

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 30 (Delegate Sophocleus)
 Environmental Matters

Vehicle Laws - Insurance Requirements - Penalties and Notification

This bill requires the Motor Vehicle Administration (MVA) to provide actual notice to the owner of a vehicle whose registration has been suspended due to a lapse in required security and allows the owner five days to surrender the suspended registration. The maximum 12-month penalty for lacking required security is reduced from \$2,500 to \$500. If a penalty is assessed, MVA must notify the owner of any procedure available for the adjustment of the fine.

Fiscal Summary

State Effect: General fund revenues would decrease by \$4.5 million and Transportation Trust Fund (TTF) revenues would decrease by \$1.9 million in FY 2009 due to the lower cap for annual penalties. TTF expenditures could increase by \$200,800 in FY 2009 only primarily due to computer programming costs. Future general fund revenues would decrease by \$8.0 million and TTF revenues would decrease by \$3.4 million annually.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$4,517,800)	(\$8,031,600)	(\$8,031,600)	(\$8,031,600)	(\$8,031,600)
SF Revenue	(1,936,200)	(3,442,100)	(3,442,100)	(3,442,100)	(3,442,100)
SF Expenditure	200,800	0	0	0	0
Net Effect	(\$6,654,800)	(\$11,473,700)	(\$11,473,700)	(\$11,473,700)	(\$11,473,700)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: MVA is required to suspend the registration of a vehicle whose required security has lapsed until the owner of the vehicle submits evidence that the required security has been replaced and any uninsured motorist penalty has been paid. Required security must be in the form of a vehicle liability insurance policy, which meets or exceeds specified minimum limits, unless MVA accepts an adequate alternative. Once MVA is notified of a lapse in security, it must make a reasonable effort to notify an owner whose registration has been suspended. If a vehicle's registration has been suspended for 48 hours without being surrendered, MVA must attempt to recover it and may suspend the owner's driver's license.

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. 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 MVA and used to assist in the recovery of suspended registration documents.

State Revenues: Total revenues would decrease by \$6,453,983 in fiscal 2009, accounting for the October 1 effective date, and by \$11,473,747 annually thereafter. The TTF would shoulder 30% of this revenue reduction, or \$1,936,195 in fiscal 2009 and \$3,442,124 annually thereafter. The remainder of the revenue reduction, \$4,517,788 in fiscal 2009 and \$8,031,623 annually thereafter, would mean a loss in revenue for the general fund. Based on 2007 data, MVA collects about \$43.4 million annually for lapses of one year or less, accounting for bad debt. Under the proposed bill, projected net revenues would be about \$31.9 million annually in fiscal 2010 and thereafter.

This estimate is based on the collection of penalties on 137,161 vehicles in fiscal 2007 and assumes that • the number of vehicles with lapsed insurance coverage for which

penalties are collected remains constant; • the period of noncompliance for each vehicle remains constant; and • the bad debt collection rate of 77% remains constant. As shown in **Exhibit 1**, 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. The estimate for fiscal 2009 reflects a 25% reduction due to the effective date of the bill. Further, in fiscal 2009, the estimate assumes that only 75% of the collections from October 1 through fiscal-year end would be from penalties assessed under the proposed fine structure. The other 25% collected during that period would be from penalties associated with lapsed coverage prior to the effective date, for which 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>
1-30	56,288	\$150	\$150	\$0
31-60	29,523	255	255	\$0
61-90	6,195	465	465	\$0
91-120	32,285	500	675	(\$5,649,875)
121-150	2,832	500	885	(\$1,090,320)
151-180	7,514	500	1,095	(\$4,470,830)
181-210	629	500	1,305	(\$506,345)
211+	<u>1,895</u>	500	2,180	(\$3,183,600)
Gross Total	137,161			(\$14,900,970)
			MVA Bad Debt Collection Rate	77%
			Net Annual Loss	(\$11,473,747)

Source: Motor Vehicle Administration and Department of Legislative Services

State Expenditures: MVA advises that TTF expenditures could increase by an estimated \$200,840 in fiscal 2009. This estimate primarily reflects the in-house and contractual costs to reprogram certain MVA computer systems. Legislative Services advises that, if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce the cost associated with this bill and other legislation affecting the MVA system.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - January 29, 2008
ncs/ljm

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