

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 568

(Senators Stone and Della)

Judicial Proceedings

Environmental Matters

Motor Vehicles - Certificates of Title and Salvage Certificates

This bill alters the possible statements describing the condition of a salvaged vehicle that may apply to salvage certificates and certificates of title, and otherwise regulates the procedures that the Motor Vehicle Administration, vehicle owners, and insurance companies must follow concerning salvaged vehicles.

Fiscal Summary

State Effect: Transportation Trust Fund expenditures would likely increase in FY 2009 to hire at least one additional customer agent. TTF revenues would increase due to the collection of corrected salvage certificate fees required under the bill and any increase in collection of fees due to issuance of more salvage certificates under the bill.

Maryland Automobile Insurance Fund: MAIF recovers salvageable vehicles. As such, its operations would be affected by this bill; MAIF could face revenue losses associated with its recovery of salvageable vehicles. If so, MAIF could be required to raise premiums to recoup the value of any such loss.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill alters the definition of “salvage” such that a vehicle that has been damaged is not considered salvage unless the cost to repair the vehicle is greater

than 75% of the fair market value of the vehicle before sustaining the damage. Consequently, the bill alters the statements on the application for a salvage certificate to reflect this definitional change and adds several other statements reflecting the condition of the vehicle, including whether the vehicle is repairable, whether damage is cosmetic only, and whether there has been flood damage.

Instead of requiring the owner of a vehicle to notify MVA of a change in the body type of their vehicle, the bill requires the owner to notify MVA if a vehicle's information changes from what is stated in the vehicle's certificate of title and requires the owner to pay a fee for a corrected certificate. MVA is no longer required to do so but may issue a corrected certificate of title on receipt of an application.

If an insurance company makes a claim settlement on a vehicle that is salvage, regardless of the model year of the vehicle, and the owner retains possession of the vehicle, the company must promptly notify MVA by sending the vehicle's title, description, the statement that is to apply on the salvage certificate concerning the vehicle's condition, and a fee. If the statement is that the vehicle is not rebuildable, MVA must suspend the vehicle's registration and direct the vehicle owner to return the plate immediately. If the statement is any one of the others allowable on a salvage certificate other than that the vehicle has been stolen, MVA must send notice to the vehicle owner that the registration will be suspended unless the vehicle undergoes a safety inspection within 90 days.

In the event that an insurance company applies for a salvage certificate after acquiring a vehicle as a result of a claim settlement, if the vehicle is titled in a foreign jurisdiction, the bill requires that the certificate be applied for electronically.

Current Law: Salvage refers to a vehicle that • has been damaged to the extent that the cost to repair the vehicle exceeds the fair market value of the vehicle prior to sustaining the damage; • has been acquired by an insurance company as a result of a claim settlement; or • has been acquired by an automotive dismantler and recycler. A vehicle is not considered to have been acquired by an insurance company if an owner retains possession of the vehicle upon settlement of a claim concerning the vehicle by the insurance company.

An insurance company must obtain a salvage certificate for each vehicle titled in Maryland that is acquired as a result of a claim settlement arising from an accident that occurred in the State. Along with the required \$20 fee and the vehicle title, the company must provide one of the following statements on the application:

- the cost to repair the vehicle for highway operation is greater than the fair market value of the vehicle prior to sustaining the damage for which the claim was paid;

- the cost to repair the vehicle for highway operation is equal to or less than the vehicle's fair market value before the damage occurred;
- the vehicle is not rebuildable, will be used for parts only, and is not to be retitled; or
- the vehicle has been stolen.

MVA must issue a salvage certificate to an insurance company that acquires a vehicle as the result of a claim settlement and applies within 10 days after the date of settlement. In addition, MVA must maintain records in order to indicate that a vehicle was transferred as salvage and may not be titled or registered for operation in Maryland except as otherwise allowed under the law.

When a vehicle that has been stolen is recovered, MVA must issue a salvage certificate for the vehicle if the insurance company submits a certification that • the cost to repair the vehicle is greater than the fair market value of the vehicle prior to sustaining the damage for which the claim was paid; • the cost to repair the vehicle for highway operation is equal to or less than the fair market value of the vehicle prior to sustaining the damage; or • the vehicle is not rebuildable, will be used for parts only, and is not to be retitled. In addition, MVA must issue a certificate of title in lieu of a salvage certificate if the insurance company states that the vehicle has not sustained damages, or has only sustained minor damage.

If the type of body of any vehicle is changed from that set forth in its certificate of title, the owner of the vehicle immediately has to notify MVA of the change and apply for a corrected certificate of title. On receipt of the application, MVA is required to issue a corrected certificate without charge.

MVA must issue a certificate of title that contains a conspicuous notation that the vehicle is rebuilt salvage if the salvage certificate accompanying the application • bears a notation that the cost to repair the vehicle is greater than the fair market value of the vehicle prior to sustaining the damage for which the claim was paid; or • does not bear a notation that the cost to repair the vehicle for highway operation is equal to or less than the fair market value of the vehicle prior to sustaining the damage for which the claim was paid.

MVA must issue a certificate of title that does not bear a conspicuous notation of "rebuilt salvage" if the salvage certificate accompanying the application • bears a notation that the cost to repair the vehicle for highway operation is equal to or less than the fair market value of the vehicle before the damage was incurred; • was issued before October 1, 1992 and the application is accompanied by a statement from the insurance company that the

cost to repair the vehicle was equal to or less than the fair market value of the vehicle prior to the sustained damage; or • is issued for a vehicle more than seven model years old.

Background: After natural disasters such as Hurricane Katrina and other storms, thousands of vehicles written off by insurers as ruined oftentimes are rebuilt and placed on the market. In addition, thousands of vehicles involved in accidents are rebuilt and resold. Unless the title to a vehicle labels the vehicle as “rebuilt salvage,” a person may not know that the vehicle was salvaged and rebuilt or repaired. A person may find out about a salvage certificate on a vehicle if a person pays to receive documentation from a service called “CarFax.”

State Revenues: TTF revenues would increase under the bill from two sources. First, the bill no longer requires MVA to issue a corrected certificate of title without charge to the owner of a salvage vehicle whose body type has changed. Rather, MVA may, at its discretion, issue a corrected certificate of title, and an owner must then pay any required fee, including the corrected salvage certificate fee established by the bill. Second, because the threshold at which a vehicle is considered salvage is lowered, more vehicles would be processed as salvage. Consequently, the collection of fees associated with salvage vehicles would increase commensurately.

State Expenditures: MVA advises that it cannot reliably estimate the additional number of vehicles that would qualify as salvage under this bill. However, for each additional 16,000 vehicles that would qualify, MVA would need to hire an additional customer agent to process the new transactions. Currently, MVA processes approximately 80,000 salvage certificate transactions per year and estimates that it is likely at least 16,000 additional transactions would occur annually under the bill. Therefore, it would likely be necessary to hire at least one additional customer agent. *For illustrative purposes*, an additional customer agent would cost \$50,796 in fiscal 2009, which accounts for the bill’s October 1, 2009 effective date and start-up costs.

| | <u>FY 2009</u> | <u>FY 2010</u> |
|---|-----------------------|-----------------------|
| Salaries and Fringe Benefits | \$37,853 | \$51,475 |
| Start-up Costs and Operating Expenses | <u>12,943</u> | <u>520</u> |
| Total FY 2009 State Expenditures | \$50,796 | \$51,995 |

Future year expenditures would reflect • a full salary with 4.4% annual increases and 3% employee turnover; and • 2% annual increases in ongoing operating expenses.

In addition, MVA advises that computer reprogramming would be necessary to implement the requirements of this bill. If MVA is unable to accomplish this with existing staff and resources, it may need to contract with an outside computer services vendor at a cost of between \$22,500 and \$90,000. Legislative Services advises that if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized should it be necessary to retain outside contractual services for implementation of this bill; this would reduce the costs associated with this bill and the other legislation affecting MVA.

Additional Information

Prior Introductions: A similar bill, SB 162 of 2007, was amended by the Senate and heard by the House Environmental Matters Committee, but no further action was taken. Another similar bill, HB 801 of 2007, was issued an unfavorable report by the Environmental Matters Committee. This bill is also similar to HB 728 and SB 90 of 2003. HB 728 was amended and passed the House, but no further action was taken. SB 90 was also amended and adopted by the General Assembly but was vetoed by the Governor for policy reasons. HB 1193 of 2004, a similar bill, received an unfavorable report from the House Environmental Matters Committee. HB 1678 of 2006, a similar bill, was heard by the House Environmental Matters Committee, but no further action was taken.

Cross File: HB 1167 (Delegate Malone) – Environmental Matters.

Information Source(s): CarFax.com, Maryland Automobile Insurance Fund, Maryland Department of Transportation, Department of Legislative Services

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