

March 10, 2010

Hon. Edmund G. Brown Jr.  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Krystal Paris  
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed a proposed statutory initiative related to vehicle insurance (A.G. File No. 10-0006).

### **Background**

*Requirements of Automobile Financial Responsibility.* Currently, there are over 28 million registered private passenger vehicles in the state. Current state law requires owners of private passenger automobiles in California to have and show proof of financial responsibility when registering their vehicles with the Department of Motor Vehicles (DMV), transferring ownership of a vehicle, when the vehicle is involved in a traffic accident, or upon request of law enforcement. Financial responsibility is typically defined as having automobile insurance. (Ordinarily, drivers carry a card in their motor vehicle issued by their insurer proving that they have coverage.)

To comply with this financial responsibility requirement, California motorists are required to have a minimum amount of bodily liability insurance and property damage coverage to provide protection for another person in the event a motorist is involved in an accident. The minimum insurance requirements include coverage for \$15,000 for injury or death to one person, \$30,000 for injury or death to more than one person, and \$5,000 for damage to property.

The DMV is the primary agency that enforces the state financial responsibility requirements. Specifically, the DMV is required to suspend a motorist's vehicle registration if (1) an insurance company notifies the department that the required coverage has been canceled, or (2) evidence of financial responsibility has not been submitted within 30 days of issuance of vehicle registration. Insurance companies selling automobile policies in California are required to electronically report insurance information to the DMV.

Additionally, the DMV is required to suspend the registration of a vehicle if the owner or driver provides false evidence about financial responsibility. The DMV is also required under current state law to suspend a motorist's driving privileges if the individual fails to provide proof of financial responsibility at the time of an accident.

*Fees and Penalties.* Currently, motorists are subject to penalties or fines if they are convicted of driving without having proof of financial responsibility or if they cannot show proof of financial responsibility upon being involved in a vehicle accident. The DMV charges various fees to motorists who apply to have their driving privileges reinstated following suspension due to a failure to show financial responsibility. In 2008, state and local governments collected over \$200 million from various fees and penalties related to violations of the financial responsibility requirements.

*Insurance Premium Tax.* Under current law, insurance companies doing business in California pay an insurance premium tax in lieu of a state corporate income tax. This tax is based on the amount of insurance premiums the insurer earned in the state each year. In 2008, insurance companies paid about \$247 million in premium taxes on automobile insurance policies in California.

## **Major Provisions**

This measure repeals current provisions in law that require mandatory financial responsibility for private passenger automobiles. Thus, motorists would no longer be required to have automobile insurance for private vehicles and to show proof of financial responsibility. However, the measure would not affect commercial and interstate transportation vehicles. These would continue to be required to have and show proof for financial responsibility.

The measure also removes:

- The requirement that DMV suspend a motorist's driving privileges if the motorist provides false evidence of financial responsibility.
- The requirement that DMV suspend driving vehicle registration if a motorist fails to provide evidence of financial responsibility at the time of an accident.
- The requirement that insurance companies electronically report insurance information to the DMV.

## **Fiscal Effect**

This measure would result in lower costs to the state because DMV and other state agencies would no longer have to enforce various statutory financial responsibility requirements. Annual cost savings could amount to about \$25 million to these agencies. Additionally, local governments could experience some unknown, but probably minor, amount of reduction in workload.

Under this measure, failure to provide proof of financial responsibility at the time of an accident would no longer constitute a violation of law. As a result, fees and penalties would no longer be assessed for failure to provide proof of financial responsibility. The reduction in these revenues to state and local governments combined would probably amount to a couple of hundred million dollars a year.

By repealing the statutory requirement for financial responsibility, this measure would give motorists the option to drive a private vehicle without automobile insurance. As a consequence, some motorists may choose not to buy automobile insurance. How many of the state's vehicle owners would do so is, however, unknown. To the extent motorists choose not to buy automobile insurance, there would be a decrease in insurance premiums sold in the state, and a corresponding reduction in state premium tax revenues. This reduction, however, would be offset to an unknown extent by higher state (and local) sales tax revenues to the extent that motorists purchased other taxable goods with savings from their insurance costs.

### **Summary**

This measure would have the following fiscal impacts:

- Annual state savings, probably about \$25 million, due to a reduction in costs to enforce financial responsibility requirements.
- A reduction in state and local revenues from fines and penalties related to violations of the financial responsibility law, probably in the couple of hundreds of millions of dollars.
- Unknown reduction in state premium tax revenues, offset to an unknown extent by increased sales tax revenues.

Sincerely,

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Mac Taylor  
Legislative Analyst

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Ana J. Matosantos  
Director of Finance