

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1645-01  
Bill No.: HB 638  
Subject: Motor Vehicles; Insurance Department; Insurance - Automobile  
Type: Original  
Date: March 28, 2011

Bill Summary: This proposal replaces the Motorist Insurance Identification Database Act with the Insured Vehicle Identification Network to track insurance motorists, identify uninsured motorists, and maintain a statewide database.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(\$84,070,770)	(\$84,070,770)	(\$84,070,770)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$84,070,770)</b>	<b>(\$84,070,770)</b>	<b>(\$84,070,770)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Insured Motorist Fund	\$73,212,609 to \$76,212,609	\$82,999,935 or \$84,070,770	\$82,990,998 or \$84,070,770
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$73,212,609 to \$76,212,609</b>	<b>\$82,999,935 or \$84,070,770</b>	<b>\$82,990,998 or \$84,070,770</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 12 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Insured Motorist Fund	17 FTE	0 or 17 FTE	0 or 17 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>17 FTE</b>	<b>0 or 17 FTE</b>	<b>0 or 17 FTE</b>

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Public Safety - Missouri State Highway Patrol, Office of State Treasurer,** and the **Missouri House of Representatives** state this proposal will have no fiscal impact on their respective agencies.

Officials from the **Missouri Senate** state this proposal will either have no fiscal impact as it relates to their agency or minimal costs which can be absorbed by present appropriations.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the proposal. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

According to officials from the **Joint Committee on Administrative Rules (JCAR)**, this proposal should not create any additional fiscal impact above current appropriations to JCAR.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** state the proposal would change the funding of the database project from 6% of General Revenue from premium taxes to 100% of General Revenue from premium taxes. According to figures from the Department of Revenue, one-half of the collections from premium tax that was deposited into General Revenue in FY 10 were \$84,070,770. DIFP assumes future deposits will be of a similar amount.

DIFP anticipates needing at least three FTE to perform the functions of this program if it would continue beyond the initial six months: An Insurance Manager would be needed to oversee the Insured Vehicle Identification Network Program, one Insurance Product Analyst would be needed to perform the requirements of the legislation, and an Office Support Assistant would be needed to handle correspondence and phone calls received.

ASSUMPTION (continued)

DIFP assumes it would contract with an outside designated agent to develop, deliver, and maintain a computer database, using its own computer network, with information provided by Insurers and the department. Several states have implemented similar systems in recent years. Texas estimated their at \$7,000,000. DIFP estimates the cost of a database at \$7,000,000 to \$10,000,000 plus yearly ongoing operating costs and maintenance.

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 agency:

**ADMINISTRATIVE IMPACT**

Motor Vehicle Bureau

§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 Office of Secretary of State. Total costs for this section are estimated to be \$1,417 for FY 12.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of activity each year. **Oversight** assumes DOR could absorb the personal service costs related to this portion of the proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

DOR assumes the agent will perform all pre-suspension communications with the customer, ( i.e. phone calls, e-mail, written correspondence), whereas DOR will perform all post suspension and reinstatement communications with the customer.

According to DOR records, there are 4.2 million personal passenger liability policies which are reported to the department pursuant to §303.412. DOR's records further reflect that 1.1 million policies are dropped from insurance companies' records annually. Of those 1.1 million policies

ASSUMPTION (continued)

dropped from insurance company record, 10% (110,000) of those individuals will be uninsured and will be suspended.

DOR will require additional FTE resources in order to process suspension information due to non-compliance, respond to post-suspension telephone inquiries, and prepare written responses to correspondence sent from customers and process reinstatements and reinstatement fees.

Telephone Inquiries:

Based on a program DOR previously administered which contained similar requirements, the department experienced a 90% telephone inquiry rate from the notices mailed. DOR assumes the same rate for this program.

110,000	Suspended registrations x 90% which will generate telephone inquiries =
99,000	Telephone inquiries received annually / 260 Work days per year =
380	Telephone inquiries received per day / 90 Telephone inquiries processed per day =
<u>4</u>	<u>FTE required (Revenue Processing Tech I)</u>

DOR assumes it will require equipment, floor space and expenses associated with this FTE requirement.

Written Correspondence:

It is estimated that 15% of the 110,000 suspensions will result in written correspondence to DOR which will require staff to research the issues presented in the correspondence and prepare a written response.

110,000	Notices of suspension sent by agent x 15% Correspondence rate =
16,500	Annual correspondence / 260 Work days per year =
63.5	Correspondence received per day / 30 Responses prepared per day =
<u>2</u>	<u>FTE required (Revenue Processing Tech I)</u>

ASSUMPTION (continued)

Mailings Increase:

DOR estimates they will need to send 200,200 written correspondences to customers via the postal service as noted below:

110,000 Suspension notices  
16,500 Written correspondences  
2,211 Hearing notices  
128,711 Total Mailings

Postage Increase:

128,711 mailings prepared by DOR x \$.42 postage rate = \$54,059

FY 2012 - \$54,059    FY 2013- \$55,410    FY2014 - \$56,795

Documents Cost:

128,711 CTG correspondence generated x \$.025 cost per notice = \$3,218

FY 2012 - \$3,218    FY 2013 - \$3,298    FY 2014 - \$3,381

Envelope Cost:

128,711 correspondence generated x \$.040 cost per envelope = \$5,148

FY 2012 - \$5,148    FY 2013 - \$5,277    FY 2014 - \$5,409

Document Imaging:

The proposal will require approximately 2,216,951 million documents be digitally imaged in order for DOR to meet its document retention obligations.

2,216,951 documents imaged / 260 work days per year =  
8,527 documents per day/ 7,500 daily production expectation =  
1 FTE (Photographic machine operator)

ASSUMPTION (continued)

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 Revenue Manager (Band I) and (1) supervisor to provide the management and supervisory services to the new unit. 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 DOR website. This will require 120 hours of overtime for research and development by an Administrative Analyst III. The total cost for FY 12 is estimated to be \$2,551 based on 120 hours x an hourly rate of \$21.26.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of activity each year. **Oversight** assumes DOR could absorb the personal service costs related to this portion of the proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Administrative Hearings - §303.409.1 (3):

DOR assumes, based on the definition of “Department” set in §303.403, the Department of Insurance, Financial Institutions, and Professional Registration is responsible for such hearings that are requested. Therefore, there is no administrative impact to the DOR.

Suspension reinstatement processing:

Because this proposal imposes a suspension but does not provide for any length of suspension or availability for reinstatement, DOR assumes no FTE will be required. If reinstatement requirements are added to this proposal then additional FTE will be required.

ASSUMPTION (continued)

**Driver License Bureau (DLB)**

§303.406.3(1) of this proposal requires the DLB to supply self-insured records for inclusion in the proposed “Insured Vehicle Identification Network”. The DLB assumes the self-insured records would be provided to the designated agent in electronic format. The DLB currently utilizes a self-insured database. Only a minimum amount of data is entered into this database due to a lack of adequate staffing for the high volume of self-insured vehicles covered under this program.

For FY 10, there were 57,719 self-insured vehicles covered.

$$\begin{aligned} &57,719 \text{ self-insured vehicles received annually} / 260 \text{ working days per year} = \\ &222 \text{ transactions daily} / 45 \text{ expected transactions processed daily} = \\ &\underline{5 \text{ FTE required (Revenue Processing Technicians I)}} \end{aligned}$$

**OAIT Information Technology**

The DOR will use an existing system for receiving the information provided by the agent to suspend the registration accordingly. No additional staff will be required and minimal programming will be absorbed by existing staff.

**Oversight** has, for fiscal note purposes only, changed the DOR starting salaries 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.

**Oversight** note the legislation does not specifically state the funding source for DOR’s expenses. **Oversight** assumes costs associated with the Insured Vehicle Identification Network Act are to be paid from the Insured Motorist Fund.

**Oversight** also notes the DIFP has the authority to terminate the program after the initial six month period or submit a recommendation to terminate the program to the ninety-sixth general assembly. As a result of this authority, **Oversight** is ranging the costs for both the DIFP and the DOR since the program could be terminated. **Oversight** assumes if the program is terminated, any FTE hired to fulfill the obligations of the proposal, will no longer be needed.

<u>FISCAL IMPACT - State Government</u>	FY 2012	FY 2013	FY 2014
<b>GENERAL REVENUE FUND</b>			
<u>Loss</u> - DIFP - Premium tax revenue transfer to Insured Motorist Fund	<u>(\$84,070,770)</u>	<u>(\$84,070,770)</u>	<u>(\$84,070,770)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$84,070,770)</u></b>	<b><u>(\$84,070,770)</u></b>	<b><u>(\$84,070,770)</u></b>
<b>INSURED MOTORIST FUND</b>			
<u>Transfer In</u> - DIFP - Premium tax revenue from General Revenue	\$84,070,770	\$84,070,770	\$84,070,770
<u>Cost</u> - DIFP - Personal Service (3 FTE)	(\$80,470)	\$0 or (\$97,530)	\$0 or (\$98,505)
Fringe Benefits	(\$42,118)	\$0 or (\$51,047)	\$0 or (\$51,558)
Equipment and Expense	(\$13,631)	\$0 or (\$8,974)	\$0 or (\$9,197)
Database and Maintenance cost	(\$7,000,000 to <u>\$10,000,000</u> )	\$0 or <u>(\$300,000)</u>	\$0 or <u>(\$300,000)</u>
<b>TOTAL COST - DIFP</b>	(\$7,136,219 to \$10,136,219)	\$0 or (\$457,551)	\$0 or (\$459,260)
FTE Change - DIFP	3 FTE	0 or 3 FTE	0 or 3 FTE
<u>Cost</u> - DOR -Personal Service (14 FTE)	(\$351,108)	\$0 or (\$354,619)	\$0 or (\$358,165)
Fringe Benefits	(\$183,770)	\$0 or (\$185,608)	\$0 or (\$187,464)
Equipment and Expense	(\$187,064)	<u>\$0 or (\$73,057)</u>	<u>\$0 or (\$74,883)</u>
<b>TOTAL COST - DOR</b>	<u>(\$721,942)</u>	\$0 or <u>(\$613,284)</u>	\$0 or <u>(\$620,512)</u>
FTE Change - DOR	14 FTE	0 or 14 FTE	0 or 14 FTE
<b>ESTIMATED NET EFFECT ON INSURED MOTORIST FUND</b>	<b><u>\$73,212,609 to</u> <u>\$76,212,609</u></b>	<b><u>\$82,999,935 or</u> <u>\$84,070,770</u></b>	<b><u>\$82,990,998 or</u> <u>\$84,070,770</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2012	FY 2013	FY 2014
Estimated Net FTE Change on Insured Motorist Fund	17 FTE	0 or 17 FTE	0 or 17 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

The proposal could have a negative administrative fiscal impact on small business insurance companies/agents as they will be required to report insurance policy cancellations to the Department of Insurance, Financial Institutions, and Professional Registration or designated agent.

FISCAL DESCRIPTION

This proposed legislation replaces the Motorist Insurance Identification Database Act which expired June 30, 2007, with the Insured Vehicle Identification Network Act to track insured motorists, identify uninsured motorists, and maintain this information in a statewide database. Among its provisions, the proposal:

- (1) Requires the Department of Insurance, Financial Institutions and Professional Registration (DIFP), in collaboration with the Department of Revenue (DOR) and Department of Public Safety, to establish and operate for six months the Insured Vehicle Identification Network Pilot Program. At the end of the six-month period, the Department of Insurance, Financial Institutions and Professional Registration may continue the program, terminate the program, or continue the program and submit a recommendation to terminate it to the General Assembly by December 31, 2011. The General Assembly may, upon receiving the termination recommendation, authorize the termination of the program by enacting a concurrent resolution within the first 60 days of the Second Regular Session of the Ninety-sixth General Assembly;
- (2) Renames the Insurance Identification Database Fund as the Insured Motorist Fund and specifies that all fees from the program must be deposited into the fund and all, instead of the current 6%, of the revenue from collections of the insurance premiums tax levied and collected under §148.310 - 148.461;

FISCAL DESCRIPTION (continued)

- (3) Requires the information provided by insurers and DIFP to remain the property of the original entity after any termination of the program and prohibits the information contained in the database from being sold but requires it to be disclosed to verify a person's insurance coverage upon request by any state or local government agency investigating, litigating, or enforcing compliance with the motor vehicle financial responsibility requirements or upon the request of other specified individuals or agencies;
- (4) Requires DIFP to annually review the operation and performance of the program and submit a report of its findings to the General Assembly by January 15, 2012, and every year thereafter, if the program has not been terminated;
- (5) Requires the designated agent of the program to notify the Department of Revenue of any vehicle owner who the database cannot identify as maintaining financial responsibility. DIFP, in consultation with DOR, will determine the intervals for notification. Upon receiving the notification, DOR must review the list and authorize the designated agent to notify the owners of their noncompliance; and
- (6) Authorizes DIFP to enter into reciprocal agreements with other states for the mutual use of the information contained in the database and similar information contained in a database operated by another state.

The proposal contains an emergency clause.

This legislation is not federally mandated and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Department of Insurance, Financial Institutions and Professional Registration  
Department of Public Safety  
    Missouri State Highway Patrol  
Office of State Treasurer  
Office of Secretary of State  
    Administrative Rules Division  
Joint Committee on Administrative Rules  
Missouri House of Representatives  
Missouri Senate



Mickey Wilson, CPA  
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