



**STATE
REVISED FISCAL IMPACT**

(replaces fiscal impact dated January 23, 2006)

Drafting Number: LLS 06-0519

Date: March 9, 2006

Prime Sponsor(s): Sen. Tapia
Rep. Knoedler

Bill Status: House Business Affairs and Labor
Fiscal Analyst: Gary J. Estenson (303-866-4976)

TITLE: CONCERNING INVESTIGATION OF INSURANCE FRAUD.

Fiscal Impact Summary	FY 2006/07	FY 2007/08
State Revenues		
General Fund	\$94,667	\$94,667
Cash Funds	395,926	395,926
State Expenditures		
Cash Funds - Division of Insurance Cash Fund	\$379,950	\$350,925
Cash Fund Exempt - Transfer to Department of Law*	379,950	350,925
FTE Position Change	5.0 FTE	5.0 FTE
Effective Date: Upon the signature of the Governor.		
Appropriation Summary for FY 2006/07:*		
Department of Regulatory Agencies, Division of Insurance:	\$379,950 CF	
Department of Law:	\$379,950 CFE* & 5.0 FTE	

**This amount included in the Cash Funds expenditure total.*

Summary of Legislation

Under current law, the Department of Regulatory Agencies, Division of Insurance, collects an annual fee of \$120 from every insurance carrier authorized to write insurance policies in the state. The reengrossed bill increases the fee from \$120 to \$425. The fee, which must be paid on or before the first day of March, is credited to the Division of Insurance (DOI) Cash Fund, then allocated to the Insurance Fraud Unit in the Department of Law to help pay for investigations and prosecutions of alleged insurance fraud. The bill also requires the Attorney General to provide annual reports to the Joint Budget Committee detailing statistical data regarding investigations and prosecutions of insurance fraud. The data shall also be made available on the Attorney General's website.

Background

For FY 2005-06, the Department of Law was appropriated \$287,687 for its Insurance Fraud Unit. Of this amount, an estimated \$191,520 is expected to be collected from the \$120 annual fee imposed on 1,621 insurance carriers. The remaining \$94,667 is expected to come from the DOI Cash Fund from moneys that would otherwise be credited to the General Fund. Since July 1, 2001,

the Department of Law has received 2,201 referrals of insurance fraud. The department's existing staff of 2.5 FTE, which includes one investigator, one attorney, and support staff, can administer 20 cases per year, or 90 cases for the four and one-half year period since July 1, 2001.

State Revenues

The bill increases an annual fee charged to insurance carriers from \$120 to \$425, which should increase state revenues by an estimated **\$490,593 per year** beginning in FY 2006-07. For the past two years, the current \$120 fee has raised an average of \$193,020 per year from roughly 1,609 insurance carriers underwriting policies in Colorado. The new \$425 fee should raise an estimated total of \$683,613 per year, assuming no change in the number of carriers.

Of the \$490,593 in new revenue, \$94,667 will go to the General Fund, offsetting what would otherwise have been diverted from the General Fund to the DOI Cash Fund for investigations of insurance fraud. The remaining \$395,926 will be credited to the DOI Cash Fund.

As noted above, the fee is payable on or before March 1 of each year. It is assumed that the bill will not take effect before March 1, 2006, and will not affect collections before FY 2006-07.

State Expenditures

Total estimated expenditures for this bill are \$379,950 in FY 2006-07 and \$350,925 in FY 2007-08. The bill increases a fee charged to insurance carriers, the proceeds of which are required to be allocated to the Department of Law to investigate and prosecute cases of alleged insurance fraud. Using the additional revenue, the department is expected to hire additional personnel to conduct investigations and prosecute cases. Since investigations will occur throughout the state, the department will require two automobiles which will be leased through the state fleet program. Finally, the department will also have litigation expenses related to court reporter fees, depositions, and transcript and evidentiary hearing preparation. The additional workload required to prepare annual reports and post statistical data regarding insurance fraud investigations and prosecutions is anticipated to be minimal. Costs to the Department of Law are shown in Table 1. All costs would be paid from the DOI Cash Fund.

Revenue provided by this bill will not be received until March 1, 2007. Therefore, the fiscal note assumes that premium tax receipts will be diverted from the General Fund to the DOI Cash Fund to cover expenses associated with the first part of FY 2006-07. On or after March 1, 2007, the DOI Cash Fund will reimburse all moneys diverted from the General Fund.

Table 1. Department of Law Expenses		
	FY 2006/07	FY 2007/08
Personal Services		
3.0 FTE - Criminal Investigator II	\$202,230	\$202,230
1.0 FTE - Legal Assistant I	39,327	39,327
1.0 FTE - Assistant Attorney General II	80,892	80,892
Operating Expenses	\$5,500	\$5,500
Non-Recurring Expenses	\$29,025	\$0
Automobiles	12,976	12,976
Litigation	10,000	10,000
Total Expenses	\$379,950	\$350,925
Total FTE	5.0 FTE	5.0 FTE

State Appropriations

Although the reengrossed bill includes appropriation clauses reflecting the need for \$356,974 in funding, the revised fiscal note indicates the following appropriations for FY 2006-07:

- Department of Regulatory Agencies, Division of Insurance - \$379,950 from the Division of Insurance Cash Fund; and
- Department of Law - \$379,950 cash funds exempt transfer and 5.0 FTE.

Departments Contacted

Regulatory Agencies Law