

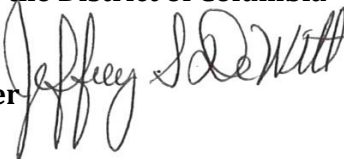
Government of the District of Columbia
Office of the Chief Financial Officer



Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeffrey S. DeWitt
Chief Financial Officer 

DATE: September 25, 2018

SUBJECT: Fiscal Impact Statement – Service Contract Regulation Act of 2018

REFERENCE: Bill 22-584, Draft Committee Print as shared with the Office of Revenue Analysis on September 21, 2018

Conclusion

Funds are sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill.

Background

Service contracts, as defined in the bill, are agreements for the repair, replacement, or maintenance related to the operational or structural failure of a motor vehicle, or residential or other property whereby the consumer pays separate consideration for coverage over a specified period of time.¹ The bill requires any provider or seller of a service contract in the District to register² with the Commissioner of the Department of Insurance, Securities, and Banking (DISB), pay a \$200 annual fee, and obtain and maintain appropriate protections for contract holders.³ The providers and sellers must provide consumers with a sample contract, terms and conditions, including a ten- or twenty-day return period, a copy of the executed contract, and a purchase receipt. The bill also

¹ The bill does not apply to warranties, maintenance agreements, contracts sold to a person other than a consumer, or contracts where the goods purchased cost less than \$100.

² Providers and sellers must notify DISB within fifteen days of the company terminating its service contract business.

³ A contract provider has three options: (1) maintain an insurance policy against outstanding contracts; (2) maintain a funded reserve account and a security deposit with the DISB Commissioner; or (3) maintain a net worth or stockholders' equity of at least \$100 million.

establishes what information companies must include in their contracts, including disclosures, and the visual clarity with which contracts must be written.⁴

DISB is responsible for enforcing any service contract violations, including investigations, examinations, or complaint reviews. Providers must maintain service contract records for each consumer for at least one year after the contract expires and ensure those are available to DISB upon request.

The bill exempts service contracts from insurance premium taxes and District licensing requirements. The provisions of the bill will go into effect beginning January 1, 2019.

Financial Plan Impact

Funds are sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill requires service contract providers and sellers to register with DISB and obtain and maintain appropriate levels of insurance and reserves. The Office of Revenue Analysis and DISB are unable to determine the population of service contract providers and sellers, but the registration requirements will require the payment of a \$200 fee which will be deposited into the District's Local Fund. Service contracts are not currently subject to premium taxes or licensing requirements, other than the bill's proposed \$200 DISB registration fee, and there are no costs associated with the bill's exemptions from these taxes and fees.

DISB will also enforce the bill's requirements and can do so with its existing enforcement staff.

⁴ The bill precludes the use of certain words (such as insurance, casualty, or surety), practices, or representations by service companies.