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Motor Vehicle Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$140,347	\$147,313	\$157,489	\$10,175	6.9%
Federal Fund	<u>89</u>	<u>177</u>	<u>177</u>	<u>0</u>	
Total Funds	\$140,437	\$147,490	\$157,665	\$10,175	6.9%

- The fiscal 2009 allowance increases \$10.2 million, or 6.9%, compared to the fiscal 2008 working allowance; however, when adjusting for health insurance and Other Post Employment Benefits funding which distorts underlying budget growth, the allowance increases approximately \$5.0 million, or 3.7%.
- The largest increase in the fiscal 2009 allowance is for personnel expenditures which increase \$7.6 million from the fiscal 2008 working appropriation due to health insurance, salary increments, the introduction of funding for the Other Post Employment Benefits liability, and reduced turnover expectancy.

Paygo Capital Budget Data

(\$ in Thousands)

	<u>Fiscal 2007</u> <u>Actual</u>	<u>Fiscal 2008</u>		<u>Fiscal 2009</u> <u>Allowance</u>
		<u>Legislative</u>	<u>Working</u>	
Special	\$20,236	\$34,341	\$30,837	\$40,655
Total	\$20,236	\$34,341	\$30,837	\$40,655

- The fiscal 2008 working appropriation decreases approximately \$3.5 million from the legislative appropriation due to cash flow changes in the system preservation program.
- The fiscal 2009 allowance increases approximately \$9.8 million from the fiscal 2008 working appropriation due to changes in the system preservation and minor projects program.

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

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Operating and PAYGO Personnel Data

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>
Regular Operating Budget Positions	1,613.50	1,622.50	1,611.50	-11.00
Regular PAYGO Budget Positions	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Regular Positions	1,613.50	1,622.50	1,611.50	-11.00
Operating Budget Contractual FTEs	96.83	118.39	118.39	0.00
PAYGO Budget Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total FTEs	96.83	118.39	118.39	0.00
Total Personnel	1,710.33	1,740.89	1,729.89	-11.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	43.83	2.72%
Positions Vacant as of 12/31/07	88.00	5.42%

- The fiscal 2009 allowance decreases a net of 11 operating budget positions. As part of the January 2008 statewide abolition of 500 positions through the Board of Public Works, the Motor Vehicle Administration (MVA) had 18 vacant positions abolished. The fiscal 2009 allowance includes the addition of 7 new positions to support and manage information technology projects.
- The fiscal 2009 allowance has turnover budgeted at 2.72% requiring approximately 44 vacant positions. As of January 2008, MVA had 88 positions vacant for a vacancy rate of 5.42%.

Analysis in Brief

Major Trends

Alternative Transaction Usage and Wait Times: MVA has the goal of alternative transaction service delivery accounting for 28% of all transaction deliveries. As MVA has made more information technology (IT) investments, the rate has increased; however, the rate of utilization is expected to decline in fiscal 2008 and 2009. A benefit of alternative transaction delivery is that this reduces the number of individuals coming into MVA branch offices and in theory wait times. However, wait times have not changed from an average of 45 minutes since fiscal 2005. **The Department of Legislative Services (DLS) recommends that MVA discuss with the committees what can be done to increase alternative transactions and what can be done to reduce the average wait time.**

Increasing Costs Per Transaction: The operating cost per transaction had been decreasing, but in fiscal 2007, the cost per transaction increased to \$12.81, well above the goal of \$9.00. **DLS recommends that MVA discuss in further detail what has contributed to the increase in the operating cost per transaction and what can be done to reduce the cost per transaction.**

Alcohol Related Fatalities Increase: While alcohol related fatalities are somewhat beyond the control of MVA, this is a Managing for Results measure for the agency. From calendar 2006 to 2007, the number of fatalities increased; however, Maryland still remains below the national average for alcohol related fatalities. One program that MVA has to assist in reducing alcohol related fatalities is the Ignition Interlock Program; the Office of Legislative Audits found this program to have several oversight problems. **DLS recommends that MVA discuss with the committees what role it can play to decrease the number of alcohol related fatalities in the future.**

Issues

MVA Cost Recovery Requirements Are Problematic: MVA is required in statute to recover 95% to 100% of its operating and six-year average capital costs from the miscellaneous fees it collects. **DLS recommends that the agency discuss with the committees a possible reporting requirement being included as part of the Budget and Reconciliation Act of 2008 or as separate legislation. The agency should also discuss the cost recovery requirement in the context of fiscal 2008 and 2009.**

REAL-ID Regulations Are Finalized: Final regulations for the REAL-ID Act were issued by the Department of Homeland Security in January 2008. These final regulations will be reviewed including legal residency, IT requirements, and cost and operational implications. **DLS recommends that the agency review with the committees the final regulations and any associated concerns. In addition, DLS recommends budget language be added that would require MVA to report to the committees by November 3, 2008, on what actions it has taken regarding the REAL-ID.**

Operating Budget Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add budget bill language requesting a report on any effort to implement the REAL-ID Act.		
2. Add budget bill language requesting a report on cost recovery for fiscal 2009 to 2014.		
3. Delete seven new positions and associated funding.	\$ 276,860	7.0
4. Reduce funds for in-state travel.	37,045	
5. Reduce funds for data processing supplies.	78,870	
6. Increase turnover expectancy.	409,543	
Total Reductions	\$ 802,318	7.0

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:

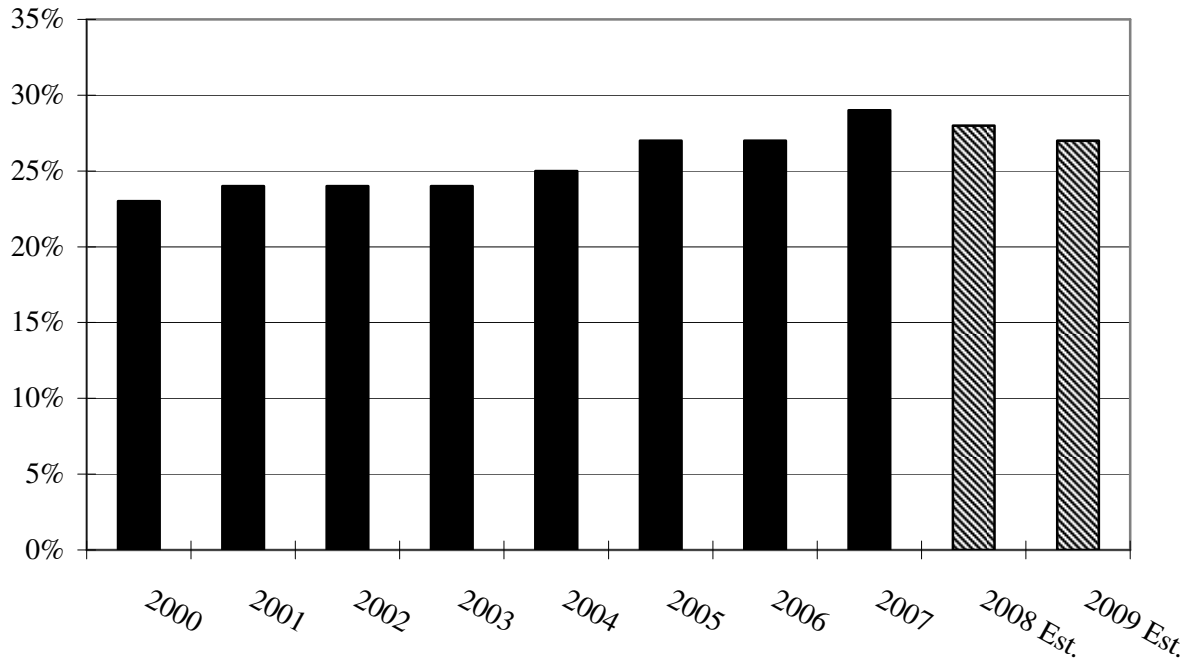
- licensing all passenger and commercial drivers;
- registering and titling vehicles;
- issuing tags and permits for persons with a disability;
- providing photo identification cards for nondriver residents;
- regulating motor vehicle dealers, vehicle rental companies, and driver education schools; and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

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 alternative service delivery (*e.g.*, on-line transactions, MVA kiosks, mail-in, or telephone call center) as a percentage of all transactions. The 2008 attainment report indicates that MVA has a short-term target of 28% and a long-term target of 40%. As shown in the exhibit, since fiscal 2000 as MVA has made more information technology (IT) investments and provided more alternative service delivery, the level of utilization has slowly increased to a high point of 29% utilization in fiscal 2007. MVA estimates, however, that the level of utilization is likely to decline in fiscal 2008 and 2009.

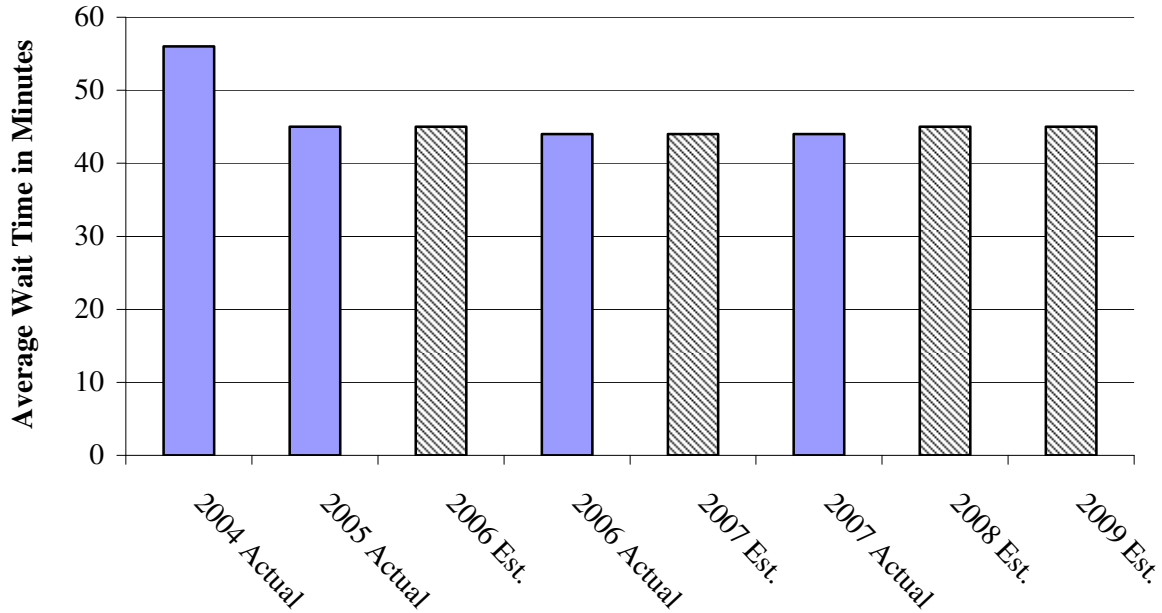
Exhibit 1
Motor Vehicle Administration Service Delivery
Fiscal 2000-2007 Actual and Fiscal 2008 and 2009 Estimated



Source: Motor Vehicle Administration

The goal of alternative service delivery and providing on-line services is to reduce the average wait time for walk-in visits. **Exhibit 2** indicates that the average wait time of a customer is projected to increase a minute to 45 minutes in fiscal 2008 and 2009 and has not changed significantly from fiscal 2005. In maintaining the average wait time while transactions are increasing, MVA is providing somewhat more efficient service. **DLS recommends that MVA discuss what services are available on-line and what actions can be taken to further increase usage of Internet and other alternative services. In addition, MVA should discuss what efforts can be undertaken to improve upon the average wait time even if transactions increase.**

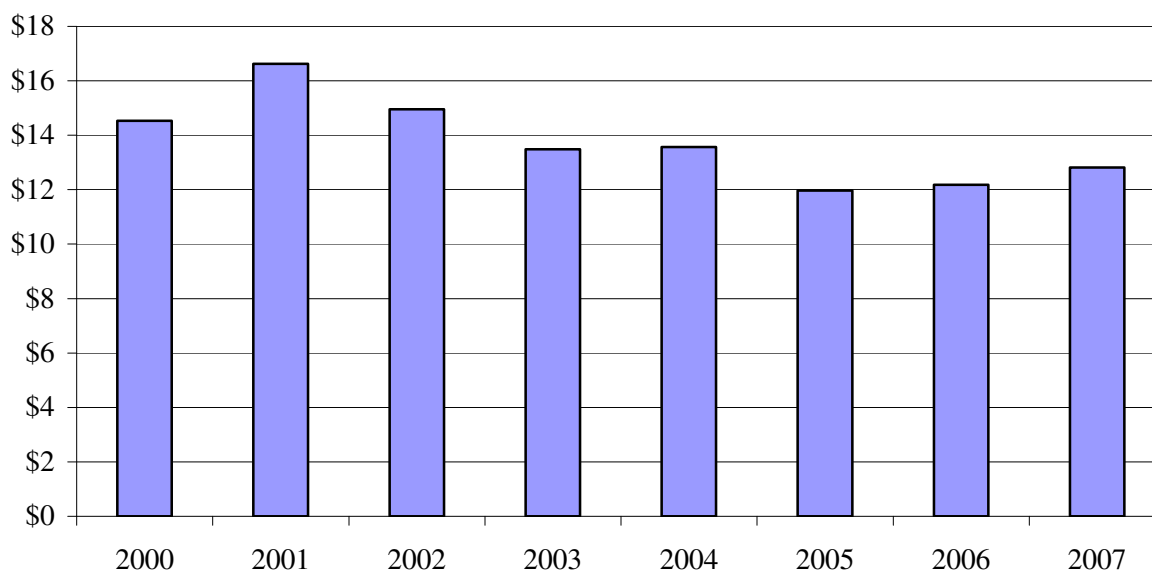
Exhibit 2
Average Customer Wait Time
Fiscal 2004-2007 Actual and Fiscal 2007-2009 Estimated



Source: Motor Vehicle Administration

The 2008 attainment report notes that the cost per transaction for MVA is an indication of “whether MVA business practices and programs are increasingly cost-effective through the employment of better technology and operational practices.” The target goal for MVA is \$9.00 per transaction. As shown in **Exhibit 3**, the cost per transaction has steadily decreased from \$14.53 in fiscal 2000 to a low point of \$11.97 in fiscal 2005. However, since fiscal 2005 the cost of each transaction has increased and in fiscal 2007 totaled \$12.81. **DLS recommends that MVA discuss in further detail what has contributed to the increase in the operating cost per transaction and what can be done to further reduce the cost. In addition, MVA should discuss how realistic is the goal of \$9.00 per transaction.**

Exhibit 3
Operating Cost Per Transaction
Fiscal 2000-2007

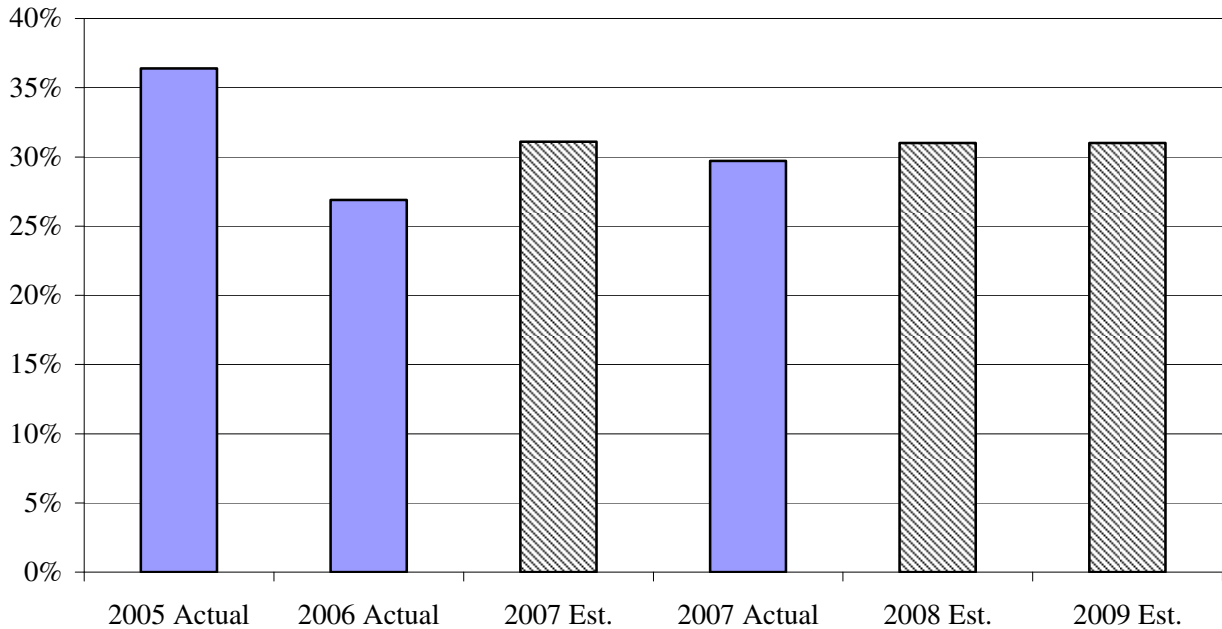


Source: Motor Vehicle Administration

Another important goal of MVA is to improve driver safety. One measure of MVA is the percent of alcohol related vehicle fatalities where the blood alcohol content is greater than or equal to 0.08% compared to total vehicle fatalities. As **Exhibit 4** shows, the number of fatalities caused by alcohol increased from calendar 2006 to 2007. Nationally the number of alcohol related fatalities decreased from 2006 to 2007; however, Maryland at 29.7% is still lower than the national average of 31.6%.

The number of alcohol fatalities is a behavioral measure that is somewhat beyond the control of MVA. However, there is an Ignition Interlock Program that the State instituted for habitual offenders of the State’s drinking and driving laws. The Office of Legislative Audits (OLA) in its review of MVA found that “the agency failed to take appropriate follow-up action for certain individuals who repeatedly violated the terms of the program.” The agency in its response agreed with OLA and indicated it was undertaking a number of corrective actions. **DLS recommends that MVA discuss with the committees what role it can play in decreasing the number of alcohol related fatalities in the future.**

Exhibit 4
Alcohol Related Vehicle Fatalities
Fiscal 2005-2007 Actual and Fiscal 2007-2009 Estimated



Source: Motor Vehicle Administration

Governor's Proposed Budget

The proposed fiscal 2009 allowance increases \$10.2 million, or 6.9%, compared to the fiscal 2008 working appropriation. However, when adjusting for health insurance which distorts underlying budget growth, the allowance increases \$5.0 million, or 3.7%. **Exhibit 5** highlights the major changes in the Governor's allowance.

Exhibit 5
Governor’s Proposed Budget
Motor Vehicle Administration
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Total</u>
2008 Working Appropriation	\$147,313	\$177	\$147,490
2009 Governor’s Allowance	<u>157,489</u>	<u>177</u>	<u>157,665</u>
Amount Change	\$10,175	\$0	\$10,175
Percent Change	6.9%		6.9%
Where It Goes:			
Personnel Expenses			
Seven new positions for information technology support and application development.....			\$336
Abolished/transferred positions			-943
Increments and other compensation.....			1,519
Health Insurance – pay-as-you-go costs for current and retired employees			665
Health Insurance – reduce long-term Other Post Employment Benefits liability.....			4,651
Workers’ compensation premium assessment			-229
Overtime			-206
Turnover adjustments			1,719
Other fringe benefit adjustments.....			40
Other Changes			
Increase in the fee paid by Motor Vehicle Administration for credit card transactions due to the amount being underfunded in fiscal 2008.....			1,994
Increase in payments to the Office of Administrative Hearings			384
Increase in postage expenses based upon fiscal 2007 actual expenditures and increased postage rates.....			695
Increase software purchases for motor voter software and office automation.....			403
Decrease in contract costs for processing of photo license due to new vendor contract prices.....			-422
Decrease in electricity costs due to cost containment actions			-240
Decrease in cost for Limited English Proficiency services due to implementation of Gaithersburg Call Center in fiscal 2007.....			-201
Decrease in printing costs due to cost containment			-175
Decrease in office supply expenditures by 10% due to cost containment.....			-115
Other			-300
Total			\$10,175

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

Personnel

Most of the increase in the fiscal 2009 allowance is due to increased personnel costs which are typical for MVA due to its largely administrative functions. In total, personnel expenditures increase \$7.6 million, or 8.1%, compared to the fiscal 2008 working appropriation. Approximately half of the increase in personnel expenditures, \$4.7 million, is due to the introduction of the Other Post Employment Benefits liability being accounted for in each agency's allowance. Other increases include a reduction in the turnover rate which results in an increase of \$1.7 million and an increase in increments and other compensation totaling \$1.5 million.

The allowance also includes 18 vacant positions being abolished as part of the statewide abolition of 500 vacant positions through the Board of Public Works. Eliminating these vacant positions reduces the fiscal 2009 allowance approximately \$943,000. While positions are abolished, 7 new IT positions were added to the allowance at a cost of \$336,000 in fiscal 2009.

Other Changes

The largest change in the operating budget was an approximately \$2.0 million increase in the fee that MVA pays for credit card transactions. This fee was reduced in the fiscal 2008 allowance under the assumption that a recently negotiated contract in the Treasurer's Office would reduce the cost to MVA. That reduction in costs was not realized; therefore, the increase is to fully budget the cost in fiscal 2009.

Other major increases include a \$384,000 increase in the payments to the Office of Administrative Hearings (OAH) due to increased costs in personnel at OAH. Postage expenditures are also expected to increase \$695,000 due to actual fiscal 2007 expenditures being higher than expected and an increase in the postage rate not being fully accounted for in fiscal 2008.

Impact of Cost Containment

The agency did undertake a series of internal cost containment actions in fiscal 2008, many of which were carried forward into fiscal 2009. Fiscal 2008 cost containment actions totaled \$3.4 million with a number of across-the-board reductions in overtime, temporary employees, consultants, and other administrative items. In addition, reductions were made to the Gaithersburg office, contractual services for the Vehicle Emissions Inspection Program, and cuts to driver and tag license plate supplies. Additional reductions in fiscal 2008 included \$240,000 in utilities and \$777,000 in maintenance contracts for IT services. Fiscal 2009 cost containment actions totaled \$2.2 million.

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 IT systems, and the purchase of capital equipment.

Fiscal 2008 to 2013 Consolidated Transportation Program (CTP)

The fiscal 2009 allowance provides \$40.7 million in special funds for MVA capital program, an increase of \$9.8 million compared to the fiscal 2008 working appropriation. As shown in **Exhibit 6**, a majority of the funds, \$36.0 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 \$1.9 million in fiscal 2009. The other major ongoing project is Title and Registration Information System 2, totaling \$1.3 million in fiscal 2009, which involves the re-engineering of the business processes used in titling and registering vehicles.

Exhibit 6
Major Ongoing Motor Vehicle Administration Projects
Fiscal 2009
(\$ in Thousands)

<u>Jurisdiction</u>	<u>Project Description</u>	<u>2009</u>	<u>Total Project Costs</u>
Statewide	e-MVA Service Delivery Systems	\$1,937	\$12,854
Statewide	Title and Registration Information System 2	1,300	16,626
Statewide	System Preservation Minor Projects	36,013	Ongoing
Statewide	Capital Salaries	1,300	Ongoing
Statewide	Account Receivable System	105	1,622
Total Major Projects and Capital Facilities		\$40,655	\$31,102

Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

Funding for system preservation and minor projects includes:

- \$12 million for a document imaging and workflow system which was added as part of the revenue increase;
- \$6.7 million for agencywide building system preservation;

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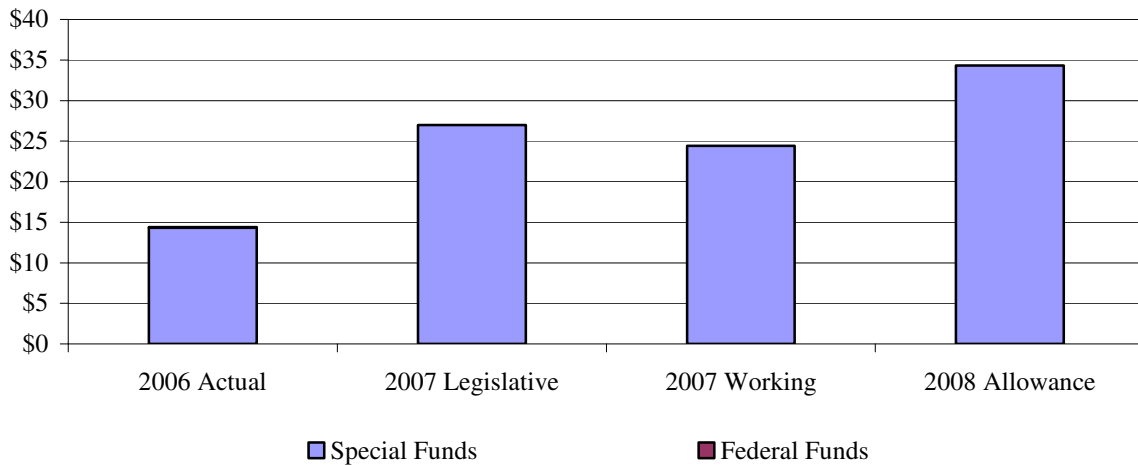
- \$4.1 million for building and interior modifications to various branch offices;
- \$3.3 million for the Bel Air office interior modifications and site work;
- \$3.2 million for computer equipment purchases; and
- \$3.2 million for the Baltimore City office relocation.

Fiscal 2008 and 2009 Cash Flow Analysis

The fiscal 2008 working appropriation decreases \$3.5 million compared to the 2008 legislative appropriation. The decrease is due to changes in the cash flow projects in the system preservation and minor projects program.

The fiscal 2009 allowance increases \$9.8 million due to increases in the system preservation and minor projects program. The increase is partially due to cash flow changes from fiscal 2008 and additional system preservation projects in fiscal 2009.

**Exhibit 7
Cash Flow Changes
Fiscal 2008-2009**



Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

Issues

1. MVA Cost Recovery Requirements Are Problematic

By statute MVA is required to recover between 95% to 100% of its operating budget and the six-year average capital budget through the miscellaneous fees it collects for the upcoming fiscal year. This excludes titling, registrations, and VEIP fees. Shortly after the 2007 regular session, MVA issued a draft regulation that would have increased miscellaneous fees by approximately \$30 million to meet the cost recovery requirement in fiscal 2008. The regulation was later withdrawn by MVA.

During the 2007 special session, certain general fund transfers from the Transportation Trust Fund (TTF) were eliminated. In particular the elimination of a portion of the security interest filing fee and vanity tags as well as the increase in the certificate of title fee created additional funding for the TTF that could be applied to MVA cost recovery.

History

Prior to 1992 MVA was required to recover up to 85% of its operating costs from miscellaneous fees. At the first special session of 1992, the requirement was changed to require MVA to recover 85% to 90% of its operating costs, with operating costs defined as the operating budget and MVA's share of the data center operations. Chapter 203 of 2003, the Budget Reconciliation and Financing Act of 2003, modified the statute to require the MVA to recover between 95% to 100% of its operating expenses through the fees it collects. During the 2004 session, as part of the bill to increase registration fees, a provision was included that required the six-year average for capital expenses (as shown in the CTP) to be included in the cost recovery calculation. Chapter 430 of 2004, the Budget Reconciliation and Financing Act of 2004, had a provision stating that MVA could not have a cost recovery rate that exceeded 100%. **Exhibit 8** shows how cost recovery is calculated, the cost recovery rates in fiscal 2007, and estimates for fiscal 2008 and 2009.

Exhibit 8
Motor Vehicle Administration Cost Recovery
Fiscal 2007-2009
(\$ in Millions)

	<u>2007 Actual</u>	<u>2008 Working</u>	<u>2009 Allowance</u>
Revenue			
Motor Vehicle Administration Fees	\$156	\$173	\$201
Expenditures			
Operating Budget	140	147	159
Capital Budget	20	35	35
50% CTIPP Data Operations	9	9	9
Less Vehicle Emissions Insp. Program	-7	-7	-7
Total	\$162	\$185	\$196
Percentage of Cost Recovery	96%	93%	102%

CTIPP: Transportation Information Processing Plan

Source: Maryland Department of Transportation

Issues

There are a number of issues relating to cost recovery that should be addressed:

1. **Statue Lacks Clarity:** As currently written, statute indicates that MVA may increase its fees once a year, not to exceed 100%, to comply with the cost recovery requirement based upon the operating budget as approved by the General Assembly. However, it is not explicit whether the cost recovery requirement is only applicable to the amount appropriated by the General Assembly or to spending throughout the fiscal year. If the cost recovery is applicable to the entire fiscal year, the implication is that once fees are established, adjustments to meet cost recovery would need to be made through expenditures.
2. **Projected Cost Recovery Levels Are Projected to Be Outside the Range in Fiscal 2008 and 2009:** As noted previously, MVA anticipated the need to increase fees in fiscal 2008 to meet the cost recovery requirement. The regulation to increase fees was later withdrawn and as a result, MVA was confronted with having to make expenditure reductions to meet cost recovery. However, the actions taken during the 2007 special session increased fees to the extent that cost recovery is almost achieved in fiscal 2008. In fiscal 2009, however, the additional fees provided for by the legislature result in cost recovery exceeding 100%.
3. **Reevaluating Cost Recovery:** The concept of cost recovery for the MVA should be revisited. Actual experience and changes made over the years highlight several issues that should be addressed, including:

- a. **Appropriate Range of Cost Recovery:** Is 95% to 100% of total operating and average capital expenses an appropriate range? For example, studies have shown that the public supports fee increases that are smaller and more frequent as opposed to large spikes in prices following multiple years of stable fee levels. As a result there may be a justification for MVA to exceed 100% cost recovery in a given fiscal year to ensure fee setting stability.
- b. **Exemptions for Legislative Action:** Currently the statute provides that fees need not be reduced if legislative budget modifications result in the projected cost recovery to exceed 100%. However, there is not a corresponding exemption for legislative action to increase fees which the General Assembly may want to consider.
- c. **PAYGO Capital:** While the concept of including average capital expenses imposes full cost recovery of MVA operations and capital expenses, the cash flow changes and requirements of the capital program result in a level of unpredictability for setting fees annually; particularly if cost recovery is applied to spending and revenues for the entire fiscal year.
- d. **VEIP:** The Vehicle Emission Inspection Program has a separate cost recovery calculation based on its \$14 fee. Should the fee instead be set administratively and the costs and revenues included in the cost recovery calculation?
- e. **Reporting Requirements Lacking for Out-year Oversight:** Currently there is no requirement that MVA report actual cost recovery levels or projected recovery levels in future years. Additional detail should be provided in the TTF forecast so that the budget committees may determine what actual cost recovery levels have been, and the expected rate of recovery in future years. The forecast should show expected levels of revenue or reductions necessary to meet whatever range of recovery is agreed upon.

DLS recommends that MVA discuss with the committees what actions it will take to meet the intent of cost recovery in fiscal 2008 and 2009. DLS recommends that MVA discuss with the committees its view of appropriate cost recovery levels and whether PAYGO capital and VEIP expenses should be included. Budget bill language is recommended to require the TTF forecast to provide detail on actual and projected cost recovery levels, including all components of revenue and spending that count toward cost recovery. The committees may want to adopt this provision permanently or change the cost recovery statute and calculation through a provision in the Budget Reconciliation and Financing Act of 2008 or other legislation.

2. REAL-ID Regulations Are Finalized

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. The final regulations were released in mid-January 2008, and DHS estimates the total cost to implement the regulations to be \$3.9 billion, significantly less than original estimates.

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. Following are some of the broad requirements of the REAL-ID Act and regulations:

- ***Identity Verification and Legal Presence:*** MVA will need to verify, with the issuing agency, the authenticity of specific documents as presented by an applicant. Applicants will need to present documents that show their identity, date of birth, proof of a Social Security number or show that an individual is not eligible for a Social Security number, and a principal address. In addition, individuals will need to demonstrate that they are legal residents of the United States prior to obtaining a driver's license or personal identification card.
- ***Information Technology Requirements:*** To assist in verifying documents, the regulations cite six national databases that are either developed or in the development process that states can use as they become available. In addition, states will need to have machine readable technology on driver's licenses. Finally, to address privacy concerns, states must establish a privacy policy regarding personally identifiable information collected and maintained.
- ***Security:*** States are required to "ensure the physical security of locations where driver's licenses and identification cards are produced and the security of document materials and papers from which drivers' license and identification cards are produced." States must submit a comprehensive security plan that addresses a number of security issues. In addition, individuals involved in the production of a driver's licenses or identification cards must have a background check.
- ***Timeline to Implement:*** Prior to May 11, 2011, there are two levels of compliance: material or full compliance. For material compliance, states must provide a list to DHS by January 1, 2010, that outlines the status and operational date of compliance to receive an extension to May 10, 2011. For full compliance, states must meet all the requirements of the REAL ID Act and regulations. Individuals born after December 1, 1964, must have a REAL-ID by December 1, 2014, and individuals born before December 1, 1964, must be reenrolled by December 1, 2017.

Issues

The Administration has indicated its intention to comply with the REAL-ID Act. In complying with the REAL-ID Act, there are several issues to consider. Following is a list of some of those issues:

Legislative Changes: To fully comply with the REAL-ID, legislation will or may need to be enacted that addresses the issues of legal presence, employee background checks, and providing a Social Security number. Currently, residents are not required to show that they are legal residents of the country or provide a Social Security number before obtaining a driver's license or identification card. For background checks to be conducted on State employees, MVA employees may need to be included to existing statute that provides for background checks for certain employees.

Cost: DHS estimates the cost to the final regulations at \$3.9 billion, which is considerably less than the estimate for the draft regulations. MVA estimated that a two-tiered system would cost \$60 to \$80 million, and given that the decision has been made for a one-tiered system, costs could be less. An important note is that MVA must recover 95% to 100% of its capital and operating costs through the fees it assesses, meaning that the cost of implementing the REAL-ID will be borne by licensed drivers of the State.

Operations: Implementing the REAL-ID will have significant implications for the operations of MVA. Wait times and lines will likely increase at MVA due to the document verification requirements of the Act as well as the fact that every resident must reenroll in the program.

It should be noted that committee narrative adopted in the 2007 session requires MVA to provide a report to the committees 60 days after the final regulations had been issued that discuss the requirements of the final regulations and their implications for operations and costs. That report should be released prior to the end of the 2008 session.

DLS recommends that the department provide an update to the committees highlighting what measures it is undertaking to implement the REAL-ID Act, and what actions need to be taken to comply with the Act. Furthermore, MVA should comment on the potential technology enhancements and costs needed to implement the Act. In addition, MVA should comment as to how it foresees working with other Maryland agencies, other states, and the federal government to efficiently exchange information through technology.

DLS also recommends that committee narrative be adopted requiring MVA to submit every six months a report to the committees regarding the status of the implementation process and issues that arise during that process.

Operating Budget Recommended Actions

1. Add the following language to the special fund appropriation:

, provide that \$100,000 of this appropriation is contingent upon the submission of a report on any efforts to implement the federal REAL-ID Act. The report shall include the following information:

- (1) a timeline of actions taken by the agency to implement the REAL-ID with a description and cost associated with those actions;
- (2) a timeline of actions necessary to comply with the deadline for State implementation of the REAL-ID Act;
- (3) any policy or operational issues that have arisen during the course of activities to implement the REAL-ID Act;
- (4) an analysis of the impact on residents of the State from implementing the REAL-ID Act in terms of cost, wait lines, and privacy; and
- (5) what steps the Motor Vehicle Administration is taking to reach the information technology requirements of the REAL-ID Act and the costs associated with those efforts.

The report shall be submitted by November 3, 2008, and the budget committees shall have 45 days to review and comment.

Explanation: The committees would like for the Motor Vehicle Administration (MVA) to report on any activities it has taken to implement the REAL-ID Act. In addition the committees request information regarding the impacts of the federal REAL-ID and issues that may arise during the course of implementing the requirement.

Information Request	Author	Due Date
Report on efforts to implement REAL-ID Act	MVA	November 3, 2008

2. Add the following language to the special fund appropriation:

Further provided that the Maryland Department of Transportation and the Motor Vehicle Administration as part of its submission of the draft and final fiscal 2009 to 2014 financial forecast shall include the detailed information regarding the fees and expenditures applied to the statutory cost recovery requirement for each fiscal year of the financial forecast.

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Explanation: This language requires the Maryland Department of Transportation and the Motor Vehicle Administration to submit as part of its financial forecast for fiscal 2009 to 2014 detail of revenues and expenditures for the purpose of calculating cost recovery for each fiscal year of the forecast period.

Information Request	Authors	Due Date
Six-year report on cost recovery	Maryland Department of Transportation and Motor Vehicle Administration	Draft financial forecast Final financial forecast

	<u>Amount Reduction</u>		<u>Position Reduction</u>
3. Delete seven new positions and associated funding. The department has an allowance turnover rate of 2.5%, which is lower than what it has been historically. As a result, the Motor Vehicle Administration can reclassify its own existing vacant positions, or from across all the Maryland Department of Transportation modes, to fill these positions.	\$ 276,860	SF	7.0
4. Reduce funds for in-state travel. This reduction will provide funding equal to the fiscal 2008 working appropriation. Funding increases 34.9% in the allowance.	37,045	SF	
5. Reduce funds for data processing supplies. The fiscal 2009 allowance increases \$78,870, or 49.8%. This reduction will provide funding equal to the fiscal 2008 working appropriation.	78,870	SF	
6. Increase turnover expectancy. This action increases the turnover rate to 3.0% and will require 50 vacant positions. In increasing the rate, this returns turnover expectancy to a more historical level of vacancies for the department while providing enough vacancies to fill the seven deleted positions.	409,543	SF	
Total Special Fund Reductions	\$ 802,318		7.0

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 2007					
Legislative Appropriation	\$0	\$138,037	\$15	\$0	\$138,052
Deficiency Appropriation	0	2,115	0	0	2,115
Budget Amendments	0	2,047	527	0	2,574
Reversions and Cancellations	0	-1,852	-452	0	-2,304
Actual Expenditures	\$0	\$140,347	\$90	\$0	\$140,437
Fiscal 2008					
Legislative Appropriation	\$0	\$145,490	\$177	\$0	\$145,667
Cost Containment	0	0	0	0	0
Budget Amendments	0	1,824	0	0	1,824
Working Appropriation	\$0	\$147,314	\$177	\$0	\$147,491

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

Fiscal 2007

Fiscal 2007 actual expenditures for MVA totaled \$140.4 million, which is a net increase of \$2.3 million compared to the legislative appropriation of \$138.1 million.

Special fund deficiency and budget amendments increase expenditures by \$4.2 million, offset by cancellations totaling \$1.9 million.

Special fund deficiencies totaled \$2.1 million with \$800,000 for increased utility expenses, \$670,000 for the increased cost of credit card fees from transactions, \$340,000 for additional Limited English Proficiency services to meet demands for the service, \$148,000 for additional VEIP contract expenses, and \$121,000 for 20 temporary employees.

A special fund budget amendment totaled \$2.1 million to fund the cost-of-living adjustment for State employees.

Special fund cancellations totaled \$1.9 million due to health insurance funds not being used due to a higher than expected turnover and vacancy rate.

Federal fund expenditures increased \$527,000 due to a budget amendment that increased funding and available cash balances for Commercial Driver's License kiosks (\$338,000), Motor Carrier Safety Assistance Programs (\$103,000), investigations regarding fraud (\$64,000), and Odometer Fraud (\$23,000).

Federal fund cancellations totaled approximately \$452,000 due to unexpended funds in the Motor Carrier Safety Program and Odometer Fraud Grants.

Fiscal 2008

The fiscal 2008 special fund appropriation increases \$1.8 million to fund the cost-of-living adjustment and other salary benefits provided for in the fiscal 2008 appropriation that were not included in the original MVA appropriation.

Audit Findings

Audit Period for Last Audit:	January 1, 2004 – November 30, 2006
Issue Date:	October 2007
Number of Findings:	25
Number of Repeat Findings:	11
% of Repeat Findings:	44 %
Rating: (if applicable)	Unsatisfactory

- Finding 1:** MVA policies and procedures were not sufficient to address Ignition Interlock Program (IIP) violations.
- Finding 2:** MVA did not ensure that certain individuals assigned to IIP had the device installed and MVA was notified of violations.
- Finding 3:** **Procedures and controls over driver licensing transactions were not sufficient.**
- Finding 4:** **MVA lacked comprehensive procedures to ensure the driver’s license database included complete and accurate Social Security numbers and to identify possible fraudulent licenses.**
- Finding 5:** **Driver’s license suspensions and revocations were not always processed timely.**
- Finding 6:** MVA did not take adequate steps to suspend the driver’s licenses of certain individuals repeatedly in arrears in making child support payments.
- Finding 7:** **MVA needs to address excessive delays in the judicial process, which resulted in penalties being postponed for extended periods.**
- Finding 8:** MVA allowed vehicle dealerships to issue temporary tags to ineligible individuals, in violation of State laws.
- Finding 9:** **MVA waived dealership fines totaling approximately \$824,000 without a review of the related documentation, and system reports were not adequate to identify certain other late payments.**
- Finding 10:** **Audits of licensed vehicle dealerships were not comprehensive.**
- Finding 11:** **MVA did not take timely action when lapses in vehicle insurance coverage were identified and procedures were not in place to ensure such lapses were properly processed.**

- Finding 12:** MVA failed to assess and pursue recovery of uninsured motorists penalties in a timely manner, and related waivers were not always issued in accordance with State regulations.
- Finding 13:** MVA lacked adequate controls over waivers of inspections and late fee penalties granted to vehicle owners.
- Finding 14:** Access and monitoring controls over critical mainframe production files need improvement.
- Finding 15:** MVA's contract for hosting the MVA web site and the eMVA Store did not include provisions for periodic audits of on-line security, resulting in potential vulnerability of sensitive information.
- Finding 16:** Sensitive personal and financial information on eMVA store customers was unnecessarily stored in clear text on eMVA Store servers.
- Finding 17:** Security measures to protect critical eMVA store application servers were not adequate.
- Finding 18:** Critical software, which supported the eMVA store, was out of date.
- Finding 19:** Monitoring and control over critical eMVA Store components were not adequate.
- Finding 20:** Access to eMVA Store critical servers and database was not properly restricted.
- Finding 21:** Controls over the use of a third party to process eMVA store credit card payments were inadequate.
- Finding 22:** Procedures and controls over collections need improvement.
- Finding 23:** MVA did not always sufficiently investigate instances of possible fraudulent activity by MVA employees.
- Finding 24:** Proper internal controls were not established over purchasing and disbursement transactions.
- Finding 25:** MVA did not complete physical inventories or investigate missing equipment, as required.

*Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08 - FY09 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1603.50	1611.50	1600.50	-11.00	-0.7%
02 Contractual	94.43	115.78	115.78	0	0%
Total Positions	1697.93	1727.28	1716.28	-11.00	-0.6%
Objects					
01 Salaries and Wages	\$ 91,903,621	\$ 93,685,548	\$ 101,237,336	\$ 7,551,788	8.1%
02 Technical & Spec Fees	4,831,663	5,090,584	5,297,838	207,254	4.1%
03 Communication	5,831,380	5,611,580	6,192,730	581,150	10.4%
04 Travel	205,040	161,319	195,099	33,780	20.9%
06 Fuel & Utilities	2,378,993	2,649,627	2,428,063	-221,564	-8.4%
07 Motor Vehicles	808,813	825,213	635,712	-189,501	-23.0%
08 Contractual Services	28,311,844	35,120,483	35,273,650	153,167	0.4%
09 Supplies & Materials	1,331,924	1,236,093	1,280,371	44,278	3.6%
10 Equip - Replacement	110,662	87,535	47,553	-39,982	-45.7%
11 Equip - Additional	66,412	28,865	42,280	13,415	46.5%
12 Grants, Subsidies, and Contributions	150,363	90,000	90,000	0	0%
13 Fixed Charges	4,505,874	2,902,995	4,944,478	2,041,483	70.3%
Total Objects	\$ 140,436,589	\$ 147,489,842	\$ 157,665,110	\$ 10,175,268	6.9%
Funds					
03 Special Fund	\$ 140,347,163	\$ 147,313,342	\$ 157,488,610	\$ 10,175,268	6.9%
05 Federal Fund	89,426	176,500	176,500	0	0%
Total Funds	\$ 140,436,589	\$ 147,489,842	\$ 157,665,110	\$ 10,175,268	6.9%

Note: The fiscal 2008 appropriation does not include deficiencies.

Fiscal Summary
MDOT – Motor Vehicle Administration

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
01 Motor Vehicle Operations	\$ 140,436,589	\$ 147,489,842	\$ 157,665,110	\$ 10,175,268	6.9%
03 Facilities and Capital Equipment	17,913,023	26,170,031	36,713,681	10,543,650	40.3%
08 Major IT Development Projects	2,323,152	4,667,000	3,941,000	-726,000	-15.6%
Total Expenditures	\$ 160,672,764	\$ 178,326,873	\$ 198,319,791	\$ 19,992,918	11.2%
Special Fund	\$ 160,583,338	\$ 178,150,373	\$ 198,143,291	\$ 19,992,918	11.2%
Federal Fund	89,426	176,500	176,500	0	0%
Total Appropriations	\$ 160,672,764	\$ 178,326,873	\$ 198,319,791	\$ 19,992,918	11.2%

Note: The fiscal 2008 appropriation does not include deficiencies.

Budget Amendments for Fiscal 2008
Maryland Department of Transportation
Agency – Operating

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Pending	\$1,823,817	Special	This amendment funds the cost-of-living adjustment granted to all eligible State employees.

Source: Maryland Department of Transportation

Budget Amendments for Fiscal 2008
Maryland Department of Transportation
Agency – Capital

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Pending	\$19,454	Special	This amendment funds the cost-of-living adjustment granted to all eligible State employees.
Projected	-\$3,523,000	Special	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the fiscal 2008-2013 final <i>Consolidated Transportation Program</i> .

Source: Maryland Department of Transportation