HB 25-1302

Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25-1302: INCREASE ACCESS HOMEOWNER'S INSURANCE ENTERPRISES

Prime Sponsors:
Rep. Brown; McCluskie
Sen. Amabile

Fiscal Analyst:
Brendan Fung, 303-866-4781
brendan.fung@coleg.gov

Published for: House Finance
Drafting number: LLS 25-0359

Version: Initial Fiscal Note
Date: March 28, 2025

Fiscal note status: This fiscal note reflects the introduced bill.

Summary Information

Overview. The bill creates two enterprises in the Department of Regulatory Agencies to address the availability of homeowner's insurance for properties susceptible to extreme weather events.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Revenue
- State Expenditures

Appropriations. No appropriation is required. The Strengthen Colorado Homes Enterprise Fund and the Wildfire Catastrophe Reinsurance Enterprise Fund are continuously appropriated to the Department of Regulatory Agencies.

Table 1
State Fiscal Impacts

Type of Impact[1]	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
State Revenue	$46.9 million	$41.8 million	$41.8 million
State Expenditures	$21.9 million	$41.8 million	$66.8 million
Transferred Funds	$0	$0	$0
Change in TABOR Refunds	$0	$0	$0
Change in State FTE	1.9 FTE	3.2 FTE	3.2 FTE

[1] Fund sources for these impacts are shown in the tables below.

Table 1A
State Revenue

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
General Fund	$0	$0	$0
Cash Funds	$46.9 million	$41.8 million	$41.8 million
Total Revenue	**$46.9 million**	**$41.8 million**	**$41.8 million**

Table 1B
State Expenditures

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
General Fund	$0	$0	$0
Cash Funds	$21,910,208	$41,720,163	$66,720,163
Federal Funds	$0	$0	$0
Centrally Appropriated	$29,926	$59,852	$59,852
Total Expenditures	**$21,940,134**	**$41,780,015**	**$66,780,015**
Total FTE	**1.9 FTE**	**3.2 FTE**	**3.2 FTE**

Summary of Legislation

The bill creates the Strengthen Colorado Homes Enterprise and the Wildfire Catastrophe Reinsurance Enterprise as government-owned businesses in the Department of Regulatory Agencies (DORA). These enterprises repeal on September 1, 2035, following a sunset review. Additionally, the bill establishes homeowner's insurance loss ratio standards.

Strengthen Colorado Homes Enterprise (SCHE)

Governance

The enterprise is governed by a three-member board, which includes the Commissioner of the Division of Insurance (DOI) and two subject matter experts. The board has the power to:

- impose and collect fees from certain insurers;
- award grants to homeowners;
- issue revenue bonds to cover administrative expenses;
- adopt rules to administer the enterprise;
- enter into public-private partnerships; and
- accept grants from the federal government, among other things.

Fee Collection

The bill directs the enterprise to collect annual fees from insurance companies that offer homeowner's multiple peril insurance policies, including the FAIR Plan Association. The fee is equal to 1.5 percent of the premiums collected by insurers on homeowner's insurance policies for properties that do not have resilient roof systems. The enterprise may not collect more than $100 million in fees over the first five years.

The enterprise may request the DOI to impose a civil fine or penalty on insurers that violate these provisions. Fines and penalties are credited to the SCRE Fund, which is created to collect fees, grants, and other sources of revenue. The fund is continuously appropriated to the enterprise.

Grant Program

The bill creates the SCHE Grant Program to award grants to homeowners for retrofitting residential property against extreme weather events. The enterprise may develop policies, determine eligibility, establish an application process, and contract with a third-party administering entity.

Grant recipients must have an insured residential property, obtain construction permits, comply with building codes, arrange inspections, construct a roof with resilient materials that meet certain standards, and use a licensed contractor. Recipients may also use awards to repair roof damage caused by an extreme weather event.

Reporting

Starting July 2027, the enterprise must submit an annual report to the General Assembly outlining the amount of fees collected, the number and amount of grants awarded, and other information.

Wildfire Catastrophe Reinsurance Enterprise (WCRE)

Governance

The enterprise is governed by a three-member board, which includes the Commissioner of the Division of Insurance (DOI) and two subject matter experts. The board has the power to:

- issue catastrophe and revenue bonds to cover administrative expenses;
- impose and collect fees from certain insurers;
- make reinsurance payments to eligible insurers;
- adopt rules to administer the enterprise;
- enter into public-private partnerships; and
- accept grants from the federal government, among other things.

The enterprise may also establish an advisory committee to advise the board on its bond issuances and enterprise financing.

Bonds and Fee Collection

The bill directs the enterprise to issue revenue bonds and catastrophe bonds to cover insurance claims that result from a wildfire disaster. Additionally, the enterprise may collect fees from insurance companies that offer homeowner's insurance policies if the enterprise has insufficient funds to remit the principal amount of a catastrophe or revenue bond at maturity.

The enterprise may invest revenue from bonds and fees to provide additional funding for reinsurance, which is credited to the newly created WCRE Fund. The fund is continuously appropriated to the enterprise.

Reinsurance Program

The bill creates the WCRE Program to provide reinsurance payments to eligible insurers for mitigating risk and losses in the event of a wildfire disaster. The enterprise may develop policies, determine eligibility, take legal action, and purchase reinsurance from the private market.

In exchange for access to the reinsurance program, insurers must provide policy coverage and reduce premiums to areas of the state with the highest risk of wildfire.

Reporting

Starting July 2027, the enterprise must submit an annual report to the General Assembly outlining the amount of money collected through bonds and fees, the effect of the enterprise on insurance availability across the state, and other information.

Loss Ratio Standards

The bill establishes a minimum loss ratio for homeowner's insurance by presuming that rates are excessive if insurers pay out less than 75 percent of collected premiums over a 3-year period. If rates exceed this threshold, insurers must submit rates that are at least 5 percent lower than the prior year.

Background and Assumptions

A catastrophe bond is a financial instrument that protects against the costs of a natural disaster. They are typically issued for a short term with a high yield in exchange for bond purchasers taking on risk associated with a disaster. When a disaster triggers the bond—which may be a certain level of loss or the strength of the covered catastrophe—some or all of the principal is used to cover the costs of the disaster, representing a loss to the bondholders.

The fiscal note assumes that the WCRE will issue a catastrophe bond in FY 2025-26 for $25.0 million, with an annual interest rate of 8 percent, and a three-year maturity. It is also assumed that a wildfire disaster will not occur in the first three years of the enterprise, and that any catastrophe bonds issued will reach maturity. If a wildfire disaster does occur, revenue and expenditures in the WCRE will change to issue additional bonds and provide reinsurance payments to insurance companies in the program.

The fiscal note also assumes that the WCRE will not issue any revenue bonds in the first three years of the program. If the WCRE issues revenue bonds in addition to, or instead of, catastrophe bonds, revenue and expenditures will further change from the estimates described below.

State Revenue

The bill increases state revenue by $46.9 million in FY 2025-26 and $41.8 million in future years from fee revenue to the SCHE and bond revenue to the WCRE. Additional revenue may be received from interest income, the issuance of additional bonds or fees, or gifts, grants, and donations to the enterprises. These impacts are shown in Tables 2 and discussed below.

Table 2
Enterprise Revenue

Revenue Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
SCHE – Fees on Insurance Companies	$19.8 million	$39.6 million	$39.6 million
WCRE – Bond Issuances	$25.0 million	$0	$0
WCRE – Fees on Insurance Companies	$2.1 million	$2.2 million	$2.2 million
Total	**$46.9 million**	**$41.8 million**	**$41.8 million**

SCHE Revenue Sources

Fees on Insurance Companies

Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. The SCHE must collect fees on insurance companies to generate revenue to fund the grant program and cover administrative costs. These fee amounts depend on the total premiums collected on homeowner's insurance policies, and the percentage of those collected on properties that do not have resilient roof systems. In 2024, insurance carriers in the state issued an estimated $3.3 billion in homeowner's insurance policies. Assuming that 20 percent of those already have a resilient roof system, the SCRE will collect a 1.5 percent fee on $2.6 billion of premiums, or $39.6 million per year. Revenue in FY 2025-26 is prorated to a half year impact assuming that the SCHE will begin collecting fees on January 1, 2026. Fees paid to a state enterprise are exempt from TABOR.

The enterprise must reduce fees if revenue is projected to exceed $100 million in the first five years. Based on estimates for the first two years, the fiscal note estimates that fee revenue will exceed the limit in FY 2028-29; therefore, fee revenue is expected to decrease in FY 2028-29 and FY 2029-30.

Bond Issuances

Additionally, the SCHE may issue bonds to generate revenue and cover administrative expenses. However, the fiscal note assumes that fee revenue will be sufficient and therefore, bond revenue for this enterprise has not been estimated.

WCRE Revenue Sources

Bond Issuances

The WCRE must issue catastrophe and revenue bonds to generate revenue to fund the reinsurance program and cover administrative costs. The amount of revenue from catastrophe bond issuances is estimated to be about $25.0 million per issuance, which the fiscal note assumes will occur every three years beginning in FY 2025-26. Actual future issuances will occur when the bond matures or the entire principal is liquidated due to a declared disaster emergency. This bond revenue is not subject to TABOR.

Fees on Insurance Companies

Further, the WCRE will collect about $2.2 million in fee revenue from insurance companies that offer homeowner's insurance policies to pay the annual interest on the catastrophe bond and cover administrative costs. The fiscal note assumes that annual interest on the $25.0 million issuance will be 8 percent, and that principal is owed at the time of maturation. Therefore, the WCRE will collect $2.0 million in fee revenue per year for coupon payment. The enterprise will also collect $140,000 in FY 2025-26 and $180,000 in future years to cover administrative costs.

Interest Income

Both enterprises are permitted to invest revenue from bonds and fees to provide additional funding for resilient roofing and reinsurance programs, which is credited directly to the SCHE Fund and WCRE Fund. In addition, any money held in these funds will also accrue interest. This revenue is not subject to TABOR.

Gifts, Grants, and Donations

The bill potentially increases state revenue to the SCHE Fund and WCRE Fund from gifts, grants, or donations; however, no sources have been identified at this time. Gifts, grants, and donations are exempt from TABOR revenue limits.

State Expenditures

The bill increases state expenditures in the Department of Regulatory Agencies by about $21.9 million in FY 2025-26, $41.8 million in FY 2026-27, and $66.8 million in FY 2027-28. These costs, paid from the SCHE and WCRE Funds, are summarized in Table 3 and discussed below. The bill also minimally affects workload in the Department of Personnel and Administration and Governor's Office.

Table 3
State Expenditures
Department of Regulatory Agencies

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Personal Services	$121,420	$242,842	$242,842
Operating Expenses	$1,920	$3,840	$3,840
Capital Outlay Costs	$20,010	$0	$0
SCHE Grant Program	$19.7 million	$39.4 million	$39.4 million
WCRE Bond Coupon Payments	$2.0 million	$2.0 million	$2.0 million
WCRE Bond Principal Payments	$0	$0	$25 million
Legal Services	$106,992	$53,496	$53,496
Centrally Appropriated Costs	$29,926	$59,852	$59,852
FTE – Personal Services	1.5 FTE	3.0 FTE	3.0 FTE
FTE – Legal Services	0.4 FTE	0.2 FTE	0.2 FTE
Total Costs	**$21.9 million**	**$41.7 million**	**$66.8 million**
Total FTE	**1.9 FTE**	**3.2 FTE**	**3.2 FTE**

Department of Regulatory Agencies

Staff

Starting in FY 2025-26, DORA requires 3.0 FTE to manage both enterprises, collaborate with insurers and policyholders, determine program eligibility, promulgate rules, establish fee collection and bond issuances, and generate annual reports. Each enterprise requires 1.0 FTE Rate/Financial Analyst IV to perform the enterprise program duties, and 0.5 FTE Program Assistant to support the board. Staff costs and FTE have been prorated in the first year to reflect a January 1, 2026 start date.

SCHE Grant Program

After the SCHE's administrative costs, about $19.7 million is expected to be available for the grant program in FY 2025-26, and $39.4 million each year beginning in FY 2026-27. The number of grants issued will depend on the number of applicants, size of awards, and actual revenue collected. The fiscal note assumes that available grant funds will be expended in full each year. However, the bill does not require grants to be awarded within a specific timeframe; therefore, expenditures from awarding grants could be greater or less each year.

WCRE Reinsurance Program

Bond Coupon Payments

Beginning in FY 2025-26, the WCRE will pay interest on the $25.0 million bond at an annual rate of 8 percent, or $2.0 million per year, until the bond matures in three years.

Bond Principal Payments

As noted in the Assumptions section above, the fiscal note assumes any catastrophe bond issued will mature in three years and that no wildfire disaster will occur. It is also assumed that the principal is due at the time of maturation. Therefore, the WCRE will repay the $25.0 million bond principal in FY 2027-28.

Reinsurance is only issued through the program in the event of a wildfire disaster and timing cannot be estimated. If a wildfire disaster occurs before bond maturation, $25.0 million will be available for reinsurance.

Legal Services

DORA requires 800 hours of legal services in FY 2025-26 and 400 hours in future years for rulemaking, program implementation, and bond issuance support. Legal services are provided by the Department of Law at a rate of $133.74 per hour.

Other Agency Impacts

Workload in the Governor’s Office and the Department of Personnel and Administration will minimally increase to assign members to the enterprise boards, and extend risk and liability coverage to enterprise activities, respectively. This workload is expected to be minimal and no change in appropriations is required.

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 may include employee insurance, supplemental employee retirement payments, leased space, and indirect cost assessments, are shown in the expenditure table above.

Technical Note

The bill directs the WCRE to issue catastrophe bonds to cover insurance claims that result from a wildfire disaster and only permits the enterprise to collect fees from insurance companies participating in the reinsurance program if there are insufficient funds to remit the principal amount at maturity. However, these high-yield bonds also require annual interest payments, which the bill does not identify a revenue source for. Therefore, the fiscal note assumes that the enterprise may levy fees on insurance companies participating in the reinsurance program to cover these annual coupon payments. The fiscal note will be updated if a different mechanism is identified for cover these costs.

Effective Date

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

State and Local Government Contacts

Governor's Office	Personnel
Law	Regulatory Agencies