

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

Senate Bill 868 (Chairman, Judicial Proceedings Committee)
 (By Request – Departmental – Transportation)

Judicial Proceedings

Vehicle Laws - Lapsed or Terminated Security - Penalties

This departmental 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 \$100 for 1 to 15 days of lapsed coverage or \$200 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.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: General fund revenues would decrease by \$185,900 in FY 2006 and increase by \$1.6 million annually thereafter, due to increased penalties for lapsed required security and a modification in the distribution of penalty revenues. Transportation Trust Fund (TTF) revenues would increase by \$6.5 million in FY 2006 and \$8.7 million annually thereafter. 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	(\$185,900)	\$1,618,800	\$1,618,800	\$1,618,800	\$1,618,800
SF Revenue	7,920,300	8,693,800	8,693,800	8,693,800	8,693,800
SF Expenditure	-	0	0	0	0
Net Effect	\$7,734,400	\$10,312,600	\$10,312,600	\$10,312,600	\$10,312,600

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

Local Effect: None.

Small Business Effect: The Maryland Department of Transportation has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The penalty is no longer considered a miscellaneous fee. The bill also directs that the first \$8 million of penalty revenue be credited to the TTF. Of the remainder, 70% is to be allocated as follows: \$600,000 to the School Bus Safety Enforcement Fund; \$2 million to the Vehicle Theft Prevention Fund; at least \$2 million, adjusted by the medical consumer price index for the previous fiscal year, to the Maryland Automobile Insurance Fund (MAIF); and the remainder to the general fund. The other 30% is retained by the MVA and used as part of its cost recovery calculations.

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 million to the Vehicle Theft Prevention Fund; at least \$2 million, adjusted by the medical consumer price index for the previous fiscal year, to MAIF; and the remainder to 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 \$7,734,480 in fiscal 2006 and \$10,312,640 annually thereafter. In fiscal 2006, the estimate assumes that only 75% of the collections from July 1, 2005 to 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.

Due to the shift in the distribution of revenues, TTF revenues would increase by \$7,920,344 in fiscal 2006 and by \$8,693,792 annually thereafter. However, due to the \$8 million in additional funds allocated to the TTF, general fund revenues would decrease by \$185,864 in fiscal 2006 – the increase in overall revenue in fiscal 2006 is not large enough to cover the additional funding to the TTF. Beginning in fiscal 2007, general fund revenues would increase by \$1,618,848 annually.

Exhibit 1
Distribution of a Full Year of Penalty Revenues

	<u>Proposed</u> <u>Under Bill</u>	<u>Current Law</u>	<u>Difference</u>
Total Revenues Collected	\$50,073,605	\$39,760,965	\$10,312,640
Distribution:			
TTF	8,000,000	0	8,000,000
MVA (in the TTF)	12,622,082	11,928,290	693,792
MAIF	2,269,163	2,269,163	0
School Bus Safety Enforcement Fund	600,000	600,000	0
Vehicle Theft Prevention Fund	2,000,000	2,000,000	0
MAIF	2,269,163	2,269,163	0
General Fund	24,582,360	22,963,512	1,618,848

Source: Department of Legislative Services

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 2**, 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.

Exhibit 2
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	\$100	\$150	(\$877,500)
16-30	23,090	200	150	1,154,500
31-60	21,316	335	255	1,705,280
61-90	4,473	605	465	626,220
91-120	23,310	875	675	4,662,000
121-150	2,045	1,145	885	531,700
151-180	5,425	1,415	1,095	1,736,000
181-210	454	1,685	1,305	172,520
210+	<u>1,368</u>	1,955	1,515	<u>601,920</u>
Total	99,031			\$10,312,640

Source: The MVA and the Department of Legislative Services

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.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/ljm

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