HB 21-1213

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 21-0400	**Date:**	March 19, 2021
Prime Sponsors:	Rep. Soper	**Bill Status:**	House SCMVA
		Fiscal Analyst:	Clare Pramuk | 303-866-2677 clare.pramuk@state.co.us

Bill Topic: **CONVERSION OF PINNACOL ASSURANCE**

Summary of Fiscal Impact:

☒ State Revenue
☒ State Expenditure
☒ State Transfer
☐ TABOR Refund
☐ Local Government
☒ Statutory Public Entity

This bill requires Pinnacol Assurance to convert to a stock insurance company. It increases state revenue and expenditures on an ongoing basis. It increases revenue to the Public Employees Retirement Association.

Appropriation Summary: No appropriation required.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 21-1213

		Budget Year FY 2021-22	Out Year FY 2022-23
Revenue	General Fund	-	$5,500,000
	Cash Funds	$305,000,000	-
	Total Revenue	**-**	**-**
Expenditures	Cash Funds	-	$6,420
	Centrally Appropriated	-	$2,191
	Total Expenditures	**-**	**$8,611**
	Total FTE	**-**	**0.1 FTE**
Diversion	General Fund	-	($8,611)
	Cash Funds	-	$8,611
	Net Transfer	**-**	**$0**
TABOR Refund		-	-

Summary of Legislation

This bill requires Pinnacol Assurance Company, a political subdivision of the state that provides Worker's Compensation insurance, to convert to a stock insurance company. As part of this conversion Pinnacol will:

- file articles of incorporation to establish both a domestic mutual insurance holding company and a stock insurance company with the Commissioner of Insurance within 120 days of the bill's effective date;
- transfer $305 million to the state, which will be split equally between the Controlled Maintenance Fund and the newly created Just Transition Trust Fund, within five days of the conversion date;
- disaffiliate from the Public Employees Retirement Association (PERA);
- contract with the Commissioner of Insurance to serve as the carrier of last resort until December 31, 2024; and
- begin paying premium tax assessments.

The Commissioner of Insurance is required to enter into a contract with a residual market carrier effective January 1, 2025, according to specifications in the bill. The commissioner may promulgate rules necessary for the establishment of a new residual market carrier.

Background

Pinnacol Assurance. Pinnacol Assurance's statutory authority to operate as a domestic mutual insurance company and as a political subdivision of the state is outlined in statute. Pinnacol Assurance provides workers' compensation insurance to employers in Colorado and is often described as the "insurer of last resort" due to the fact that the company is generally prohibited from refusing to insure a Colorado employer or cancel an insurance policy. It can only sell policies in Colorado.

Pinnacol Assurance is overseen by the Pinnacol Assurance board of directors, which consists of nine members who are appointed by the Governor with consent from the Senate. The board's responsibilities include the management of the Pinnacol Assurance Fund which consists of all premiums received, all property and securities acquired, and all interest earned. Money from the fund is used for the benefit of injured employees and the dependents of killed employees of covered employers. The state has no liability for the solvency or financial condition of the fund.

Just Transition Office. The Just Transition Office in the Colorado Department of Labor and Employment assists communities and workers whose coal-related industries and jobs are subject to significant economic transition. The office identifies or estimate the timing and location of facility closures and job layoffs in coal-related industries and their impact on affected workers, businesses, and coal transition communities, then makes recommendations to the Just Transition Advisory Committee as to how the office can most effectively respond to these economic dislocations.

Assumptions

The fiscal note assumes the conversion of Pinnacol Assurance to a stock insurance company during FY 2021-22. If the conversion occurs later, the fiscal impacts will shift to a future year.

State Revenue

In FY 2021-22, this bill will result in a one-time revenue increase of $305 million, which will be divided equally between the Controlled Maintenance Fund and the Just Transition Trust Fund. Revenue from premium taxes to the General Fund will increase by $5.5 million per year beginning in FY 2022-23. This revenue is subject to TABOR.

State Diversions

This bill diverts $8,611 annually from the General Fund beginning in FY 2022-23. This revenue diversion occurs because the bill increases costs in the Department of Regulatory Agencies, Division of Insurance, which is funded with premium tax revenue that would otherwise be credited to the General Fund.

State Expenditures

This bill increases cash funds expenditures by $8,611 and 0.1 FTE beginning in FY 2022-23 for the Division of Insurance in the Department of Regulatory Agencies from the Division of Insurance Cash Fund. These costs are shown in Table 2 and described below.

Table 2
Expenditures Under HB 21-1213

	FY 2021-22	FY 2022-23
Department of Regulatory Agencies		
Personal Services	-	$6,420
Centrally Appropriated Costs[1]	-	$2,191
Total Cost	**-**	**$8,611**
Total FTE	**-**	**0.1 FTE**

[1] *Centrally appropriated costs are not included in the bill's appropriation*

Beginning in FY 2022-23, the Division of Insurance requires additional financial examiner staff for routine financial oversight of the newly divided company, the review and analysis of quarterly financial filings, the annual and quarterly risk analyses, annual accreditation review, and the tracking and review of financial exam files.

Centrally appropriated costs. 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. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be $2,191 in FY 2022-23.

TABOR refunds. Under the December 2020 Legislative Council Staff Economic and Revenue Forecast, the state is not expected to collect revenue above the TABOR limit in either FY 2021-22 or FY 2022-23, and refund obligations are not anticipated for these years. This bill does not change these expectations concerning refunds to taxpayers.

Statutory Public Entity

A portion of the PERA statute is missing from the introduced bill. Assuming that the complete statute is applied, Pinnacol will be required to pay $327.5 million to disaffiliate from PERA. This amount was determined using a 5.25 percent discount rate and will change depending on when the actual disaffiliation occurs.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Information Technology	Labor
PERA	Regulatory Agencies