Department of Legislative Services

Maryland General Assembly 2006 Session

FISCAL AND POLICY NOTE

House Bill 1312

(Delegate Bronrott)

Environmental Matters

Driver Responsibility and Funding for First Responders Act

This bill establishes a First Responders Fund (FRF) to provide grants for local law enforcement and fire, rescue, and emergency medical services equipment and personnel. The bill establishes the State Police Helicopter Replacement Fund (SPHRF) as a special fund. The bill imposes fees for points assessed on a driver's license and increases the penalties for vehicle owners who fail to maintain required vehicle security (insurance coverage). These increases provide revenue for one or both special funds; the Senator William H. Amoss Fire, Rescue, and Ambulance Fund (Amoss Fund); and the Volunteer Company Assistance Fund (VCAF).

The increased penalties for insurance coverage and the establishment and funding of the SPHRF takes effect July 1, 2006; the fees for points on a driver's license and the additional funding for FRF, Amoss Fund, and VCAF take effect October 1, 2007; and SPHRF terminates on June 30, 2021.

Fiscal Summary

State Effect: Special fund revenues would increase by \$8.8 million in FY 2007 due to penalty revenue and by \$24.5 million in FY 2008 due to penalty and fee revenue. Future year revenues reflect annualization and the cumulative effect of the three-year fee assessment. General fund revenues would increase by \$1.9 million in FY 2007, and by \$150,300 in FY 2008 due to increased penalty revenue. Correspondingly, special fund expenditures in the Maryland Emergency Management Agency (MEMA), the Board of Public Works (BPW), and the Department of State Police (DSP) would increase by \$14.1 million in FY 2008, primarily to reflect grant awards to local first responders and for helicopters. General fund and Transportation Trust Fund (TTF) expenditures would

increase by \$38,500 and \$451,500, respectively in FY 2008. Future year expenditures reflect annualization and inflation.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	\$1,862,800	\$150,300	\$150,300	\$150,300	\$150,300
SF Revenue	8,798,300	24,477,800	30,552,300	34,023,400	34,891,200
GF Expenditure	0	38,500	68,700	78,600	89,300
SF Expenditure	0	14,547,700	17,742,500	19,617,700	19,734,700
Net Effect	\$10,661,100	\$10,041,900	\$12,891,400	\$14,477,400	\$15,217,500

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

Local Effect: Local government revenues from grants from FRF and the Amoss Fund would increase by \$6.0 million in FY 2007, escalating to \$10.0 million in FY 2011. Local government expenditures would increase by \$1.6 million in FY 2007 and by \$2.6 million in FY 2011 to match Amoss Fund grants. In addition, expenditures would increase to the extent that local governments apply for matching grants from FRF.

Small Business Effect: None.

Analysis

Bill Summary:

New Funds Established:

First Responders Fund

The purpose of FRF is to provide grants to county or municipal corporations to pay for equipment and new personnel for first responders which includes fire, rescue, or emergency medical services entities and local law enforcement agencies. The Director of MEMA must administer the fund. MEMA may use up to \$100,000 each year for administrative expenses. This fund is intended to supplement current State and local funding for expenses for first responders, rather than supplant funding that would otherwise be appropriated by the State or by political subdivisions.

Grants may be used to purchase, replace, or improve equipment or facilities for first responders, or to hire additional personnel. A grant may not be used to fund salaries for existing personnel. The director must establish procedures for grant proposals by political subdivisions, as well as guidelines as to what the money can be used for.

If a grant is to be used to purchase, replace, or improve equipment for first responders, the grant would be for one year and the political subdivision must provide matching funds in an amount equal to half the grant. If a grant is to be used to hire additional personnel, the grant would be for three years and the political subdivision must provide matching funds in an amount equal to 25% of the grant in the first year, 50% of the grant in the second year, and 75% of the grant in the third and final year.

State Police Helicopter Replacement Fund

SPHRF is intended to ensure a dedicated revenue source to cover police helicopter related costs. It will be in existence from July 1, 2006, until June 30, 2021.

Funding Sources for New Funds:

Fees for Points on Driver's Licenses

The Motor Vehicle Administration (MVA) must assess a new \$50 fee annually for three years for each point above two points a licensee receives.

The MVA must send notice of these fees no later than 30 days after a conviction is posted to the driver's record that makes an individual subject to the fees. If an individual does not pay these fees within a specified time period, the MVA must suspend the individual's license. A hearing concerning the proposed suspension must be limited as to whether the MVA had mistaken the identity of the individual involved. An individual may prepay these fees.

The MVA may enter into a contract with a private entity to collect these fees; however, this contract is subject to rules governing procurement of contracts. These fees are not considered miscellaneous fees. The MVA may retain sufficient funding to recover its costs. Alternatively, a private contractor is permitted to retain a portion of the fee revenue to cover its costs.

Increased Penalties for Lapsed Insurance Coverage

The penalties are increased to \$100 for 1 to 15 days of lapsed insurance coverage, or \$200 for 16 to 30 days of lapsed insurance coverage. Starting on the thirty-first day of lapsed insurance coverage, the penalty rises by \$9 per day. The new maximum penalty annually is \$3,000.

Distribution of Funding:

From Lapsed Insurance Penalties

From July 1, 2006 through September 30, 2007, the first \$8.0 million annually is to be transferred to SPHRF, while the remainder is to be distributed as designated under current law.

Beginning on October 1, 2007, and continuing to June 30, 2021, the first \$8.0 million annually is to be transferred to SPHRF. The next \$6.0 million is to be divided as follows: 30% to FRF, 10% to the Amoss fund, 10% to VCAF, and the remainder to the TTF. Any remaining funds are to be distributed as designated under current law.

Beginning on July 1, 2021, the first \$14.0 million in penalty revenue will be distributed as follows: 30% to FRF, 10% to the Amoss fund, 10% to VCAF, and the remainder to the TTF. Any remaining funds are to be distributed as designated under current law.

From Points Fees

Beginning on October 1, 2007, the MVA will first recover its costs. The remaining revenue will be distributed as follows: 30% to FRF, 10% to the Amoss fund, 10% to VCAF, and the remainder to the TTF. The TTF is to distribute its points fees revenues as follows: 20% for rural transit, and the remainder to be equitably distributed between the Baltimore and Washington metropolitan transit areas.

Current Law: Points that are assessed against an individual's driving record for Maryland Vehicle Law violations (excluding alcohol convictions) are removed from the record two years after the date the points were assessed. Points for conviction range from 1 to 12 points.

The District Court imposes \$28 for court costs and fees on moving violation convictions and \$60 for court costs and fees on drunk or impaired driving convictions. Most of the revenue from these charges is paid to the Comptroller and distributed by formula to various special funds, including the State Victims of Crime Fund, the Victim and Witness Protection and Relocation Fund, the Criminal Injuries Compensation Fund, and the Law Enforcement and Correctional Training Fund. The MVA is required to assess 12 points against the license of an individual who is convicted of driving or attempting to drive while under the influence of alcohol or alcohol per se or a controlled dangerous substance, and the license is subject to revocation.

"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.

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; \$2.0 million to the Vehicle Theft Prevention Fund; at least \$2.0 million, adjusted by the medical consumer price index for the previous fiscal year, to MAIF (an estimated \$2.4 million in fiscal 2006); 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: New Jersey collects a surcharge similar to the one proposed by the bill. Drivers who accumulate six or more points are assessed \$100 for three years, and \$25 for each point above six. The \$100 surcharge also applies to driving without a license or without insurance on a moped. A \$250 annual charge is assessed against those who drive on a suspended license or drive a vehicle without insurance. Individuals with drunk driving convictions or who refuse to submit to a breathalyzer test must pay \$1,000 per year for three years. Those with three convictions must pay \$1,500 annually for three years.

Revenue from the surcharge, which became effective in 1984, supports a fund similar to the Maryland Automobile Insurance Fund that provides coverage for uninsured motorists. (After 2010, a portion of the revenue will be diverted to transportation bonds.) In 2004, New Jersey collected approximately \$137 million. Failure to pay the New Jersey surcharge results in license suspension, but a person does not have to be licensed or have a registered vehicle to be subject to the charge.

New Jersey has a state revenue collections office that uses private vendors to collect debt; it does not have a state collection agency. The contractor who collects unpaid surcharges retains an average of 8% of revenues.

Maryland Emergency Medical System Operations Fund

The Amoss Fund is funded through the Maryland Emergency Medical System Operations Fund (MEMSOF) and provides grants for local jurisdictions to purchase fire and rescue equipment and for capital building improvements.

VCAF is also funded through MEMSOF and assists volunteer fire, rescue, and ambulance companies with up to 75% of the cost of purchasing or refurbishing fire and rescue equipment and updating or replacing facilities.

Grants from the Amoss Fund totaled \$10 million in fiscal 2005. The fiscal 2006 appropriation and fiscal 2007 Governor's proposed budget for the Amoss Fund is \$10 million each year, as are projected awards from the fund through 2011. The appropriation for VCAF was \$1,403,744 in fiscal 2006; and \$1.4 million is included in the Governor's proposed budget for fiscal 2007. The budget also projects \$1.4 million annually for awards from VCAF through fiscal 2010.

MEMA's function is to lead, coordinate, and support the State in a comprehensive management system to respond to emergency situations such as natural disasters or possible manmade disaster like a terrorist attack. MEMA has 67 authorized positions for fiscal 2006, and an appropriation of \$29.5 million for fiscal 2006, of which \$24.6 million is intended for grants, subsidies, and contributions. The fiscal 2007 Governor's proposed budget for MEMA includes \$32.8 million for grants; however, the majority of these grants are federal funded.

State Helicopter Replacement

Since 1989, DSP has purchased 12 helicopters for use as Medevac and law enforcement helicopters. These purchases have been funded through a combination of TTF funds, MEMSOF funds, and general funds. Replacement is scheduled to begin in fiscal 2007, though DSP has indicated that it is likely that replacement will not need to begin until fiscal 2008. Replacements are scheduled through fiscal 2024. DSP advises that the cost for replacing a helicopter ranges between \$5.7 million and \$6.5 million.

State Revenues:

Increased Lapsed Insurance Penalties

On an annualized basis, approximately \$14.2 million in new penalties for lapsed insurance could be collected. Based on the assumption that approximately 75% of the revenues collected in fiscal 2007 would be based on the new penalty schedule, while 25%

would be from penalties associated with lapsed coverage in fiscal 2006 and would be based on the old penalty schedule, the amount of new penalties imposed would total approximately \$13.8 million in fiscal 2007, of which only \$10.7 million would actually be collected by the MVA and available for distribution.

Of this amount \$8 million would go to the SPHRF, \$798,323 would go to the MVA for cost recovery, and \$1.8 million would go to the general fund in fiscal 2007.

This estimate reflects collection of penalties on 99,031 vehicles in fiscal 2004 (the most recent data available) 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. Also assumed is a bad debt collection rate of 77%, which also remains 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.

Exhibit 1 Annualized Effect of Proposed Lapsed Insurance Penalties on Revenue Collections

Days of Lapsed <u>Coverage</u>	Number of <u>Vehicles</u>	Average New Penalty per <u>Vehicle</u>	Average Existing Penalty per Vehicle	Difference in Revenue <u>Collected</u>
1-15	17,550	\$100	\$150	(\$877,500)
16-30	23,090	300	150	3,463,500
31-60	21,316	435	255	3,836,880
61-90	4,473	705	465	1,073,520
91-120	23,310	975	675	6,993,000
121-150	2,045	1,245	885	736,200
151-180	5,425	1,515	1,095	2,278,500
181-210	454	1,785	1,305	217,920
210+	1,368	2,055	1,515	738,720
Total	99,031			\$18 ,460,740

MVA Bad Debt Collection Rate

Net Total \$14,214,770

77%

Source: Motor Vehicle Administration and 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.

Beginning October 1, 2007, special fund revenue will be increased by the new fees on points accumulated, as well as lapsed security penalties.

New Fees for Driver's License Points

In fiscal 2008, approximately \$10.4 million of additional revenue from points fees would be generated. This estimate is based on the following facts and assumptions:

- the number of individuals who accumulate points above 2 points annually remains steady at fiscal 2005 levels (52,877 individuals);
- the number of points accumulated by these individuals remains constant (192,016);
- one-half of all individuals who are subject to points fees pay all three years of fees at once (26,439 individuals, \$13,523,850 in revenue);
- one-half of all individuals pay on an annual basis (26,439 individuals, \$4,507,950 in revenue);
- fees under this schedule are collected consistent with the MVA debt collection rate of 77%; and
- the fees for points will be in place for three-quarters of fiscal 2008.

This estimate reflects the MVA bad debt collection rate. If the MVA were to contract with an outside contractor, revenues could be greater if the contractor has a better ability to collect on bad debt. Alternatively, revenues could be lower if the contractor retains a percentage of debt collected for expenses.

Exhibit 2 details the revenues generated on an annual basis for points collected.

Exhibit 2 Annualized Effect of Proposed Points Fees on Revenue Collections

	Number of					
Number	Chargeable	Total	Number		Number	
of	Points per	Points	of Drivers		Not	
Drivers	<u>Driver</u>	Charged	Prepaying	Payment	Prepaying	Payment
17,826	1	17,826	8,913	\$150	8,913	\$50
8,777	2	17,554	4,389	\$300	4,389	\$100
11,573	3	34,719	5,787	\$450	5,787	\$150
2,768	4	11,072	1,384	\$600	1,384	\$200
1,645	5	8,225	823	\$750	823	\$250
2,600	6	15,600	1,300	\$900	1,300	\$300
605	7	4,235	302	\$1,050	302	\$350
781	8	6,248	391	\$1,200	391	\$400
287	9	2,583	144	\$1,350	144	\$450
3,922	10	39,220	1,961	\$1,500	1,961	\$500
<u>2,095</u>	11+	34,743	<u>1,048</u>	\$1,650	<u>1,048</u>	\$550
Total 52,877		192,016	26,439		26,439	

Total Points Revenue Imposed

\$18,031,800

MVA Bad Debt Collection Rate

77%

Net Total

\$13,884,486

Notes: This estimate assumes all individuals who receive 13 or more points in a year received only 13 points. Numbers may not sum to total due to rounding.

Source: Motor Vehicle Administration and Department of Legislative Services

Total Revenue Impact

In fiscal 2007, the only revenue impact would be from the increased penalties for lapsed vehicle insurance. As noted earlier, \$10.7 million is expected to be collected in fiscal 2007. In total, approximately \$24.6 million in additional revenue would be generated in fiscal 2008. Future year revenues would increase by an additional \$6.1 million in fiscal 2009, an additional \$9.5 million in fiscal 2010, and an additional \$10.4 million in fiscal 2011. This estimate is based on a constant number of people with lapsed insurance coverage, a constant number of individuals receiving driving violations, and the cumulative effect of the three-year assessment for individuals who opt to pay fees on an HB 1312/Page 9

annual basis. **Exhibit 3** shows the allocation of fee and penalty revenues in future years. To the extent that a lower percentage of individuals opts to prepay fees, revenues in the first three years could be slightly lower.

Exhibit 3
Allocation of Fee and Penalty Revenues
FY 2007 – FY 2011

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
New Special Funds:					
SPHRF	\$8,000,000	\$8,000,000	\$8,000,000	\$8,000,000	\$8,000,000
FRF	0	4,788,550	6,581,783	7,613,752	7,864,017
Existing Special Fund	<u>s:</u>				
Amoss Fund	0	1,596,183	2,193,928	2,537,917	2,621,339
VCAF	0	1,596,183	2,193,928	2,537,917	2,621,339
General Fund:	1,862,754	150,339	150,339	150,339	150,339
TTF Distribution:					
MVA	798,323	515,963	612,980	644,206	677,771
Rural Counties	0	996,183	1,593,928	1,937,917	2,021,339
Baltimore Transit	0	1,992,367	3,187,856	3,875,835	4,042,678
Washington Transit	0	1,992,367	3,187,856	3,875,835	4,042,678
Other	<u>0</u>	3,000,000	3,000,000	3,000,000	3,000,000
Total	\$10,661,077	\$24,628,134	\$30,702,597	\$34,173,718	\$35,041,499

Notes: Up to \$100,000 of funds distributed to the First Responders Fund may be used by MEMA each year for administrative expenses. Numbers may not sum to total due to rounding. For purposes of revenue distribution, it is assumed that the Baltimore and Washington Metropolitan Areas each receive an identical amount of funding under the bill.

State Expenditures:

Board of Public Works

BPW distributes funds for VCAF to the Maryland State Firemen's Association, which administers VCAF grants to local volunteer fire companies. Legislative Services advises that the increase in VCAF funds from the distribution of fee revenue would not significantly increase the workload of BPW. It is assumed that BPW would not award all HB 1312 / Page 10

additional revenue as VCAF grants, but would start to build a fund balance; as such, BPW expenditures could increase by \$1.5 million in fiscal 2008 and by \$2.5 million in fiscal 2011.

Department of State Police

The Department of State Police would have decreased expenditures due to the use of SPHRF monies for expenditures related to helicopters, but the exact amount of this decrease cannot be determined at this time. Beginning in fiscal 2008, DSP would have expenditures related to helicopter replacement. Based on the model of helicopter, expenditures could be between \$5.7 million and \$6.5 million for each helicopter. For the purposes of this fiscal and policy note, it is assumed that DSP would expend \$6.5 million annually beginning in fiscal 2008.

Maryland Emergency Management Agency

MEMA awards could increase by \$6.0 million in fiscal 2008 due to increased grants through the Amoss Fund and FRF. This estimate assumes that MEMA begins to build a fund balance in FRF but expends all new monies in the Amoss Fund since it is distributed based on county population.

It is assumed that a significant portion of FRF grants would be capital grants. First responder capital equipment can be extremely expensive, costing several hundreds of thousand dollars. Larger grants would limit the number of grants given annually. Based on a limited number of larger grants, MEMA would require three employees (one administrator, one fiscal account technician, and one administrative aide) to administer FRF grants. MEMA would bear no additional responsibilities for administering increased funds for the Amoss Fund.

Accordingly, MEMA expenditures for administration could increase by an estimated \$138,454 in fiscal 2008, which accounts for the bill's October 1, 2007 effective date related to FRF. This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Total FY 2008 MEMA Expenditures	\$138,454
Operating Expenses	6,265
Start-up Costs	15,405
Salaries and Fringe Benefits	\$116,784

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

MEMA is authorized to direct up to \$100,000 annually from FRF to cover administrative costs for administering the fund. The remaining administrative costs would have to be covered by the general fund.

Motor Vehicle Administration Personnel

It is estimated that the number of individuals who would have to be contacted annually for points fees is 52,877 individuals. Based on the current size of the MVA Insurance Compliance Division, which processed 361,078 transactions in fiscal 2005, the MVA would require 10 additional employees (eight customer service agents and two additional customer service supervisors). Accordingly, TTF expenditures could increase by \$451,532 in fiscal 2008, which accounts for the October 1, 2007 effective date for those provisions.

Total FY 2008 MVA Expenditures	\$451,532
Operating Expenses	47,595
Start-Up Costs	51,350
Salaries and Fringe Benefits	\$352,587

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Alternatively, the State could choose to enter into a relationship similar to the one that New Jersey has with its contractor for points collection. The contractor who collects unpaid surcharges retains approximately 8% of revenues for debt collection. Assuming that the State hired this contractor to handle all collections, the TTF would not incur expenditures. Instead, revenues for the four special funds could decrease by 8% if the contractor's debt collection rate is equivalent to the MVA rate.

Collection of penalty revenue could be handled with existing resources.

MVA Computer Expenditures

The MVA advises that computer reprogramming costs associated with this bill would be approximately \$6,000,000 for changes to track points, and \$282,900 for changes to reflect the new penalty provisions for lapsed security. The MVA advises that computer reprogramming for the lapsed security provisions would have to occur in fiscal 2006, and HB 1312/Page 12

would require a capital budget amendment. Legislative Services advises that the MVA's estimate for lapsed security changes is almost \$42,000 more than its estimated to modify the system due to similar provisions in another bill under consideration during the 2006 session.

Legislative Services further advises that the MVA already requires individuals who have accumulated five points in two years to attend driver improvement courses, and therefore there is already a computer program in place that tracks how many points are accumulated on a licensed driver's record. Computer reprogramming would be a matter of altering that program for this purpose. In addition, Legislative Services advises that this is approximately 10 times the estimate the MVA provided for a similar bill in 2005.

Any increase in MVA expenditures would be covered by fee revenue.

Total Administrative Expenditures

In sum, State administrative expenditures could increase by \$589,986 in fiscal 2008 and \$802,626 in fiscal 2011. **Exhibit 4** shows the amount of administrative expenses by agency for fiscal 2008 through 2011. Future year administrative expenditures within MEMA and the MVA reflect: full salaries with 4.6% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

Exhibit 4	
Administrative Expense	es

Agency	<u>FY 2008</u>	FY 2009	FY 2010	FY 2011
MEMA	\$138,454	\$168,665	\$178,609	\$189,286
MVA	\$451,532	\$548,549	\$579,775	\$613,340
Total	\$589,986	\$717,214	\$758,384	\$802,626

Local Fiscal Effect: If MEMA were to start to build a fund balance for FRF, local government revenues from FRF grants could increase by \$4.4 million in fiscal 2008 and by \$7.4 million in fiscal 2011. Local government expenditures would increase to match FRF grants; however, the amount of these expenditure increases would depend on the type of grants disbursed and whether local governments decide to apply for a matching grant.

Local government revenues from Amoss Fund grants could increase by \$1.6 million in fiscal 2008 and by \$2.6 million in fiscal 2011. Local government expenditures would increase by the same amount to match Amoss Fund grants.

Additional Information

Prior Introductions: Similar bills, SB 275 and HB 383, were introduced during the 2005 session. SB 275 passed the Senate, and was referred to the House Environmental Matters Committee, but no action was taken. HB 383 was heard by the House Environmental Matters Committee, but no action was taken.

Cross File: SB 763 has been designated a cross file, but is not identical.

Information Source(s): Department of State Police, Maryland Department of Transportation, Maryland Emergency Management Agency, Maryland Institute of Emergency Medical Services Systems, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2006

ncs/jr

Analysis by: Nora C. McArdle Direct Inquiries to: (410) 946-5510

(301) 970-5510