

J00E00
Motor Vehicle Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$133,506	\$140,071	\$145,842	\$5,771	4.1%
Federal Fund	<u>161</u>	<u>15</u>	<u>177</u>	<u>162</u>	<u>1076.7%</u>
Total Funds	\$133,666	\$140,086	\$146,018	\$5,932	4.2%

- Fiscal 2007 deficiencies total \$2.1 million in special funds for a variety of the Motor Vehicle Administration (MVA) services including 20 temporary employee positions, utility expenses, Vehicle Emissions Inspection Program, limited-English proficiency services, and credit card fees.
- The fiscal 2008 allowance increases \$5.9 million, or 4.2% when comparing the fiscal 2008 allowance to the fiscal 2007 working appropriation; however, when adjusting for one-time health insurance actions, the fiscal 2008 allowance increases \$10.2 million, or 7.5% with most of the increase for information technology-related expenses.

PAYGO Capital Budget Data

(\$ in Thousands)

	<u>Fiscal 2006</u> <u>Actual</u>	<u>Fiscal 2007</u> <u>Legislative</u>	<u>Fiscal 2007</u> <u>Working</u>	<u>Fiscal 2008</u> <u>Request</u>	<u>Fiscal 2008</u> <u>Allowance</u>
Special	\$14,324	\$27,025	\$24,411	\$37,917	\$34,341
Total	\$14,324	\$27,025	\$24,411	\$37,917	\$34,341

- The fiscal 2007 working appropriation decreased \$2.6 million, or 9.7% due to cash flow changes in a number of projects.
- The fiscal 2008 allowance increases \$9.9 million compared to the fiscal 2007 working appropriation due to cash flow changes in projects and a \$5 million increase for the Glen Burnie Master Plan that is beginning in fiscal 2007 with the bulk of the funds being spent in fiscal 2008.

Note: Numbers may not sum to total due to rounding.

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Operating and PAYGO Personnel Data

	FY 06 <u>Actual</u>	FY 07 <u>Working</u>	FY 08 <u>Allowance</u>	FY 07-08 <u>Change</u>
Regular Operating Budget Positions	1,602.50	1,602.50	1,610.50	8.00
Regular PAYGO Budget Positions	<u>10.00</u>	<u>10.00</u>	<u>11.00</u>	<u>1.00</u>
Total Regular Positions	1,612.50	1,612.50	1,621.50	9.00
Operating Budget Contractual FTEs	87.80	97.03	115.78	18.75
PAYGO Budget Contractual FTEs	<u>2.11</u>	<u>1.36</u>	<u>2.61</u>	<u>1.25</u>
Total Contractual FTEs	89.91	98.39	118.39	20.00
Total Personnel	1,702.41	1,710.89	1,739.89	29.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	82.2	4.99%
Positions Vacant as of 12/31/06	68.5	4.25%

- Nine new positions are included in the fiscal 2008 allowance. Eight positions are included in the operating budget for customer service agents to staff a Spanish bilingual phone panel at the Gaithersburg branch office. The remaining position is in the capital program to implement a departmentwide environmental management program.
- The fiscal 2008 allowance includes 20 new contractual full-time equivalents (FTEs) of which 18.75 FTEs are in the operating budget to implement legislation passed during the 2006 session for an alcohol testing program and to investigate the use of fraudulent documents. The capital program includes the addition of 1.25 FTEs to support the same programs as the other new contractual FTEs.
- As of December 31, 2006, MVA had 68.5 vacant positions for a vacancy rate of 4.25%; however, the fiscal 2008 allowance sets the vacancy rate at 5%, meaning MVA will be unable to fill vacant positions in the short-term.

Analysis in Brief

Major Trends

Percent of Transaction Completed through Alternative Service Increases: The percent of transactions performed through alternative service delivery increased from 39.3% in fiscal 2005 to 65.5% in fiscal 2006; however, this increase is largely due to an accounting change rather than increased usage.

Cost Per Transaction Is Declining: In fiscal 2002, the cost per transaction totaled \$13.82 and by fiscal 2006, the cost was \$5.68 per transaction. While the cost has been declining each year, the fiscal 2006 number may be misleading due to an accounting change.

Issues

REAL-ID – What Is It and What Will It Cost?: On May 11, 2005, President George W. Bush, Jr., signed the Real-ID Act (H.R. 1268; P.L. 109-13) as part of the Emergency Supplemental Appropriation for Defense, the Global War on Terror, and Tsunami Relief 2005, which requires federal agencies to only accept state-issued driver's licenses and personal identification cards after May 11, 2008, which have met certification standards. The legislation contains a number of provisions outlining broad requirements for issuing driver's licenses or personal identification cards which potentially could significantly change who and how individuals receive driver's licenses as well as be expensive to implement. **The Department of Legislative Services (DLS) recommends that the department provide an update to the committees highlighting what measures it is undertaking to implement the REAL-ID Act, what it foresees as the potential effect on the agency's capital and operating budgets, and what will be its effect on citizens.**

MVA and Performance Contracting: As the State attempts to better measure the outcomes of its programs through Managing for Results, the State should also look to do the same in its contracts. This issue will review the contracts of the agency over a \$1.0 million to determine if there is the opportunity to link contract performance to program outcomes. **DLS recommends that MVA discuss in further detail its contracting oversight and the potential for performance contracting which could include a pay-for-performance component in other contracts it has with vendors.**

Operating Budget Recommended Actions

	<u>Funds</u>
1. Reduce miscellaneous communication charges.	\$ 10,000
2. Reduce funds for in-state travel.	8,500

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3.	Reduce funds for equipment repairs and maintenance.	13,804
4.	Reduce funds for consultant services.	200,000
5.	Reduce funds for data processing supplies.	60,000
6.	Reduce funds for advertising.	60,000
7.	Adopt committee narrative requesting an update on the REAL-ID Act.	
	Total Reductions	\$ 352,304

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

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Motor Vehicle Administration
Maryland Department of Transportation

Budget Analysis

Program Description

The Motor Vehicle Administration (MVA) is responsible for supplying motor vehicle services to the citizens of Maryland. These services include:

- licensing all passenger and commercial drivers;
- registering and titling vehicles;
- issuing tags and permits for persons with a disability;
- providing photo identification cards for nondriver residents;
- regulating motor vehicle dealers, vehicle rental companies, and driver education schools; and
- administering the compulsory insurance compliance program, vehicle emissions inspection program, and driver safety programs.

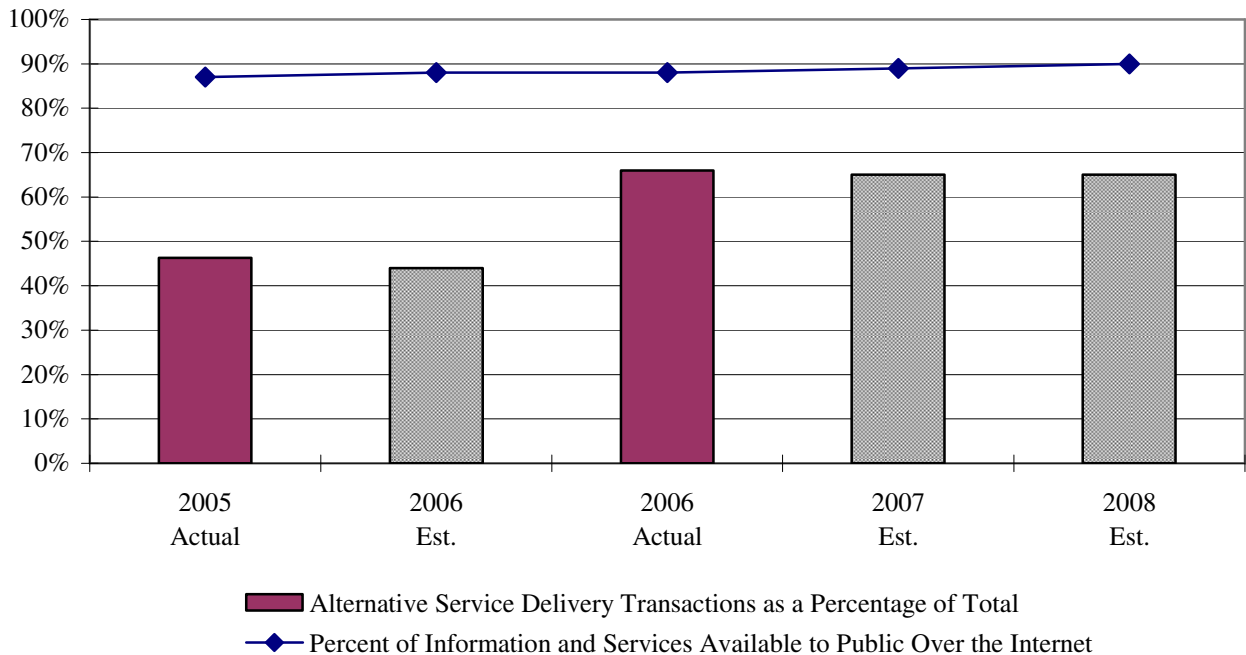
MVA serves its customers through a network of branch offices, e-MVA facilities (kiosks and the Internet), a telephone call center, a mobile service center, and Vehicle Emissions Inspection Program (VEIP) stations.

Performance Analysis: Managing for Results

MVA's mission is "to provide efficient and courteous service." To meet this mission, one goal of MVA is to provide effective and efficient business processes. **Exhibit 1** displays the percentage of MVA services available on-line and alternative service delivery (*e.g.*, on-line transactions, MVA kiosks, mail-in, or telephone call center) as a percentage of all transactions.

While the number of MVA services now available on-line has slowly increased through MVA's e-MVA service delivery systems capital investment, the utilization of these and other alternative services increased dramatically in fiscal 2006. In fiscal 2005, 46.3% of all transactions were completed through alternative service delivery and increased to 65.5% in fiscal 2006, well

Exhibit 1 Motor Vehicle Administration Service Delivery



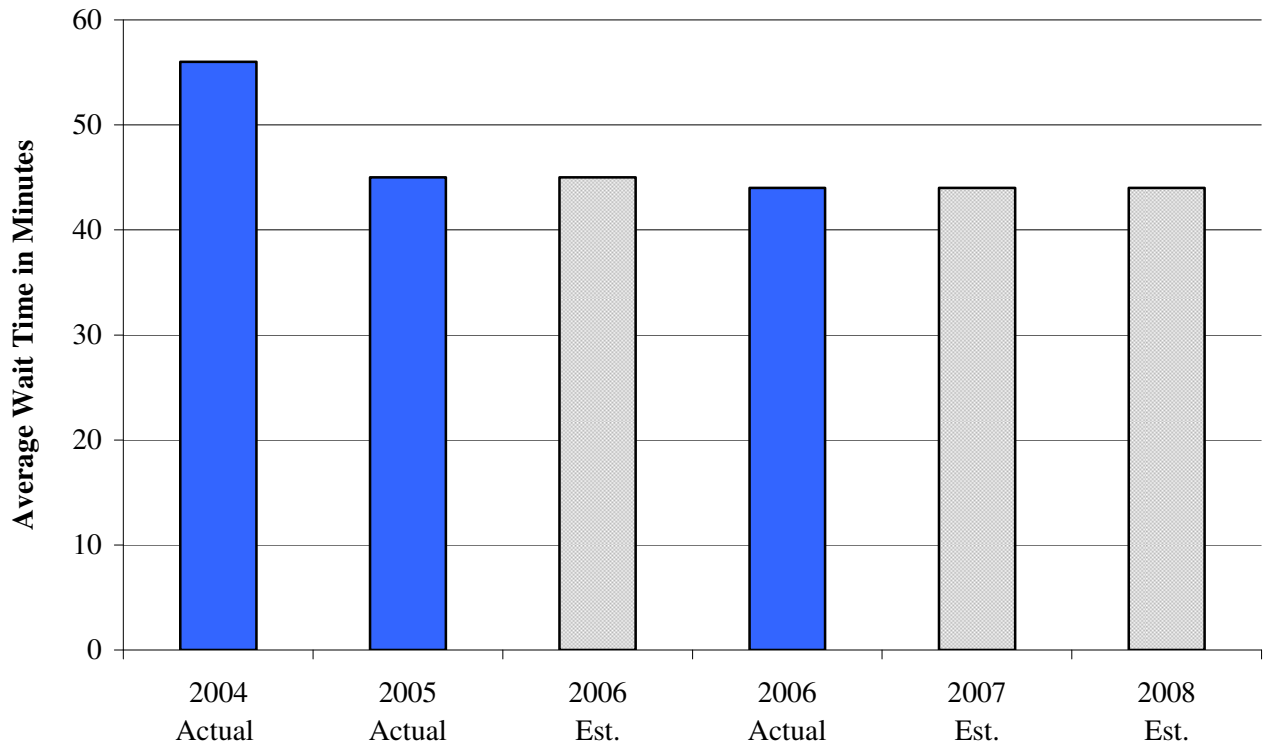
Source: Motor Vehicle Administration

above the stated goal of 39%. This large increase is due to sales of Direct Access Records being done on a per record basis rather than in bulk, meaning that counting the sale of records on an individual basis increases the number of transactions. MVA estimates that this high level of on-line transactions will be maintained in fiscal 2007 and 2008. Overall, the percentage of services available on-line has remained relatively constant at 88 to 90%.

The goal of alternative service delivery and providing on-line services is to reduce the wait time for walk-in visits. **Exhibit 2** indicates that the average wait time of a customer is not projected to decrease from 44 minutes in fiscal 2006 to 2008 despite a higher percentage of transactions being performed on-line.

The Department of Legislative Services (DLS) recommends that MVA discuss what services are available on-line and what actions may be taken to further increase usage of Internet services. In addition, MVA should discuss why the average wait time of customers is not expected to decrease and what may be done to reduce the average wait time.

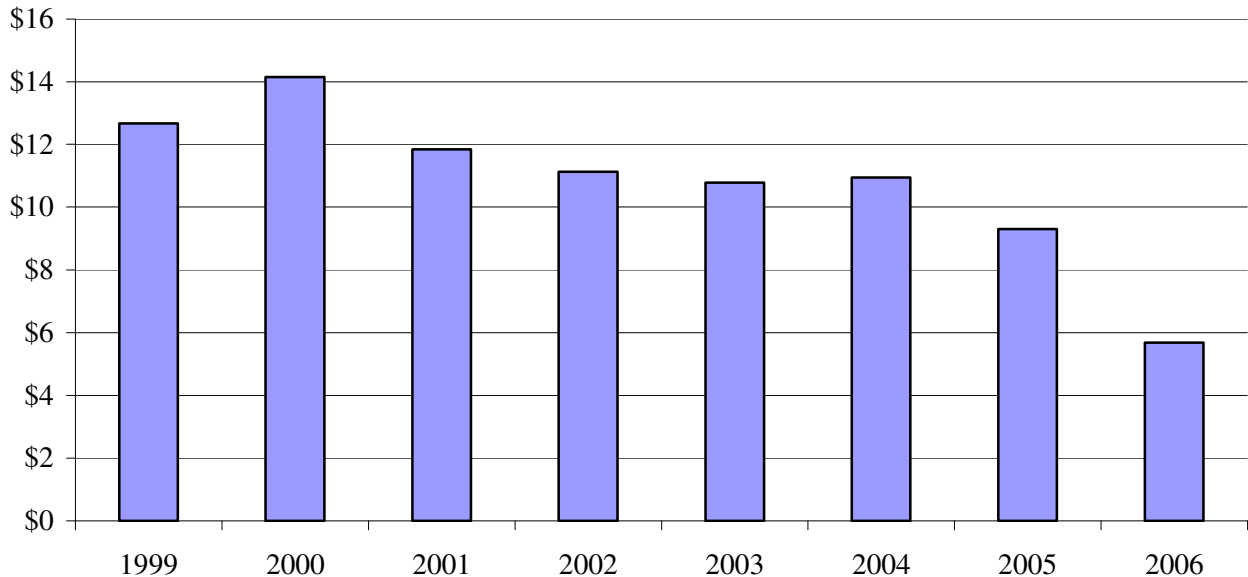
Exhibit 2
Average Customer Wait Time
Fiscal 2004-2008



Source: Motor Vehicle Administration

Exhibit 3 shows the cost of each transaction performed by MVA. As shown in Exhibit 3, the cost per transaction has steadily decreased from \$13.82 in fiscal 2000 to \$5.68 in fiscal 2006. Part of this decline can be attributed to providing a higher number of services on-line which creates operating efficiencies for MVA. In addition, due to processing change of Direct Access Records, the number of transactions increased thus reducing the cost per transaction. **DLS recommends that MVA discuss in further detail what has contributed to the decline in the operating cost per transaction and if the accounting changes have artificially reduced the actual cost per transaction.**

**Exhibit 3
Cost Per Transaction
Fiscal 1999-2006**



Source: Maryland Department of Transportation

Fiscal 2007 Actions

Proposed Deficiency

Fiscal 2007 special fund deficiencies total \$2.1 and will be used for the following purposes:

- \$834,000 for the increased cost of utility expenses;
- \$671,000 for the fee MVA pays for credit card transactions due to increased usage;
- \$340,000 for Limited English Proficiency Services;
- \$148,000 for the VEIP; and
- \$121,000 for 20 temporary employees to implement legislation adopted during the 2006 session and to enhance investigation services of fraudulent documents.

Governor’s Proposed Budget

The fiscal 2008 allowance increases \$5.9 million, or 4.2% compared to the fiscal 2007 working appropriation as seen in **Exhibit 4**. However, when adjusting for one-time health insurance actions, the fiscal 2008 allowance increases \$10.2, million or 7.5%.

Exhibit 4
Governor’s Proposed Budget
Motor Vehicle Administration
(\$ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
2007 Working Appropriation	\$140,071	\$15	\$140,086
2008 Governor’s Allowance	<u>145,842</u>	<u>177</u>	<u>146,018</u>
Amount Change	\$5,771	\$162	\$5,932
Percent Change	4.1%	1076.7%	4.2%

Where It Goes:

Personnel Expenses

Eight new positions to staff a Spanish bilingual phone panel	\$255
Increments and other compensation	1,290
Employees retirement system	1,470
Workers' compensation premium assessment	131
Health insurance costs decline due to one-time savings	-3,592
Turnover adjustments	-1,305
Other fringe benefit adjustments	59

Other Changes

Increase for the addition of 18.5 contractual positions to implement legislation and investigate the use of fraudulent documents.....	603
Increase for the cost of electricity due to rate changes	796
Increase for the fee for Administrative Hearings based upon the Department of Budget and Management instructions	428
Increase for the foreign tag enforcement program and federal motorcycle safety program.....	464
Increase for contract for individuals who do not speak English as a primary language.	180
Increase for Information Technology-related contractual expenses due to higher labor rates, a higher warranty cost, and scope of support services	6,245
Increase in funding to cover the revenue shortfall of the Vehicle Emissions Inspection Program.....	1,137
Decrease in planned acquisition of software	-410

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Where It Goes:

Decrease for cost of license plate production	-387
Decrease for telephone services due to cost containment.....	-281
Decrease for postage based upon fiscal 2006 actuals	-113
Decrease in the fee for credit card transactions due to recently negotiated contract that will cut costs by 50%.....	-1,068
Other adjustments	30
Total	\$5,932

Note: Numbers may not sum to total due to rounding.

Personnel Additions

The fiscal 2008 allowance includes a number of additions to the personnel budget of MVA. This includes the addition of 8 new customer agent positions, costing \$219,000, to staff a Spanish bilingual phone panel in Gaithersburg due to an increased demand for these services. The allowance also includes the addition of 18.5 contractual FTEs, costing \$603,000, to implement a high alcohol concentration program as passed in legislation during the 2006 session which would suspend a driver's license unless individuals participate in the Ignition Interlock System Program and FTEs to investigate the use of fraudulent documents to obtain driver's licenses or identification cards.

Other Changes

The largest change in the allowance is a \$6.2 million increase for information technology contracts due to contracts having higher labor rates, manufacturer warranties expiring, third parties taking over warranty responsibilities at a higher rate, and the scope of support services in contracts increasing due to expanded services. Other major increases include \$1.1 million to fund the revenue shortfall associated with the VEIP contract (test fees cover 94% of the contract cost), \$800,000 for increased electricity costs due to rate changes, and \$464,000 for foreign tag enforcement and the federal motorcycle safety program. There is a \$1.1 million reduction in the fee that MVA pays for credit card transactions due to a recently negotiated contract through the Treasurer's Office.

PAYGO Capital Program

Program Description

The Facilities and Capital Equipment program provides funds for new capital facilities renovations to existing facilities, the development of major new information technology systems, and the purchase of capital equipment.

Fiscal 2007 to 2012 Consolidated Transportation Program (CTP)

The fiscal 2008 allowance provides \$34.3 million for the MVA capital program, an increase of \$9.9 million compared to the fiscal 2007 working appropriation. As shown in **Exhibit 5**, a majority of the funds, \$26.3 million, are for system preservation projects. There are two major ongoing projects, first is the e-MVA service delivery system which provides for the development and implementation of MVA services through the Internet, kiosks, and telephone which totals \$3.1 million in fiscal 2008. The other major ongoing project is the REAL-ID Act, \$2.3 million in fiscal 2008, which will upgrade systems and policies within MVA to comply with federal regulations.

Exhibit 5
Major Ongoing MVA Projects
Fiscal 2008
(\$ in Thousands)

<u>Jurisdiction</u>	<u>Project Description</u>	<u>2008</u>	<u>Total Project Costs</u>
Statewide	e-MVA Service Delivery Systems	\$3,064	\$13,833
Statewide	REAL-ID Act	2,250	3,500
Statewide	Accounts Receivable System and Flag Fee Processing	976	1,319
Statewide	Title and Registration Information System 2	621	14,300
Statewide	System Preservation Minor Projects	26,330	Ongoing
Statewide	Capital Salaries	1,100	Ongoing
	Total Major Projects and Capital Facilities	\$34,341	\$20,085

Source: Maryland Department of Transportation, 2007-2012 *Consolidated Transportation Program*

Funding for system preservation and minor projects includes:

- \$5.7 million for the relocation of the Baltimore City office;
- \$2.9 million for building and interior modifications to various branch offices;

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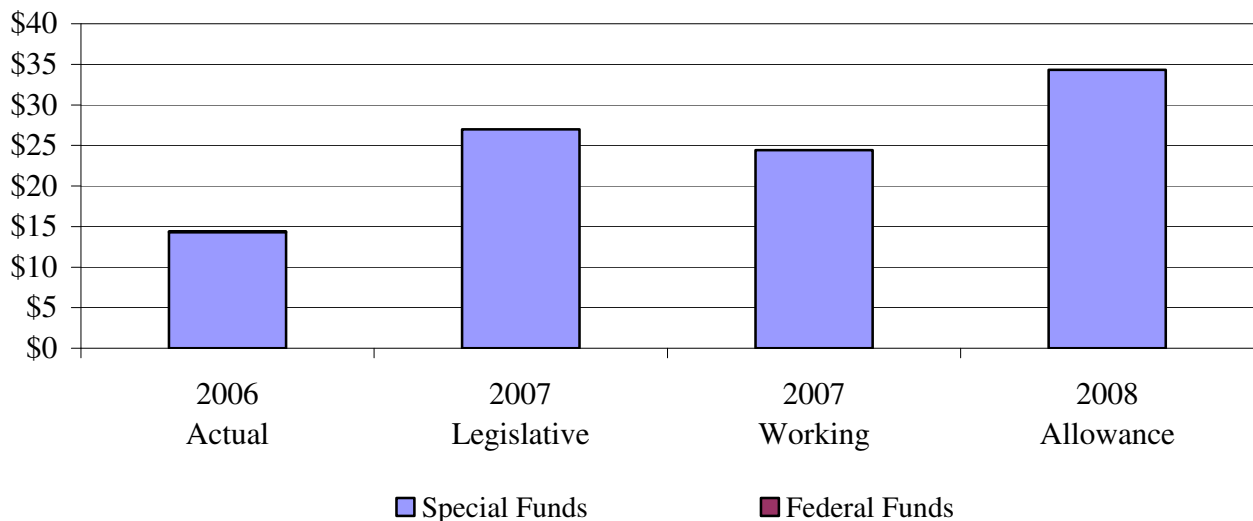
- \$2.2 million for Bel Air office interior modifications and site work;
- \$2.1 million for computer equipment purchases; and
- \$2.0 million for office interior modifications and site work to the Gaithersburg branch.

Fiscal 2007 and 2008 Cash Flow Analysis

The fiscal 2007 appropriation decreased \$2.6 million, or 9.7% as highlighted in **Exhibit 6**. Most of this change is due to cash flow changes in projects in particular funding for REAL-ID and system preservation projects.

The fiscal 2008 allowance increases \$9.9 million compared to the fiscal 2007 working appropriation. Once again, this is due to cash flow changes in projects in particular amongst system preservation projects. Funding for REAL-ID increases by \$1.0 million in fiscal 2008 partially due to the cash flow carry over from fiscal 2007. System preservation projects increase \$7.8 million due to a higher cash flow obligation. The Glen Burnie Facility Master Plan increases by \$5.0 million in fiscal 2008 due to project cash flow.

Exhibit 6
Fiscal 2007 to 2008 Cash Flow Changes
(\$ in Millions)



Source: Maryland Department of Transportation, 2007-2012 *Consolidated Transportation Program*

Issues

1. REAL-ID – What Is It and What Will It Cost?

On May 11, 2005, President George W. Bush, Jr., signed the Real-ID Act (H.R. 1268; P.L. 109-13) as part of the Emergency Supplemental Appropriation for Defense, the Global War on Terror, and Tsunami Relief 2005. The REAL-ID Act requires federal agencies to only accept state-issued driver's licenses and personal identification cards after May 11, 2008, which have met certification standards. The legislation contains a number of provisions outlining broad requirements for issuing driver's licenses or personal identification cards. The Act requires the Department of Homeland Security (DHS), in consultation with the U.S. Department of Transportation, to promulgate regulations clarifying the Act's provisions. These regulations are expected to be issued soon.

What Does REAL-ID Do?

MVA is the State entity responsible for issuing State driver's licenses and personal identification cards. As a result, MVA will be responsible for implementing the Act. While DHS has the final authority to clarify the Act through regulation, following are some of the broad provisions in the Act:

- uniformity amongst all states in the design and information contained on a personal identification card and/or driver's license including a common machine-readable technology;
- require documentation including such documents as a birth certificate, Social Security card, and documentation of the person's address that will need to be authenticated by MVA staff;
- immigration requirements that each state verify that an individual is "lawfully present" defined as (a) a U.S. citizen; (b) an alien lawfully admitted for permanent or temporary residence; (c) having a conditional permanent resident status; (d) a refugee or having been granted asylum; (d) having a valid, unexpired non-immigrant visa or non-immigrant visa status; and (e) having a pending or approved application for temporary protected status, asylum, deferred status, permanent residence, or conditional permanent resident status;
- security standards that will ensure the physical security of the locations where supporting documents are held and where the driver's license and/or personal identification cards are produced; and
- technology requirements that will require digital imaging of documents presented for a form of identification and electronic access for other states to obtain information.

The Impact

After May 11, 2008, individuals are unlikely to have same day service, as the verification process will be time intensive. The document verification element of the Act will likely require staff training on how to detect fraudulent documents as well as an understanding of what documents are acceptable to obtain a driver's license and/or personal identification card.

Funding Issues

- **Cost to the State:** Estimating the cost to Maryland to implement the Act is not possible at this time. In the draft CTP for fiscal 2007 through 2012, MVA has budgeted \$3.5 million to study the REAL-ID Act. In fall 2006, the National Conference of State Legislatures, the National Governor's Association, and the American Association of Motor Vehicle Administrators conducted a survey to determine the cost of implementing the REAL-ID to states. Based upon responses from 47 states, the survey estimated that the REAL-ID Act will cost states \$11 billion to implement. Following is a breakdown of the costs:
 - **\$8.5 billion** for the reenrollment of all driver's license and personal identification holders within five years of the May 2008 compliance deadline;
 - **\$1.4 billion** for the new verification process which requires MVA and other state department of motor vehicles to independently verify each document submitted with the issuing agency;
 - **\$1.1 billion** to implement the design features spelled out in the REAL-ID Act. Most states have incorporated various aspects of the design features; however, a single security configuration will minimize states' flexibility in card design and production; and
 - **\$400 million** for support costs such as security clearances on employees.
- **Federal Grant Assistance:** DHS has the authority to provide grants to states to assist in conforming to minimum federal standards; however, the funding is likely not enough to offset the cost of implementation.
- **Cost Recovery:** Chapter 9 of 2004 requires MVA to set the level of its miscellaneous fees to cover 95 to 100% of its operating and capital expenditures. Any additional capital investment or increased operating expenditures resulting from the Act's implementation will result in increased fees or reductions in other areas.

Policy Options

- **Maryland Complies with the REAL-ID Act:** In complying with the federal legislation, Maryland will need to pass legislation that will meet the "lawfully present" portion of the

REAL-ID Act. In doing so, individuals who do not meet the “lawfully present” requirement will not be allowed to obtain a Maryland driver’s license or ID card. Those residents of Maryland who are considered “unlawfully present” would no longer be able to receive a State driver’s license or ID.

- ***Maryland Does Not Comply with the REAL-ID Act:*** By not complying with the REAL-ID Act, Maryland’s driver’s license and ID cards would not be recognized by federal agencies. As such, individuals would likely need to present a passport or some other form of identification to meet the REAL-ID requirements to board an airplane or enter a federal building. This option would not result in any budgetary impacts; however, individuals could be inconvenienced by not having an ID meeting federal standards.
- ***Maryland Maintains Its Current System and Develops a New System That Complies with the REAL-ID Act:*** The State would maintain its current system so that individuals who do not meet federal requirements could continue to obtain a State-issued ID or driver’s license. In addition, a separate driver’s license or ID card would be developed that complied with the REAL-ID Act. This option would come the closest to meeting the needs of all residents of the State; however, this option would result in increased fees and duplicative State-issued IDs.

Technology Issues

Implementing the REAL-ID Act will likely require a substantial technology investment on the part of MVA and State. All of the information collected by MVA for each individual requesting an ID will need to be stored electronically as well as be shared and accessible to other states nationwide. In addition, MVA will be required to verify each individual’s birth record with the state that originally issued the document. The best way to efficiently manage this process is electronically and to link the information collected by MVA to the information collected by the Vital Statistics Administration of the Department of Health and Mental Hygiene and other relevant State agencies.

Recent Activities

To date, final regulations have not been issued by the federal government regarding REAL-ID. However, it is anticipated that the final regulations will be issued either in summer or fall 2007. In addition, if MVA is to meet the requirements of REAL-ID, legislation would need to be introduced in the 2007 session, or emergency legislation in 2008, to comply with REAL-ID.

MVA proposed regulations in summer 2006 that would refine the type of documents that would be accepted for foreign nationals to obtain a driver’s license or personal identification cards. The emergency regulations would require religious and school documentation to come from entities in the United States and not from foreign countries. The committee did not act on the regulations; therefore, the regulations went into effect in mid-January.

Currently, MVA has a contractor documenting the current driver's license system and conducting a requirements analysis to determine alternatives for the driver's license system under REAL-ID. MVA is also developing an education program to inform MVA employees and the public of the requirements of REAL-ID.

DLS recommends that the department provide an update to the committees highlighting what measures it is undertaking to implement the REAL-ID Act, what actions need to be taken in the next 14 months to comply with the REAL-ID Act, and if compliance is a realistic option, what happens if the State is not in compliance with the REAL-ID Act, what it foresees as the potential effect on the agency's capital and operating budgets, and on citizens. Furthermore, MVA should comment on the potential technology enhancements and costs needed to implement the REAL-ID Act. In addition, MVA should comment as to how it foresees working with other Maryland agencies to efficiently exchange information through technology.

DLS also recommends that committee narrative be adopted requiring MVA to submit a report to the committees, once federal regulations have been issued that evaluates the regulations' impact on the State, including initial cost projections.

2. MVA and Performance Contracting

Introduction

Over the last few years, the State has taken steps to better evaluate the outcomes produced by its programs. The Department of Budget and Management (DBM) is spearheading this effort through its Managing for Results (MFR) initiative which attempts to link State spending to outcomes. DBM has required every agency to develop a mission, vision, key goals, objectives, and performance measures for each budgetary program. For the State's emphasis on results and accountability to be effective, it must permeate throughout the agency, as well as throughout vendors doing business on the State's behalf. Managers in public agencies and vendors delivering services on the State's behalf must be equally aware of the relevant goals and objectives and share responsibility for producing the desired outcomes. The best way to ensure that vendors focus on the State's objectives is to link payments or continuation of the contract to specific performance measures.

MVA Contracting

MVA's key performance measures focus on customer service and operating efficiency. To achieve its performance measures, MVA relies on contractors to perform various customer service tasks such as technology support and janitorial and security services. These tasks do not directly relate to the MFR measures of the agency, but they do play a critical role in meeting the needs of customers.

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One management tool that MVA may use to achieve its performance measures is performance contracting where financial or other incentives, with relevant reporting methods, are used to insure performance that meets or exceeds the expectations specified in the contract. DLS looked at MVA contracts over \$1 million to determine the oversight component of the contract and if performance measures were included in the contract with corresponding financial incentives.

MVA has one contract that is over \$1 million in fiscal 2007. The contract is for microfilming and digital imaging services. Microfilming is used by the agency to electronically store information related to the various services provided by MVA (e.g., driver's licenses, titling, etc.). **Exhibit 7** provides a summary of the contract.

Exhibit 7
MVA Contracts Over \$1 Million
Fiscal 2007

<u>Contract Provider</u>	<u>2007 Cost</u>	<u>Service Provided</u>	<u>Performance Standard</u>
ISCAN	\$1.15 million	Digital imaging and microfilming services for documents provided by MVA	Complete 10,000 title records daily or 60,000 title images daily and 25,000 title attachments per month

Source: Motor Vehicle Administration

Language in the ISCAN contract provides that ISCAN must work daily with MVA project managers regarding this contract and provide monthly statements regarding the number of documents that have been completed. In addition, the contract states that if ISCAN does not meet performance standards, except in instances where there is equipment failure, this will prompt either a warning from the Secretary of Transportation or early termination of the contract.

While the contract does provide for performance standards and is actively managed by staff, the contract does not include any pay-for-performance incentives. Furthermore, the contract itself does not directly assist the agency in achieving any of its MFR measures. This is not to say that the contract itself does not have a valuable function to the ongoing operations of MVA by indirectly reducing individuals' wait time by having electronic records of previous transactions.

DLS recommends that MVA discuss in further detail its contracting oversight and the potential for performance contracting which could include a pay-for-performance component in other contracts it has with vendors.

Operating Budget Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce miscellaneous communication charges. This reduction provides funding equal to the fiscal 2006 actual expenditure while allowing for a \$150,000 increase over the fiscal 2007 working appropriation.	\$ 10,000	SF
2. Reduce funds for in-state travel. This reduction provides for an \$8,500, or 8.7% increase over the fiscal 2007 working appropriation.	8,500	SF
3. Reduce funds for equipment repairs and maintenance. This provides funding equal to the fiscal 2006 actual expenditure for equipment repairs and maintenance.	13,804	SF
4. Reduce funds for consultant services which increase \$464,000, or 28% for a number of consultant services. This reduction provides for a \$264,000 increase over the fiscal 2007 working appropriation.	200,000	SF
5. Reduce funds for data processing supplies which increase \$72,610, or 49.8% in the fiscal 2008 allowance. This reduction provides for a roughly \$12,000, or 8.0% increase over the fiscal 2007 working appropriation.	60,000	SF
6. Reduce funds for advertising. Compared to the fiscal 2007 working appropriation, advertising services increase \$96,356, or 56%. This reduction provides funding equal to the fiscal 2006 actual expenditure while still providing a funding increase of roughly \$35,000, compared to the fiscal 2007 working appropriation.	60,000	SF

7. Adopt the following narrative:

Update Once Federal Regulations for the REAL-ID Act Are Issued: The Motor Vehicle Administration (MVA) should provide an update to the committees once the Department of Homeland Security has issued federal regulations on the implementation of the REAL-ID Act. This update should include the following:

- a summary of the proposed regulations and their requirements;
- what impact each regulation will have on the operations of MVA;
- any constitutional or statutory issues for Maryland that may result from the federal regulations;
- a draft workplan and timeline for how MVA will begin the process of implementing the REAL-ID Act; and
- information regarding what technology improvements and projected costs MVA will need to undertake to comply with federal regulations.

An initial report should be issued 60 days after federal regulations on the REAL-ID Act have been issued. In addition, the committees should be provided an update of the agency's actions in response to the federal regulations six months after the initial report.

Information Request	Author	Due Date
Update Once Federal Regulations for the REAL-ID Act Are Issued	Maryland Department of Transportation	60 days after the issuance of federal regulations on the REAL-ID Act
Total Special Fund Reductions		\$ 352,304

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets Motor Vehicle Administration (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$0	\$129,463	\$15	\$0	\$129,478
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	4,585	210	0	4,796
Reversions and Cancellations	0	-543	-65	0	-608
Actual Expenditures	\$0	\$133,506	\$161	\$0	\$133,666
Fiscal 2007					
Legislative Appropriation	\$0	\$138,037	\$15	\$0	\$138,052
Budget Amendments	0	2,034	0	0	2,034
Working Appropriation	\$0	\$140,071	\$15	\$0	\$140,086

Note: Numbers may not sum to total due to rounding.

Fiscal 2006

The actual fiscal 2006 expenditures for MVA totaled \$133,666,252 – \$4,188,363 more than the legislative appropriation.

Special funds increased by a net of \$4,042,657, of which there was an increase of \$4,585,392 in budget amendments and a decrease of \$542,540 from cancellations. Budget amendments were for the following purposes:

- \$1,447,455 for the increased cost of health insurance;
- \$1,144,164 to fund the 1.5% cost-of-living adjustment (COLA) for State employees in fiscal 2006;
- \$923,388 for bank charges due to increased usage of credit cards to pay for MVA fees;
- \$383,060 to pay the VEIP contract for the shortfall in the operating expense of the program compared to the fees collected;
- \$350,657 increase to implement enacted legislation;
- \$329,000 for communication services which includes translation services and the increased postage rate;
- \$120,000 for contracts to enable MVA to retrieve tags for vehicles with suspended registrations due to vehicle insurance coverage lapsing;
- \$75,656 decrease due to position transfers that occurred after the budget submission; and
- \$36,675 decrease due to the telecommunication services transfer to the Secretary's Office budget.

Special fund cancellations totaled \$542,540, due to the appropriation for health insurance costs being higher than the actual need.

Federal funds increased by a net of \$145,711. A total of \$210,475 of the increase was due to budget amendments to continue the Odometer, Motor Carrier Safety Assistance, and Commercial Driver's License programs. Cancellations totaling \$64,764 occurred due to cash flow delays in federal funds in fiscal 2006, with the funds being carried over into fiscal 2007.

Fiscal 2007

The special fund appropriation increased \$2,033,956 to fund the COLA provided in the fiscal 2007 budget.

**Object/Fund Difference Report
MDOT – Motor Vehicle Administration**

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,602.50	1,602.50	1,610.50	8.00	0.5%
02 Contractual	87.80	97.03	115.78	18.75	19.3%
Total Positions	1,690.30	1,699.53	1,726.28	26.75	1.6%
Objects					
01 Salaries and Wages	\$ 87,379,757	\$ 93,673,906	\$ 91,981,884	-\$ 1,692,022	-1.8%
02 Technical and Spec. Fees	4,554,050	4,286,951	5,015,283	728,332	17.0%
03 Communication	5,197,528	5,821,788	5,621,580	-200,208	-3.4%
04 Travel	177,442	141,999	169,819	27,820	19.6%
06 Fuel and Utilities	1,829,321	1,788,255	2,649,627	861,372	48.2%
07 Motor Vehicles	967,462	838,195	825,213	-12,982	-1.5%
08 Contractual Services	27,573,359	28,065,320	35,236,935	7,171,615	25.6%
09 Supplies and Materials	1,344,545	1,165,054	1,296,093	131,039	11.2%
10 Equipment – Replacement	126,282	113,299	200,035	86,736	76.6%
11 Equipment – Additional	104,700	120,013	28,865	-91,148	-75.9%
12 Grants, Subsidies, and Contributions	142,383	81,719	90,000	8,281	10.1%
13 Fixed Charges	4,269,423	3,989,436	2,902,995	-1,086,441	-27.2%
Total Objects	\$ 133,666,252	\$ 140,085,935	\$ 146,018,329	\$ 5,932,394	4.2%
Funds					
03 Special Fund	\$ 133,505,541	\$ 140,070,935	\$ 145,841,829	\$ 5,770,894	4.1%
05 Federal Fund	160,711	15,000	176,500	161,500	1076.7%
Total Funds	\$ 133,666,252	\$ 140,085,935	\$ 146,018,329	\$ 5,932,394	4.2%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Fiscal Summary
MDOT – Motor Vehicle Administration

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Motor Vehicle Operations	\$ 133,666,252	\$ 140,085,935	\$ 146,018,329	\$ 5,932,394	4.2%
03 Facilities and Capital Equipment	10,800,352	19,321,068	29,997,577	10,676,509	55.3%
08 Major IT Development Projects	3,638,044	5,090,000	4,343,000	-747,000	-14.7%
Total Expenditures	\$ 148,104,648	\$ 164,497,003	\$ 180,358,906	\$ 15,861,903	9.6%
Special Fund	\$ 147,829,437	\$ 164,482,003	\$ 180,182,406	\$ 15,700,403	9.5%
Federal Fund	275,211	15,000	176,500	161,500	1076.7%
Total Appropriations	\$ 148,104,648	\$ 164,497,003	\$ 180,358,906	\$ 15,861,903	9.6%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Budget Amendments for Fiscal 2007
Maryland Department of Transportation
Motor Vehicle Administration – Operating

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Pending	\$2,033,956	Special	This amendment funds the cost-of-living adjustment granted to all eligible State employees.
Pending	526,718	Federal	Provides funds to the continue the work as defined in the Odometer Fraud, Motor Carrier Safety Assistance Program, Investigation and Commercial Driver License grants.

Source: Maryland Department of Transportation

Budget Amendments for Fiscal 2007
Maryland Department of Transportation
Motor Vehicle Administration – Capital

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Pending	\$15,623	Special	This amendment funds the cost-of-living adjustment granted to all eligible State employees.
Projected	-2,629,632	Special	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the fiscal 2007 through 2012 CTP

Source: Maryland Department of Transportation