

March 25, 2025

Delivered via email

RE: Please **oppose** HB 3479

The Hon. Chris Gorsek, Co-Chair
The Hon. Susan McLain, Co-Chair
The Hon. Bruce Starr, Vice Chair
The Hon. Shelly Boshart Davis, Vice Chair
Members, Joint Committee on Transportation

Dear Co-Chairs Gorsek and McLain and Committee Members,

On behalf of the **American Property Casualty Insurance Association, the National Association of Mutual Insurance Companies** and the **Northwest Insurance Council**, whose members collectively underwrite the vast majority of Property & Casualty (auto, home, business & liability) insurance in force in Oregon today, we write **in opposition** to proposed **HB 3479** and ask you to reject this legislation.

In summary, we oppose this bill because (1) it requires commercial drone operators to purchase/maintain liability insurance (we oppose mandatory insurance for consumers, and (2) it imposes what would be the nation's highest gross premium tax (5%) on insurers exclusively to serve as a revenue generator with proceeds that are intended for non-insurance purposes.

Our associations oppose SB 3479 because:

1. It imposes a mandate on commercial drone operators to purchase insurance, which is in conflict with the P&C industry's longstanding opposition to legislative mandates for any person or organization to buy insurance. P&C insurance companies seek to promote a healthy competitive market and to sell insurance to willing buyers.
2. It assumes there is a standard insurance marketplace for commercial drone insurance coverage, when in fact a standard market may not exist at this time. Most, if not all, commercial insurance policies that include coverage for aviation-related risk are sold through brokers by non-admitted, specialty/surplus lines insurers. Surplus lines policies are not subject to the same stringent regulations or taxation that govern admitted (standard) insurance market insurers.
3. It further assumes that revenue can be generated by this proposed premium tax on insurers, when in fact taxes imposed by Oregon on Surplus Lines insurers are paid by insurance **brokers**, not by the insurers themselves, and the authority to tax surplus lines (non-admitted) insurers is unclear.

4. It imposes a new and outsized premium tax. Oregon is the **only state in the nation** without a gross premium tax. Instead, insurers in Oregon pay corporate income taxes and the Corporate Activities Tax. Insurers also pay a tax based on premiums for fire insurance to help fund the Department of State Fire Marshal (DSFM). And insurers pay what's called a "Retaliatory Tax," which is a reciprocal tax intended to equalize taxes paid by insurers in every state where they write business. The Retaliatory Tax alone generates an estimated \$40 million per year from P&C insurance companies to Oregon's General Fund annually. Notably, insurers also pay a fee to fully fund the Division of Financial Regulation (the P&C insurance industry's regulatory agency). Here's how the tax works and could impact Oregon revenues:
 - a. The Retaliatory Tax is calculated and imposed by every state and is based on the aggregate (total) tax burden paid by an insurer in the state where it is domiciled (based) compared to the state where the insurer is writing policies. An Oregon-based insurer writing business in Texas pays whichever aggregate tax rate is higher among the two states (and the tax functions the same way in every state).
 - b. This means higher taxes imposed by the Legislature on insurers results in **two** negative impacts in Oregon:
 - i. First, an Oregon-headquartered insurance company writing insurance in other states could pay higher taxes in **every other state** where they write business, which unfairly penalizes Oregon-based insurers.
 - ii. Second, raising taxes on insurers in Oregon raises our state's aggregate tax burden on insurance companies that write insurance here, but are headquartered in other states. As Oregon "catches up" to other states' aggregate tax burden on insurers, Oregon will receive **less** revenue from the Retaliatory Tax.
 - iii. The Oregon Wildfire Funding Working Group recently issued findings and recommendations that include dedicating the Oregon Insurance Retaliatory Tax – or some portion thereof – to a new fund that will pay for the Oregon Department of Forestry and the DSFM to fight wildfires and to support mitigation efforts by homeowners and communities. HB 3479 threatens a portion of that Retaliatory Tax revenue stream.
5. The bill proposes to require commercial drone operators to maintain a liability policy. Yet the tax will apply to **every insurer** transacting insurance covering the activities of unmanned aircraft systems for policies that insure a resident of Oregon, insure a person with a billing address in Oregon, originating in Oregon, or insure a person registered to do business in Oregon. Accordingly, every insurer that covers UAV activities – including personal and commercial insurers – will be subject to this tax. That potentially means **every personal lines insurer**, as homeowners policies cover hobby use of UAVs, and any **commercial insurer** that writes coverage for drones. Additionally, policies for non-residents with billing addresses in Oregon, regardless of primary residence or business

location, or policies issued by an Oregon insurer to an out-of-state risk are also subject to the tax.

6. Finally, this is a tax imposed on insurers that has no nexus with or connection to insurance. It is purely a revenue-generation mechanism. It would be more appropriate to establish or increase licensing or other user fees imposed on unmanned aircraft companies/operators to fund the agency and programs that regulate that industry (just as insurance companies pay taxes and fees that fund DFR, our industry's regulatory agency).

To our knowledge, the Oregon Department of Aviation has not been in contact or consultation with our industry about how the insurance market and the commercial unmanned aviation industry interact, nor about how insurers are taxed in Oregon. HB 3479 reflects basic misinterpretations of our industry and the history of insurance taxation in Oregon, and we ask that the committee **not pass** the bill this session.

If our associations can provide any additional information, please do not hesitate to contact any or all of us.

Respectfully submitted,

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