



**Colorado
Legislative
Council
Staff**

HB16-1219

**REVISED
FISCAL NOTE**

(replaces fiscal note dated March 9, 2016)

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0459
Prime Sponsor(s): Rep. Priola
Sen. Woods

Date: April 8, 2016
Bill Status: House SVMA
Fiscal Analyst: Chris Creighton (303-866-5834)

BILL TOPIC: MOTOR VEHICLE-RELATED SERVICES CONSOLIDATION

Fiscal Impact Summary*	FY 2016-2017 <i>(prior to transition)</i>	FY 2018-2019	FY 2019-2020	FY 2020-2021
State Revenue		<u>(\$4,886,381)</u>	<u>(\$5,545,290)</u>	<u>(\$6,199,626)</u>
Cash Funds		(4,886,381)	(5,545,290)	(\$6,199,626)
State Expenditures	<u>\$200,000</u>	<u>(\$3,590,964)</u>	<u>(\$8,626,797)</u>	<u>(13,782,788)</u>
General Fund	200,000			
Cash Funds		(3,590,964)	(8,626,797)	(13,782,788)
TABOR Impact		Not estimated.	Not estimated.	Not estimated.
FTE Position Change		(76.4) FTE	(153.1) FTE	(229.5) FTE
Appropriation Required: \$200,000 - Department of Revenue (FY 2016-17).				
Future Year Impacts: Ongoing state revenue and expenditure reductions.				

Note: This fiscal note has been revised to reflect new information.

Summary of Legislation

This bill requires county clerks (clerks) to assume the responsibility of providing driver license services as soon as possible, but no later than July 1, 2021. Driver license services include the issuance of driver licenses, instruction permits and identification cards as well as testing. Whenever feasible, clerks must provide driver license services at the same location that they provide registration and titling services. The Department of Revenue (DOR), which currently provides driver license services, is required to work with the clerks to identify the actions and funding needed for the clerks to assume this responsibility in the most efficient manner. This bill also requires DOR to maximize state cost savings by closing state driver license offices that are no longer needed.

Background

Currently, the Division of Motor Vehicles (DMV) in DOR operates 36 driver license offices and provides operational support to all 64 counties whose clerks serve as authorized agents of the DOR. There are 106 county offices currently providing motor vehicle services. Of these:

- 19 county offices provide driver license services;
- 1 new office will open in April in Fort Carson (El Paso County) and will provide driver license services; and
- 87 county offices provide registration and titling services, but do not offer driver license services.

Assumptions

Driver, License, Record, Identification and Vehicle Enterprise Solution system. DOR is currently in the process of replacing the state's Driver License System and Colorado State Titling and Registration System (CSTARS) with the Driver, License, Record, Identification, and Vehicle Enterprise Solution system (DRIVES). This new system will allow all county locations to issue driver licenses without having to install CSTARS equipment and is expected to be operational in 2018. As a result, it is assumed that the transition from state to county driver license services will not begin until FY 2018-19.

Driver license fee structure. Under the current driver license fee structure the majority of driver license fees are remitted to the Licensing Services Cash Fund (LSCF). The current fee for a driver license is \$25. If the license is issued at a state driver license office the full \$25 is remitted to the LSCF. If the license is issued at a county office that provides driver license services, a portion of the fee is retained by the county with the remainder remitted to LSCF. Small counties (less than 100,000) retain \$13.60 of this fee and all other counties retain \$8. Commercial driver licenses may also be issued by a county. The fee is \$15.50 and \$8 is retained by the county regardless of size. Counties do not retain any portion of statutory fees for the issuance of instruction permits or identification cards. With counties assuming all driver license services, statutory changes to the driver license fee structure will allow for greater county cost recovery. Some revenue will need to be retained by the state to cover the cost of providing administrative oversight, training and call center services for the county licensing offices.

Operations study. It is assumed that the first step in this transition will be conducting a comprehensive DMV operations study. This study will review all motor vehicle offices and practices with the goal of determining the most efficient way for the clerks, as authorized agents of DOR, to provide driver license services, as well as titling and registration services. Recommendations may include facility expansions or consolidations, infrastructure upgrades, staffing requirements, equipment repurposing from the state offices that will be closing, and procedural changes that will provide the framework for the transition of driver license services from the state to county offices. If additional state appropriations are needed to implement the recommendations of the study, DOR will address this through the annual budget process.

Driver license offices. This analysis assumes that all 36 state driver license offices will close and driver license services will be transferred to the counties and provided at each of the 20 offices that currently offer driver license services. Driver license services will also be expanded to the 87 county office locations that are currently providing titling and registration services. At this time, it is unknown if each of these offices is able to support the addition of driver license services or what facility changes may be needed to allow for this. Due to differing facility needs, this analysis assumes that one-third of state offices will close and one-third of county offices will open per year beginning in FY 2018-19. By July 1, 2021, all 36 state offices will be closed and all 87 county offices will be open. All necessary facility changes will be identified by the operations study and the counties will be required to pay for any facility changes needed.

State Revenue

This bill decreases DOR cash fund fee revenue to the LSCF by approximately \$4.9 million in FY 2018-19, \$5.5 million in FY 2019-20, and \$6.2 million in FY 2020-21 and each year thereafter. This decrease is the result of the shift of driver license services from the state to the counties and a portion of each fee being retained by the issuing county and is shown in Table 1 below and Table 5 on page 8.

Table 1. Revenue Under HB16-1219.				
Revenue Components	FY 2016-17 (prior to transition)	FY 2018-19	FY 2019-20	FY 2020-21
Drivers Licenses	\$21,223,778	\$16,368,746	\$15,856,216	\$15,345,220
Commercial Drivers Licenses	632,975	332,711	322,200	311,907
Instruction Permits	2,573,157	2,744,786	2,658,071	2,573,157
Identification Cards	1,458,565	1,555,851	1,506,698	1,458,565
TOTAL	\$25,888,475	\$21,002,094	\$20,343,185	\$19,688,849
Revenue Reduction		(\$4,886,381)	(\$5,545,290)	(\$6,199,626)

TABOR Impact

This bill reduces state revenue from fees, which will reduce the amount of money required to be refunded under TABOR beginning in FY 2018-19, if the state collects a TABOR surplus in that year. TABOR refunds are paid out of the General Fund.

State Expenditures

This bill increases state General Fund expenditures in the DOR by **\$200,000 in FY 2016-17**. This bill decreases DOR expenditures by \$3.6 million and 76.4 FTE from the LSCF in FY 2018-19, \$8.6 million and 153.1 FTE in FY 2019-20, and 13.8 million and 229.5 FTE in FY 2020-21. These costs are shown in Table 2 below and Table 6 on page 9 and are discussed below.

Table 2. State Expenditures Under HB16-1219				
Cost Components	FY 2016-17 (prior to transition)	FY 2018-19	FY 2019-20	FY 2020-21
Personal Services		(\$4,494,539)	(\$9,021,016)	(\$13,668,205)
FTE		(76.4) FTE	(153.1) FTE	(229.5) FTE
Operating and Capital Outlay Costs		(56,413)	(143,865)	(217,978)
DMV Operations Study	200,000			
Driver license Manuals and Forms		16,500	33,000	50,000

Table 2. State Expenditures Under HB16-1219 (Cont.)				
Cost Components	FY 2016-17 (prior to transition)	FY 2018-19	FY 2019-20	FY 2020-21
ID System		523,408	523,408	523,408
Testing Equipment		858,484	858,484	858,484
Leased Space		(438,404)	(876,808)	(1,328,497)
TOTAL	\$200,000	(\$3,590,964)	(\$8,626,797)	(\$13,782,788)

DMV operations study. This study will be contracted through a request for proposal (RFP) and is estimated to cost \$200,000. The actual cost of the study will be depend on the RFP responses. Initial workload increases are expected in DOR and the Department of Personnel and Administration to prepare the RFP, review RFP responses, and to award a contract for the operations study. DOR staff time will also be needed to provide data to the consultant conducting the study. This workload increase can be addressed within existing appropriations.

Personal services. Beginning in FY 2018-19, DOR will start closing the 36 state driver license offices. This analysis assumes that 12 offices will close per year resulting in a reduction of approximately 76 FTE. A total FTE reduction of 239.5 FTE will occur by FY 2020-21. Health, life, and dental insurance, supplemental retirement payments, and standard operating expenses will also be reduced.

DOR provides administrative oversight, training, technical support, and call center services to the counties. With driver license services expanding to 87 county offices, 10 FTE will be needed in DOR's Driver License Administration and Motor Vehicle Investigation units to provide services to the increased number of county offices located throughout the state. This includes:

- Regional Managers (2.0 FTE) to provide oversight to the new county offices;
- Regional Trainers (2.0 FTE) to provide training to new county offices on the issuance of driver licenses and DRIVES;
- Technician (1.0 FTE) to audit drive skills testing in the new county locations and create drive test routes;
- Investigator (1.0 FTE) to investigate new fraud cases and provide driver license fraud prevention training at the new county locations; and
- Administrative Assistants (up to 4.0 FTE) to staff the driver license call center to handle the increased number of calls expected. During the transition from state to county licensing offices an increase in calls is expected from residents that are unsure where to go for DMV services. An increase in calls related to fraudulent licensing activities is also expected. Once driver license services are fully transitioned to the counties, the number of calls could decrease and may result in a future reduction of call center FTE.

Driver license forms and manuals. Beginning in FY 2018-19, increased state expenditures will be needed to print and distribute driver license forms and manuals to each county location. Currently DOR maintains an inventory of driver license forms and manuals, but this inventory is not sufficient to stock the 87 county locations that will offer driver license services.

Identification system. County offices adding driver license services will be required to use the Marquis Identification System for document issuance. The cost of this system depends on the size of the county licensing office. This analysis assumes this equipment will be purchased for 40 small county offices (less than 10,000 documents per year) and 47 regular county offices

(greater than 10,000 documents per year). Beginning in FY 2018-19, \$523,408 will be spent per year through FY 2020-21 for a total cost of \$1,570,224. Identification system costs may vary depending on the results of the operations study and the repurposing of any equipment from the state offices that will be closed. If additional funding is needed, it will be requested through the annual budget process.

Testing equipment. Counties will also need Colorado's Automated Testing System to administer written tests for adult and minor driver licensing, motorcycle endorsements, and commercial driver licenses. Each unit costs \$11,814 and includes kiosks, software and ongoing maintenance. Two kiosks are provided per office with some larger offices requiring more. It is assumed that a total 218 units will be purchased with \$858,484 being spent per year beginning in FY 2018-19 through FY 2020-21 for a total cost of \$2,575,452. To the extent that any testing equipment can be repurposed from the state offices that will be closed, this cost may decrease, however additional costs may be needed to make each location compliant with the Americans with Disabilities Act (ADA). ADA compliance needs for each office as well as equipment repurposing will be identified by the operations study. If additional funding is needed, it will be requested through the annual budget process.

Leased space. DOR currently leases space for state driver licence offices and warehouse storage. DOR leased space will be reduced with the closing of the state driver license offices. The warehouse is leased at a discounted price because licensing services are also provided in the same location. The leasing of a new warehouse for storage will be required because licensing services will no longer be provided at this location. This results in a net reduction of DOR state expenditures for leased space.

Indirect Costs. The bill affects indirect cost allocations within the DOR. These costs are generally recovered from individual programs within a department or through fees, and pursuant to a Joint Budget Committee policy, are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills. This includes indirect costs for centralized administrative functions such as financial management, personnel management, and information technology costs. The fiscal note assumes the DOR will request the necessary adjustments for indirect costs through the annual budget process beginning in FY 2018-19.

County Revenue

This bill increases county clerk revenue from driver license fees by \$1.4 million in FY 2018-19, \$4.2 million in FY 2019-20 and \$7.1 million in FY 2020-21. This revenue is shown in Table 3 and Table 5 below on page 8 and discussed below.

Table 3. County Revenue Under HB16-1219		
Cost Components	Current Licenses Issued	Revenue
FY 2016-17		
Counties > 100,000 (8.00 Fee)	156,797	\$1,254,376
Counties < 100,000 (13.60 Fee)	11,435	\$155,516
County Total	168,232	\$1,409,892

Table 3. County Revenue Under HB16-1219 (Cont.)		
Cost Components		
FY 2018-19	Additional Licenses Issued	Revenue
Counties > 100,000 (8.00 Fee)	120,663	\$965,304
Counties < 100,000 (13.60 Fee)	32,642	\$443,931
Total	153,305	\$1,409,232
FY 2019-20	Additional Licenses Issued	Revenue
Counties > 100,000 (8.00 Fee)	362,045	\$2,896,360
Counties < 100,000 (13.60 Fee)	97,941	\$1,331,998
Total	459,986	\$4,228,358
FY 2020-21	Additional Licenses Issued	Revenue
Counties > 100,000 (8.00 Fee)	610,741	\$4,885,928
Counties < 100,000 (13.60 Fee)	165,219	\$2,246,978
Total	775,960	\$7,132,906

Currently driver licenses are issued at 19 county offices with approximately 168,000 licenses issued and approximately \$1.4 million in licensing fee revenue collected annually. Upon full implementation of this bill, drivers licensing services will be offered by 87 offices by FY 2020-21 which will increase the number of licenses issued by 775,960 and increase driver license fee revenue collected by approximately \$7.1 million. The amount of licensing fee revenue retained by each county will vary depending on the size of the county and number of licensing transactions completed.

County Expenditures

This bill increases county expenditures by at least \$6.7 million in FY 2018-19, at least \$12.0 million in FY 2019-20, and at least \$17.6 million in FY 2020-21 and each year thereafter. These increases are shown in Table 4 below and Table 6 on page 9 and are discussed below.

Table 4. County Expenditures Under HB16-1219.				
Cost Components	FY 2016-17 (prior to transition)	FY 2018-19	FY 2019-20	FY 2020-21
Personal Services		at least \$4,010,998	at least \$8,021,996	at least \$12,154,540
FTE		at least 64.3 FTE	at least 128.7 FTE	at least 195 FTE
Operating Expenses		61,065	122,130	185,045
Office Modifications and Equipment		290,000	290,000	290,000
Wait Time Data Management Technology		994,733	994,733	994,733
Benefits*		1,323,629	2,647,259	4,010,998
County Expenditures Total		at least \$6,680,425	at least \$12,076,118	at least \$17,635,316

* This includes health insurance, short term disability, and retirement which vary by county but have been estimated at 33 percent of salary for the purposes of this analysis.

Assumptions. County costs may vary significantly depending on the size of the county, number of driver license offices, and the number of licensing transactions completed at those offices. The operations study will determine facility and staffing needs of each county. Counties may also choose to perform their own independent analysis.

Personal services. Currently, clerks can choose to provide driver license services and these services are provided at 19 county offices using approximately 32 FTE. Adding driver licensing, instruction permits, identification cards, and testing services to the 87 offices that do not provide them will require the counties to add at least an additional 195 FTE. This analysis assumes 29 offices and approximately 65 FTE will be added per year from FY 2018-19 through FY 2020-21. The operations analysis will determine the locations in which driver license services will be provided and the staff needed to provide such services. This may result in a need for more FTE depending on the office, services provided at the office, and number of customers to be served at the office. Standard operating expenses will also be needed for each FTE. Costs may also be incurred depending on the training needs of county employees that will be providing driver license services.

Other county expenditures. It is expected that one-time county expenses will be needed for office modifications and equipment at the 87 county offices. This analysis initially estimates \$10,000 will be needed per office. This totals \$290,000 per year from FY 2018-19 through FY 2020-21 for a total cost of \$870,000. This cost may vary substantially depending on the needs of each office identified in the operations study. If any offices are deemed to be inadequate to support driver licensing services, additional county costs may be incurred for office expansion or the acquisition of new offices.

Wait time data management technology has been installed at 20 county offices to track wait times and implement improvements. This analysis assumes this technology will be installed at the remaining offices and that the counties will be required to pay for it. The cost to install this technology is \$34,700 for each office. This totals \$994,733 per year from FY 2018-19 through FY 2020-21 for a total cost of \$2,984,199. To the extent that any wait time data management technology can be repurposed from the state offices that will be closed, this cost will decrease.

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2016-17, this bill requires a General Fund appropriation of \$200,000 to the Department of Revenue.

State and Local Government Contacts

Counties	County Clerks	Information Technology
Local Affairs	Personnel	Revenue
Secretary of State		

Table 5 summarizes state and county revenue impacts of HB16-1219. As the counties assume greater driver license responsibility state revenues decrease while county revenues increase.

Table 5. State and County Revenue Under HB16-1219.				
Cost Components	FY 2016-17 (prior to transition)	FY 2018-19	FY 2019-20	FY 2020-21
State Revenue				
Drivers License	\$21,223,778	\$16,368,746	\$15,856,216	\$15,345,220
Commercial Drivers Licenses	632,975	332,711	322,200	311,907
Instruction Permits	2,573,157	2,744,786	2,658,071	2,573,157
Identification Cards	1,458,565	1,555,851	1,506,698	1,458,565
State Revenue Total	\$25,888,475	\$21,002,094	\$20,343,185	\$19,688,849
State Revenue Reduction		(\$4,886,381)	(\$5,545,290)	(\$6,199,626)
County Revenue				
Counties > 100,000 (8.00 Fee)	\$1,254,376	\$2,026,300	\$4,052,602	\$6,140,303
Counties < 100,000 (13.60 Fee)	155,516	792,824	1,585,648	2,402,496
County Revenue Total	\$1,409,892	\$2,819,124	\$5,638,250	\$8,542,799
County Revenue Increase		\$1,409,232	\$4,228,358	\$7,132,907

Table 6 summarizes state and county expenditures under HB16-1219. State expenditures are decreased by the closing of 12 state driver license offices per year beginning in FY 2018-19, while county expenditures increase by the opening of 29 driver license offices per year.

Table 6. State and County Expenditures Under HB16-1219.				
Cost Components	FY 2016-17 (prior to transition)	FY 2018-19	FY 2019-20	FY 2020-21
State Expenditures				
Personal Services		(\$4,494,539)	(\$9,021,016)	(\$13,668,205)
FTE		(76.4) FTE	(153.1) FTE	(229.5) FTE
Operating and Capital Outlay Costs		(56,413)	(143,865)	(217,978)
DMV Operations Study	200,000			
Drivers License Manuals & Forms		16,500	33,000	50,000
ID System		523,408	523,408	523,408
Testing Equipment		858,484	858,484	858,484
Leased Space		(438,404)	(876,808)	(1,328,497)
State Expenditure Total	\$200,000	(\$3,590,964)	(\$8,626,797)	(\$13,782,788)
County Expenditures				
Personal Services		at least \$4,010,998	at least \$8,021,996	at least \$12,154,540
FTE		at least 64.3 FTE	at least 128.7 FTE	at least 195.0 FTE
Operating Expenses		61,065	122,130	185,045
Office Modifications & Equipment		290,000	290,000	290,000
Wait Time Data Management Technology		994,733	994,733	994,733
Benefits		1,323,629	2,647,259	4,010,998
County Expenditures Total		at least \$6,660,425	at least \$12,076,118	at least \$17,635,316