SB 888

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 888 (Senator Middleton, *et al.*)

Finance Economic Matters

Motor Vehicle Insurance - Program to Incentivize and Enable Uninsured Vehicle Owners to Be Insured

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This bill establishes the Program to Incentivize and Enable Uninsured Vehicle Owners to Be Insured, which must be administered by the Motor Vehicle Administration (MVA).

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) and general fund revenues increase significantly in FY 2017 and 2018 – to the extent the State collects penalty revenues, including the 17% assessment by the Central Collection Unit (CCU), which it would otherwise not have collected, as discussed below. General fund revenues further increase due to the 2% premium tax. TTF expenditures increase by as much as $600,000 in FY 2017 for administration of the program. Future years reflect the elimination of contractual positions and one-time costs, as well as additional one-time system maintenance expenses. These expenditures may be partially offset to the extent that the Maryland Automobile Insurance Fund (MAIF) uses its Uninsured Claim and Judgment Fund (UCJF) to assist MVA with administration of the program; the expenditures are expected to be fully offset by TTF revenues collected through the program. The Maryland Insurance Administration (MIA) and CCU can handle the bill's requirements using existing budgeted resources.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	-	-	-	-	-
SF Revenue	-	-	$0	$0	$0
NonBud Rev.	-	-	-	-	-
SF Expenditure	$600,000	$197,400	$0	$0	$0
NonBud Exp.	-	-	-	-	-
Net Effect	-	-	-	-	-

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

Maryland Automobile Insurance Fund Effect: Assuming the bill is successful in enabling uninsured motorists to purchase automobile insurance, additional drivers may apply to MAIF for policy coverage. MAIF expenditures increase to the extent that MAIF uses its UCJF to offset MVA's administrative costs. Assuming most motorists who participate in the program maintain coverage beyond the required six-month or one-year period under the bill, MAIF revenues and expenditures increase in the out-years as well.

Local Effect: The bill is not anticipated to materially affect local operations or finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: The purpose of the program established by the bill is to reduce the number of uninsured vehicles in the State by incentivizing and enabling uninsured vehicle owners with delinquent uninsured vehicle penalties to be insured. Under the program, MVA must (1) waive 80% of a vehicle owner's delinquent uninsured vehicle penalties that became delinquent before January 1, 2014, and (2) require those vehicle owners to purchase and maintain the required security for their vehicles. The program period during which MVA may waive a vehicle owner's delinquent uninsured vehicle penalties must last up to 90 calendar days and begin on or after January 1, 2017, and end by December 31, 2017.

A vehicle owner is eligible to participate in the program if he or she is (1) a resident of the State; (2) does not have the required security on a vehicle; (3) has delinquent uninsured vehicle penalties that became delinquent before January 1, 2014; and (4) has not been issued a judgment by the Department of Budget and Management's CCU.

As a condition of waiving 80% of a program participant's delinquent uninsured vehicle penalties, a participant must pay the remaining 20% owed before the end of the program period. If the account has been sent to CCU, the participant must also pay any fee owed to CCU, calculated using the remaining 20% owed and not the original uninsured vehicle penalty. MVA may allow these penalties to be paid using a monthly installment payment plan that extends beyond the end of the program period if (1) the first payment is due when a participant enters the program and (2) the remaining balance is paid within six months after the participant enters the program. Additionally, as a condition of waiving 80% of a participant's penalties, MVA must require the participant to maintain the required security on the vehicle for a period of at least six months; however, MVA may require the required security to be maintained for at least one year if the penalty waived for a participant exceeds $3,000.

MVA must (1) coordinate with MIA to publicize the program in a specified manner and (2) notify eligible vehicle owners of the program in a specified manner. MVA is authorized to accept funding from MAIF's UCJF to assist with administration of the program. MVA may adopt regulations to carry out the bill's requirements. Within 60 days after the end of the program period, MVA must report to the Governor and General Assembly on the results of the program and any recommendations to implement another program aimed at reducing the number of uninsured motorists.

Current Law/Background:

Required Securities

Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. The security required must provide at least the payment of claims:

- for bodily injury or death arising from an accident of up to $30,000 for any one person and up to $60,000 for any two or more persons;
- for property of others damaged or destroyed in an accident of up to $15,000;
- unless waived, for personal injury protection of $2,500 per person; and
- for uninsured motorist coverage (unless waived, the amount equals the amount of liability coverage provided under the policy; if waived, the amount equals the minimum required insurance for liability coverage).

Uninsured Motorist Penalties

If the required security for a vehicle lapses, MVA may assess the owner of the vehicle a penalty of $150 for each vehicle without the required security for the first 30 days. Beginning on the thirty-first day, the fine increases by a rate of $7 for each day, but the total fine may not exceed $2,500 annually, not including the additional misdemeanor penalty of up to $500, which may be prepaid with a fine of $290. Operating a vehicle without adequate security is a misdemeanor penalty of $500, which may not be prepaid, and results in the imposition of five points on the driver's record. As shown in **Exhibit 1**, since 1975, more than 1 million citations have been issued to uninsured motorists, with a total of about $1.3 billion in fines. Of that amount, only $446.3 million (33.9%) has been collected.

Exhibit 1
Status of Motor Vehicle Administration Uninsured Motorist Penalty Accounts Sent to the Central Collection Unit
Fiscal 1975-2014

Year	# of Accounts	Amount Owed	Collected	Remaining Balance	% Collected	Year	# of Accounts	Amount Owed	Collected	Remaining Balance	% Collected
1975	2	$2,144	$71	$2,073	3.3%	1996	1,044	$933,084	$241,017	$692,088	25.8%
1976	10	3,677	982	2,695	26.7%	1997	2,839	3,548,881	960,042	2,588,851	27.1%
1977	2	376	97	286	25.9%	1998	1,837	1,964,103	523,800	1,440,303	26.7%
1978	5	2,631	97	2,534	3.7%	1999	1,515	2,025,302	694,271	1,331,031	34.3%
1979	1	1,056	0	1,056	0.0%	2000	5,231	9,268,207	3,676,105	5,592,349	39.7%
1980	17	12,877	2,291	12,227	17.8%	2001	28,482	46,250,277	9,549,380	36,701,520	20.6%
1981	1	396	0	396	0.0%	2002	51,586	96,010,465	17,697,464	78,314,856	18.4%
1982	4	5,465	860	4,605	15.7%	2003	42,617	76,708,611	16,893,997	59,817,210	22.0%
1983	3	736	0	736	0.0%	2004	37,069	71,332,606	17,256,069	54,076,660	24.2%
1984	33	7,531	788	6,778	10.5%	2005	36,206	68,336,596	19,085,412	49,254,981	27.9%
1985	41	10,628	2,034	8,594	19.1%	2006	41,142	73,527,350	22,154,945	51,374,641	30.1%
1986	1	1,925	0	1,925	0.0%	2007	49,623	96,761,115	26,587,676	70,178,288	27.5%
1987	121	46,626	1,765	44,891	3.8%	2008	72,213	106,244,201	36,067,944	70,178,293	33.9%
1988	5	143,484	0	143,484	0.0%	2009	78,689	94,457,280	42,318,224	52,144,623	44.8%
1989	410	108,754	19,320	89,435	17.8%	2010	125,117	111,586,978	53,583,206	58,012,315	48.0%
1990	481	178,137	23,622	154,515	13.3%	2011	140,545	101,118,101	49,397,696	51,726,485	48.9%
1991	904	324,613	45,022	279,591	13.9%	2012	133,116	95,165,374	44,554,619	50,611,410	46.8%
1992	655	500,615	83,614	417,001	16.7%	2013	129,293	91,534,647	40,233,756	51,303,769	44.0%
1993	1045	414,635	83,805	330,830	20.2%	2014	134,647	90,765,737	33,580,707	57,185,773	37.0%
1994	674	356,511	70,763	285,748	19.8%	2015	107,275	77,245,735	10,732,323	66,513,413	13.9%
1995	717	485,798	126,907	358,890	26.1%	**Total**	**1,225,218**	**$1,317,393,268**	**$446,250,691**	**$871,187,148**	**33.9%**

Notes: Of the 1.2 million penalty accounts, some are for the same individual for different vehicles or the same vehicle at different times. The Motor Vehicle Administration (MVA) retains 100% of the penalty fine collected by the Central Collection Unit (CCU). CCU adds an additional 17% to the fine, which it retains (the 17% is not included in this chart). The amount collected does not include fine revenues collected by MVA prior to the account being sent to CCU.

Source: Motor Vehicle Administration; Department of Legislative Services

Uninsured Motorist Coverage

Uninsured motorist coverage pays for injury and damages caused by an uninsured or hit-and-run driver. This coverage reimburses the policyholder, members of the policyholder's family, or designated driver for an accident caused by the uninsured motorist. This coverage generally pays for medical bills and wage loss; pain, suffering, and disfigurement; emotional distress; and loss of future earning capacity. Uninsured motorist coverage may also include property damage as long as the insured's coverage is at least equal to the required coverage under MAIF's Uninsured Division and minimum coverage levels specified in Title 17 of the Transportation Article.

If an insured's liability coverage under his or her private passenger motor vehicle liability insurance exceeds the amount required by State law, the insured may choose to partially waive the required uninsured motorist coverage; this must be done on a written form that is approved by the Commissioner and include specified information about the nature, extent, benefit, and cost of the level of uninsured motorist coverage being waived. The waiver allows any uninsured motorist coverage to meet the minimum required insurance for liability coverage; otherwise, uninsured motorist coverage must equal the liability coverage of the policy.

Uninsured Motorist Task Force

Chapter 41 of 2014 established the Task Force to Study Methods to Reduce the Rate of Uninsured Drivers. The task force must study and make recommendations regarding (1) the rate of uninsured drivers in the State and other states and the ways in which the rate is calculated by MVA and other entities; (2) the deterrents and incentives that are used in the State and in other states, or that could be used in the State, to reduce the rate of uninsured drivers; and (3) methods to lower the cost of insurance as a way to reduce the rate of uninsured drivers and promote economic and job opportunities associated with vehicle ownership.

During the 2014 and 2015 interims, the task force worked with MAIF, MVA, MIA, and others to identify and implement many low-cost strategies to educate the public about the requirement for and benefits of automobile insurance. For example, the websites of both MVA and MIA have been updated with additional information about the State's compulsory automobile insurance laws. Furthermore, MVA is in the process (and, in some cases, implementation is complete) of (1) modifying its online renewal web page, paper, and registration renewal notices and (2) updating the driver education curriculum to include more information related to the automobile insurance laws. Furthermore, the task force learned that the State's new financial literacy curriculum used in grades 3 through 12 contains substantive materials related to purchasing the mandatory automobile insurance.

In order to focus more on how best to enable individuals to purchase automobile insurance, and increase enforcement when they do not, the task force has requested an extension for its final report, which was originally due December 31, 2015.

MAIF's Uninsured Division

MAIF's Uninsured Division is available to qualified Maryland citizens involved in accidents with an uninsured vehicle. To be eligible, Maryland residents must have no other form of collectible insurance. For example, a pedestrian, struck by an uninsured vehicle, who does not own a vehicle and has no other collectible household coverage would be eligible to collect from the Uninsured Division. The Uninsured Division is funded through uninsured motorist penalty fines. UCJF pays claims for MAIF's Uninsured Division.

State Revenues:

Uninsured Motorist Penalty Revenue Distribution

A portion of the fines collected under the escalating penalty structure for lapsed security is retained in MVA (30%); the rest (70%) is directed from the Maryland Department of Transportation under a specified allocation formula to the Department of State Police's Vehicle Theft Prevention Fund, the School Bus Safety Enforcement Fund, MAIF, and the general fund. The 30% allocated to MVA (1) must be used to enforce vehicle insurance law and (2) may be used to provide funding for contracts with independent agents to assist in the recovery of evidences of registration (this amount may not exceed $1.0 million in any fiscal year).

Because the maximum revenues that other funds receive from the fines are capped and they already receive their full allocations, any change in the penalty revenues under the bill only results in a change to the revenues for TTF (the 30% retained in MVA) and the general fund (the remainder from the 70%).

Program to Incentivize and Enable Uninsured Vehicle Owners to Be Insured

MVA advises that it is likely to begin the program period on January 1, 2017. Therefore, most of the one-time revenue realized due to the program is collected in fiscal 2017; however, it is expected that many participants will choose to finance their payments, resulting in some revenue being collected in fiscal 2018. Additionally, to the extent that MVA begins the program period on a slightly later date, a larger share of the revenue may be collected in fiscal 2018.

CCU estimates that approximately 122,845 unique debtors are eligible for the program. Among these individuals, there are 416,613 accounts with a total outstanding balance of

$766.9 million. CCU advises that very little is currently being collected on most of these debts; the only payments it generally receives are State tax interceptions and other offsets payments. Therefore, even though the bill lowers the total amount of revenue the State is *owed* from uninsured motorist penalties, to the extent that the bill results in uninsured motorist penalty revenues being *collected* when they otherwise would not have been, TTF and general fund revenues increase significantly. Even so, a reliable estimate of the increase in TTF and general fund revenues cannot be made due to considerable uncertainty regarding participation in the program. However, *for illustrative purposes only*, if 5% more of the outstanding penalty revenues are collected through the program when they otherwise would not have been, TTF revenues may increase by $26.8 million and general fund revenues may increase by $11.5 million while the program is in effect in fiscal 2017 and 2018.

Department of Budget and Management – Central Collection Unit

Similar to the effect described above for uninsured motorist penalty revenues, the bill is expected to further increase general fund revenues through the 17% assessment CCU charges in addition to any actual debt for the accounts it must investigate and recover. Using the above example that 5% more of the outstanding penalty revenues may be collected as a result of the program, *for illustrative purposes only*, general fund revenues further increase by $6.5 million in fiscal 2017 and 2018 as a result of the bill.

Premium Tax

Automobile liability insurance policies are subject to a 2% premium tax administered by MIA. General fund revenues further increase beginning in fiscal 2017 from the premium tax to the extent that the program is successful at lowering the number of uninsured motorists in the State by enabling those motorists to purchase automobile liability insurance. Assuming most motorists who participate in the program maintain coverage beyond the required six-month or one-year period under the bill, general fund revenues increase in the out-years as well.

State Expenditures:

Motor Vehicle Administration

This estimate is based on the following facts and assumption:

- MVA advises that it is likely to begin the program period on January 1, 2017, and this estimate assumes that is the case. If MVA decides to begin the program period on a later date, the total TTF expenditures remain unchanged; however, a larger portion of the expenditures may take place in fiscal 2018.

- Participation in the program will be relatively high. To the extent that participation is lower, TTF expenditures decrease as fewer staff are required to assist in the administration of the program.
- Many participants in the program will choose to finance their required payments. To the extent that this is not the case, TTF expenditures may decrease as contractual staff would not be needed for as long a period of time to assist in tracking participant payments.
- Many participants in the program will be required to keep the required security for one year due to the amount of their outstanding penalties. To the extent that fewer participants must meet this requirement, TTF expenditures decrease as contractual staff would not be needed for as long a period of time to ensure participants maintain the required security.

TTF expenditures increase by as much as $600,044 in fiscal 2017 to hire eight contractual customer agents to verify applications for the program, assist in taking phone calls, make account adjustments, track participant information, and perform other administrative duties; four of the positions begin October 1, 2016, and terminate May 31, 2018; the other four positions begin December 1, 2016, and terminate November 30, 2017. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The estimate also includes one-time costs in fiscal 2017 of (1) $58,900 for postage and other supplies needed to mail the required notices to eligible motorists and (2) $350,000 for programming expenses to update MVA's computer systems to administer and monitor the program. Future years reflect the elimination of one-time costs and contractual positions, as well as additional maintenance costs for MVA's new computer systems.

Contractual Positions	8.0
Salaries and Fringe Benefits	$191,194
Supplies and Postage	58,850
Programming Expenses	350,000
Total FY 2017 State Expenditures	**$600,044**

TTF expenditures may be partially offset to the extent that MAIF uses its UCJF to assist in the administration of the program; however, any such impact cannot be reliably estimated at this time. TTF expenditures are expected to be fully offset by TTF revenues collected through the program.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Central Collection Unit

CCU advises that, under the bill, it is responsible for assisting in the administration of the program. Specifically, CCU representatives are likely to be required to assist MVA representatives in explaining, calculating, and monitoring any payment plans established under the bill. CCU must also process the adjustments to the waived portions of participants' debt and develop a legal document to use if a debtor breaches the requirements of the program. Even so, CCU advises that, due to the short duration of the program, it does not anticipate needing any additional staff to handle these increased responsibilities.

Additional Information

Prior Introductions: None.

Cross File: HB 912 (Delegate Frick) - Economic Matters.

Information Source(s): Maryland Department of Transportation, Department of Budget and Management, Maryland Insurance Administration, Comptroller's Office, Maryland Automobile Insurance Fund, Department of Legislative Services

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