

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **SB 10** SLS 14RS 166

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

<b>Date:</b> April 7, 2014	1:05 PM	<b>Author:</b> MORRISH
<b>Dept./Agy.:</b> La Citizens Property Insurance Corporation		<b>Analyst:</b> Alan M. Boxberger
<b>Subject:</b> Prohibits the recovery of penalties in class action suits		

PROPERTY INSURANCE OR DECREASE SG EX See Note Page 1 of 1  
Prohibits the recovery of penalties in class action suits against La. Citizens Property Insurance Corporation. (8/1/14)

Proposed law prohibits claimants from using class action lawsuits to seek recovery of statutorily mandated penalties against Louisiana Citizens Property Insurance Corporation.

<b>EXPENDITURES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>						
<b>REVENUES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

In the absence of this bill and to the extent class action suits were to be filed in the future, the proposed law can work to reduce expenditures by the Louisiana Citizens Property Insurance Corporation (LCPIC) associated with class action judgments. The size of any effect on expenditures is indeterminable on a year to year basis as they rely upon the number of suits filed, settled and resolved. LCPIC paid a total of \$151.4 million in class action judgments in 2012 and 2013, and is estimated to pay an additional \$46.0 million in 2014.

LCPIC is a non-profit insurance company created to provide insurance to property owners that cannot obtain property insurance on the private market. LCPIC utilizes premium revenues and retained earnings to pay operating costs, insurance claims, and debt service payments. LCPIC borrowed \$985 million to pay claims related to the 2005 hurricanes and utilizes a special assessment on the policies of all property owners of the state for revenues of approximately \$90 million annually to make debt payments scheduled through 2026. To the extent that LCPIC were able to utilize funds that would otherwise be paid in class action judgments to prepay debt service requirements for funds borrowed in 2005, future expenditure obligations may decrease accordingly. Alternatively, to the extent that LCPIC were able to utilize funds that would otherwise be paid in class action judgments to build reserves capable of paying future mass-event claims, the possibility of or the amount of additional borrowing to pay such claims in the future could be reduced.

The current class action judgments center around the requirements of LA 22:1892, requiring insurers to execute an initial loss adjustment of property damage within 30 days of a catastrophic loss, and to issue claim payment due to any insured within thirty days after receipt of satisfactory proofs of loss. LCPIC was unsuccessful at complying with these statutory requirements after the 2005 hurricanes.

**REVENUE EXPLANATION**

There is no anticipated direct material effect on short-term governmental revenues as a result of this measure.

LCPIC utilizes premium revenues and retained earnings to pay operating costs, insurance claims, and debt service payments. LCPIC borrowed \$985 million to pay claims related to the hurricanes of 2005 and utilizes a special assessment on the policies of all property owners of the state for revenues of approximately \$90 million annually to make debt payments scheduled through 2026. To the extent that LCPIC were able to utilize funds that would otherwise be paid in class action judgments to prepay these debt service requirements, future expenditure obligations may decrease accordingly. Alternatively, to the extent that LCPIC were able to utilize funds that would otherwise be paid in class action judgments to build reserves capable of paying future mass-event claims, the possibility of or the amount of additional borrowing to pay such claims could be reduced in the future, and consequently the possibility of or the amount of additional future assessments on policyholders could be reduced.

Property owners are able to file for a state income tax credit to reimburse them for the assessment added to their policies to pay the debt service on the LCPIC bonds issued after the 2005 hurricanes. Total credits claimed each year are approximately \$50 million. To the extent the proposed law would result in a diminished chance of future assessments, or the early expiration of the current assessment, credits against the state income tax would be reduced in the future. Alternatively, LCPIC could utilize funds that would be paid in class action judgments to build reserves capable of paying future mass-event claims. In this case, the possibility of potential future assessments and associated credits would be diminished, but the current assessments and credits would not be affected.

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|---|----------------------------|--------------|--|
| <u>Senate</u>   | <u>Dual Referral Rules</u> | <u>House</u> | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}                    |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}       |                            |              | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S}                  |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} |                            |              | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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