

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 899

(Delegate Bronrott)

Environmental Matters

Vehicle Laws - Security Lapses and Point Assessments - Penalties

This 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 the First Responder's Fund (FRF), contingent on passage of SB 589 or HB 900, which establishes FRF. Otherwise, additional revenue is to be distributed in the same manner as funds distributed under the State Aid for Police Protection Fund.

Fiscal Summary

State Effect: State revenues would increase by \$14.9 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. All this revenue would be transferred to FRF or distributed to local governments through the State Aid for Police Protection formula. In addition, revenues currently allocated for other purposes would be redirected to FRF or police aid. Thus, general fund revenues would decrease by \$7.0 million in FY 2008 and Transportation Trust Fund (TTF) revenues would decrease by \$2.6 million. TTF expenditures would increase by \$400,500 in FY 2008. Future year expenditures reflect annualization and inflation.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$7,020,700)	(\$4,241,500)	(\$4,241,500)	(\$4,241,500)	(\$4,241,500)
SF Revenue	21,923,800	29,492,300	33,136,600	34,047,600	34,047,600
SF Expenditure	24,932,700	31,310,100	34,954,400	35,865,400	35,865,400
Net Effect	(\$10,029,600)	(\$6,059,300)	(\$6,059,300)	(\$6,059,300)	(\$6,059,300)

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

Local Effect: Local government revenues from grants from FRF or from revenues distributed in the same manner as the State Aid for Police Protection would increase significantly. Local government expenditures could increase to the extent that local governments apply for matching grants from FRF, if the new fund is established.

Small Business Effect: None.

Analysis

Bill Summary:

Additional Revenue Generated:

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.

These fees would not be considered miscellaneous 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. The MVA may retain sufficient funding to recover its costs. If one is used, 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:

The bill provides a funding source for FRF, which is established under SB 589/HB 900 of 2007. If neither of these bills passes, the additional revenue under this bill is instead distributed as police aid.

From Lapsed Insurance Penalties

The first \$14.0 million annually is to be transferred to FRF, while the remainder is to be distributed as designated under current law. Otherwise, the first \$14.0 million annually is to be credited and distributed in the same manner as funds distributed under the State Aid for Police Protection Fund. Any remaining funds are to be distributed as designated under current law.

From Points Fees

The MVA will first recover its costs. The remainder is to be credited to FRF. Otherwise, the remainder is to be distributed in the same manner as funds distributed under the State Aid for Police Protection Fund.

Current Law: Points that are assessed against an individual's driving record for Maryland Vehicle Law violations 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 \$30 for court costs and fees on moving violation convictions and \$65 for court costs and fees on convictions for crimes under the Transportation Article that are subject to imprisonment, including 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 the Maryland Automobile Insurance Fund (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 \$150 for three years, and \$25 for each point above six. A \$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.

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.

State Aid for Police Protection Fund

State grants are provided to counties and qualifying municipalities for the exclusive purpose of providing adequate police protection under the State Aid for Police Protection

Fund, which was established in 1967. The program is commonly known as the police aid formula. In fiscal 2008, State funding for this program will total \$65.9 million.

Local governments spent approximately \$1.1 billion on police protection in fiscal 2004. County governments accounted for 62.3% of these expenditures, Baltimore City accounted for 25.8%, and municipal governments accounted for 11.9%.

State Revenues:

Increased Lapsed Insurance Penalties

On an annualized basis, approximately \$10.3 million in new penalties for lapsed insurance could be collected. Based on the assumption that approximately 50% of the revenues collected in fiscal 2008 would be based on the new penalty schedule while 50% would be from penalties associated with lapsed coverage prior to the October 1 effective date of the bill and would be based on the old penalty schedule, the amount of new penalties imposed would total approximately \$5.2 million in fiscal 2008. However, only \$4.0 million would actually be collected by the MVA and available for distribution in fiscal 2008.

The bill mandates that the first \$14.0 million from lapsed insurance penalties annually go to either FRF or be distributed to local governments through the State Aid for Police Protection Fund. This amount is greater than the estimated increase in such penalty revenues under the bill. As such, general fund revenues would decrease by \$7.0 million in fiscal 2008, and MVA revenues retained for cost recovery would decrease by \$3.0 million. Beginning in fiscal 2009, general fund revenues would decrease by \$4.2 million annually, and MVA revenues retained for cost recovery would decrease by \$1.8 million.

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

<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

MVA Bad Debt Collection Rate 77%

Net Total \$7,940,733

Source: Motor Vehicle Administration, 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. However, an improved collection rate could increase revenues.

New Fees for Driver's License Points

In fiscal 2008, approximately \$10.9 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 two points annually remains steady at February 2007 levels (54,049 individuals);
- the number of points accumulated by these individuals remains constant (189,311);
- one-half of all individuals who are subject to points fees pay all three years of fees at once (27,025 individuals, \$14.2 million in revenue);

- one-half of all individuals pay on an annual basis (27,025 individuals, \$4.7 million 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

<u>Number of Drivers</u>	<u>Number of Chargeable Points per Driver</u>	<u>Total Points Charged</u>	<u>Number of Drivers Prepaying</u>	<u>Prepaid Amount Due</u>	<u>Number Not Prepaying</u>	<u>Annual Amount Due</u>
17,542	1	17,542	8,771	\$150	8771	\$50
8,406	2	16,812	4,203	\$300	4,203	\$100
12,534	3	37,602	6,267	\$450	6,267	\$150
2,871	4	11,484	1,436	\$600	1,436	\$200
1,777	5	8,885	889	\$750	889	\$250
2,665	6	15,990	1,333	\$900	1,333	\$300
592	7	4,144	296	\$1,050	296	\$350
880	8	7,040	440	\$1,200	440	\$400
319	9	2,871	160	\$1,350	160	\$450
4,152	10	41,520	2,076	\$1,500	2,706	\$500
<u>2,311</u>	11+	<u>25,421</u>	<u>1,156</u>	\$1,650	<u>1,156</u>	\$550
Total	54,049	189,311	27,025		27,025	

Total Points Revenue Imposed **\$18,931,100**

MVA Bad Debt Collection Rate 77%

Net Total **\$14,576,947**

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, Department of Legislative Services

Total Revenue Impact

In fiscal 2008, approximately \$14.9 million in additional revenue would be generated. Future year revenues would increase by \$25.3 million in fiscal 2009, \$28.9 million in fiscal 2010, and \$29.8 million annually beginning 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 annual basis.

However, while total revenue would increase, TTF revenues and general fund revenues would decrease due to the requirement that the first \$14.0 million annually of lapsed insurance penalties be directed to either FRF or to be distributed in the same manner as the State Aid for Police Protection Fund. Although TTF revenues would decrease by \$3.0 million in fiscal 2008 and \$1.8 million annually thereafter due to redistribution of lapsed insurance penalties, the MVA would retain additional monies due to cost recovery provisions for collection of points fees. Therefore, the net impact on the TTF would be lower – a loss of approximately \$2.6 million in fiscal 2008 and \$1.3 million annually thereafter.

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 Fiscal 2008-2012

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
FRF or Police Aid	\$24,532,190	\$30,821,343	\$34,441,468	\$35,326,943	\$35,299,785
TTF	(2,608,370)	(1,328,999)	(1,304,887)	(1,279,303)	(1,252,144)
General Fund	<u>(7,020,744)</u>	<u>(4,241,487)</u>	<u>(4,241,487)</u>	<u>(4,241,487)</u>	<u>(4,241,487)</u>
Total	\$14,903,077	\$25,250,857	\$28,895,094	\$29,806,153	\$29,806,153

() indicates a negative number.

Notes: Numbers may not sum to total due to rounding.

State Expenditures:

MVA Expenditures

It is estimated that the number of individuals who would have to be contacted annually for points fees is 54,049 individuals. Based on the current size of the MVA Insurance Compliance Division, which processed 436,893 transactions in fiscal 2006, the MVA would require nine additional employees (seven customer service agents and two additional customer service supervisors). Accordingly, TTF expenditures could increase by \$400,520 in fiscal 2008, which accounts for the October 1, 2007 effective date for those provisions. These expenditures would be covered by fee revenue under cost recovery provisions.

Salaries and Fringe Benefits	\$309,042
Start-up Costs	41,715
Operating Expenses	<u>49,763</u>
Total FY 2008 MVA Expenditures	\$400,520
Positions	9

Future year expenditures reflect (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

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 could decrease by 8% if the contractor's debt collection rate is equivalent to the MVA rate.

Collection of lapsed penalty revenue could be handled with existing resources as only the amounts due would change under the bill.

The MVA advises that computer reprogramming costs associated with this bill would be approximately \$6 million over fiscal 2008 to 2012 for changes to track points and \$352,900 for changes to reflect the new penalty provisions for lapsed security.

Legislative Services advises that the MVA already requires individuals who have accumulated five points in two years to attend driver improvement courses; 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.

Any additional costs associated with implementing the fee for points on a driver's license would be covered by revenue under cost recovery provisions as well.

First Responders Fund or State Aid for Police Protection

If FRF is established, approximately \$24.5 million in fiscal 2008 would be directed to the new fund, increasing to \$36.1 annually beginning in fiscal 2011. These monies would be distributed as directed by SB 589/HB 900.

Otherwise, grants for State Aid for Police Protection would increase by \$24.5 million in fiscal 2008, \$31.5 million in fiscal 2009, \$35.2 million in fiscal 2010, and by \$36.1 million annually beginning in fiscal 2011.

Local Fiscal Effect: If FRF is established, local government revenues could increase due to grants from the new fund. Local expenditures could increase to provide matching funding for FRF grants; however, the amount of these expenditure increases would depend on the types of grants disbursed and whether local governments decide to apply for a matching grant.

Alternatively, local government revenues from State Aid for Police Protection could increase by \$24.5 million in fiscal 2008, increasing to \$36.1 million annually beginning in fiscal 2011.

Additional Comments: Legislative Services advises that, in similar bills introduced in prior years, more revenue was generated by the increase in lapsed security penalties. However, in previous years, the penalty for 16 to 30 days of lapsed coverage was \$100 higher than under this bill. As such, the average penalty paid by each person with lapsed security for more than 15 days (81,481 individuals) has been reduced by \$100 from previous estimates.

Legislative Services also advises that this estimate does not take into account the fiscal impact of processing suspensions from failure to pay points fees. Almost 11,000 individuals would already be facing suspension under current law for accumulating eight points on their licenses. It is assumed that most people assessed a lower surcharge would arrange for a payment plan and would not face suspension.

Additional Information

Prior Introductions: Similar bills were introduced in 2006 (SB 763 and HB 1312) and in 2005 (SB 275 and HB 383). Both SB 763 and SB 275 passed the Senate and were heard by the House Environmental Matters Committee along with HB 1312 and HB 383. No further action was taken in the House either year.

Cross File: SB 590 (Senator Garagiola, *et al.*) – Judicial Proceedings and Budget and Taxation.

Information Source(s): Maryland Department of Transportation, Maryland Automobile Insurance Fund, Maryland Insurance Administration, Judiciary (Administrative Office of the Courts), Department of Legislative Services

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