

**Department of Legislative Services**  
 Maryland General Assembly  
 2005 Session

**FISCAL AND POLICY NOTE**

House Bill 31 (Delegates Leopold and Sophocleus)  
 Environmental Matters

**Vehicle Laws - Lapsed or Terminated Security - Penalties**

This bill alters the penalties for vehicle owners who fail to maintain required vehicle security (insurance coverage). The Motor Vehicle Administration (MVA) may impose a penalty of \$75 for 1 to 15 days of lapsed coverage or \$180 for 16 to 30 days of lapsed coverage. Starting on the thirty-first day of lapsed coverage, the penalty rises by \$9 per day. The bill also increases the cap on insurance compliance penalties from \$2,500 to \$3,000 in a 12-month period.

**Fiscal Summary**

**State Effect:** General fund revenues would increase by \$3.2 million in FY 2006 and \$5.8 million annually thereafter, due to increased penalties for lapsed required security. Transportation Trust Fund (TTF) revenues would increase by \$1.4 million in FY 2006 and \$2.5 million annually thereafter. Future revenues reflect full-year fiscal effect. TTF expenditures could increase in FY 2006 only for computer programming changes.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	\$3,246,200	\$5,771,000	\$5,771,000	\$5,771,000	\$5,771,000
SF Revenue	1,391,200	2,473,300	2,473,300	2,473,300	2,473,300
SF Expenditure	-	0	0	0	0
Net Effect	\$4,637,400	\$8,244,300	\$8,244,300	\$8,244,300	\$8,244,300

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** “Required security” is a vehicle liability insurance policy written by an insurer authorized to write policies in Maryland. To register a vehicle in Maryland, owners must maintain a basic insurance policy. This policy must, at a minimum, provide for the payment of bodily injury or death claims arising from an accident of up to \$20,000 for one person and up to \$40,000 for two or more persons, as well as interest and costs. The policy must also provide for the payment of property damage claims of up to \$15,000 at a minimum, in addition to interest and costs. Other benefits must also be provided, as specified in statute, unless waived.

A person who knows or has reason to know that a motor vehicle is not covered by the required insurance may not drive the vehicle. If the person is the vehicle owner, the owner may not permit another person to drive it. A person may not willfully and knowingly create, certify, file, or provide false evidence of required vehicle insurance.

Vehicle owners face a penalty of \$150 for each vehicle without the required security for a period of 1 to 30 days. If a fine is assessed, beginning on the thirty-first day of lapsed coverage, the fine increases by \$7 for each day the vehicle fails to meet insurance requirements, up to \$2,500 in any one year. The MVA may not renew or issue a new registration for a vehicle until the penalty is paid.

Currently, 70% of the penalties paid by uninsured motorists are allocated as follows: \$600,000 to the School Bus Safety Enforcement Fund; \$2,000,000 to the Vehicle Theft Prevention Fund; at least \$2,000,000, adjusted by the Medical consumer price index for the previous fiscal year, to the Maryland Automobile Insurance Fund (MAIF); and the remainder the general fund. The other 30% is retained by the MVA and used as part of its cost recovery calculations.

**Background:** Drivers unable to obtain insurance from a private insurer do have access to automobile insurance in the State. MAIF offers motor vehicle insurance to those unable to obtain it elsewhere. To be eligible for liability insurance from the fund, a driver must have been rejected by at least two private insurers or have had automobile liability insurance cancelled or not renewed for any reason other than nonpayment of premiums. Nevertheless, an Insurance Research Council study examining the percentage of uninsured drivers in each state from 1995 through 1997 found that 16% of drivers in Maryland were not insured.

**State Revenues:** Total revenues would increase by \$4,637,402 in fiscal 2006, accounting for the October 1 effective date, and by \$8,224,270 annually thereafter. The MVA would retain 30% in the TTF, or \$1,391,221, in fiscal 2006 and \$2,473,281

annually thereafter. The remainder would be transferred to the general fund, \$3,246,181 in fiscal 2006 and \$5,770,989 annually thereafter.

This estimate reflects collection of penalties on 99,031 vehicles in fiscal 2004 and assumes the number of vehicles with lapsed insurance coverage for which penalties are collected and the period of noncompliance for each vehicle remain constant. As shown in **Exhibit 1**, the MVA maintains data on lapsed coverage in 30-day increments; therefore, the estimate assumes penalties are based on the midpoint of each 30-day period. Further, in fiscal 2006, the estimate assumes that only 75% of the collections from October 1, 2005 through June 30, 2006 would be from penalties assessed under the proposed fine structure. The other 25% would be from penalties associated with lapsed coverage in fiscal 2005, for which the MVA would collect fines according to the existing schedule.

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**Exhibit 1**  
**Full-year Effect of Proposed Penalties on Revenue Collections**

<u>Days of Lapsed Coverage</u>	<u>Number of Vehicles</u>	<u>Average New Penalty per Vehicle</u>	<u>Average Existing Penalty per Vehicle</u>	<u>Difference in Revenue Collected</u>
1-15	17,550	\$75	\$150	(\$1,316,250)
16-30	23,090	180	150	692,700
31-60	21,316	315	255	1,278,960
61-90	4,473	585	465	536,760
91-120	23,310	855	675	4,195,800
121-150	2,045	1,125	885	490,800
151-180	5,425	1,395	1,095	1,627,500
181-210	454	1665	1,305	163,440
210+	<u>1,368</u>	1,935	1,515	<u>574,560</u>
<b>Total</b>	<b>99,031</b>			<b>\$8,244,270</b>

Source: The MVA and the Department of Legislative Services

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The MVA advises that it hopes to improve its collection rate in future years and to collect penalties before an extended period of time has passed. As the penalty increases for each day of noncompliance beyond 30 days, earlier collection could substantially reduce revenues. The new penalty structure could also encourage individuals subject to the penalties to pay earlier, in the first 1 to 15 days, resulting in some revenue loss.

**State Expenditures:** The MVA advises that expenditures could increase by \$280,000 in fiscal 2006, reflecting the in-house and vendor costs to reprogram its system to reflect the new penalties. Legislative Services advises that, if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce the costs associated with this bill and other legislation affecting the MVA system.

The Maryland Insurance Administration (MIA) advises that it receives approximately 1,500 to 2,000 complaints annually from vehicle owners who have been fined by the MVA, stating that the insurance policy was unlawfully terminated by the insurance company. MIA expects the bill to generate additional complaints but expects to be able to handle them with existing resources.

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### **Additional Information**

**Prior Introductions:** HB 1381 was introduced in the 2004 session and a hearing was held in the House Environmental Matters Committee but no further action was taken.

**Cross File:** None.

**Information Source(s):** Maryland Department of Transportation, Maryland Automobile Insurance Fund, Maryland Insurance Administration (Insurance Research Council), Department of Legislative Services

**Fiscal Note History:** First Reader - January 24, 2005  
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