

Department of Planning and Budget 2017 Fiscal Impact Statement

1. Bill Number: HB1542

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron: Kilgore

3. Committee: Commerce and Labor

4. Title: Home service contract providers.

5. Summary: This bill moves responsibility for regulating home service contract providers from the State Corporation Commission to the Department of Agriculture and Consumer Services (VDACS). The bill also states that home service contracts are not insurance contracts and, therefore, they are not subject to the Commonwealth's insurance laws. The bill requires the providers to register with VDACS and to maintain a funded reserve account to meet their contract obligations. The reserve account must be not less than 40 percent of the gross consideration received, less claims paid on the sale of the contract for all active contracts sold in the Commonwealth. The bill requires providers to file a bond with VDACS or provide a copy of a liability insurance policy, which covers 100 percent of the provider's contracts liabilities. Lastly, the bill exempts providers with a net worth in excess of \$100 million from these requirements. Violators of these provisions shall be guilty of a Class 3 misdemeanor.

6. Budget Amendment Necessary: Yes, Item 95 of HB1500.

7. Fiscal Impact Estimates: Preliminary.

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2018	\$65,412	1	GF
2019	\$65,412	1	GF
2020	\$65,412	1	GF
2021	\$65,412	1	GF
2022	\$65,412	1	GF
2023	\$65,412	1	GF

7b. Revenue Impact:

General Fund: Indeterminate. See item 8.

Non-General Fund:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2018	\$3,600	NGF
2019	\$3,600	NGF

2020	\$3,600	NGF
2021	\$3,600	NGF
2022	\$3,600	NGF
2023	\$3,600	NGF

8. Fiscal Implications:

Expenditure

According to VDACS, the agency will require one position to administer the provisions of the bill. This position will require specialized knowledge of home service providers and contracts and will be responsible for registration, verification, monitoring, and enforcement. The salary and fringe benefits associated with the position are estimated at \$65,412 annually. While the bill provides for an annual registration fee, the fee revenue is not anticipated to be sufficient to cover administration. As such, a budget amendment for \$65,412 from the general fund is necessary beginning in FY 2018.

If the bill results in a significant increase in the number of registered providers, then VDACS may incur additional costs. It may be necessary to develop and maintain a database to register providers and track consumer complaints. Additional resources may also be needed for fiscal processing of registration and late filing fees. Based on similar registration systems and programs, the costs may be up to \$175,000 annually.

Revenue

According to the State Corporation Commission and the Department of Taxation, under the provisions of the bill, home service contract providers will be exempted from the insurance premium tax, and instead, may be subject to the state corporate income tax. Based on 2015 tax figures, home service contract providers paid insurance premium taxes in the amount of \$2,387,109. According to the Department of Taxation, the extent to which such providers may become subject to the corporate income tax is uncertain, as the insurance premium tax and the state corporate income tax are determined using separate formulas. As such, this bill may have a negative revenue impact on the general fund, but the extent of the impact is indeterminate.

According to the State Corporation Commission, there are 12 registered providers of home service contracts. The bill proposes an annual registration fee of \$300 for each provider that will generate \$3,600 in nongeneral fund revenue to be used for program administration.

The bill provides that violators of the provisions shall be guilty of a Class 3 misdemeanor. Such misdemeanor offenses may result in fines. At this time, the number of potential violations is indeterminate. All revenue from fines is deposited to the State Literary Fund.

- 9. Specific Agency or Political Subdivisions Affected:** Virginia Department of Agriculture and Consumer Services; State Corporation Commission; Department of Taxation; state and local courts and jails.

- 10. Technical Amendment Necessary:** No

11. Other Comments: None.