

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4207-02  
Bill No.: Truly Agreed To and Finally Passed HB 1081  
Subject: Revenue, Department of; Taxation and Revenue - General; Licenses - Driver's;  
 Licenses - Motor Vehicle  
Type: Original  
Date: May 28, 2014

Bill Summary: This proposal would create the Paperless Documents and Forms Act.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	More than \$100,000	More than \$100,000	More than \$100,000
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Road	More than \$100,000	More than \$100,000	More than \$100,000
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</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 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</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 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 32.029, RSMo. - Paperless Documents and Forms Act:

Officials from the **Department of Revenue (DOR)** noted this provision would create the "Paperless Documents and Forms Act." The legislation would require DOR to develop and implement a method that provides all records, documents, returns, etc. to the public in an electronic format.

#### Section 32.400, RSMo. - Electronic Notifications:

DOR officials noted this provision would allow DOR to notify persons, using electronic means, to carry out the responsibilities of the Department relating to motor vehicles, drivers license, and collection of tax. This means would also satisfy the current requirement for certified mailings, if the taxpayer or license holder agreed to this method of notification.

#### Estimated postage and mailing cost reductions

DOR officials assume the proposal would result in significant cost savings due to the reduction in printing, forms, and postage.

In FY 2013, Personal Tax sent 926,084 notices or other pieces of correspondence; 697,523 pieces were sent by regular mail at a cost of \$366,200 and 228,561 pieces were sent by certified mail at a cost of \$813,677. DOR officials assume the correspondence could be eliminated using electronic notifications, generating potential savings (with 100% participation) of  $(\$366,200 + \$813,677) = \$1,179,877$  per year.

During a recent calendar year, Collections and Tax Assistance sent approximately 134,800 notices and other correspondence through regular mail at a cost of \$74,800. DOR officials assume that cost could be eliminated (with 100% participation) using electronic notifications.

ASSUMPTION (continued)

During a recent calendar year, Business Tax sent approximately 732,000 notices and other correspondence by regular and certified mail at a cost of \$827,400. DOR officials assume the correspondence could be eliminated using electronic notifications, generating potential savings (with 100% participation) of \$827,400 per year.

DOR officials stated that "Notices of Intent to Offset" were not included in the savings calculations since the Department is required by the federal government to send those notices by certified mail.

Estimated savings for the Motor Vehicle Bureau are based on the cost of postage (\$.268 per renewal notice) and card stock (\$.022 per renewal notice). Envelopes are not needed for renewal notices.

DOR officials noted approximately 100,000 marine renewal notices and 3,600,000 motor vehicle renewal notices are sent out each year, and the savings would depend on the level of participation in electronic notification. The Department does not anticipate a large percentage of participation during the first three years of implementation. Assuming a participation rate of 15% in the first year of implementation, 25% in the second, and 35% in the third, the Department could anticipate savings as shown below. Savings for the first year are figured at 6 months based on an effective date of 1/1/2015):

At \$0.29/notice, the estimated savings on  $(100,000 + 3,600,000) = 3,700,000$  notices per year at 15% participation would be  $(3,700,000 \times \$0.29 \times 6\text{months}/12\text{ months} \times .15) = \$80,475$ ; at 25% participation  $(3,700,000 \times \$0.29 \times .25) = \$268,250$ ; and at 35% participation would save an estimated  $(3,700,000 \times \$0.29 \times .35) = \$375,550$ .

Estimated savings for the Driver License Bureau (DLB) are based on a total of 771,413 driver license postcards mailed during FY 2013.

Estimated cost per card for FY 2014	\$0.022
Estimated postage cost per notice for FY 2014	\$0.268
Estimated State Data Center cost per notice	<u>\$0.009163</u>
Total Estimated FY 2014 Cost Per Renewal Notice Mailed	<u><u>\$0.299163</u></u>

ASSUMPTION (continued)

The DOR estimated cost of Drivers License Renewal (DLB) postcards for FY 2013 was  $(771,413 \times \$0.299) = \$230,652$

DOR officials stated the savings estimate for DLB based on an estimated 15% first year participation rate for electronic notifications would be  $(771,413 \times \$0.299 \times .15) = \$34,598$ . An increase to 25% participation in the second year would save  $(771,413 \times \$0.299 \times .25) = \$57,663$ , and an increase to 35% participation in the third year of implementation would save  $(771,413 \times \$0.299 \times .35) = \$80,729$ .

The DOR response included combined savings from reduced postage, printing, and mailing of \$2,193,120 for FY 2015, \$2,403,960 for FY 2016, and \$2,534,326 for FY 2017.

Estimated cost to implement

DOR officials assume the proposed changes would require administrative and management personnel to prepare and review forms and procedures.

Procedures would need to be revised by a Management Analyst Specialist I requiring 40 hours of overtime at a cost of \$840 in FY 2015.

The Department's web site would need to be updated to include information regarding the availability of electronic renewal notices and the web portal. This would require 10 hours of overtime for an Administrative Analyst III, at a cost of \$230 in FY 2015.

Printed renewal notices would need to be modified to include information regarding the availability of electronic renewal notices and the web portal. This would require 40 hours of overtime for a Management Analyst Specialist I at a cost of \$840 in FY 2015.

Forms would need to be modified to include information regarding the availability of electronic renewal notices and the web portal. This would require 40 hours of overtime for a Management Analyst Specialist I at a cost of \$840 in FY 2015.

The renewal process would need updating and testing for conversion to electronic distribution. This would require 40 hours for a Revenue Manager Band I at a cost of \$1,040 in FY 2015 and 40 hours for a Management Analyst Specialist I at a cost of \$840 in FY 2015.

ASSUMPTION (continued)

The DOR response included a total of \$25,750 in overtime costs for existing staff to implement the proposal.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$43,680 based on 1,600 hours of programming to make changes to DOR systems.

Bill as a whole responses

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost 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 **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

ASSUMPTION (continued)

Oversight assumptions

**Oversight** notes the proposal would require the Department of Revenue to begin development of the program no later than January 1, 2015, with implementation required by January 1, 2021.

The Department of Revenue response, however, assumes implementation and related cost savings in FY 2015. Oversight notes the Department of Revenue estimates for certain correspondence is based on 100% participation but assumes the DOR estimate of a gradually increasing participation rate in the motor vehicle and drivers license programs is more realistic. Oversight will not, for fiscal note purposes, assume full implementation of this program and the DOR estimates of savings could be achieved in FY 2015, FY 2016, or FY 2017.

**Oversight** also notes the total estimated cost to implement this program is less than \$100,000 and the projected savings are significantly greater than the cost to implement the program. Oversight assumes the Department of Revenue could have significant savings from this program beginning in FY 2015. For fiscal note purposes, Oversight will reflect annual savings of more than \$100,000 in addition to the cost of the program for the General Revenue Fund. Oversight will also reflect savings of more than \$100,000 to the state's road funds since the Department of Revenue operates licensing programs for vehicles and drivers from the state's road funds subject to a statutory limitation on DOR collection costs.

**Oversight** assumes the electronic notification process could lead to a potential reduction in Department of Revenue personnel requirements but is not able to estimate the timing or extent of such reductions.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE FUND</b>			
<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	More than \$100,000	More than \$100,000	More than \$100,000
<u>Costs</u> - Department of Revenue - programming expense for system modifications			
	<u>(Up to \$43,680)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>More than <u>\$100,000</u></b>	<b>More than <u>\$100,000</u></b>	<b>More than <u>\$100,000</u></b>
 <b>ROAD FUNDS</b>			
<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	More than <u>\$100,000</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
<b>ESTIMATED NET EFFECT ON ROAD FUNDS</b>	<b>More than <u>\$100,000</u></b>	<b>More than <u>\$100,000</u></b>	<b>More than <u>\$100,000</u></b>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

### FISCAL DESCRIPTION

The proposal would require the Department of Revenue to begin development no later than January 1, 2015, and implement by January 1, 2021, a method by which all documents and forms provided to the public by the department would be available online and capable of electronic submission to the department, except those that require a notary or authorization by a third party.

The department could not prohibit the submission of paper forms or allow electronic filing of a form that requires a notary or authorization by a third party, and would not be authorized to create a state-run tax system for electronic filing of individual income tax returns.

The proposal would also allow the department to provide notices to persons and their authorized representatives using electronic means relating to motor vehicle licensing, driver licensing, and the collection of all taxes and fees, in lieu of notification by certified mail, if the taxpayer has agreed to the electronic notification.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Department of Revenue



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Director  
May 28, 2014

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