

Department of Insurance and Financial Institutions

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	152.4	151.4	151.4 ^{1/}
Personal Services	7,238,100	6,761,600	6,761,600
Employee Related Expenditures	2,662,100	2,491,800	2,491,800
Professional and Outside Services	422,900	155,600	155,600
Travel - In State	13,500	65,300	65,300
Travel - Out of State	0	7,000	7,000
Other Operating Expenditures	1,399,600	399,400	399,400
Equipment	68,800	39,200	39,200
OPERATING SUBTOTAL	11,805,000	9,919,900	9,919,900
SPECIAL LINE ITEMS			
Insurance Fraud Unit	0	1,800,500	1,800,500
Mental Health Omnibus	113,400 ^{2/}	0	0
Reimbursable Programs	0	50,000	50,000 ^{3/}
Local Grants	956,900	957,700	957,700 ^{4/}
Arizona Vehicle Theft Task Force	3,650,000	4,343,500	4,343,500 ^{5/}
ATA Operating Budget	645,100	659,300	659,300
AGENCY TOTAL	17,170,400	17,730,900	17,730,900 ^{6/}
FUND SOURCES			
General Fund	7,809,400	7,663,400	7,663,400 ^{7/}
<u>Other Appropriated Funds</u>			
Automobile Theft Authority Fund	5,252,000	6,010,500	6,010,500
Financial Services Fund	4,058,700	4,006,700	4,006,700
Revolving Fund	50,300	50,300	50,300
SUBTOTAL - Other Appropriated Funds	9,361,000	10,067,500	10,067,500
SUBTOTAL - Appropriated Funds	17,170,400	17,730,900	17,730,900
<u>Other Non-Appropriated Funds</u>			
Federal Funds	22,688,600	22,757,500	22,757,500
TOTAL - ALL SOURCES	39,905,700	40,604,700	40,604,700

AGENCY DESCRIPTION — The Department of Insurance and Financial Institutions licenses and authorizes the transaction of insurance business by insurers, producers, and other insurance-related entities. The department also regulates state-chartered financial entities. The regulated entities include money transmitters, motor vehicle dealers, holding companies, trust companies, sales finance companies, collection agencies, escrow agents, debt management companies, consumer lenders, mortgage bankers, mortgage brokers, premium finance companies, credit unions, banks, and real estate appraisal entities. The department also is responsible for analyzing the methods of combating the problem of vehicle theft and promoting successful methods of reducing the number of vehicle thefts in Arizona.

FOOTNOTES

- ^{1/} Includes 9 GF and 6 OF FTE Positions from Special Line Items in FY 2023.
- ^{2/} The appropriation for the mental health omnibus line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. The agency plans on expending \$115,700 from this appropriation in FY 2022.
- ^{3/} The department of insurance and financial institutions shall submit a report to the joint legislative budget committee before spending any monies for the reimbursable programs line item. The department shall show sufficient monies collected to cover the expenses indicated in the report. (General Appropriation Act footnote)
- ^{4/} Local grants shall be awarded with consideration given to areas with greater automobile theft problems and shall be used to combat economic automobile theft operations. (General Appropriation Act footnote)

- 5/ Monies in the Arizona vehicle theft task force line item shall be used by the department of insurance and financial institutions to pay seventy-five percent of the personal services and employee related expenditures for city, town and county sworn officers who participate in the Arizona vehicle theft task force. (General Appropriation Act footnote)
- 6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 7/ Of the department fees required to be deposited in the state general fund by statute, the legislature intends that the department of insurance and financial institutions shall assess and set the fees at a level to ensure that the monies deposited in the state general fund will equal or exceed the department's expenditure from the state general fund. (General Appropriation Act footnote)

Operating Budget

The Baseline includes \$9,919,900 and 136.4 FTE Positions in FY 2023 for the operating budget. These amounts consist of:

	<u>FY 2023</u>
General Fund	\$5,862,900
Financial Services Fund	4,006,700
Department Revolving Fund	50,300

These amounts are unchanged from FY 2022.

Insurance Fraud Unit

The Baseline includes \$1,800,500 and 9 FTE Positions from the General Fund in FY 2023 for the Insurance Fraud Unit. These amounts are unchanged from FY 2022.

These monies were previously included in the Department of Insurance operating budget. The department levies a \$1,050 assessment on all licensed insurers to prosecute insurance fraud in the state. Laws 2020, Chapter 37 requires that all monies appropriated for fraud prevention be included as a line item and that all monies shall be used exclusively for insurance fraud prevention.

Reimbursable Programs

The Baseline includes \$50,000 from the ATA Fund in FY 2023 for Reimbursable Programs. This amount is unchanged from FY 2022.

This line item funds programs such as training seminars, Arizona Vehicle Theft Task Force expenses and “bait car” projects. This line item is funded from donations and grants from the private sector. Since the inception of this program, only \$25,000 for the reimbursement of salary and operational costs of the Arizona Vehicle Theft Task Force has been expended from this line item.

Local Grants

The Baseline includes \$957,800 from the ATA Fund in FY 2023 for Local Grants. This amount is unchanged from FY 2022.

This line item provides funding for the 4 categories of local grants that the DIFI administers: 1) Vertical Prosecution; 2) Law Enforcement; 3) Professional Training; and 4) Public Awareness grants. DIFI issues Vertical Prosecution Grants to county attorneys that are solely dedicated to auto-theft cases, Law Enforcement Grants to local law enforcement agencies for equipment and supplies, Professional Training Grants to pay travel and registration costs associated with going to conferences, and Public Awareness Grants for public education and vehicle identification number etching.

Arizona Vehicle Theft Task Force

The Baseline includes \$4,343,500 from the ATA Fund in FY 2023 for the Arizona Vehicle Theft Task Force. This amount is unchanged from FY 2022.

Monies in this line item are transferred to the Department of Public Safety which oversees the Arizona Vehicle Theft Task Force. The Arizona Vehicle Theft Task Force is a multi-agency group that works specifically on combating auto-theft related crimes.

ATA Operating Budget

The Baseline includes \$659,300 and 6 FTE Positions from the ATA Fund in FY 2023 for the Automobile Theft Authority Operating Budget. These amounts are unchanged from FY 2022.

Monies in this line item cover the operating expenditures of the Automobile Theft Authority, which works to combat auto theft-related crime.

SUMMARY OF FUNDS	FY 2021 Actual	FY 2022 Estimate
Arizona Property and Casualty Insurance Guaranty Fund (IDA2114/A.R.S. § 20-662)		Non-Appropriated
Source of Revenue: Assessments on property and casualty insurance, reimbursements from the sale of insolvent companies' assets by the department's Receivership Division, and investment income on the fund balance.		
Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for property and casualty insurance policies. The fund also pays the administrative costs of the 11-member Property and Casualty Insurance Guaranty Fund Board authorized by A.R.S. § 20-663. Monies are held in a depository designated by the Director of the Department of Insurance and Financial Institutions. Within the fund there are 3 separate accounts: automobile insurance account, workers' compensation insurance account and another account, which includes all other types of property and casualty insurance other than automobile and workers' compensation.		
Funds Expended	10,425,000	10,425,000
Year-End Fund Balance	222,668,500	222,668,500
Assessment Fund for Voluntary Plans Fund (IDA2316/A.R.S. § 20-2201)		Non-Appropriated
Source of Revenue: Assessments paid by insurance companies or reinsuring carriers authorized to sell liability insurance.		
Purpose of Fund: To provide for the administrative costs associated with finding liability insurance for classes of risk that are unable to obtain liability coverage. Monies are also used to administer the Small Employers Reinsurance Plan Board. The board ensures the accessibility of small group health insurance by requiring a reinsurance program to spread the risk of insuring small groups.		
Funds Expended	4,900	0
Year-End Fund Balance	94,200	94,200
Automobile Theft Authority Fund (ATA2060/A.R.S. § 41-3451)		Appropriated
Source of Revenue: A semi-annual fee of \$0.50 per vehicle insured under a motor vehicle liability insurance policy for vehicles with a gross weight under 26,000 pounds. In addition, 50% of civil penalties assessed against a scrap metal dealer who does not submit vehicle title information to the ADOT records system within 48 hours after the completion of a transaction.		
Purpose of Fund: To allocate monies to public agencies for the purpose of establishing, maintaining and supporting programs that are designed to prevent motor vehicle theft, and to cover the costs of administration not to exceed 10% of the fund.		
Funds Expended	5,252,000	6,010,500
Year-End Fund Balance	7,718,200	8,739,900
Captive Insurance Regulatory and Supervision Fund (IDA2377/A.R.S. § 20-1098.18)		Non-Appropriated
Source of Revenue: License and renewal fees collected from individual captive insurers and corporations applying to do business as a captive insurer. A captive insurer is an enterprise with the authority to function as an independent insurance company, but is organized by a parent company with the express intent to provide the parent company's insurance.		
Purpose of Fund: To provide funding for the promotion of the state's captive insurance industry and related administrative costs. Up to \$100,000 may be used annually to cover the department's administrative costs.		
Funds Expended	673,100	775,000
Year-End Fund Balance	619,900	622,700
Federal Funds (IDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies from federal grants.		
Purpose of Fund: To provide State Appraiser Regulatory Agencies with funds to advance the appraiser regulatory field, including, but not limited to, developing and attending trainings, improving appraiser credentialing and investigation and complaint processes, and expanding credentialing opportunities in under-served markets and other activities.		
Funds Expended	46,700	116,300
Year-End Fund Balance	0	0
Financial Services Fund (BDA1998/A.R.S. § 6-991.21)		Appropriated
Source of Revenue: Loan originator licensing and renewal fees. Similar fees are also deposited in the Mortgage Recovery Fund.		
Purpose of Fund: To supervise and regulate loan originators and to be used for the general operating expenses of the department.		
Funds Expended	4,058,700	4,006,700
Year-End Fund Balance	16,577,100	22,285,400

SUMMARY OF FUNDS	FY 2021 Actual	FY 2022 Estimate
Financial Surveillance Fund (IDA2473/A.R.S. § 20-156)		Non-Appropriated
Source of Revenue: Assessments paid by domestic insurers, other than life and disability re-insurers, service companies, and mechanical reimbursement re-insurers.		
Purpose of Fund: To provide funds for the costs of financial analysts who conduct financial surveillance of domestic insurers in order to identify possible risks to financial stability.		
Funds Expended	350,000	350,000
Year-End Fund Balance	266,600	390,200
Health Care Appeals Fund (IDA2467/A.R.S. § 20-2540)		Non-Appropriated
Source of Revenue: One-time fee of \$200 and an annual fee of up to \$200 per health care insurance company.		
Purpose of Fund: To pay for start-up and ongoing costs related to selecting an independent review organization. The selected organization will conduct external independent reviews that involve issues of medical necessity.		
Funds Expended	202,400	202,400
Year-End Fund Balance	180,000	235,600
Insurance Examiners' Revolving Fund (IDA2034/A.R.S. § 20-159)		Non-Appropriated
Source of Revenue: Payments made by insurance companies for costs of financial, rate, and market conduct examinations performed by contract examiners.		
Purpose of Fund: To provide funds for contract examiners' per diem compensation and funds to reimburse contract examiners for travel and living expenses, as approved by the Director of the Department of Insurance and Financial Institutions. Monies are also used to cover the department's related administrative costs.		
Funds Expended	2,799,900	2,799,900
Year-End Fund Balance	2,016,300	2,176,300
Life and Disability Insurance Guaranty Fund (IDA2154/A.R.S. § 20-683)		Non-Appropriated
Source of Revenue: Assessments on life and disability insurance companies and reimbursements from the sale of insolvent companies' assets by the department's Receivership Division.		
Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for life and disability insurance policies and annuity contracts. The fund also pays the administrative costs of the 9-member Life and Disability Insurance Guaranty Fund Board authorized by A.R.S. § 20-684. Monies are held in a depository designated by the Director of the Department of Insurance and Financial Institutions.		
Funds Expended	7,933,000	7,933,000
Year-End Fund Balance	19,355,700	19,355,700
Mortgage Recovery Fund (BDA1997/A.R.S. § 6-991.09)		Non-Appropriated
Source of Revenue: Licensing and renewal fees paid by licensed loan originators. Similar fees also are deposited in the Financial Services Fund.		
Purpose of Fund: To benefit any person aggrieved by any act, representation, transaction or conduct of a licensed loan originator that violates statute or rule.		
Funds Expended	1,400	11,800
Year-End Fund Balance	2,979,400	3,405,900
Receivership Liquidation Fund (IDA3104/A.R.S. § 20-648)		Non-Appropriated
Source of Revenue: Consists of 10% of an insolvent insurer's statutory deposit with the State Treasurer authorized by A.R.S. § 20-213. Upon termination of a receivership, the court may award proceeds to the fund, up to the amount of the department's administrative costs.		
Purpose of Fund: To support the department's Receivership Division, which administers the liquidation of insurance companies to ensure maximum recovery of assets. The balance forward represents cash on hand. It does not include the state's unfunded liability for deposits being held as assurance against future insolvencies.		
Funds Expended	127,200	127,200
Year-End Fund Balance	208,100	81,600

SUMMARY OF FUNDS	FY 2021 Actual	FY 2022 Estimate
Receivership Revolving Fund (BDA3023/A.R.S. § 6-135.01)		Non-Appropriated
Source of Revenue: Revenue generated from the sale of assets of firms under receivership and transfers from the department's Revolving Fund.		
Purpose of Fund: Provide funding for the administration of receiverships.		
Funds Expended	9,700	0
Year-End Fund Balance	1,008,100	1,008,100
Revolving Fund (BDA2126/A.R.S. § 6-135)		Appropriated
Source of Revenue: Investigative costs, attorney fees, or civil penalties recovered as the result of an enforcement action brought by the department or the Attorney General for violations of state banking laws.		
Purpose of Fund: To support investigative and enforcement activities conducted by the department and the Attorney General. Year-end unencumbered fund balances in excess of \$200,000 are transferred to the department's Receivership Revolving Fund. Any excess balances are transferred at the beginning of the next fiscal year. The Appropriated portion of the fund is used for an interagency service agreement with the Attorney General's office to help oversee real estate appraisers. (Please see the Non-Appropriated portion of the fund for additional information.)		
Funds Expended	50,300	50,300
Year-End Fund Balance	161,700	158,600
Revolving Fund (BDA2126/A.R.S. § 6-135)		Non-Appropriated
Source of Revenue: Investigative costs, attorney fees, or civil penalties recovered as the result of an enforcement action brought by the department or the Attorney General for violations of state banking laws.		
Purpose of Fund: To support investigative and enforcement activities conducted by the department and the Attorney General. Year-end unencumbered fund balances in excess of \$200,000 are transferred to the department's Receivership Revolving Fund. Any excess balances are transferred at the beginning of the next fiscal year. (Please see the Appropriated portion of the fund for additional information.)		
Funds Expended	162,000	133,200
Year-End Fund Balance	161,700	158,600
Settlement Fund (ATA1991/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Revenues from settlements issued by the courts.		
Purpose of Fund: To provide grants to law enforcement agencies for metal management training.		
Funds Expended	0	0
Year-End Fund Balance	1,400	1,400