



# NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

## Legislative Fiscal Note

**Short Title:** Consum. in Crisis Protect. Act/ESOPs Min. Bus.  
**Bill Number:** Senate Bill 176 (Fourth Edition)  
**Sponsor(s):** Sen. Todd Johnson, Sen. Danny Earl Britt, Jr., and Sen. David W. Craven, Jr.

### SUMMARY TABLE

#### FISCAL IMPACT OF S176, V.4

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
<b>State Impact</b>					
General Fund Revenue	-	-	-	-	-
<u>Less Expenditures</u>	-	-	-	-	-
<b>General Fund Impact</b>	<b>No Estimate Available - Refer to Fiscal Analysis section</b>				

<b>NET STATE IMPACT</b>	<b>No Estimate Available - Refer to Fiscal Analysis section</b>
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### FISCAL IMPACT SUMMARY

Part I of the bill amends Chapter 58, the State’s insurance laws, by adding a new Article 94 that defines a consumer legal funding company (CLFC) and authorizing third-party litigation funding companies to operate in the State. The bill requires CLFCs to register with and pay a registration fee to the Department of Insurance (DOI) and authorizes DOI to conduct financial examinations of the companies.

Part II amends the definition of a “minority business” and “historically underutilized business” to include an Employee Stock Ownership Plan (ESOP) company in which at least 51% of the stock is owned by one or more minority persons or socially and economically disadvantaged individuals.

The bill is projected to have a fiscal impact to the State, but the impact is indeterminable. Refer to the Fiscal Analysis section below.

### FISCAL ANALYSIS

#### Part I:

Part I requires CLFCs to apply to DOI for registration to operate in the State and establishes a nonrefundable fee of \$1,000 at the time of application. Companies are required to renew their registration with DOI every three years and must pay a \$1,000 renewal fee.

The bill also authorizes DOI to conduct financial examinations of registered CLFCs to assess financial stability and compliance with State law. When DOI conducts an examination, the bill requires the company to reimburse DOI for its costs.

While the bill is projected to have a fiscal impact on DOI, very little data exists to determine what that impact would be.

According to the federal Government Accountability Office (GAO), publicly available data on the third-party litigation funding market are limited as there is no central repository of information and no federal law expressly requires individuals or companies to report the data publicly.

The American Legal Finance Association (ALFA), a litigation funding market lobbying group, notes that their current membership consists of 30 companies operating in the U.S.

CLFCs are currently not authorized to operate in the State thus the number of individuals or companies opting to register and operate in the State is indeterminable.

## **Part II**

Part II amends the definition of a “minority business” and “historically underutilized business” (HUB) in Article 8 of Chapter 143 to include an Employee Stock Ownership Plan (ESOP) company in which at least 51% of the stock is owned by one or more minority persons or socially and economically disadvantaged individuals.

The expanded definition will allow more businesses to participate in State procurement and contracting opportunities. Interested ESOPs will have to apply to the Office of Historically Underutilized Businesses (HUB Office) within the Department of Administration (DOA), which administers the Statewide Uniform Certification (SWUC) program for HUB participation.

The number of ESOPs that might apply for certification is unknown, however, according to the National Center for Employee Ownership (NCEO), there are 104 active ESOPs in the State with over 24,000 participants, with each ESOP averaging about 230 employee owners. Assuming all ESOPs apply for HUB certification, the HUB Office will need to verify eligibility for an estimated 117 individuals for each ESOP application, status update, and renewal.

The expanded definition is projected to impact the HUB Office, which currently employs six staff in its Certification Section who manage over 6,700 SWUC certifications. The HUB Office estimates that beginning in FY 2023-24, they will need an additional five full-time Program Coordinator III positions to meet the expected increase in demand.

G.S. 143-128.4(c)(1)(ii) requires DOA to maintain a database of businesses certified as HUBs. The HUB Office estimates additional IT costs associated with integrating a new HUB category into the existing HUB reporting system and electronic vendor portal. Table 1 summarizes the projected start-up and operating costs to the HUB Office to comply with the bill.

<b>Table 1: Projected Costs to HUB Office Operations</b>					
	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>
<b>Personnel - Salaries and Benefits (5 FTE)</b>	328,100	343,900	360,300	377,300	392,700
<b>Personnel - Operating Costs</b>	29,000	17,000	17,000	17,000	17,000
<b>IT Upgrades</b>	1,527,740	374,980	42,180	42,180	42,180
<b>Total Operating Costs</b>	<b>\$ 1,884,840</b>	<b>\$ 735,880</b>	<b>\$ 419,480</b>	<b>\$ 436,480</b>	<b>\$ 451,880</b>

## **TECHNICAL CONSIDERATIONS**

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N/A.

## **DATA SOURCES**

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE, Third-Party Litigation Financing, Market Characteristics, Data and Trends, December 2022

AMERICAN LEGAL FINANCE ASSOCIATION, [HTTPS://WWW.AMERICANLEGALFIN.COM/](https://www.americanlegalfin.com/)

DEPARTMENT OF ADMINISTRATION, OFFICE OF HISTORICALLY UNDERUTILIZED BUSINESSES

NATIONAL CENTER FOR EMPLOYEE OWNERSHIP [HTTPS://WWW.ESOP.ORG/MAPS/US-ESOP-HEATMAP.PHP](https://www.esop.org/maps/us-esop-heatmap.php)

## **LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS**

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This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

## **CONTACT INFORMATION**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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**Signed copy located in the NCGA Principal Clerk's Offices**