



*Colorado Legislative Council Staff Fiscal Note*  
**STATE and STATUTORY PUBLIC ENTITY**  
**FISCAL IMPACT**

**Drafting Number:** LLS 12-0714  
**Prime Sponsor(s):** Sen. Steadman  
 Rep. Levy

**Date:** January 31, 2012  
**Bill Status:** Senate Appropriations  
**Fiscal Analyst:** Clare Pramuk (303-866-2677)

**TITLE:** CONCERNING A FUND CONSISTING OF SURCHARGES ON INSURANCE PREMIUMS TO PAY FOR COSTS ASSOCIATED WITH CRIMINAL PROSECUTION OF INSURANCE FRAUD INVESTIGATIONS, AND, IN CONNECTION THEREWITH, MAKING AN APPROPRIATION.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
<b>State Revenue*</b>		
Cash Funds		
Insurance Fraud Cash Fund	\$221,140	\$221,140
<b>State Expenditures</b>		
Cash Funds		
Insurance Fraud Cash Fund	\$196,677	\$178,254
<b>FTE Position Change</b>	2.0 FTE	2.0 FTE
<b>Effective Date:</b> July 1, 2012.		
<b>Appropriation Summary for FY 2012-2013:</b> See State Appropriations section.		
<b>Local Government Impact:</b> None.		

\* Revenue is higher than expenditures in order to cover employee insurance costs shown in Expenditures Not Included section.

**Summary of Legislation**

Recommended by the Joint Budget Committee, this bill establishes a two-tier fee schedule for insurance companies based on total income received in Colorado by companies in the prior year. The fee replaces the current fee of \$561 and is capped at \$3,000. It will be set by the Commissioner of Insurance based on the direct and indirect costs of the investigation and prosecution of allegations of insurance fraud. Insurance companies with income above \$1.0 million will pay one fee and those with income less than \$1.0 million will pay a lower fee. The bill moves the Insurance Fraud Cash Fund from the Department of Regulatory Agencies to the Department of Law.

The funding increase from this change will allow for expansion of insurance fraud investigations and prosecutions in the Department of Law. Pinnacol Assurance, a workers' compensation carrier, currently pays \$561 plus an additional \$285,000 for insurance fraud investigations and prosecutions for their policies. Under Senate Bill 12-110, Pinnacol will pay the same rate as other companies in their tier.

**State Revenue**

*This bill is expected to increase revenue to the Insurance Fraud Cash Fund in the Department of Law by \$221,140 in FY 2012-13 and FY 2013-14 from fees paid by insurance companies.* These are shown in Table 2 and explained below.

Insurance companies that have income below \$1.0 million will see a decrease in their annual fee from \$561 to \$500. Insurance companies with income above \$1.0 million will see an increase to \$1,909 per year. Pinnacol Assurance which currently pays \$285,561 will now only pay \$1,909 per year. These amounts will cover the new expenditures as well as the \$285,000 reduction to existing revenues paid by Pinnacol.

**Fee Impact on Individuals, Families or Business.** Section 2-2-322, C.R.S., requires legislative service agency review of measures which create or increase any fee collected by a state agency. The table below identifies the fee impact of this bill.

<b>Table 1. Fee Impact on Individuals, Families or Business</b>					
<b>Insurance Fraud Investigations and Prosecution Fee</b>	<b>Current Fee</b>	<b>Proposed Fee</b>	<b>Fee Change</b>	<b>Number Affected</b>	<b>Total Fee Impact</b>
Companies with <\$1 million income	\$561	\$500	(\$61)	621	(\$37,881)
Companies with >\$1 million income	561	1,909	1,348	614	827,672
Pinnacol Assurance	285,561	1,909	(283,652)	1	(283,651)
Pinnacol Assurance Reduction					(285,000)
<b>TOTAL</b>					<b>\$221,140</b>

**State Expenditures**

*This bill is expected to increase expenditures in the Department of Law by \$196,677 and 2.0 FTE in FY 2012-13 and \$178,254 and 2.0 FTE in FY 2013-14 from the Insurance Fraud Cash Fund.* These costs are shown in Table 2 and described below.

The department will hire an additional criminal investigator and assistant attorney general to investigate and prosecute insurance fraud for all lines of insurance. These staff will be hired above the minimum salary in order to get people with adequate experience. Operating expenses include one-time costs for special peace officer equipment for the Criminal Investigator. Currently, the department has 2.5 FTE dedicated to fraud investigation and prosecution for workers' compensation policies written by Pinnacol Assurance. This bill changes that focus so that the department will treat all workers' compensation insurance companies' fraud investigations and prosecutions equally.

<b>Table 2. Expenditures Under SB12-110</b>		
<b>Cost Components</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
Personal Services	\$168,096	\$168,096
FTE	2.0	2.0
Operating Expenses and Capital Outlay	28,581	10,158
<b>TOTAL</b>	<b>\$196,677</b>	<b>\$178,254</b>

**Expenditures Not Included**

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 3.

<b>Table 3. Expenditures Not Included Under SB12-110*</b>		
<b>Cost Components</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$12,383	\$12,383
Supplemental Employee Retirement Payments	9,515	10,955
<b>TOTAL</b>	<b>\$21,898</b>	<b>\$23,338</b>

*\*More information is available at: <http://colorado.gov/fiscalnotes>*

**Statutory Public Entity Impact**

This bill reduces Pinnacol Assurance's fees by \$283,651 annually. Pinnacol Assurance is a political subdivision of the state that provides workers' compensation insurance to over half of Colorado employers and is prohibited by law in most cases from refusing to insure any Colorado employer.

**State Appropriations**

For FY 2012-13, the Department of Law requires an appropriation of \$196,677 and 2.0 FTE from the Insurance Fraud Cash Fund.

**Departments Contacted**

Law