

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1482
 Economic Matters

(Delegate Fraser-Hidalgo)

Finance

Insurance - Maryland Automobile Insurance Fund - Uninsured Driving Penalties

This bill increases the uninsured motorist penalties that apply when required security (*i.e.*, insurance) on a motor vehicle registered in the State terminates or otherwise lapses during its registration period. The bill also increases the portion of the uninsured motorist penalties that accrues to the Maryland Automobile Insurance Fund (MAIF) beginning in fiscal 2025. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: Revenues to the general fund and Transportation Trust Fund (TTF) increase by \$25.6 million and \$12.3 million, respectively, in FY 2025; future years reflect additional distributions to MAIF (due to a required inflation adjustment) with lesser revenues accruing to the general fund. Expenditures are not directly affected. **This bill increases a mandated distribution beginning in FY 2025.**

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	\$25.6	\$25.6	\$25.5	\$25.4	\$25.3
SF Revenue	\$12.3	\$12.3	\$12.3	\$12.3	\$12.3
Expenditure	0	0	0	0	0
Net Effect	\$37.9	\$37.9	\$37.8	\$37.7	\$37.6

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

MAIF Effect: Nonbudgeted revenues for MAIF increase by \$3.0 million in FY 2025; future years reflect required adjustments for inflation. Nonbudgeted expenditures may increase correspondingly as the additional revenues are for the exclusive use of MAIF's Uninsured Division; however, the bill itself does not require additional spending.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
NonBud Rev.	\$3.0	\$3.1	\$3.1	\$3.2	\$3.3
NonBud Exp.	-	-	-	-	-
Net Effect	\$3.0	\$3.1	\$3.1	\$3.2	\$3.3

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

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

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill modifies the escalating penalty structure for lapsed security on a motor vehicle registered in the State (commonly referred to as uninsured motorist penalties) by:

- authorizing the Motor Vehicle Administration (MVA) to assess the owner of a vehicle a penalty of \$200, instead of \$150, for each vehicle without the required security for the first 30 days;
- increasing the fine that begins on the 31st day from \$7 to \$10 per day; and
- increasing the maximum fine that may be imposed in a 12-month period from \$2,500 to \$3,500.

The bill also increases MAIF's share of the penalty revenues collected by \$3.0 million for fiscal 2025 and requires this additional revenue to be included in the calculation when determining MAIF's share of penalty revenues in future years (while retaining the required annual adjustment for inflation). However, this additional revenue for MAIF must be dedicated to the exclusive use of MAIF's Uninsured Division.

Current Law:

Required Security

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. MVA may not issue or transfer the registration of a motor vehicle unless the owner or prospective owner of the vehicle provides satisfactory evidence to MVA that the required security is in effect.

If the required security for a vehicle lapses at any time, the registration of that vehicle is suspended automatically as of the date of the lapse, effective within 60 days after notification to MVA. After receiving this notice, MVA must make a reasonable effort to notify the owner of the vehicle that registration on the vehicle has been suspended. The registration remains suspended until the vehicle owner submits evidence of replaced security on a designated MVA form, certified by the insurance provider, along with the uninsured motorist penalty fee. Additionally, Chapter 549 of 2022 prohibits MVA from

assessing a penalty for a vehicle if the vehicle's registration plates are returned within 10 days after the termination or lapse and other specified conditions are met.

Uninsured Motorist Penalties and Revenue Distributions

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 31st day, the fine increases by a rate of \$7 per day, but the total fine may not exceed \$2,500 in a 12-month period, not including the additional misdemeanor penalty of up to \$500, which may be prepaid with a fine of \$290. Knowingly operating a vehicle without adequate security is a misdemeanor, subject to a fine of up to \$1,000 and/or one year imprisonment for a first offense and a fine of up to \$1,000 and/or two years imprisonment for a subsequent offense. The violation requires a court appearance, results in the imposition of five points on the driver's record, and subjects the driver to participation in the Driver Improvement Program.

A portion of the fines collected under the escalating penalty structure for lapsed security (uninsured motorist penalties) is retained by MVA (30%) for specified purposes; the remainder (70%) is directed under the following allocation formula:

- \$600,000 to the Safe Schools Fund;
- \$2.0 million to the Vehicle Theft Prevention Fund;
- a specified amount to MAIF based on the amount provided in the prior fiscal year adjusted for inflation, with specified calculations for fiscal 2024; and
- the balance to the general fund.

Maryland Automobile Insurance Fund

Created by the General Assembly in 1972, MAIF is an independent nonbudgeted State agency. Through its [Insured Division](#), MAIF provides automobile liability insurance to residents of the State who are unable to obtain policies in the private insurance market. As the insurer of last resort, MAIF is not in direct competition with the private insurance industry because a customer must generally have been turned down by other insurers (and meet other requirements) in order to obtain a policy with MAIF.

Like other insurers, MAIF's Insured Division is primarily funded through premiums on the insurance policies it issues; however, MAIF is authorized to issue an assessment paid by other motor vehicle insurers in the State if it experiences a significant operating loss (as defined by State law) and meets other specified conditions. This is to ensure MAIF's continued viability as the insurer of last resort. The assessment is grouped and paid separately by private passenger auto insurers and commercial auto insurers. Once an insurer pays the assessment, they are authorized to recoup the cost from their policyholders.

Through its [Uninsured Division](#), which is separate and distinct from the Insured Division, MAIF provides payments to qualified State residents who incurred damages (bodily injury, death, or property damage) in accidents with motor vehicles; however, to be eligible, a resident must have no other form of collectible automobile insurance. The Uninsured Division is primarily funded through the uninsured motorist penalties being increased by bill. The Uninsured Division has recently experienced financial difficulties, as discussed below in Additional Comments.

State/MAIF Fiscal Effect: Beginning in fiscal 2025, the bill increases the penalties for uninsured motorists and increases the share of the penalties that accrue to MAIF; 30% of these penalties are retained by TTF. The remaining 70% of revenues (after distributing \$600,000 to the Safe Schools Fund, \$2.0 million to the Vehicle Theft Prevention Fund, and the required portion to MAIF) are remitted to the general fund. Based on fee payment patterns in fiscal 2023, as reported by MVA, total penalty revenues increase by an estimated \$40.9 million annually beginning in fiscal 2025, as shown in **Exhibit 1**. Under the bill, these additional revenues are shared among TTF, MAIF, and the general fund.

Exhibit 1
Effect of the Bill on Additional State Revenues and Related Distribution
Fiscal 2025-2029
(\$ in Millions)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Total Additional Revenues	\$40.9	\$40.9	\$40.9	\$40.9	\$40.9
30% Retained by TTF	\$12.3	\$12.3	\$12.3	\$12.3	\$12.3
70% Allocation	\$28.6	\$28.6	\$28.6	\$28.6	\$28.6
MAIF	3.0	3.1	3.1	3.2	3.3
General Fund	25.6	25.6	25.5	25.4	25.3

MAIF: Maryland Automobile Insurance Fund
TTF: Transportation Trust Fund

Notes: Numbers may not sum to total due to rounding. Existing annual distributions to the Safe Schools Fund (\$600,000) and the Vehicle Theft Prevention Fund (\$2.0 million) are not affected and, thus, not shown above.

Source: Motor Vehicle Administration; Department of Legislative Services

This estimate assumes that:

- under current law, projected uninsured motorist penalty revenues of \$97.5 million for fiscal 2025 would otherwise be maintained at that level through fiscal 2029;
- changes to the penalty structure result in uninsured motorist penalty revenues collected by MVA increasing to \$138.4 million annually through fiscal 2029;
- the higher penalty structure does not have a significant deterrent effect; and
- an inflation rate of approximately 2.5% beginning in fiscal 2026 for calculating the required adjustment to the allocation that accrues to MAIF.

Although the bill results in additional revenues for TTF, it does not require additional expenditures for the Maryland Department of Transportation. Likewise, while the bill requires MAIF to use the additional revenues exclusively for its Uninsured Division, the bill itself does not require additional spending by MAIF. Nevertheless, at least \$3.0 million each year becomes available for MAIF's Uninsured Division, and, given current funding projections, most of that amount is likely expended each year; the balance may be retained so that the Uninsured Division can accrue a small cushion.

Additional Comments: MAIF advises that the calendar 2023 year-end audited surplus for its Uninsured Division is significantly lower than expected at negative \$1.4 million. Moreover, MAIF advises that, without additional funding, the Uninsured Division may fail to meet its statutory obligation to pay claims. While the uninsured penalty distribution under current law provides an additional \$2.0 million to MAIF in fiscal 2024 only, which, although not statutorily required, is – according to MAIF – intended for use by the Insured Division.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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