California Department of Insurance
Proposition 103 Recoupment Fee Overview
Fiscal Year 2015-16

Introduction

This document describes the process by which the Proposition 103 Recoupment Fee Assessment for Fiscal Year (FY) 2015-16 was calculated. The assessment is based on FY 2014-15 actual expenditures and FY 2015-16 projected expenditures.

Background

On November 8, 1988, California voters passed Proposition 103. The California Department of Insurance (CDI) was charged with creating new programs and expanding existing operations to meet the mandates of Proposition 103. California Insurance Code (CIC) sections 1861.01 – 1861.16 contain the provisions set forth by Proposition 103. The following are the major Proposition 103 provisions:

CIC Section	Title
1861.01	Insurance rate rollback
1861.02	Determination of rates; good driver discount plan
1861.025	Good driver discount policy; criteria for qualification
1861.03	Unfair insurance practices; prohibition
1861.04	Full disclosure of insurance information
1861.05	Approval of insurance rates
1861.055	Regulations governing hearings; adoption; rendering of decision
1861.06	Public notice
1861.07	Public inspection
1861.08	Hearings; law governing
1861.09	Judicial review
1861.10	Consumer participation
1861.11	Emergency authority
1861.12	Group insurance plans
1861.13	Application
1861.137	Credit insurance
1861.14	Enforcement and penalties
1861.15	Good driver discounts; minimum financial responsibility coverage policies
1861.16	Commission on issuing policy in minimum financial responsibility coverage amount; requiring sale of good driver discount policies; exceptions; interim rating plan

Effective January 1, 1995, Chapter 965, Statutes of 1994, added CIC sections 12991 and 12992 et. seq., requiring CDI to assess Proposition 103 fees based on administrative and operational CDI actual costs and to create a new fee schedule on or after October 1, 1995.

Proposition 103 costs shall apply to all insurance on risks or on operations in California, excluding exemptions as specified in CIC section 1851. The lines of business subject to Proposition 103 costs are listed on the following page:

LINE NO.	LINE OF BUSINESS
1	Fire
2.1	Allied Lines
3	Farmowners' Multiple Peril
4	Homeowners' Multiple Peril
5.1	Commercial Multiple Peril (Non-Liability)
5.2	Commercial Multiple Peril (Liability)
9	Inland Marine
10	Financial Guaranty
11	Medical Malpractice
12	Earthquake
17.1	Other Liability (Occurrence)
17.2	Other Liability (Claims Made)
18	Products Liability
19.1	Private Passenger Auto No-Fault (Personal Injury Protection)
19.2	Private Passenger Auto Liability
19.3	Commercial Auto No-Fault (Personal Injury Protection)
19.4	Commercial Auto Liability
21.1	Private Passenger Auto Physical Damage
21.2	Commercial Auto Physical Damage
22	Aircraft
23	Fidelity
24	Surety
26	Burglary and Theft
27	Boiler and Machinery
28	Credit
30	Warranty
34	Aggregate Write-Ins for Other Lines

Methodology for Calculating Proposition 103 Costs

CDI's time and activity reporting systems require employees to maintain monthly timesheets on work activities and tasks. Timesheet information is provided to the California State Accounting and Reporting System (CALSTARS). CALSTARS was developed for state agencies by the Department of Finance, pursuant to Government Code section 13300, to account for and monitor revenues, expenditures, receipts, disbursements, and resources.

The Proposition 103 annual recoupment fee calculation is based on actual cost information from CALSTARS, which reports costs by CDI's organization and program structure. Organization costs are reported by each Branch/Division/Bureau/Unit within CDI. Program costs categories are designated by the Department to provide costs of CDI activities such as Proposition 103, examinations, fraud, and other regulatory functions.

To project current year Proposition 103 costs, CDI analyzes the actual prior year expenditures and makes adjustments for known workload and appropriation changes for the current year. This process also rolls forward adjustments of any prior year under/over collection of assessments to determine the current year adjusted recoupment fee costs.

Fee Assessment Determination

Pursuant to the California Code of Regulations, Title 10, Chapter 5, Subchapter 4.8, Article 7, section 2647.1, the recoupment fee assessment process ensures that each insurer pays a fair share of CDI's actual cost of administering Proposition 103 based on the insurer's regulatory burden. The sum of all insurers' annual fee assessments is equal to CDI's expected Proposition 103 costs for the current year and adjustments from the prior year. It also includes a contingency reserve to meet unanticipated fluctuations in expenditures and revenues.

Each insurer's annual Proposition 103 Recoupment Fee Assessment is based on the assessment factor correlating to the written premiums for each direct line of business subject to Proposition 103 (from Exhibit C) multiplied by the base rate.

CDI's Rate Specialist Bureau calculated the base rate for FY 2015-16 to be $308. This rate will cover anticipated Proposition 103 costs of $30.2 million.

Billings

CDI will bill each insurer quarterly during FY 2015-16 (July 1, 2015 - June 30, 2016).