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Fiscal Note

Drafting Number: LLS 23-0133
Prime Sponsors: Rep. Amabile

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Bill Status: House Business Affairs & Labor
Fiscal Analyst: Matt Bishop | 303-866-4796
matt.bishop@coleg.gov

Bill Topic: HOMEOWNER'S INSURANCE UNDERINSURANCE

- Summary of Fiscal Impact:
- State Revenue
- State Expenditure
- State Diversion
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill requires insurers to offer guaranteed replacement cost coverage to homeowners, and requires the Division of Insurance to publish an annual report on replacement costs. It increases state expenditures, which requires a General Fund diversion, on an ongoing basis beginning in FY 2023-24.

Appropriation Summary: For FY 2023-24, the bill requires an appropriation of \$139,427 to the Department of Regulatory Agencies.

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

Table 1
State Fiscal Impacts Under HB 23-1174

Table with 4 columns: Category, Sub-category, Budget Year FY 2023-24, and Out Year FY 2024-25. Rows include Revenue, Expenditures (Cash Funds, Centrally Appropriated, Total Expenditures, Total FTE), Diversions (General Fund, Cash Funds, Net Diversion), and Other Budget Impacts.

Summary of Legislation

The bill requires insurance companies to offer guaranteed replacement cost coverage to homeowners. If the homeowner rejects this coverage, the insurer must offer extended replacement coverage, law and ordinance coverage, and inflation protection coverage. The bill specifies what factors must be considered in determining replacement value. The Division of Insurance (DOI) in the Department of Regulatory Agencies must promulgate rules to implement these requirements.

DOI must contract with an independent third-party to prepare an annual report on the cost of rebuilding homes in Colorado. The first report is due April 1, 2024. Beginning July 1, 2024, certain insurers must report to DOI on properties it insures for a coverage amount at least 10 percent below the estimate in the annual report.

Under current law, an insurer cannot cancel or refuse to renew a homeowner's insurance without notifying them at least 30 days in advance. The bill extends this notification deadline to 60 days.

State Diversion

The bill diverts \$146,862 from the General Fund in FY 2023-24 and \$382,993 in FY 2024-25. This 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

The bill increases state expenditures in the Department of Regulatory Agencies by \$146,862 in FY 2023-24 and \$382,993 in FY 2024-25, paid from the Division of Insurance Cash Fund. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under HB 23-1174

	FY 2023-24	FY 2024-25
Department of Regulatory Agencies		
Personal Services	\$32,327	\$24,245
Legal Services	\$57,100	\$353,172
Contractor	\$50,000	-
Centrally Appropriated Costs ¹	\$7,435	\$5,576
FTE – Personal Services	0.4 FTE	0.3 FTE
FTE – Legal Services	0.3 FTE	1.9 FTE
Total Cost	\$146,862	\$382,993
Total FTE	0.7 FTE	2.2 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Department of Regulatory Agencies. The bill increases expenditures to generate the annual report, facilitate reporting requirements with insurers, and update rules.

- **Staff.** Managing the contract with the third party, updating the report annually, and facilitating the reporting process for insurers requires 0.4 FTE in FY 2022-23 and 0.3 FTE in subsequent years.
- **Legal services.** DORA requires legal support to execute the contract and conduct rulemaking in FY 2023-24, estimated at 540 hours. In subsequent years, DORA requires an estimated 3,340 hours of additional legal services for general counsel and representation due to the anticipated disputes between insurers and homeowners related to DOI's replacement cost benchmarks published in the annual report, and the high level of confidential consumer data DOI receives from insurers.
- **Contractor.** The cost to solicit a contract for the annual report is estimated at \$50,000 in FY 2023-24. The fiscal note assumes that the contractor will create the methodology and the first report, and that DORA staff will update the report in subsequent years without additional contractor expense.

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 shown in Table 2.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2023-24, the bill requires an appropriation of \$139,427 from the Division of Insurance Cash Fund to the Department of Regulatory Agencies, and 0.4 FTE. Of this, \$57,100 is reappropriated to the Department of Law, with 0.3 FTE.

State and Local Government Contacts

Information Technology

Law

Regulatory Agencies