

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

House Bill 1482
 Economic Matters

(Delegate Fraser-Hidalgo)

Finance

Uninsured Driving Penalties - Funding for the Maryland Automobile Insurance Fund, Driver Education, and Transportation to Field Trips

This bill establishes the Driver Education in Public High Schools Grant Program (and a corresponding special fund) to provide grants to public schools and nonprofit organizations to assist public schools in offering driver education courses to students. Likewise, the bill establishes the State-Aided Institutions Field Trip Grant Program (and a corresponding special fund) to assist public schools in transporting students to field trips at State-aided educational institutions. The bill also increases the uninsured motorist penalties that apply when required security (*i.e.*, insurance) on a motor vehicle registered in the State terminates or otherwise lapses during its registration period and alters the distribution of the penalty revenues to include funding for the two new programs and to increase funding for the Maryland Automobile Insurance Fund (MAIF). **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: Special fund revenues to the Transportation Trust Fund (TTF) and two new special funds increase by a total of \$3.5 million in FY 2025, while general fund revenues correspondingly decrease, as discussed below. Future years reflect additional distributions to MAIF (due to a required inflation adjustment) with lesser revenues accruing to the general fund. It is assumed that the two new special funds expend all new revenues annually; therefore, special fund expenditures for the two new special funds increase by \$2.6 million annually beginning in FY 2025. **This bill increases a mandated distribution and establishes additional mandated distributions beginning in FY 2025.**

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	(\$3.5)	(\$3.5)	(\$3.6)	(\$3.7)	(\$3.8)
SF Revenue	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5
SF Expenditure	\$2.6	\$2.6	\$2.6	\$2.6	\$2.6
Net Effect	(\$2.6)	(\$2.6)	(\$2.7)	(\$2.8)	(\$2.9)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

MAIF Effect: Nonbudgeted revenues for MAIF increase by \$3.0 million in FY 2025; future years reflect required adjustments for inflation. Nonbudgeted expenditures may increase correspondingly as the additional revenues are for the exclusive use of MAIF’s Uninsured Division; however, the bill itself does not require additional spending.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
NonBud Rev.	\$3.0	\$3.1	\$3.1	\$3.2	\$3.3
NonBud Exp.	-	-	-	-	-
Net Effect	\$3.0	\$3.1	\$3.1	\$3.2	\$3.3

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local school systems benefit from the availability of grants to defray certain expenditures.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Driver Education in Public High Schools Grant Program and Fund

The bill establishes a Driver Education in Public High Schools Grant Program in the Maryland State Department of Education (MSDE) to provide grants to public high schools and nonprofit organizations to assist public high schools in offering driver education courses for students, as specified. MSDE must (1) administer the program; (2) establish application procedures for the program; and (3) award grants from the program.

Subject to the availability of money in the fund, a public school or nonprofit organization may apply for a grant for expenses paid or incurred (or that will be paid or incurred) to offer a driver education course for students, as specified. When making grants, MSDE must prioritize (1) public schools at which at least 40% of the registered students are eligible for the federal free or reduced-price meal program and (2) nonprofit organizations working to offer a driver education course in a school at which at least 40% of the registered students are eligible for the federal free or reduced-price meal program.

The Driver Education in Public High Schools Fund is a special, nonlapsing fund not subject to reversion to the general fund. The fund consists of money received from fines for vehicle security lapses under specified provisions of the Transportation Article and any other money from any other source accepted for the benefit of the fund. The fund may be used only for providing grants under the program and administrative costs of the program. Any interest earnings accrue to the general fund.

MSDE must adopt regulations to carry out these provisions.

State-Aided Institutions Field Trip Program and Fund

The bill establishes a State-Aided Institutions Field Trip Grant Program in MSDE to provide grants to public schools to provide transportation to students for field trips to educational institutions that are qualified as State-aided educational institutions. MSDE must (1) administer the program; (2) establish application procedures for the program; and (3) award grants from the program.

Subject to the availability of money in the fund, a public school may apply for a grant for expenses paid or incurred (or that will be paid or incurred) to provide transportation to students for field trips to educational institutions that are qualified as State-aided educational institutions. When making grants, MSDE must prioritize public schools at which at least 40% of the registered students are eligible for the federal free or reduced-price meal program.

The State-Aided Institutions Field Trip Fund is a special, nonlapsing fund not subject to reversion to the general fund. The fund consists of money received from fines for vehicle security lapses under specified provisions of the Transportation Article and any other money from any other source accepted for the benefit of the fund. The fund may be used only for providing grants under the program and administrative costs of the program. Any interest earnings accrue to the general fund.

MSDE must adopt regulations to carry out these provisions.

Uninsured Motorist Penalties and Penalty Distribution

The bill modifies the escalating penalty structure for lapsed security on a motor vehicle registered in the State (commonly referred to as uninsured motorist penalties) by:

- authorizing the Motor Vehicle Administration (MVA) to assess the owner of a vehicle a penalty of \$200, instead of \$150, for each vehicle without the required security for the first 30 days; and
- increasing the maximum fine that may be imposed in a 12-month period from \$2,500 to \$3,500.

The bill also modifies the annual distribution of the uninsured motorist penalties, beginning in fiscal 2025, by:

- requiring that \$2.0 million be allocated to the Drivers Education in Public High Schools Fund;

- requiring that \$600,000 be allocated to the State-Aided Institutions Field Trip Fund; and
- increasing MAIF's share of the penalty revenues collected by \$3.0 million and requiring this additional revenue to be included in the calculation when determining MAIF's share of penalty revenues in future years (while retaining the required annual adjustment for inflation); however, this additional revenue for MAIF must be dedicated to the exclusive use of MAIF's Uninsured Division.

Current Law:

Driver Education Schools

MVA is required to, in consultation with MSDE, adopt and enforce regulations to implement a standardized driver education program conducted by driver education schools. The regulations must include curriculum, equipment, and facility standards for classroom, laboratory, and on-road instruction phases, as well as minimum student performance standards for an approved driver education program consisting of at least 30 hours of classroom instruction and at least 6 hours of highway driving instruction. Regulations must also include standards for the certification of schools and instructors; a system to evaluate the effectiveness of the driver education program; standards governing the required offering of the driver education program (based on the capacity, enrollment, staff, and facilities of the schools); and standards for the eligibility of individuals to enroll in the program.

Driver Education Programs

Each local board of education may offer instruction in the safe operation of a motor vehicle to high school students who are age 15 or older. The instruction must be given as provided by specified provisions of the Transportation Article related to driver education schools (described above). Each local board must determine whether the course is an elective or required course. The State Board of Education must determine what credit, if any, is allowed to successful students of the course. The principal of each school that offers the driver education course must arrange the time set aside for actual driving instruction so that it does not interfere with other work. Each motor vehicle used for instruction must bear the identification required by MVA. If practicable, the actual driving instruction must be conducted on private or public property that is removed from State roads.

However, in February 2017, due to unsustainable costs, including vehicle, insurance, instructor, course material, and maintenance expenses, the State Board of Education repealed the regulations for driver education programs in public schools. Currently, no local school systems are certified by MVA to provide driver's education.

Required Security

Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. MVA may not issue or transfer the registration of a motor vehicle unless the owner or prospective owner of the vehicle provides satisfactory evidence to MVA that the required security is in effect.

If the required security for a vehicle lapses at any time, the registration of that vehicle is suspended automatically as of the date of the lapse, effective within 60 days after notification to MVA. After receiving this notice, MVA must make a reasonable effort to notify the owner of the vehicle that registration on the vehicle has been suspended. The registration remains suspended until the vehicle owner submits evidence of replaced security on a designated MVA form, certified by the insurance provider, along with the uninsured motorist penalty. Additionally, Chapter 549 of 2022 prohibits MVA from assessing a penalty for a vehicle if the vehicle's registration plates are returned within 10 days after the termination or lapse and other specified conditions are met.

Uninsured Motorist Penalties and Revenue Distributions

MVA may assess the owner of the vehicle a penalty of \$150 for each vehicle without the required security for the first 30 days. Beginning on the 31st day, the fine increases by a rate of \$7 per day, but the total fine may not exceed \$2,500 in a 12-month period, not including the additional misdemeanor penalty of up to \$500, which may be prepaid with a fine of \$290. Knowingly operating a vehicle without adequate security is a misdemeanor, subject to a fine of up to \$1,000 and/or one year imprisonment for a first offense and a fine of up to \$1,000 and/or two years imprisonment for a subsequent offense. The violation requires a court appearance, results in the imposition of five points on the driver's record, and subjects the driver to participation in the Driver Improvement Program.

A portion of the fines collected under the escalating penalty structure for lapsed security (uninsured motorist penalties) is retained by MVA (30%) for specified purposes; the remainder (70%) is directed under the following allocation formula:

- \$600,000 to the Safe Schools Fund;
- \$2.0 million to the Vehicle Theft Prevention Fund;
- a specified amount to MAIF based on the amount provided in the prior fiscal year adjusted for inflation, with specified calculations for fiscal 2024; and
- the balance to the general fund.

Maryland Automobile Insurance Fund

Created by the General Assembly in 1972, MAIF is an independent nonbudgeted State agency. Through its [Insured Division](#), MAIF provides automobile liability insurance to residents of the State who are unable to obtain policies in the private insurance market. As the insurer of last resort, MAIF is not in direct competition with the private insurance industry because a customer must generally have been turned down by other insurers (and meet other requirements) in order to obtain a policy with MAIF.

Like other insurers, MAIF's Insured Division is primarily funded through premiums on the insurance policies it issues; however, MAIF is authorized to issue an assessment paid by other motor vehicle insurers in the State if it experiences a significant operating loss (as defined by State law) and meets other specified conditions. This is to ensure MAIF's continued viability as the insurer of last resort. The assessment is grouped and paid separately by private passenger auto insurers and commercial auto insurers. Once an insurer pays the assessment, they are authorized to recoup the cost from their policyholders.

Through its [Uninsured Division](#), which is separate and distinct from the Insured Division, MAIF provides payments to qualified State residents who incurred damages (bodily injury, death, or property damage) in accidents with motor vehicles; however, to be eligible, a resident must have no other form of collectible automobile insurance. The Uninsured Division is primarily funded through the uninsured motorist penalties being increased by bill. The Uninsured Division has recently experienced financial difficulties, as discussed below in Additional Comments.

State/MAIF Fiscal Effect: Beginning in fiscal 2025, the bill (1) increases penalties for uninsured motorists; (2) increases the share of the penalties that accrue to MAIF; and (3) establishes two additional mandated distributions for the penalties that accrue to the two new special funds established by the bill. Of the uninsured motorist penalties, 30% are retained by TTF and the remaining 70% of revenues (after required distributions to the Safe Schools Fund and the Vehicle Theft Prevention Fund, which are unchanged by the bill, and required distributions under the bill to the two new special funds and to MAIF) are remitted to the general fund.

Based on payment patterns in fiscal 2023, as reported by MVA, total penalty revenues increase by an estimated \$3.0 million annually beginning in fiscal 2025, as shown in **Exhibit 1**. However, the additional distributions required by the bill are anticipated to annually exceed additional revenues. Consequently, revenues for TTF, the new Driver Education in Public High Schools Fund, the new State-Aided Institutions Field Trip Fund, and MAIF increase due to the mandatory distributions, while general fund revenues decrease.

Exhibit 1
Effect of the Bill on State Revenues and Related Distributions
Fiscal 2025-2029
(\$ in Millions)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Total Additional Revenues	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0
30% Retained by TTF	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9
70% Available for Distribution	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1
DEPS Fund	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
SIFT Fund	0.6	0.6	0.6	0.6	0.6
MAIF (nonbudgeted)	3.0	3.1	3.1	3.2	3.3
Total Additional Distributions	\$5.6	\$5.7	\$5.7	\$5.8	\$5.9
Net Effect on General Fund	(\$3.5)	(\$3.5)	(\$3.6)	(\$3.7)	(\$3.8)

DEPS: Driver Education in Public High Schools
MAIF: Maryland Automobile Insurance Fund
SIFT: State-Aided Institutions Field Trip
TTF: Transportation Trust Fund

Notes: Numbers may not sum to total due to rounding. Existing annual distributions to the Safe Schools Fund (\$600,000) and the Vehicle Theft Prevention Fund (\$2.0 million) are not affected and, thus, not shown above.

Source: Motor Vehicle Administration; Department of Legislative Services

This estimate assumes that:

- under current law, projected uninsured motorist penalty revenues of \$97.5 million for fiscal 2025 would otherwise be maintained at that level through fiscal 2029;
- changes to the penalty structure result in uninsured motorist penalty revenues collected by MVA increasing to \$100.5 million annually through fiscal 2029;
- the higher penalty structure does not have a significant deterrent effect; and
- an inflation rate of approximately 2.5% beginning in fiscal 2026 is used for calculating the required adjustment to the allocation that accrues to MAIF.

This analysis assumes that revenues for the new Driver Education in Public High Schools Fund and the new State-Aided Institutions Field Trip Fund are fully expended each year, for grants and for additional staff needed to administer the programs. Although the bill also results in additional revenues for TTF, it does not require additional expenditures for the Maryland Department of Transportation. Likewise, while the bill requires MAIF to use the additional revenues exclusively for its Uninsured Division, the bill itself does not require additional spending by MAIF. Nevertheless, at least \$3.0 million each year becomes available for MAIF's Uninsured Division, and, given current funding projections, most of that amount is likely expended each year; the balance may be retained so that the Uninsured Division can accrue a small cushion.

Maryland State Department of Education Staffing

MSDE requires one new grant manager to manage the two new grant programs and associated special funds established by the bill. As both new special funds can be used for administrative expenses, this analysis assumes that any staffing and related operating costs are paid by some combination of the two special funds. Annual administrative costs of between \$85,000 and \$120,000, beginning in fiscal 2025, reduce the amount of funding available for grants to schools and/or nonprofit organizations.

Local Fiscal Effect: Beginning in fiscal 2025, both the Driver Education in Public Schools Grant Program and State-Aided Institutions Field Trip Grant Program may distribute funds to qualified local school systems. Thus, for any public school that applies to the programs and receives funding, local school system revenues and expenditures increase correspondingly to complete the relevant activities authorized under each program.

Additional Comments: MAIF advises that the calendar 2023 year-end audited surplus for its Uninsured Division is significantly lower than expected at negative \$1.4 million. Moreover, MAIF advises that, without additional funding, the Uninsured Division may fail to meet its statutory obligation to pay claims. While the uninsured penalty distribution under current law provides an additional \$2.0 million to MAIF in fiscal 2024 only, which, although not statutorily required, is – according to MAIF – intended for use by the Insured Division.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland Department of Transportation; Maryland Automobile Insurance Fund; Maryland State Department of Education; Department of Legislative Services

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