

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 104 (Delegate Leopold, *et al.*)
 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 \$25 for 1 to 30 days of lapsed coverage, down from \$150. Starting on the thirty-first day of lapsed coverage, the penalty rises to \$8 per day, up from \$7. 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 decrease by \$2.7 million in FY 2007 and Transportation Trust Fund (TTF) revenues would decrease by \$1.1 million, due to reduced penalties for lapsed required security. Future revenue reductions reflect full-year fiscal effect. TTF expenditures could increase \$231,400 in FY 2007 only for computer programming changes.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$2,674,400)	(\$4,754,400)	(\$4,754,400)	(\$4,754,400)	(\$4,754,400)
SF Revenue	(1,146,200)	(2,037,600)	(2,037,600)	(2,037,600)	(2,037,600)
SF Expenditure	231,400	0	0	0	0
Net Effect	(\$4,052,000)	(\$6,792,000)	(\$6,792,000)	(\$6,792,000)	(\$6,792,000)

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 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 have access to automobile insurance through MAIF, which 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 decrease by \$3,820,522 in fiscal 2007, accounting for the October 1 effective date, and by \$6,792,039 annually thereafter. The MVA would retain 30% in the TTF, or \$1,146,157, in fiscal 2007 and \$2,037,612

annually thereafter. The remainder would be transferred to the general fund, \$2,674,365 in fiscal 2007, and \$4,754,427 annually thereafter. Under current law, MVA advises that total net revenues collected are about \$30.6 million annually, accounting for bad debt. Under the proposed bill, projected net revenues would be about \$23.8 million annually.

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. 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. Further, in fiscal 2007, the estimate assumes that only 75% of the collections from October 1, 2006 through June 30, 2007 would be from penalties assessed under the proposed fine structure. The other 25% would be from penalties associated with lapsed coverage in fiscal 2006, for which the MVA would collect fines according to the existing schedule.

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	\$25	\$150	(\$2,193,750)
16-30	23,090	25	150	(2,886,250)
31-60	21,316	120	255	(2,344,760)
61-90	4,473	360	465	(357,840)
91-120	23,310	600	675	(1,165,500)
121-150	2,045	840	885	(40,900)
151-180	5,425	1,080	1,095	54,250
181-210	454	1,320	1,305	18,160
210+	<u>1,368</u>	1,560	1,515	<u>95,760</u>
Gross Total	99,031			(\$8,820,830)
			MVA Bad Debt Collection Rate	77%
			Net Annual Loss (\$6,792,039)	

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. 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 \$231,380 in fiscal 2007, 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. The reduced fee structure under this bill would likely generate fewer complaints to MIA.

The Maryland Automobile Insurance Fund (MAIF) advises that the bill would not affect its revenues, which are determined by statutory formula. If the total revenues collected by the MVA fell below \$5 million, then MAIF revenues could be reduced.

Additional Information

Prior Introductions: This bill is similar to HB 31 of 2005, which received an unfavorable report from the Environmental Matters Committee. In 2004, a similar bill, HB 1381, was heard in the 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 27, 2006
mll/ljm

Analysis by: Karen D. Morgan

Direct Inquiries to:
(410) 946-5510
(301) 970-5510