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Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 720 (Delegate Kramer)
Economic Matters

Motor Vehicle Insurance - Insurance Identification Card - Carrying Proof of Coverage - Uninsured Motorist Education and Enforcement Fund

This bill requires the driver of a motor vehicle to carry evidence of required security (generally, proof of insurance) while operating the vehicle. A person who violates this requirement is subject to a fine of \$50, which may not be waived and must be deposited into the Uninsured Motorist Education and Enforcement Fund (UMEEF) established by the bill. The bill also authorizes UMEEF to accept funding from the Maryland Automobile Insurance Fund's (MAIF) Uninsured Claim and Judgement Fund (UCJF) and any other source.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund (TTF) revenues increase, likely significantly, from the collection of additional uninsured motorist fines; this increase may diminish over time to the extent that the bill lowers the number of uninsured motorists in the State, as discussed below. Enforcement of the bill can be handled with existing resources. Special fund revenues for UMEEF increase from fines collected under the bill and transfers from UCJF; expenditures increase correspondingly to administer the fund and for the other purposes specified by the bill. The bill is not expected to materially affect the District Court's caseload; however, general fund expenditures for the District Court increase minimally in FY 2017 for programming costs associated with the new penalty.

Maryland Automobile Insurance Fund (MAIF) Effect: Assuming that enforcement of the requirement to maintain required security results in an increase in lapsed security penalties, additional drivers may apply to MAIF for policy coverage. MAIF expenditures increase to the extent that MAIF transfers funds from its UCJF to UMEEF.

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

Small Business Effect: Minimal.

Analysis

Bill Summary: An insurer must provide the required evidence of security to an insured in the form of an insurance identification card, or in an electronic format if other conditions are met. The evidence must be presented at the request of a law enforcement officer. The insurance card provided by an insurer is only valid for the period in which an insured has paid for coverage unless the insured is on an insurer-sponsored payment plan or has financed premiums. In this situation, the insurance card may be valid for six months even if an insured's payment is for a period of less than six months.

UMEEF is administered by the Motor Vehicle Administration (MVA) and its revenues must be used to administer the fund and educate drivers about and enforce the security requirements for motor vehicles under the Maryland Vehicle Law.

Current Law/Background:

Required Securities

Although the owner of any motor vehicle that is required to be registered in Maryland must maintain required security for the vehicle during the registration period, there is no requirement that proof of insurance be carried by the driver of a motor vehicle while operating a vehicle. However, Chapters 210 and 211 of 2012 established the requirement for the operator of a *moped or motor scooter* to carry proof of insurance while operating the vehicle. Chapters 210 and 211 did not specify whether or not the proof of insurance should be in paper or electronic format.

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. 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.

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, over one 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.

Uninsured Motorist Taskforce

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, the Maryland Insurance Administration (MIA), and others to identify and implement many low-cost strategies to educate the public about the requirement 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, the task force researched the required security laws of other states and learned that 37 other states require a motorist to carry proof of required security in the vehicle at all times. In order to focus more time 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 is used to pay for claims to MAIF's Uninsured Division.

Exhibit 1
Status of Motor Vehicle Administration Uninsured Motorist Penalty Accounts Sent to the Central Collections Unit
Fiscal 1975-2015, as of November 16, 2015

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 includes both fine revenues collected by MVA prior to the account being sent to CCU and fines collected by CCU.

Source: Motor Vehicle Administration; Department of Legislative Services

State Fiscal Effect:

Uninsured Motorist Penalty Revenues

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 (DSP) 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 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 increase in penalty revenues under the bill only results in an increase in revenues for TTF (the 30% retained in MVA) and the general fund (the remainder from the 70%).

Even so, a reliable estimate of the increase in TTF and general fund revenues cannot be made due to considerable uncertainty regarding the effect of the bill on the enforcement of violations for driving without required security or allowing required security to lapse during a vehicle's registration period. However, *for illustrative purposes only*, if the bill enhances the ability of law enforcement to discover uninsured motorist violations and results in a 10% increase in *collected* penalty revenues, TTF revenues may increase by about \$1.0 million and general fund revenues may increase by about \$2.3 million in fiscal 2017. This estimate is based on (1) an expected average of \$44.3 million in uninsured driver penalties collected each year (based on data from fiscal 2010 through 2014); (2) \$4.4 million in additional revenues collected as a result of the bill; and (3) nine months of revenues instead of a full year due to the bill's October 1, 2016 effective date.

The actual increase in TTF and general fund revenues may vary significantly, particularly to the extent that the bill enhances enforcement of uninsured driving violations to a greater or lesser extent than described above, which assumes a 10% increase in fine revenues. For example, if fine revenues were to increase by 25%, then TTF revenues would increase by \$2.5 million and general fund revenues would increase by \$5.8 million in fiscal 2017.

Even though the bill is expected to increase TTF and general fund revenues in the manner described above, the revenue increase may diminish over time due to enhanced compliance – to the extent that the bill lowers the total number of uninsured motorists in the State. As discussed in the following section, UMEEF is expected to spend a significant amount of money each year to educate drivers about and enforce the State's required security laws; its projects are likely to encourage many motorists in the State to purchase motor vehicle

insurance when they otherwise may not have. This lowers the total number of motorists who can be cited for driving without required security or allowing the required security to lapse during a vehicle's registration period and, thus, the uninsured motorist penalty revenues that would have been collected from those motorists.

Uninsured Motorist Education and Enforcement Fund

The bill establishes UMEEF and requires the \$50 fine for failing to carry evidence of required security while operating a vehicle to be deposited into the fund. Although the number of violations that occur in any given year and, therefore, the amount of revenue that the fund collects cannot be reliably estimated, historic data on the number of violations for failing to carry and present a vehicle's registration is available and may be instructive.

DSP advises that, in the four-year period from calendar 2012 through 2015, there were 166,981 citations issued for failure to display a registration card, which averages to about 41,745 citations per year. This total includes citations issued by local law enforcement agencies that use the same ticketing system as DSP, although not all of them do. *For illustrative purposes only*, assuming that the number of violations for failing to carry evidence of required security is similar, there could be as much as \$2.1 million collected for UMEEF each year. Revenues further increase from citations issued by other local law enforcement agencies as well. Revenues also increase if MAIF transfers funds from its UCJF to UMEEF.

The bill authorizes UMEEF monies to be used for administrative purposes; while MVA does not expect to need additional staff, it may use the fund to cover operational expenses such as supplies and travel costs for existing staff. For the purposes of this analysis, it is assumed that the money collected in UMEEF in any given fiscal year is spent in the same fiscal year – a small portion related to administration, with most funding used to educate drivers about and enforce the security requirements for motor vehicles under the Maryland Vehicle Law.

In addition, the Judiciary advises that the requirement to deposit the \$50 fine in UMEEF necessitates changes to its cash register systems, likely costing approximately \$6,000. Thus, general fund expenditures increase accordingly in fiscal 2017 only.

Additional Comments: The bill specifies that investment earnings of the fund must be credited to the new special fund. However, the bill does not amend § 6-226 of the State Finance and Procurement Article to exempt the fund from existing law that requires all investment earnings and interest from special funds to accrue to the general fund.

Additional Information

Prior Introductions: HB 717 of 2015, a bill containing similar provisions, was referred to interim study by the House Environment and Transportation Committee.

Cross File: SB 544 (Senator Middleton) - Finance.

Information Source(s): Department of State Police, Maryland Department of Transportation, Maryland Insurance Administration, Judiciary (Administrative Office of the Courts), Maryland Automobile Insurance Fund, Department of Legislative Services

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