SB 185

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 185 (Chair, Judicial Proceedings Committee)
(By Request – Departmental – Automobile Insurance Fund)

Judicial Proceedings

Vehicle Laws - Lapsed or Terminated Security - Penalties

This departmental bill alters the penalties that may be assessed by the Motor Vehicle Administration against the owner of a vehicle due to the termination or lapse of the vehicle insurance that is required by law.

Fiscal Summary

State Effect: General fund revenues would increase by approximately $1.0 million and Transportation Trust Fund revenues would increase by approximately $436,300 in FY 2009. TTF expenditures could increase by $268,200 in FY 2009 primarily due to computer programming costs. Future general fund revenues would increase by approximately $1.8 million annually and TTF revenues would increase by approximately $775,700 annually.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	$1,018,100	$1,810,000	$1,810,000	$1,810,000	$1,810,000
SF Revenue	436,300	775,700	775,700	775,700	775,700
SF Expenditure	268,200	0	0	0	0
Net Effect	$1,186,200	$2,585,700	$2,585,700	$2,585,700	$2,585,700

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

Local Effect: None.

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

Analysis

Bill Summary: The bill lowers the initial penalty that MVA may assess per uninsured vehicle from $150 to $100. This initial penalty may be assessed when a vehicle is without the required security for a period of 1 to 30 days. The bill raises the amount by which the fine increases after 30 days without insurance, from $7 to $9 for each day. Also, the bill raises the limit on the maximum penalty that may be assessed for each violation in a 12-month period, from $2,500 to $3,000. Finally, the bill repeals obsolete provisions relating to the allocation of penalty revenue; these provisions expired in 2003.

Current Law: The owner of a motor vehicle registered in the State has to maintain the required security for the vehicle during the registration period. MVA cannot issue or transfer the registration of a vehicle unless there is evidence that the required security is in effect. The form of security required is a vehicle liability insurance policy written by an insurer authorized to write such policies in the State. This required security must provide for at least • the payment of claims for bodily injury or death arising from an accident of up to $20,000 for any one person and up to $40,000 for any two or more persons, in addition to interest and costs; • the payment of claims for property of others damaged or destroyed in an accident of up to $15,000, in addition to interest and costs; • the basic required primary personal injury protection coverage, unless waived; and • the required uninsured motorist coverage. MVA may accept another form of security in place of a vehicle liability insurance policy if it finds that the other form of security adequately provides these required minimum benefits.

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.

Background: The bill reduces the burden on individuals who have an inadvertent lapse in coverage for 30 days or less. The bill's reduction of the minimal penalty from $150 to $100 removes a feature of existing law that penalizes individuals who are short-term uninsured at a greater daily rate than those who are without insurance for a longer period of time. By raising the maximum annual penalty from $2,500 to $3,000, the bill also remedies the current fine structure that makes it cheaper for a significant number of individuals to drive uninsured and pay the fine rather than obtain a MAIF automobile insurance policy – for which the annual cost averages about $2,400. The bill's proposed fee structure means that the maximum 12-month penalty of $3,000 will be reached after 352 days.

State Revenues: Total revenues would increase by $1,454,481 in fiscal 2009, accounting for the October 1 effective date, and by $2,585,745 annually thereafter. The TTF would benefit from 30% of this revenue increase, or $436,344 in fiscal 2009 and $775,724 annually thereafter. The remainder of the revenue increase, $1,018,137 in fiscal 2009 and $1,810,021 annually thereafter, would accrue to 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 $46.0 million annually in fiscal 2010 and thereafter.

This estimate is based on the collection of penalties on 137,162 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. 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

Days of Lapsed Coverage	Number of Vehicles	Average New Penalty per Vehicle	Average Existing Penalty per Vehicle	Difference in Revenue Collected
1-30	56,288	$100	$150	($2,814,400)
31-60	29,523	235	255	($590,460)
61-90	6,195	505	465	$247,800
91-120	32,285	775	675	$3,228,500
121-150	2,832	1,045	885	$453,120
151-180	7,514	1,315	1,095	$1,653,080
181-210	629	1,585	1,305	$176,120
211+	1,895	2,710	2,180	$1,004,350
Gross Total	**137,161**			$3,358,110
		MVA Bad Debt Collection Rate		77%
		Net Annual Revenue Increase		$2,585,745

Source: Motor Vehicle Administration; Department of Legislative Services

State Expenditures: MVA advises that TTF expenditures could increase by an estimated $268,220 in fiscal 2009, based on the in-house and vendor costs necessary to reprogram its computer systems 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.

Additional Information

Prior Introductions: Bills with similar provisions were introduced in each of the last four regular sessions. HB 899 and SB 590 of 2007 were both withdrawn before their scheduled hearing dates. HB 104 of 2006 was heard in the Environmental Matters Committee, but no further action was taken. HB 31 of 2005 received an unfavorable report from the Environmental Matters Committee. SB 868 of 2005 was heard in the Judicial Proceedings Committee, but no further action was taken. HB 1381 of 2004 was heard in the Environmental Matters Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - January 30, 2008
mll/ljm

Analysis by: Alexander M. Rzasa

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