

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 238
Finance

(Senator Astle, *et al.*)

Maryland Automobile Insurance Fund - Use of Fund Moneys and Property -
Prohibitions

This emergency bill prohibits money and property available to the Maryland Automobile Insurance Fund (MAIF) from being used to pay for employee bonuses; strategic consulting services; marketing, advertising, or public relations services; external lobbyists; fund producer appreciation events; or corporate sponsorships.

The bill applies prospectively and may not be applied or interpreted to prohibit the use of any money or property available to MAIF to satisfy a legally binding obligation incurred before the bill's enactment date.

Fiscal Summary

State Effect: The bill does not directly affect State finances or operations.

MAIF Effect: MAIF expenditures decrease \$212,500 in FY 2011 and/or 2012 to the extent the fund is prohibited from paying for specified services as discussed below. No effect on revenues.

Local Effect: The bill does not directly affect local finances or operations.

Small Business Effect: Potential minimal.

Analysis

Current Law/Background: Created by the General Assembly in 1972, MAIF is an independent, nonbudgeted State agency that provides automobile liability insurance to

residents of the State who are unable to obtain policies in the private insurance market. Furthermore, MAIF's uninsured division administers and pays claims to State residents who are involved in accidents with uninsured motorists or for hit-and-run incidents where a responsible party cannot be found.

In a November 2009 fiscal compliance audit, the Office of Legislative Audits (OLA) found that, during calendar 2008, changes were made to critical provisions of the employee bonus program, without which the majority of the \$1.4 million in bonuses paid for that year would not have been paid. The OLA audit also found that certain expenditures (strategic consulting, marketing, public relations, advertising, lobbying services, and producer appreciation events) should be disclosed to the budget committees as part of the annual budget submission.

MAIF Effect: MAIF indicates that in calendar 2010 it has budgeted \$39,200 for public relations, an increase of \$11,200 from calendar 2009; \$50,400 for advertising and legal publications, an increase of \$35,412; and \$26,900 for lobbying services, a decrease of \$47,075. MAIF advises that no funds were budgeted in calendar 2009 or 2010 for marketing or producer appreciation events. According to the OLA audit, \$96,000 was spent on strategic consulting services in calendar 2008 and 2009 (through May 31).

However, according to MAIF, the fund has more than 140 contracts it classifies as strategic consulting services valued in excess of \$10 million in calendar 2010. Specific detail was not available regarding all of these expenditures due to the number of contracts involved, but examples provided by MAIF include investment advisors, reinsurance expenses, business continuity and disaster recovery, services to assist in underwriting, and claims adjustment. As previously mentioned, the OLA audit indicated that \$96,000 was spent on strategic consulting services versus the MAIF estimate of \$10 million. Based on the large discrepancy of expenditures classified as "strategic consulting services," it is clear that OLA and MAIF have interpreted these services in a different manner.

As noted in a letter dated January 8, 2010, to the co-chairs of the Joint Audit Committee, MAIF is not paying employee bonuses in calendar 2010 for the 2009 work year and, at present, has no bonus program in place for 2010. Thus, MAIF has no plans to pay bonuses in calendar 2011 for the 2010 work year. To the extent budgeted expenditures remain at prior-year levels, MAIF calendar 2011 expenditures decrease by \$212,500 as stated below:

Strategic Consulting Services	\$96,000
Public Relations	39,200
Advertising and Legal Publications	50,400
Lobbying Services	26,900
Marketing	0
Producer Appreciation Events	0
Projected FY 2011 and/or 2012 Expenditure Decrease	\$212,500

Additional Information

Prior Introductions: None.

Cross File: HB 1052 (Delegate Bromwell) - Economic Matters.

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

Fiscal Note History: First Reader - March 12, 2010
ncs/ljm

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