TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1962 – SB 1704

March 20, 2011

SUMMARY OF BILL: Requires a person to show evidence of compliance with the Tennessee Financial Responsibility Law (TFRL) in order to register a motor vehicle in the state. Establishes certificates, issued by either the Department of Revenue (DOR) or the Department of Safety, which are considered satisfactory proof of compliance with the TFRL. Requires insurers to provide notification to DOR and the insured of the cancellation or termination of a motor vehicle insurance policy, where no replacement policy is issued, that the vehicle no longer meets the requirements of the TFRL, and that the registration will automatically terminate in 30 working days from the date of notice unless the requirements are met. Requires DOR to similarly notify individuals, upon withdrawal of any cash deposit or bond that was used to satisfy the requirements of the TFRL, that their motor vehicle registration will be terminated. Requires DOR to notify individuals of the termination of their vehicle's registration. Specifies that insurers not providing the required notification shall remain liable to the extent of the original policy for any accident.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $4,626,500/FY11-12
$9,253,000/FY12-13 and Subsequent Years
Increase State Expenditures – $406,900/FY11-12
$796,600/FY12-13 and Subsequent Years

Decrease Local Revenue – Net Impact – $8,774,500/FY11-12
$17,489,000/FY12-13 and Subsequent Years
Increase Local Expenditures – Exceeds $100,000/FY11-12*
Exceeds $200,000/FY12-13 and Subsequent Years*

Assumptions:

- Based on information submitted by DOR for similar bills proposed during the 106th General Assembly, it is estimated there are approximately 5,360,000 vehicles registered in Tennessee. This number is assumed to remain constant.
- Based on information submitted by the Comptroller's Office for similar bills proposed during the 105th and 106th General Assemblies, the uninsured motorist rate in Tennessee is estimated to be 22 percent (1,179,200 uninsured motorists). This number is assumed to remain constant.
- Thirty percent of uninsured motorists (353,760) will be able to acquire appropriate levels of insurance and will be able to renew or maintain motor vehicle registrations.

- A recurring increase in state revenue estimated to be $2,200,000 derived from insurance premium taxes as approximately 353,760 individuals acquire insurance.
- Of the remaining 70 percent (825,440), 75 percent (619,080) will not be able to acquire insurance and will not be able to renew motor vehicle registrations; thus causing a recurring decrease in registration fee revenue. The remaining 25 percent (206,360) will acquire insurance for the purpose of obtaining motor vehicle registrations, but these individuals will either terminate policies immediately thereafter or will refuse to pay premiums for such policies resulting in a revocation of insurance.
- According to DOR, the average state registration fee among all class codes is approximately $28.00 per vehicle.
- The recurring decrease in state revenue attributable to reduced registration fees will be $17,334,240 (619,080 x $28.00).
- According to DOR, the average county wheel tax is approximately $28.75 per vehicle registered.
- The recurring decrease in local government revenue attributable to reduced registration and wheel tax collections will be $17,798,550 per year (619,080 x $28.75).
- Of the 825,440 individuals that either cannot acquire or maintain appropriate levels of insurance, ten percent (82,544) will be cited with violations of the TFRL.
- An average fine of $100 for violations of the TFRL.
- Twenty-five percent of offenders will not be able to pay the average fine due to indigence.
- Local governments receive five percent of fine revenue as commission.
- The increase in state revenue from fines will be $5,881,260 (82,544 x $100 x 75% x 95%); the increase in local government revenue from fines will be $309,540 (82,544 x $100 x 75% x 5%).
- The net recurring decrease in state revenue will be $9,252,980 ($17,334,240 - $5,881,260 - $2,200,000).
- The net recurring decrease in local government revenue will be $17,489,010 ($17,798,550 - $309,540).
- The first year revenue impact is estimated at 50 percent of the first full-year impact due to the January 1, 2012, effective date.
- Based on DOR having to process over 400,000 notifications (notices received from insurance companies, notices sent from DOR to registrants indicating their registration will terminate in 30 days, and notices sent from DOR to registrants indicating that their registration has been terminated), 14 additional positions would be required to implement the provisions of this bill. The associated increase to recurring state expenditures is estimated to be $596,900 per year ($340,000 salaries, $143,500 benefits, $113,400 operational costs, supplies, and materials).
- Additional recurring state expenditures of approximately $200,000 for notification costs, including forms, envelopes, and postage. This number is based on an assumption that there will be approximately 200,000 notifications sent from DOR to registrants (providing registrants 30-day notice to comply with the TFRL and providing registrants notice that their registration has been terminated) at an average cost of $1 each.

- Additional one-time state expenditures of $8,400 for software and computer modifications to the motor vehicle registration system (TRUST). DOR indicates these modifications would have to be made by contract vendor.
- The total increase in state expenditures for FY11-12 will be $406,850 {$8,400 + [($596,900 + $200,000) x 50%]}.
- The recurring increase in state expenditures for FY12-13 and subsequent years will be $796,600 ($596,900 + $200,000).
- An increase in local government expenditures for additional county clerk costs for processing registrations with proof of financial responsibility, mailing back registrations not properly submitted, and for verification of financial responsibility information. Such additional administrative costs will exceed $100,000 per year statewide.
- An increase in local government expenditures for additional court costs for processing additional cases, and for confirming whether or not offenders have obtained appropriate levels of liability insurance. Such additional court costs are estimated to exceed $100,000 per year statewide.

*Article II, Section 24 of the Tennessee Constitution provides that: *No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director

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