

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5450-01
Bill No.: HB 2411
Subject: Insurance - Automobile; Revenue Dept.
Type: Original
Date: April 20, 2010

Bill Summary: Establishes the Motorist Insurance Identification Database Act to identify uninsured motorists in Missouri.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|--------------------|--------------------|--------------------|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| General Revenue | \$2,003,261 | \$5,140,466 | \$5,072,956 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$2,003,261 | \$5,140,466 | \$5,072,956 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|--------------------|--------------------|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| Motorist Insurance Database | \$0 | \$7,506,695 | \$7,506,695 |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$7,506,695 | \$7,506,695 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| General Revenue | 53 | 53 | 53 |
| | | | |
| Total Estimated Net Effect on FTE | 53 | 53 | 53 |

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Administrative Hearing Commission, Office of State Courts Administrator, Department of Insurance, Financial Institutions, and Professional Registration, Department of Corrections, Department of Public Safety - Missouri State Highway Patrol, Missouri House of Representatives, Office of State Auditor, Office of State Treasurer, and Missouri Senate** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Department of Revenue (DOR)** state the department currently has a program which requires insurance companies to report insurance data regarding insurance policies written on personal passenger vehicles. This program is used to verify insurance coverage for purposes of registering motor vehicles within the State of Missouri.

The DOR provides the following information relating to the fiscal impact of this proposal on their organization:

ADMINISTRATIVE IMPACT

Motor Vehicle Bureau

Section 303.409:

The promulgation of rules associated with this section will require 40 overtime hours for a Revenue Manager Band I to prepare, communicate with executive staff, and finalize the administrative rules and 15 hours overtime for an Administrative Office Support Assistant to finalize and complete all filing requirements with the Secretary of State's Office. Total costs for this section are estimated to be \$1,417 for FY 11.

ASSUMPTION (continued)

This section also requires the DOR to suspend all vehicle registrations upon notification of non-compliance from the agent. According to department records, there are 4.2 million personal passenger liability policies which are reported to the DOR pursuant to 303.412, RSMo. The department's records further reflect that 1.1 million policies are dropped from insurance companies' records.

The DOR will require additional FTE resources in order to process information submitted by the agent, respond to telephone inquiries, and prepare written responses to correspondence sent from customers.

Telephone Inquiries:

Based on a program the DOR previously administered which contained similar requirements, the department experienced a 90% telephone inquiry rate from the notices mailed. The DOR assumes the same rate for this program. A telephone information operator is expected to process 90 telephone inquiries per day. Assuming 1.1 million notices are mailed by agents, 90% of which will result in telephone inquiries and 260 work days per year, the DOR expects to receive an average of 3,807 telephone inquiries per day. If each telephone information operator processes 90 inquiries per day, the DOR will need an additional 42 Revenue Processing Technicians 1 to process the phone calls ($1.1 \text{ million notices} \times 90\% = 990,000 \text{ annual telephone inquiries} / 260 \text{ work days} / 90 \text{ inquiries per day per operator} = 42.3 \text{ FTE}$). The department will require equipment, floor space and expenses associated with this FTE requirement.

Written Correspondence:

It is estimated that 5% of the 1.1 million cancellation notices sent will result in written correspondence to the DOR from the individual(s) receiving the notice. This will require staff to research the issues presented in the correspondence and prepare a written response. Based on current department expectations, one (1) FTE can research and prepare 30 written correspondence responses per day. Therefore, the DOR expects to respond to 55,000 correspondences per year ($1.1 \text{ million} \times 5\%$). Assuming 260 work days per year, 212 pieces of correspondence will be received per day; if each staff processes/responds to 30 pieces of correspondence per day, 7 FTE Revenue Processing Technicians I will be needed to handle the increase in workload ($55,000 \text{ correspondence} / 260 \text{ work days} / 30 \text{ responses per day} = 7 \text{ FTE}$). The department will require equipment, floor space and expenses associated with this FTE requirement.

ASSUMPTION (continued)

Document Imaging:

The proposal will require 2 million documents be digitally imaged in order for the DOR to meet its document retention obligations. One staff person can image 7,500 documents per day; therefore, the DOR will need one (1) FTE Photographic Machine Operator (2 million documents / 7,500 documents imaged per day / 260 work days = 1 FTE). This FTE will require necessary equipment, expenses, and work space.

The Motor Vehicle Bureau (MVB) will require the purchase of 1 high volume document imaging machine at a cost of \$25,000 (cost includes software license).

Management/Supervision:

The requirements of this proposal will create an entire new unit within the MVB which will require management and supervision in order to properly administer the program. A unit of this size will require one (1) Revenue Manager Band I and two (2) supervisors to provide the management and supervisory services to the new unit. The DOR will require equipment, floor space and expenses associated with this FTE requirement.

Public Communication:

The DOR will be required to incorporate the requirements of this proposal into the department's website. This will require 120 hours of overtime for research and development by an Administrative Analyst III. The total cost for FY 11 is estimated to be \$2,551.

Special Note Regarding Office Space:

The physical space for work area which is required for the FTE resources associated with this fiscal note is not available within the MVB. This may result in the Office of Administration procuring office space outside of the current bureau location resulting in additional unknown costs.

Other Cost Increases:

The DOR estimates annual postage costs will increase \$24,200 (55,000 pieces of correspondence X \$0.44/piece). In addition, form and envelope costs will increase approximately \$2,338 annually.

ASSUMPTION (continued)

OAIT Information Technology

The DOR's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the DOR's motor vehicle legacy systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$80,136 (level of effort calculated on 3,024 FTE hours).

The department's assumptions to reach the above cost of \$80,136 include:

- 1) The Motor Vehicle Division creating a data file of all registrations of motor vehicles;
- 2) Modifying the Title and Registration Intranet Processing System (TRIPS) reinstatement process to collect the appropriate fee;
- 3) Modifying all TRIPS registration processes to collect the \$1 fee for the Motorist Insurance database fund;
- 4) Modifying the TRIPS Load and extract process to generate a reinstatement transaction for the General Registration System (GRS);
- 5) Create a GRS process to apply suspensions from a file created by the vendor including processing to determine dates for re-instatement based on number of prior suspensions;
- 6) Modifying the GRS to process the reinstatement transaction based on the dates and payment of fees;
- 7) Modifying plates.mo.gov to validate insurance based on the vendor database;
- 8) Adding a TRIPS process to validate insurance based on the vendor database;
- 9) Building a process for DOR staff to validate insurance based on the vendor database; and,
- 10) Building a method for law enforcement to validate insurance based on the vendor database.

It is important to note a **January 1, 2011** effective date is not achievable based on this assessment.

ASSUMPTION (continued)

REVENUE IMPACT

Motor Vehicle

Revenue increase from \$1 annual fee for all new and renewal registrations:

In FY 09 there were 5,706,695 new and renewal registration transactions processed by the DOR. Per this proposal, the DOR would collect an additional \$1 per transaction. Assuming the same amount of transactions processed, \$5,706,695 in FY 12 and FY 13 collected that is to be credited to the Motorist Insurance Identification Database Fund.

According to department records, there are 4.2 million personal passenger liability policies which are reported to the DOR pursuant to 303.412, RSMo. The department's records further reflect that 1.1 million policies are dropped from insurance companies' records. Of those 1.1 million policies dropped from insurance company records, 10% (110,000) of those individuals will be uninsured and will be suspended. Of the 110,000 suspensions, there will be a 33% (36,300) return rate (individuals who have been suspended but are non-compliant for various reasons). This will result in 73,700 individuals (110,000 - 36,300) who will either request a hearing or comply and provide proof of insurance and pay the associated fine based on the number of offenses. Of those 73,700 individuals, 3% (2,211) will request a hearing leaving 71,489 individuals who will comply and pay the reinstatement fees. The increase in revenue from the reinstatement fees is estimated to be \$6,970,200 for first time offenders (97.5% X 71,489 = 69,702 X \$100 fine); \$214,400 for second time offenders (1.5% X 71,489 = 1,072 X \$200 fine); and \$286,000 for third time offenders (1% X 71,489 = 715 X \$400 fine); therefore, the total increase in revenue annually from reinstatement revenue is estimated to be \$7,470,600.

Oversight has, for fiscal note purposes only, changed the starting salary for Telephone Information Operators (42 FTE), Revenue Processing Technicians I (7 FTE), Revenue Section Supervisor (2 FTE) and Photographic Machine Operator (1) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months of FY 2002 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

In response to similar legislation, **Oversight** requested a response from the **Office of Administration (COA) - Facilities Management, Design and Construction (FMDC)** regarding the rental space DOR would require if this legislation is enacted into law. The COA-FMDC stated that it appears the additional staff to be hired by the DOR could be accommodated within existing leased or owned space in Jefferson City. However, there would be a cost for phone, data and some renovations to accommodate the staff. The COA-FMDC estimates leasing/rental space cost for the proposal at \$53,200 annually.

This proposal will result in an increase in total state revenue.

| <u>FISCAL IMPACT - State Government</u> | FY 2011 (6 Mo.) | FY 2012 | FY 2013 |
|--|---------------------------|---------------------------|---------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Income - DOR</u> | | | |
| Reinstatement fees | \$3,735,300 | \$7,470,600 | \$7,470,600 |
| <u>Costs - DOR</u> | | | |
| Personal service (53 FTE) | (\$697,176) | (\$1,428,007) | (\$1,470,848) |
| Fringe benefits | (\$365,599) | (\$748,847) | (\$771,313) |
| Equipment and expense | <u>(\$625,068)</u> | <u>(\$78,331)</u> | <u>(\$79,882)</u> |
| Total <u>Costs</u> - DOR | <u>(\$1,687,843)</u> | <u>(\$2,255,185)</u> | <u>(\$2,322,043)</u> |
| FTE Change - DOR | 53 FTE | 53 FTE | 53 FTE |
| <u>Costs - COA-FMDC</u> | | | |
| Leasing/rental costs for DOR | <u>(\$26,600)</u> | <u>(\$53,200)</u> | <u>(\$53,200)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>\$2,003,261</u> | <u>\$5,140,466</u> | <u>\$5,072,956</u> |
| Estimated Net FTE Change on General Revenue Fund | 53 FTE | 53 FTE | 53 FTE |
| MOTORIST INSURANCE DATABASE FUND | | | |
| <u>Income - DOR</u> | | | |
| Increase in annual and renewal registration fees | <u>\$0</u> | <u>\$7,506,695</u> | <u>\$7,506,695</u> |
| ESTIMATED NET EFFECT ON INSURANCE DATABASE FUND | <u>\$0</u> | <u>\$7,506,695</u> | <u>\$7,506,695</u> |
| <u>FISCAL IMPACT - Local Government</u> | | | |
| | FY 2011 (6 Mo.) | FY 2012 | FY 2013 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

Small businesses that operate a motor vehicle and subsequently let their financial liability lapse for three consecutive months could have the registration suspended and pay reinstatement fees. The proposal will also have an impact on small business insurance companies that write vehicle policies.

FISCAL DESCRIPTION

This proposal re-establishes the Motorist Insurance Identification Database Program and requires the Department of Revenue to establish and administer a database to verify compliance with motor vehicle financial responsibility requirements using an online instant verification in accordance with the Insurance Industry Committee on Motor Vehicle Administration Model User's Guide.

Effective July 1, 2011, the department must impose a \$1 annual fee on each vehicle registration to be deposited into the Motorist Insurance Database Fund for the sole purpose of operating the program and must contract with a designated agent who will develop and maintain a computer database, with its own computer network, by December 31, 2011, using the department's guidelines and information provided by the department and insurers.

If the database indicates a registered motor vehicle has failed to maintain the required financial responsibility for three months, the designated agent will suspend the owner's vehicle registration. The reinstatement fee for a first violation is \$100.

This legislation is not federally mandated.

SOURCES OF INFORMATION

Office of Administration -
 Administrative Hearing Commission
 Facilities Management, Design and Construction
Office of State Courts Administrator
Department of Insurance, Financial Institutions, and Professional Registration
Department of Corrections
Department of Revenue
Department of Public Safety -
 Missouri State Highway Patrol
Missouri House of Representatives
Office of State Auditor
Missouri Senate
Office of Secretary of State
Office of State Treasurer



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