North Dakota Insurance Department: In support. Written testimony, see attachment #1. (1:09-4:17)

Chairman Klein: Is there a formula for the fund balance to stay within a perimeter?

Jeff Bitz: In statute there is a twelve-million-dollar floor in which the fund has to stay above.

Senator Casper: So we are essentially self-insuring and then what do we do with the money sitting in the fund?

Jeff Bitz: I refer to it as more of a mutual because we have 1154 policies holders, state and political subdivisions. What we do with that fund is reinvest it through the investment board reel. That helps offsets the rates we charge our policy holders because all of that comes back into the fund. It is calculated and determined based upon loss history, experience etc., into what we determine our rates to be. We also through the surplus buy our reinsurance. The fund buys excess reinsurance in the private market place excess of a million dollars. We have a retention of one million and if we have a loss experience or an occurrence that exceeds one million, we get reimbursed by our reinsurance carrier for those losses in excess of one million dollars.

Chairman Klein: We just cover state facilities, state buildings, with the fire and tornado fund. That is what we are insuring the 1154 entities, they are all state or government owned buildings?

Jeff Bitz: Yes, it is strictly state entities, capitol building and the content within, for personal property and the outdoor property of these political subdivisions and state entities.

Chairman Klein: And the twelve million is the amount of money that the fire and tornado contributes to the real estate investment office for investment purposes and is that liquid, how does that work? When you have a loss do you have enough liquidity there to be able to pay your losses?

Jeff Bitz: We deal with it almost on an annual basis and we try to not touch that floor. We are always operating at a rate based upon our surplus above that twelve million.

Senator Roers: You talked about political subdivisions being part of this 1154. Does that take us down to city halls?

Jeff Bitz: Yes, we are talking townships, all of the cities and counties office buildings, school districts and universities.

Senator Burckhard: If the state leases a space in an office does it cover the contents of that office?

Jeff Bitz: Yes, we cover the content and perhaps even the betterments that the state put into that lease space.

Chairman Klein: We are getting to the nuts and bolts of how your fund works and that has been working very successfully for a long time. Going back to exactly what we are trying to do here there is no advantage to having this report every two years because that is where we are at?

Jeff Bitz: Loss history is important but two years is too short of a window. The industry typically looks at a five-year loss history and that's where we want to be. We want to be consistent with the insurance industry.

Chairman Klein: Closed the hearing.

Senator Casper moved a do pass.

Senator Poolman seconded the motion.

Roll Call Vote: Yes-7 No-0 Absent-0

Senator Marcellais will carry the bill.

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1101**

Senate Industry, Business and Labor Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ _____

Motion Made By Senator Casper Seconded By Senator Poolman

Senators	Yes	No	Senators	Yes	No
Chairman Klein	x		Senator Marcellais	x	
Vice Chairman Campbell	x				
Senator Roers	x				
Senator Burckhard	x				
Senator Casper	x				
Senator Poolman	x				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Marcellais

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1101: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends
DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1101 was placed
on the Fourteenth order on the calendar.

2017 TESTIMONY

HB 1101

HOUSE BILL NO. 1101

Presented by: Jeff Bitz
Director, Special Funds Division
North Dakota Insurance Department

Before: House Industry, Business and Labor Committee
Representative George Keiser, Chairman

Date: January 10, 2017

TESTIMONY

Good Morning Chairman Keiser and members of the committee. My name is Jeff Bitz and I am the Director of the Insurance Department's Special Funds Division. I appear before you today in support of House Bill No. 1101.

The State Fire and Tornado Fund is one of the special funds the Insurance Department manages. This fund originated in 1919 and provides affordable building and personal property insurance coverage to state entities and political subdivisions of the state. The Fund insures 1,154 entities with total insured values of \$13.2 billion.

Currently the Commissioner is required to submit, not later than December 31 of each odd-numbered year, all data concerning premium written and losses incurred during the previous biennium ending July 31 to the Insurance Service Office so that the experience of the Fund may be included in the computation of rates to apply to the classes of business written by the Fund.

This bill changes the requirement of submitting all data concerning premium written and losses incurred from each odd-numbered year to the previous five-year period, and changes the biennium ending date from July 31 to June 30.

By changing the frequency, the Fund will realize significant savings by not paying for a service that does not provide much value based on the cost of the service. That savings can then be passed on to policyholders.

Base rates are determined by building construction, occupancy, protection class, exposure and insurable value. Loss history is another component in rate setting, but not significant enough to justify the cost. The Commissioner must also factor in the Fund's ending balance, operating expenses and aggregate loss expenses.

The Fund over a 10-year loss history experienced an average of 225 claims and claim payments of \$2.1 million per year. During that same time period the Fund provided premium reductions from the base rate of up to 50% and a complete rate waiver in 2014. The loss history analysis provided little value in rate setting over this period of time given the other factors that impacted rates.

I respectfully request a "do pass" recommendation from this committee on House Bill No. 1101.

HOUSE BILL NO. 1101

Presented by: Jeff Bitz
Director, Special Funds Division
North Dakota Insurance Department

Before: Senate Industry, Business and Labor Committee
Senator Jerry Klein, Chairman

Date: February 8, 2017

TESTIMONY

Good morning Chairman Klein and members of the committee. My name is Jeff Bitz and I am the Director of the Insurance Department's Special Funds Division. I appear before you today in support of House Bill No. 1101.

The State Fire and Tornado Fund is one of the special funds the Insurance Department manages. This fund originated in 1919 and provides affordable building and personal property insurance coverage to state entities and political subdivisions of the state. The Fund insures 1,154 entities with total insured values of \$13.2 billion.

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I respectfully request a "do pass" recommendation from this committee on House Bill No. 1101.