

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: April 30, 2007

Bill Number: S.B. 711

Authors: Campsen; McConnell; McGill; Rankin, *et. al.*

Committee Requesting Impact: Senate Banking and Insurance Committee

Bill Summary

A BILL TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ENACTING THE "OMNIBUS COASTAL PROPERTY INSURANCE REFORM ACT OF 2007"; BY ADDING ARTICLE 11 TO CHAPTER 6, TITLE 12 SO AS TO ALLOW AN INSURANCE POLICYHOLDER TO ESTABLISH A CATASTROPHE SAVINGS ACCOUNT, TO DEFINE QUALIFIED CATASTROPHE SAVINGS EXPENSES AND QUALIFIED DEDUCTIBLE, AND TO ALLOW A TAXPAYER TO CLAIM A CREDIT AGAINST THE STATE INCOME TAX FOR DEPOSITS MADE INTO A CATASTROPHE SAVINGS ACCOUNT; BY ADDING SECTION 12-6-3660 SO AS TO ALLOW A TAXPAYER TO CLAIM A CREDIT AGAINST THE STATE INCOME TAX FOR COSTS INCURRED TO RETROFIT A LEGAL RESIDENCE TO MAKE IT MORE RESISTANT TO LOSS DUE TO HURRICANE, RISING WATER, OR OTHER CATASTROPHIC WIND EVENT; BY ADDING SECTION 12-6-3670 SO AS TO ALLOW A TAXPAYER TO CLAIM A CREDIT AGAINST THE STATE INCOME TAX EQUAL TO THE INSURANCE PREMIUM COSTS INCURRED BY THE TAXPAYER; TO AMEND SECTION 12-36-910, AS AMENDED, RELATING TO SALES TAX EXEMPTIONS, SO AS TO ALLOW A THREE PERCENT SALES TAX ON SPECIFIED BUILDING MATERIALS USED ON HOMES TO MITIGATE DAMAGE FROM WIND; TO DESIGNATE SECTIONS 38-3-10 THROUGH 38-3-240 AS ARTICLE 1, CHAPTER 3, TITLE 38 AND ENTITLED "GENERAL PROVISIONS"; BY ADDING ARTICLE 3 TO CHAPTER 3, TITLE 38 SO AS TO PROVIDE THAT THE DIRECTOR OF THE DEPARTMENT OF INSURANCE HAS AUTHORITY TO ISSUE GENERAL ORDERS APPLICABLE TO ALL INSURANCE COMPANIES AFTER THE GOVERNOR DECLARES A STATE OF EMERGENCY; TO PROVIDE THAT THE DEPARTMENT BY ORDER, MAY ADOPT ANY RULE THAT FACILITATES RECOVERY FROM THE EMERGENCY; TO PROVIDE THAT THE DEPARTMENT SHALL ADOPT RULES STANDARDIZING REQUIREMENTS THAT MAY BE APPLIED TO INSURERS AFTER A HURRICANE, ADDRESSING CLAIMS REPORTING REQUIREMENTS, GRACE PERIODS FOR PAYMENT OF PREMIUMS, TEMPORARY POSTPONEMENT OF CANCELLATIONS AND NONRENEWAL, AND ANY OTHER RULE THE DIRECTOR CONSIDERS NECESSARY; BY ADDING SECTION 38-7-200 SO AS TO ALLOW TAX CREDIT INCENTIVES TO INSURANCE COMPANIES THAT PROVIDE FULL INSURANCE COVERAGE TO PROPERTY OWNERS ALONG THE COAST OF SOUTH CAROLINA, SPECIFYING THE AMOUNT OF THE CREDIT, AND ALLOWING UNUSED CREDITS TO BE APPLIED IN SUCCEEDING TAXABLE YEARS UNDER CERTAIN CIRCUMSTANCES; BY ADDING SECTION 38-75-755 SO AS TO REQUIRE INSURERS TO DISCLOSE ALL AVAILABLE DISCOUNTS TO THE INSURED; TO AMEND SECTION 38-73-260, AS AMENDED, SO AS TO CLARIFY THAT RATES FALLING WITHIN THE SEVEN PERCENT FLEX-BAND LIMITATION REMAIN SUBJECT TO THE PROHIBITION AGAINST RATES NOT BEING EXCESSIVE, INADEQUATE, OR UNFAIRLY DISCRIMINATORY AND THAT THE DEPARTMENT MAY CONSIDER THE RATE IMPACT ON INDIVIDUALS AND TERRITORIES WHEN DETERMINING WHETHER A RATE IS EXCESSIVE, INADEQUATE, OR UNFAIRLY DISCRIMINATORY; TO AMEND SECTION 38-73-1095, RELATING TO ESSENTIAL PROPERTY INSURANCE AND RATING PLAN FACTORS, SO AS TO PROVIDE DISCOUNTS FOR RETROFITTING PROPERTY; TO AMEND ARTICLE 5, CHAPTER 75, TITLE 38, RELATING TO WINDSTORM AND HAIL INSURANCE, SO AS TO CLARIFY THE DEFINITIONS OF INSURABLE PROPERTY AND COASTAL AREA RELATING TO ELIGIBILITY FOR COVERAGE BY THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION; TO CLARIFY THE PURPOSE OF ARTICLE 5; TO CLARIFY THAT THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION SHALL PROVIDE WIND AND HAIL INSURANCE FOR RESIDENTIAL AND COMMERCIAL PROPERTY TO APPLICANTS UNABLE TO PROCURE IT IN THE COASTAL AREAS OF THIS STATE; TO PROVIDE INFORMATION THAT MUST BE ADDRESSED IN THE PLAN OF OPERATION; TO MAKE TECHNICAL CHANGES; TO PROVIDE FOR ADDITIONAL GENERAL CORPORATE POWERS AND DUTIES FOR THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION; TO PROVIDE THAT RATES

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CHARGED BY THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION BE ESTABLISHED AT A SELF-SUSTAINING LEVEL; TO PROVIDE OBJECTIVE STANDARDS FOR EXPANDING THE TERRITORY COVERED BY THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION; TO AMEND ARTICLE 8, CHAPTER 75, TITLE 38, RELATING TO THE ADVISORY COMMITTEE TO THE DIRECTOR AND THE SOUTH CAROLINA BUILDING CODES COUNCIL AND LOSS MITIGATION GRANT PROGRAM, SO AS TO MODIFY THE MEMBERSHIP OF THE ADVISORY COMMITTEE AND TO CLARIFY THAT THE CONTINUED EXISTENCE OF THE PROGRAM IS SUBJECT TO ANNUAL LEGISLATIVE APPROPRIATIONS; TO CLARIFY THAT THE PURPOSE IS TO PROVIDE FOR ONGOING TRAINING FOR INSPECTORS AND FOR OTHER PURPOSES CONSISTENT WITH THE ARTICLE; TO ESTABLISH THE "SOUTH CAROLINA HURRICANE GRANT DAMAGE MITIGATION PROGRAM" WHICH PROVIDES FOR A GRANT PROGRAM FOR THE MITIGATION OF DAMAGE TO OR THE ENHANCEMENT OF MANUFACTURED HOMES; TO PROVIDE FOR MATCHING GRANTS TO ENCOURAGE SINGLE-FAMILY SITE-BUILT HOMES TO RETROFIT TO REDUCE THE STRUCTURE'S VULNERABILITY TO A HURRICANE; TO PROVIDE MATCHING GRANT FUNDS TO LOCAL GOVERNMENTS FOR PROJECTS THAT REDUCE HURRICANE DAMAGE TO SINGLE-FAMILY SITE-BUILT RESIDENTIAL PROPERTY; TO PROVIDE THAT IN ADDITION TO STATE APPROPRIATIONS AND OTHER POTENTIAL GRANT FUNDS, THE PREMIUM TAXES PAID BY THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION AND ONE PERCENT OF THE COMMISSIONS PAID TO PRODUCERS MUST BE USED TO FUND THIS PROGRAM ANNUALLY; TO AMEND SECTION 38-75-1140, RELATING TO THE EVALUATION OF NATURAL HAZARD CATASTROPHE MODELS AND REQUIREMENTS FOR MODELING ORGANIZATIONS, SO AS TO REQUIRE MODELERS TO PROVIDE THE DEPARTMENT WITH A LIST OF VARIABLES THAT ARE SUBJECT TO INSURER INPUT WITH THEIR FILING AND TO PROVIDE THAT THE DEPARTMENT MAY IMPOSE A FEE ON MODELERS AND INSURERS TO RECOVER THE COSTS OF EVALUATING HURRICANE MODELS; AND TO AMEND SECTION 38-75-1160, RELATING TO NOTICE REQUIREMENTS AND EXCEPTIONS BEFORE CANCELLATION OR REFUSAL TO RENEW A POLICY OF INSURANCE, SO AS TO INCREASE THE TIME PERIOD FOR NOTIFYING AN INSURED OF THE CANCELLATION OR REFUSAL TO RENEW A POLICY OF INSURANCE.

REVENUE IMPACT ^{1/}

This bill would reduce General Fund individual income tax revenue by an estimated \$4,000,000 in FY2007-08. This bill would also reduce General Fund insurance premium tax revenue by an estimated \$1,900,000 in FY2007-08. Additionally, this bill would reduce sales and use tax by an estimated \$240,000 in FY2007-08. Of this amount, General Fund sales and use tax revenue would be reduced by \$160,000, EIA funds would be reduced by \$40,000, and the Homestead Exemption Fund would be reduced by \$40,000 in FY2007-08. The total reduction in General Fund revenue is expected to be \$6,060,000, EIA funds would be reduced by \$40,000, and the Homestead Exemption Fund would be reduced by \$40,000 in FY2007-08.

Explanation

The following sections of the bill contain language that would affect revenues.

Section 3. This bill would add Section 12-6-3660 to allow an individual a state income tax credit of twenty-five percent up to \$1,000 of the costs incurred to retrofit a legal residence to make it more resistant to loss due to hurricane, rising water, or other catastrophic wind event. According to data from the Federal Emergency Management Administration of the U.S. Department of Homeland Security, the average cost of retrofitting a residential structure is \$500 per structure. According to the Department of Insurance, nearly 400,000 coastal insurance policies, including nearly 32,000 policies written in the high-risk wind pool, covering wind, hail, and water damage were written for residences in the seacoast region of the state as defined in Section 38-75-310(7) in 2006. Not all taxpayers will retrofit their residences against hurricanes, but an estimated one-half of policyholders in the high-risk wind pool will because of the tax credit. Multiplying 16,000 coastal policyholders by an average \$500

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retrofitting expense and applying a twenty-five percent income tax credit yields a reduction of General Fund individual income tax revenue of an estimated \$2,000,000 in FY2007-08.

In addition, a taxpayer may also claim a nonrefundable income tax credit against property and casualty insurance premiums paid in an amount greater than five percent of the taxpayers' adjusted gross income not to exceed \$1,250 per policy per structure. Any unused credits may be carried forward for five succeeding taxable years. An estimated 16,000 homes in the high-risk wind pool in the coastal area are expected to exceed this threshold. Multiplying 16,000 homes by an average amount of \$250 over the adjusted gross income threshold and recognizing that one-half of the eligible taxpayers will not have enough tax liability to use the tax credit, yields a reduction of General Fund individual income tax revenue of an estimated \$2,000,000 in FY2007-08.

Section 4. This bill amends Section 12-36-910 to allow the sales tax rate on items needed to retrofit a residence against wind, hail, and water damage to be lowered from six percent to three percent. Multiplying 16,000 homes by an average \$500 retrofitting expense and applying a sales tax rate differential of three percent yields a reduction of sales and use tax revenue of an estimated \$240,000 in FY2007-08. Of this amount, General Fund sales and use tax revenue would be reduced by \$160,000, EIA funds would be reduced by \$40,000, and the Homestead Exemption Fund would be reduced by \$40,000 in FY2007-08.

Section 6. This bill adds Section 38-7-200 to allow an insurer providing full property and casualty coverage, to specifically include wind and hail coverage to property owners within the seacoast area, to claim a nonrefundable credit of twenty-five percent against the insurance premium tax due on the premium written for the property owner. According to the Department of Insurance, the average premium of an insurance policy written in the coastal area of South Carolina was \$1,162 in 2006 for 363,514 policies. Multiplying an average coastal insurance premium by an insurance tax rate of one and one-quarter percent yields an insurance tax of \$14.53 per policy. Applying a twenty-five percent tax credit against the insurance premium tax of \$14.53 and multiplying by 363,514 coastal insurance policies yields a reduction of General Fund insurance premium tax revenue of an estimated \$1,320,010. Adding an additional 32,000 insurance policy from the high-risk wind pool adds a further reduction of \$250,000 of insurance tax premium revenue. Combining the coastal insurance policies with the high-risk insurance pool and adjusting for inflation in insurance policy premiums, yields a reduction of General Fund insurance premium tax revenue of an estimated \$1,900,000 in FY2007-08.

/s/ WILLIAM C. GILLESPIE, PH.D.

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.