

Municipal Accident Response Fees

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Overview

Budget-constrained municipalities seek alternative revenue-generating streams. A growing number of them are attempting to pass on the cost of certain auto accident response services to insurers.[1]

A number of municipalities across the United States are now billing insurance companies for police or fire department responses to auto accidents.

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In some cases, third party fee companies are encouraging the practice by soliciting municipalities for the collection of accident response fees.

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In a related move, a number of other states have attempted to charge accident response service fees to an at-fault driver's insurance company. Some have developed a tiering system whereby different fees would be charged to an insurer based upon whether the driver involved in the accident is a non-resident or resident in that particular state.[2]

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A number of state legislatures are now moving to ban municipalities from charging accident response fees. Currently 10 states " Alabama, Arkansas, Florida, Georgia, Indiana, Louisiana, Missouri, Oklahoma, Pennsylvania and Tennessee " ban them[3]

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The growing trend of municipalities to hit insurers with the bill for accident response fees is an emerging issue that has direct consequences for insurers and their policyholders.Â

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What Are Municipal Fees?

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Historically, municipalities across the U.S. have charged fees to community residents based upon certain services provided. Examples of long-standing municipal fees include: building and licensing fees, and administrative fees for sewer and trash collection.

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Typically the user of the service pays the fee. This funding mechanism enables communities to raise additional revenue without increasing property or personal taxes.

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In recent years some municipalities have been charging a new kind of fee. These fees are designed to recoup the cost of auto accident response services provided by police and fire departments (see below).

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What Are Accident Response Fees?

The practice of billing insurance companies for various accident response services is a trend that began in several Midwestern states and has spread to other states across the U.S.

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Fees vary from jurisdiction to jurisdiction.Â Various sources indicate that municipalities charge anywhere from \$100 to \$2,000 for response services.[4]Â

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Ordinances in a number of cities and municipalities allow for the collection of such fees. New York City is the latest to propose such a move.[5]

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Currently, municipalities in around 26 states are known to have implemented or entered into contracts with collection services to charge a fee when the police or fire department is sent out to respond to a traffic accident.[6]

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Some municipalities offer the rationale that insurers should pay these fees because accident reports are prepared solely for their benefit.Â But this does not appear to be factually correct.

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Accident reports are primarily provided to assist crash victims in case of legal action.[7]Â The reports are also used by state and local law enforcement for statistical reporting requirements and by hospitals that provide medical assistance to injured accident victims.Â Other key beneficiaries of crash reports include personal injury attorneys and chiropractors.

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Clearly if such fees are to be passed on to insurers, the cost should be distributed equally among all these parties.

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Proponents of accident response fees also often assert that charging insurers will have no impact on rates.Â This assertion is false.Â If insurers are obliged to pay more, premiums will have to rise to compensate for the higher costs.Â As such, municipalities will have in effect imposed a "hidden tax" on their residents.

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The Impact on Auto Insurance

The response to and investigation of auto accidents has long been handled by police and fire departments, supported by local taxes. Such response services have never been covered or charged for in auto insurance policies.

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While auto insurance policies typically cover medical expenses, including ambulance transportation, expenses related to accident response are not covered.

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The medical payments portion of standard personal auto policies states only[8]:

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We will pay reasonable expenses incurred for necessary medical and funeral services because of "bodily injury":

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1. *Caused by accident; and*
2. *Sustained by an "insured"*

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We will pay only those expenses incurred for services rendered within 3 years from the date of the accident.

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No-fault auto insurance, also known as personal injury protection (PIP) coverage also has provision for the

payment of benefits for medical expenses.

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No-fault insurance basically covers auto accident victims on a first-party (policyholder) basis, allowing them to collect damages from their own insurers regardless of who was at fault.Â Today, many states have some type of no-fault auto insurance law, with restrictions on the right to sue.

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A standard PIP policy would pay out for medical expenses, usually up to a stated maximum limit, and for funeral expenses up to a certain limit.Â While ambulance services typically are covered under this portion of auto insurance policies, no other accident response fees are listed.

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Clearly, if insurers were to start providing coverage for additional accident response services, including police and fire, the cost of auto insurance would be likely to increase.

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Another key point to consider is that municipalities do not have payment provisions for drivers who do not carry insurance to pay for the services.Â As such, responsible drivers carrying auto insurance are being unfairly penalizedâ€”in effect double-taxedâ€”by this attempt to pass on accident response costs to their insurers.

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The Influence of Collection Fee Companies

While accident response fees can appear an attractive alternative to raising local taxes for budget-constrained municipalities, third party vendors are playing a growing role by encouraging this practice.

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Various reports suggest that some collection companies may be engaging in questionable tactics, such as helping draft the city ordinances that authorize them, inflating charges for accident response services, employing aggressive methods to force insurers to pay the fees, or even seeking payment directly from policyholders in the event that their insurer refuses to pay the fees.

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Another common misconception about collection companies is that there is no charge to cities for their services.Â However, it is important to recognize that while collection companies do not charge a city directly for their services, they do take a percentage of the fees collected up front.Â A typical fee percentage is around 10 percent of what they collect on behalf of municipalities.

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Conclusion

The move by some municipalities to bill insurers for auto accident response fees is a growing trend that has direct implications for insurers and their policyholders.

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If insurers are to be expected to pay for services historically supported by local taxes, going forward they will be forced to factor this additional cost component into their auto insurance policies.Â In other words, auto insurance rates will need to rise in order to account for the higher costs faced by insurers.

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The likely outcome of this inequitable system is a form of double-taxation whereby community residents via higher insurance premiums are forced to pay for a service already covered through their taxes.[9]

For further information, see:

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<http://www.accidentresponsefees.com>

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<http://www.AccidentTax.com>

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- [1] Ominous Trend: Growth of Municipal Accident Response Fees, National Association of Mutual Insurance Companies (NAMIC), April 2006.
- [2] Accident Response Fees: Say "No" To Double Taxation and Higher Insurance Premiums, Property Casualty Insurers Association of America (PCI), 2010.
- [3] Property Casualty Insurers Association of America (PCI): <http://www.accidenttax.com>.
- [4] Property Casualty Insurers Association of America (PCI): <http://www.accidenttax.com>
- [5] New York Times, December 11, 2010, *Planned Fire Dept. Fees for Motorists Criticized*.
- [6] Property Casualty Insurers Association of America (PCI): <http://www.accidenttax.com>
- [7] Ohio Insurance Institute (OII), <http://www.accidentresponsefees.com>
- [8] The Insurance Professionals'™ Policy Kit, Alliance of American Insurers, 2004 edition.
- [9] Accident Response Fees: Say "No" To Double Taxation and Higher Insurance Premiums, Property Casualty Insurers Association of America (PCI), 2010.

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