

J00E00
Motor Vehicle Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$145,486	\$155,861	\$157,748	\$1,888	1.2%
Contingent & Back of Bill Reductions	0	0	-626	-626	
Adjusted Special Fund	\$145,486	\$155,861	\$157,122	\$1,262	0.8%
Federal Fund	351	177	177	0	
Adjusted Federal Fund	\$351	\$177	\$177	\$0	0.0%
Adjusted Grand Total	\$145,838	\$156,037	\$157,299	\$1,262	0.8%

- The fiscal 2010 allowance increases \$1.9 million, or 1.2%, compared to the fiscal 2009 working appropriation; however, when adjusting for the contingent reduction to the matching deferred compensation payment, the allowance increases \$1.3 million, or 0.8%.
- The department did take cost containment actions in fiscal 2009 totaling \$4.7 million. When adjusting for this reduction in the working appropriation, the fiscal 2010 allowance increases \$6.0 million, or 4.0%.
- The largest increases in the allowance are for employee and retiree health insurance costs due to the fiscal 2009 working appropriation being understated as a result of the fund balance being used for expenditures, cost increases associated with license plates as steel prices increase, and increased utility expenses.

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

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PAYGO Capital Budget Data

(\$ in Thousands)

	Fiscal 2008	Fiscal 2009		Fiscal 2010
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Special	\$19,096	\$40,639	\$32,021	\$31,527
Total	\$19,096	\$40,639	\$32,021	\$31,527

- The fiscal 2009 working appropriation decreases \$8.6 million compared to the legislative appropriation due to cash flow changes and reductions to the capital program due to the economic downturn.
- The fiscal 2010 allowance increases approximately \$0.5 million due to cash flow changes in various projects.

Operating and PAYGO Personnel Data

	FY 08 <u>Actual</u>	FY 09 <u>Working</u>	FY 10 <u>Allowance</u>	FY 09-10 <u>Change</u>
Regular Operating Budget Positions	1,593.50	1,600.50	1,600.50	0.00
Regular PAYGO Budget Positions	<u>11.00</u>	<u>11.00</u>	<u>11.00</u>	<u>0.00</u>
Total Regular Positions	1,604.50	1,611.50	1,611.50	0.00
Operating Budget FTEs	94.00	115.78	115.78	0.00
PAYGO Budget FTEs	<u>2.43</u>	<u>2.61</u>	<u>2.61</u>	<u>0.00</u>
Total FTEs	96.43	118.39	118.39	0.00
Total Personnel	1,700.93	1,729.89	1,729.89	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	70.74	4.39%
Positions and Percentage Vacant as of 12/31/08	58.50	3.63%

- The fiscal 2010 allowance does not change from the fiscal 2009 working appropriation for regular positions or full-time equivalent positions.
- The turnover rate in the fiscal 2010 allowance is set at 4.39% which is greater than the current vacancy rate as of January 1, 2009, of 3.63%. This means that the department will be unable to fill positions as they become vacant, or reductions will need to be made elsewhere in the budget to fund the existing complement of positions.

Analysis in Brief

Major Trends

Walk-in Times Declined Temporarily: The Motor Vehicle Administration (MVA) has tried to utilize information technology and alternative service delivery as a way to improve business processes and reduce wait times. Wait times declined slightly in fiscal 2008 as vehicle transactions decreased due to fewer vehicle purchases. However, the wait time is expected to increase in fiscal 2009 as walk-in transactions grow at a faster pace than alternative service delivery transactions. **The Department of Legislative Services (DLS) recommends that MVA discuss what can be done to increase usage of alternative service delivery and how to decrease wait times even if transactions increase.**

Operating Cost Per Transaction Increases in Fiscal 2008: The operating cost per transaction increased in fiscal 2007; however, the operating cost per transaction declined in fiscal 2008 even though costs increased and transactions declined. **DLS recommends that MVA discuss with the committees what contributed to the decrease in operating costs per transaction in fiscal 2008 and what can be done to further reduce costs.**

Issues

Update on REAL-ID Activities: MVA is working toward completing the 18 benchmarks identified by the Department of Homeland Security for the REAL-ID Act to be completed by January 1, 2010. If this deadline is met, then Maryland could apply for an extension until May 11, 2011, before needing to issue REAL-ID compliant driver's licenses and personal identification cards. MVA estimates the additional cost to implement REAL-ID at \$15 per driver's license and personal identification card. **DLS recommends that MVA brief the committees on efforts to implement REAL-ID and that committee narrative be adopted requiring a report on these activities.**

Process Changes for Obtaining a Driver's License: MVA has decided to implement a centralized issuance process for distributing driver's licenses. Beginning in fiscal 2010, individuals will go to MVA to apply for his or her driver's license and then wait 7 to 10 days to receive it in the mail. **DLS recommends that MVA brief the committees on this process change in the context of cost savings, efficiencies, and efforts to reduce fraud.**

New Vehicle Emissions Inspection Program Contract Is Awarded: The contract for the Vehicle Emissions Inspection Program (VEIP) is set to expire, and the new contract will take effect beginning in fiscal 2010. **DLS recommends that budget bill language be added that expresses the intent that the contract costs of VEIP be fully budgeted in the fiscal 2011 allowance. In addition, DLS recommends the adoption of a provision in the Budget Reconciliation and Financing Act of 2009 to require that revenues and expenses for VEIP be included as part of MVA's cost recovery calculation.**

One Day Per Week Closure of MVA Branch Offices Should Be Considered: In the early 1990s, when transportation revenues had declined dramatically, a policy decision was made to close branch offices one day a week to save money. **DLS recommends that MVA discuss with the committees the potential savings from closing branch offices one day a week.**

Operating Budget Recommended Actions

	<u>Funds</u>
1. Add budget bill language expressing the intent that the fiscal 2011 allowance includes the full budgeted cost of the Vehicle Emissions Inspection Program.	
2. Reduce funds for contractual employees.	\$ 91,052
3. Reduce funds for equipment repairs and maintenance.	21,218
4. Reduce funds for ground maintenance.	35,825
5. Adopt committee narrative requesting a status report on implementing REAL-ID.	
Total Reductions	\$ 148,095

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:

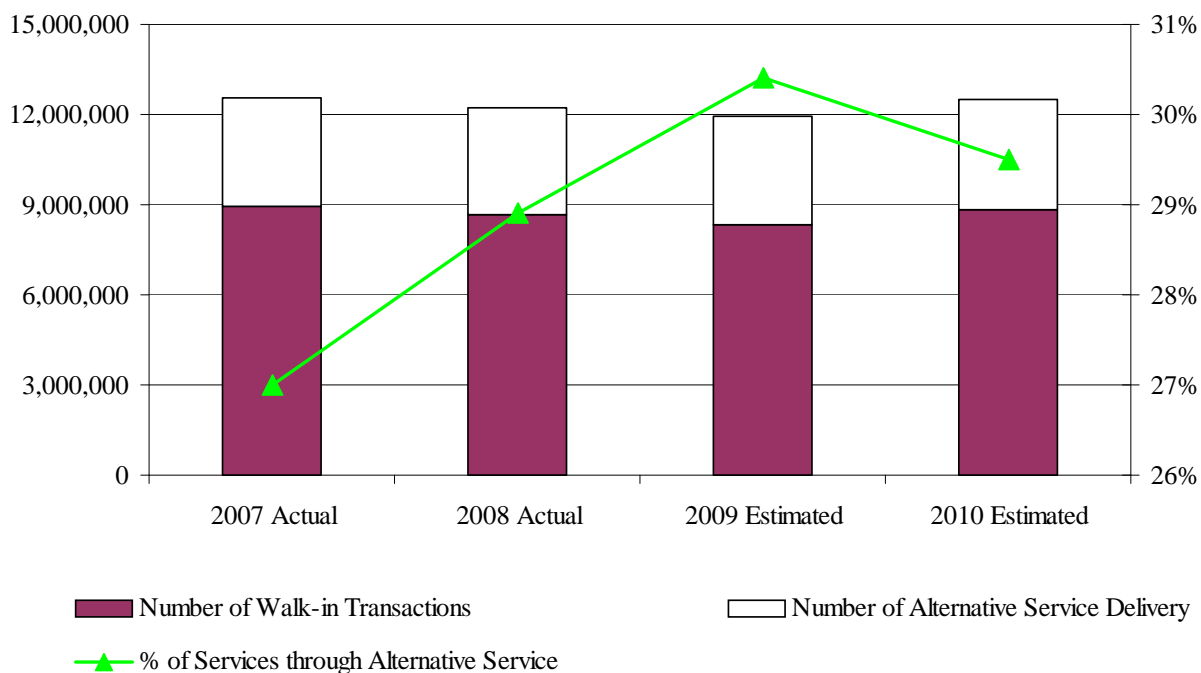
- licensing all passenger and commercial drivers;
- registering and titling vehicles;
- issuing tags and permits for persons with a disability;
- providing photo identification cards for nondriver residents;
- regulating motor vehicle dealers, vehicle rental companies, and driver education schools; and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

MVA serves 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 total number of transactions and the number of walk-in transactions and alternative service delivery transactions (*e.g.*, online transactions, MVA kiosks, mail-in, or telephone call center). Overall, total transactions declined in fiscal 2008 as vehicle purchases declined. The decline in transactions is estimated to continue through fiscal 2009 and then begin to increase in fiscal 2010. MVA estimates that the increase in fiscal 2010 is due to the Maryland Department of Transportation's projection of an economic recovery in calendar 2010.

**Exhibit 1
Motor Vehicle Administration
Transaction and Service Delivery
Fiscal 2007-2010**

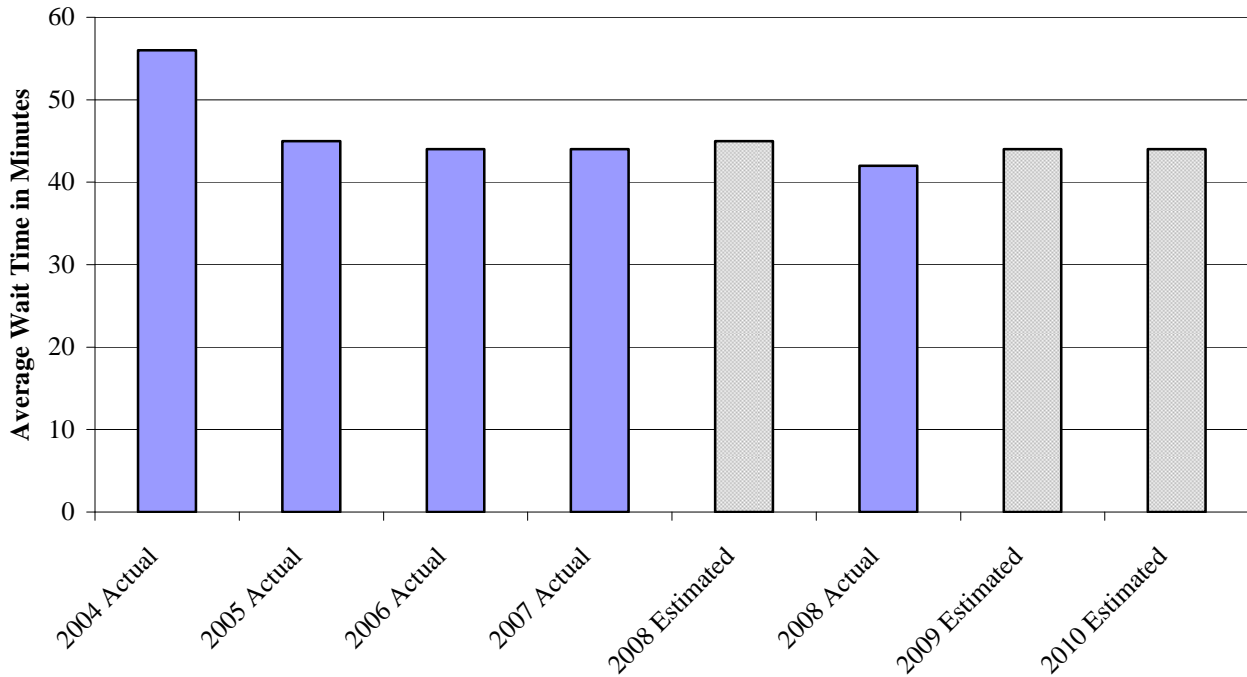


Source: Motor Vehicle Administration

Since fiscal 2000, MVA has made significant information technology investments to increase the number of alternative transactions as a way to reduce customer wait times and improve the customer experience. These investments have resulted in a steady increase in alternative transactions from 23.0% in fiscal 2000 to 28.9% in fiscal 2008 and an estimate of 30.4% in fiscal 2009. Of note is that while total transactions are estimated to increase from fiscal 2009 to 2010 by 4.5%, the percentage of alternative service delivery is expected to decline. Since the growth in alternative service delivery transactions is not expected to increase as quickly as total transactions, longer wait times are the likely outcome.

Exhibit 2 indicates that the average wait time for customers declined to 42 minutes in fiscal 2008 due to total transactions declining. It is estimated that the average customer wait time will increase in fiscal 2009 with overall transactions and the level of alternative service delivery increasing. MVA indicates the increase is in anticipation of new driver license transactions for which there is no alternative service delivery. Fiscal 2010 shows that customer wait times will not increase even though walk-in transactions will be increasing. **DLS recommends that MVA discuss what services are available online and what actions can be taken to further increase usage of the 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.**

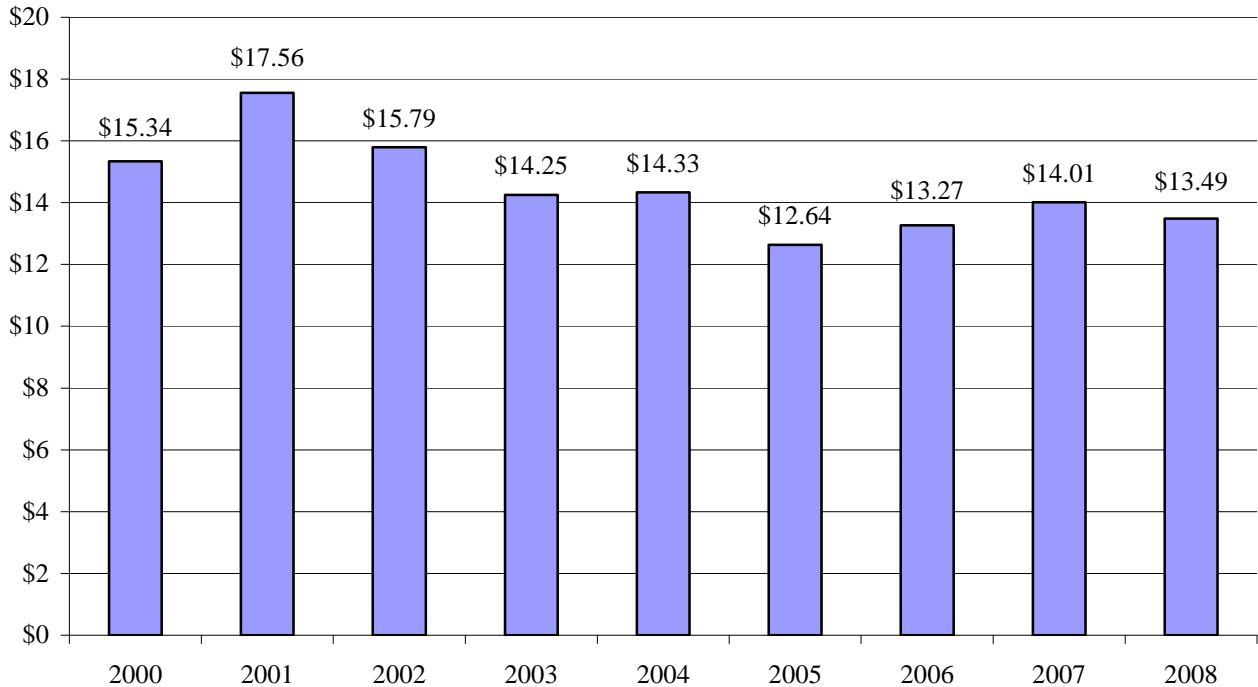
Exhibit 2
Average Customer Wait Time
Fiscal 2004-2008 Actual and Fiscal 2008-2010 Estimated



Source: Motor Vehicle Administration

The 2009 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 \$14.00 per transaction by fiscal 2012. As shown in **Exhibit 3**, the cost per transaction had steadily decreased from \$17.56 in fiscal 2001 to a low point of \$12.64 in fiscal 2005. However, in fiscal 2006, the cost of each transaction began to increase and in fiscal 2007, totaled \$14.01. The cost per transaction dipped in fiscal 2008 despite costs increasing and transactions declining. **DLS recommends that MVA discuss in further detail what has contributed to the decrease in the operating cost per transaction in fiscal 2008. It should also address what can be done to further reduce the cost, and why it believes that the influx of new driver’s license transactions in fiscal 2010 will not have an effect on customer wait times.**

Exhibit 3
Operating Cost Per Transaction
Fiscal 2000-2008



Source: Motor Vehicle Administration

Fiscal 2009 Actions

Impact of Cost Containment

MVA has identified approximately \$4.7 million in cost containment actions in fiscal 2009. This includes:

- \$2.1 million to move funding for the Driver's License System upgrade from the operating budget to the capital budget;
- \$1.0 million in Vehicle Emissions Inspection Program contract costs due to test fees being sufficient to cover contract costs; however, MVA indicates that those savings may not be realized as transactions have decreased;

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- \$0.5 million for various information technology reductions including reducing the number of wireless services provided to employees and moving funds to the capital program;
- \$0.3 million for a hiring freeze on seven new positions provided for in fiscal 2009;
- \$0.3 million for the contract cost of microfilming documents and instead having employees complete these functions; and
- \$0.5 million for other miscellaneous reductions across the agency.

In addition, Chapter 10 of 2008 required the Governor to reduce the fiscal 2009 general fund budget by \$50 million. As part of that reduction, overbudgeted health insurance funds were withdrawn by the Board of Public Works, and MVA's share of that totaled \$579,445 in special funds.

Proposed Budget

The fiscal 2010 allowance totals \$157.9 million, an increase of \$1.9 million, or 1.2%, from the fiscal 2009 working appropriation. When accounting for the contingent reduction to the deferred compensation match of \$0.6 million, the fiscal 2010 allowance increases \$1.3 million, or 0.8%. In addition, when accounting for cost containment in fiscal 2009, totaling \$4.7 million, the fiscal 2010 allowance increases \$6.0 million, or 4.0%. **Exhibit 4** highlights the major changes in the fiscal 2010 allowance.

Fiscal 2010 Allowance

MVA is largely an administrative office, and as a result, approximately 64% of its budget is used for personnel expenditures. When accounting for the contingent reduction to deferred compensation, personnel expenditures increase approximately \$1.2 million. Health insurance expenditures for current and retired employees increase \$4.4 million. This increase is largely offset by the payment for the Other Post Employment Benefits not being made in fiscal 2010 totaling \$2.3 million and the turnover rate increasing, which translates into a reduction of \$1.6 million. The other major increase is for the payment to the State retirement system totaling \$0.8 million.

Other major changes to the fiscal 2010 allowance include:

- \$1.4 million increase in the cost associated with the supplies and contract for license plates;
- \$0.9 million in increased utility expenses per the Department of Budget and Management instructions;
- \$0.3 million increase in the fee that is paid to credit card companies for transactions;

Exhibit 4
Proposed Budget
MDOT – Motor Vehicle Administration
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Total</u>
2009 Working Appropriation	\$155,861	\$177	\$156,037
2010 Allowance	<u>157,748</u>	<u>177</u>	<u>157,925</u>
Amount Change	\$1,888	\$0	\$1,888
Percent Change	1.2%		1.2%
 Contingent Reductions	 -\$626	 \$0	 -\$626
Adjusted Change	\$1,262	\$0	\$1,262
Adjusted Percent Change	0.8%	0.0%	0.8%

Where It Goes:

Personnel Expenses

Increments and other compensation	\$342
Employee and retiree health insurance	4,435
Other Post Employment Benefit payment not made in fiscal 2010.....	-2,303
Employee retirement system payment.....	849
Turnover adjustments	-1,565
Contingent reduction for deferred compensation	-626
Workers' compensation premium	182
Reclassifications	-113
Other fringe benefit adjustments	-34

Other Changes

Increase in the cost associated with supplies and contract for license plates and stickers	1,436
Increase in utilities per DBM instructions	860
Increase in fees paid on credit card transactions	332
Increase in postage based on actual expenditures and anticipated cost increases	314
Increase in printing costs based on fiscal 2008 actual expenditures.....	229
Increase in indirect cost recovery fee for State Police security services	178
Decrease in the contract payment for VEIP services due to a new contract.....	-1,626
Decrease in consultant studies due to cost containment and internal efficiencies.....	-514
Decrease in the microfilming contract due to cost containment.....	-300

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Where It Goes:

Decrease due to capital funds inadvertently budgeted in the operating budget for improvements to the Driver’s License System.....	-282
Decrease in temporary employees due to cost containment.....	-122
Decrease in motor vehicle purchases as no vehicles are being purchased	-89
Decrease in administrative hearings per DBM instructions	-74
Decrease in training due to cost containment.....	-64
Decrease in office supplies due to cost containment.....	-54
Decrease in miscellaneous communication charges based on actual expenditures	-52
Decrease in building and janitorial supplies due to cost containment.....	-39
Decrease in insurance coverage payments per DBM instructions.....	-35
Other.....	-3
Total	\$1,262

DBM: Department of Budget and Management

VEIP: Vehicle Emissions Inspection Program

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

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- \$1.6 million decrease in the contract payment for the Vehicle Emissions Inspection Program due to a new contract resulting in savings and cost containment;
 - \$0.5 million decrease due to cost containment for consultant services;
 - \$0.3 million decrease due to funds being transferred to the capital budget for enhancements to the driver’s license system; and
 - \$0.1 million decrease in temporary employees due to cost containment.

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 (IT) systems, and the purchase of capital equipment.

Project Reductions Due to Economic Downturn

MVA experienced \$24.9 million in reductions to its six-year capital program as a result of the recession. Three information technology projects scheduled for upgrades were removed, as shown in **Exhibit 5**. MVA indicates that the system upgrades would not have added sufficient value to justify the upgrades.

Exhibit 5
Motor Vehicle Administration Capital Reductions
Fiscal 2009-2014
(\$ in Millions)

<u>Project Description</u>	<u>Six-year Cost</u>
Document Imaging and Workflow System: A planned software upgrade and enhancements for the MVA's document storage system.	\$12.0
Automated Compulsory Insurance System: This system ensures that accurate information is available regarding individual's compliance with State insurance requirements.	8.8
Titling and Registration Information System: This project would attempt to streamline the various systems used to process titling and registration information.	4.1
Total	\$24.9

Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

Fiscal 2009 to 2014 Consolidated Transportation Program

The fiscal 2010 allowance provides \$31.5 million in special funds for the MVA capital program, a decrease of \$0.5 million compared to the fiscal 2009 working appropriation. As shown in **Exhibit 6**, a majority of the funds, \$26.2 million, are for system preservation projects. There is one major ongoing project, the e-MVA service delivery system which provides for the development and implementation of MVA services through the Internet, kiosks, and telephone, which totals \$2.0 million in fiscal 2010.

Exhibit 6
Major Ongoing Motor Vehicle Administration Projects
Fiscal 2010
(\$ in Thousands)

<u>Jurisdiction</u>	<u>Project Description</u>	<u>2010</u>	<u>Total Cost</u>
Statewide	e-MVA Service Delivery Systems	\$2,007	\$22,963
Statewide	System Preservation Minor Projects	26,251	Ongoing
Statewide	REAL-ID Act	1,900	6,802
Statewide	Capital Salaries	1,336	Ongoing
Statewide	Account Receivable System	35	1,618
Statewide	Title and Registration Information System 2	0	35,772
Total Major Projects and Capital Facilities		\$31,527	\$67,155

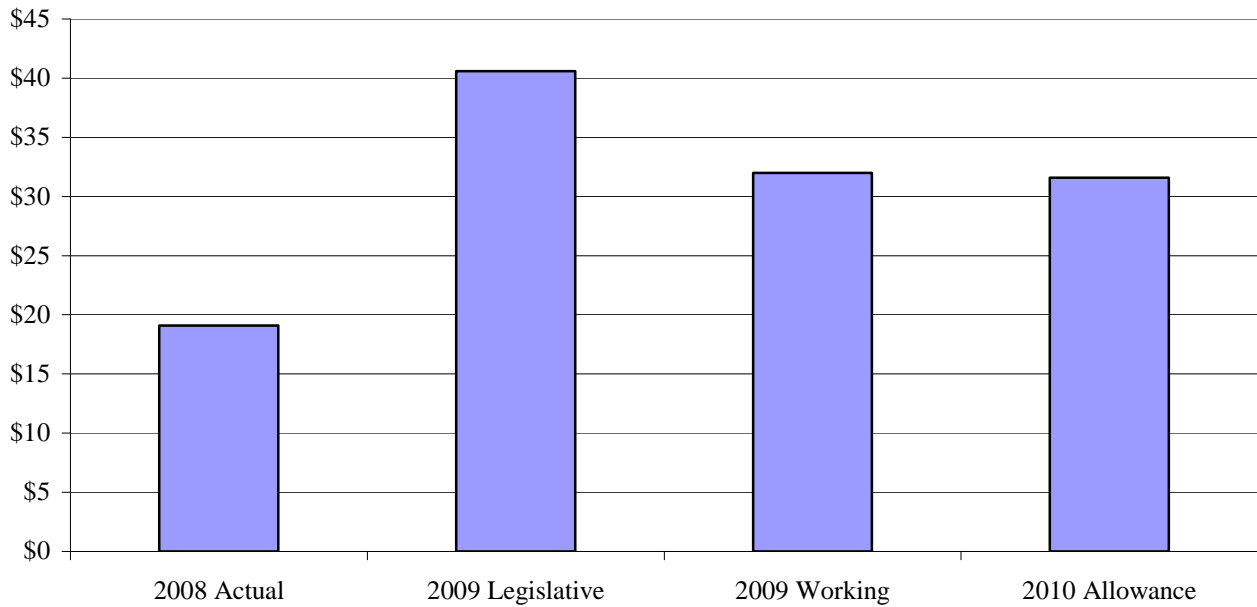
Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

Fiscal 2009 and 2010 Cash Flow Analysis

The fiscal 2009 working appropriation is \$8.6 million less than the legislative appropriation, as shown in **Exhibit 7**. This is largely due to cash flow changes in a number of projects. In particular, a number of smaller system preservation projects were impacted, including funding for several building and interior modifications at several sites, funding for the relocation of the Baltimore City office, and reduced funding for kiosk and Internet services.

The fiscal 2010 allowance decreases \$0.5 million largely due to cash flow changes in a number of smaller system preservation projects and reductions to the capital program as a result of the revenue downturn.

Exhibit 7
Cash Flow Changes
Fiscal 2008-2010
(\$ in Millions)



Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

Issues

1. Update on REAL-ID Activities

Background

The REAL-ID Act requires federal agencies to only accept state-issued driver's licenses and personal identification cards which have met certification standards by May 11, 2008. The Department of Homeland Security (DHS) promulgated regulations clarifying the Act's provisions in mid-January 2008.

Timeline to Implementation

The final regulations provide states the opportunity to extend the timeline to implementation. Specifically, states may apply for an extension no later than October 11, 2009, that would run through May 11, 2011. To be eligible for this extension, states must demonstrate that they are "materially compliant" with the DHS REAL-ID regulations by January 1, 2010. To be considered materially compliant, a state must provide DHS the status and operational date of state compliance with REAL-ID. Existing state-issued driver's licenses and identification cards will be accepted by federal agencies during this time period.

By May 11, 2011, states will need to be determined to be fully compliant with the REAL-ID. This will involve a statement indicating that compliance has been reached from the state, a letter from the state Attorney General confirming the state has the legal authority to impose the requirements necessary to meet the standards established, a description of the state's exception and waiver process, and the state's security plan.

To assist states in the enrollment process, the DHS regulations provide the following:

- the enrollment of individuals born after December 1, 1964, must be completed on December 1, 2014; and
- all other individuals completed by December 1, 2017.

MVA Implementation Status

The DHS regulations provided 18 benchmarks for states to meet for material compliance. MVA indicates that it has met or is close to meeting 15 of these benchmarks. To fully comply with the benchmarks, there will need to be statutory changes to require that:

- an individual be a legal resident of the United States to obtain a driver's license or identification card; and
- an individual will need to provide a Social Security number.

Cost

MVA estimates the actual cost to implement REAL-ID to be between \$16.5 million and \$20.2 million. This is significantly less than initial estimates because MVA has included central issuance and biometrics in prior cost estimates; however, these are not needed to comply with REAL-ID. The cost of REAL-ID is driven by personnel and IT-related expenditures. If DHS does not require an individual's full name to be printed on the driver's license or personal identification card, MVA indicates cost would be significantly reduced. MVA estimates that an additional 99 contractual full-time equivalents would be needed by fiscal 2013. Due to the statutory cost recovery requirement, MVA estimates that an individual's driver's license renewal fee could increase by \$15; from \$30 to \$45.

Issues

There are several issues associated with implementing REAL-ID. Following is a brief summary of those issues.

- **Legal Presence:** Currently, Maryland does not require individuals to certify that they are legal residents of the United States, which is a requirement of REAL-ID.
- **Cost:** Due to MVA's statutory cost recovery requirements, the cost of implementing REAL-ID will be borne by the residents of the State. In addition, there is likely to be little federal funding to offset the cost of REAL-ID.
- **Privacy Concerns:** Several advocacy groups have expressed concerns regarding the security of the information provided and stored by applicants, and whether or not a national database is being created to store that information.
- **Role of MVA:** A broader policy concern is that the role and work of MVA employees will change dramatically. MVA will move from certifying individuals for driver's licenses to verifying the authenticity of documents and storing that information.
- **Two-tiered System:** One potential alternative to the current REAL-ID system is to create a two-tiered system with a REAL-ID compliant card and a non-compliant card.
- **New President and Administration:** With a new President and Administration, it is not known whether REAL-ID will be revisited or delayed.

There is also concern that REAL-ID will create a national database for individuals' information and whether personal information can be securely maintained. Specifically, REAL-ID requires a state-to-state verification network to confirm that individuals do not hold multiple driver's licenses or identifications. Rather than a single database of information, each state will continue to maintain its own information, and a query system will be created to which each state is connected. Currently, MVA complies with existing State and federal law and has completed several upgrades to protect information and as a result uses several of the technologies proposed by REAL-ID.

Conclusion and Recommendation

The REAL-ID Act is a federal requirement that fundamentally alters the role and workflows of MVA. Significant revisions to the original regulations have reduced the overall cost to implement REAL-ID. Due to prior efforts to update the driver's license, MVA complies with a number of the 18 benchmarks required under the regulation. One of the major outstanding issues involves the issue of legal presence. **DLS recommends that MVA discuss the following:**

- **where the department is in terms of implementing REAL-ID and the need for legislation to fully comply with federal requirements;**
- **the cost of REAL-ID to residents in terms of time and money;**
- **what MVA is planning to do before the end of the year to comply with REAL-ID;**
- **the pros and cons of a two-tiered system; and**
- **what safeguards are being adopted to address the data privacy concerns that have been expressed by many national organizations.**

Furthermore, DLS recommends that committee narrative be adopted requiring MVA to report to the committees by November 2, 2009, on efforts to implement REAL-ID.

2. Process Changes for Obtaining a Driver's License

In an effort to eliminate fraud, beginning in fiscal 2010, MVA will process driver's licenses from a central location rather than individual branch offices. MVA indicates that a central issuance process will result in reduced wait times for customers; however, individuals would not leave branch offices with a driver's license as is current practice in most cases. Instead, 7 to 10 days later, the individual would receive his or her driver's license in the mail.

Currently, 20 other states use a central issuance process for driver's licenses and personal identification cards. MVA does employ a central issuance process for certain types of driver's licenses. For example, identification cards and individuals who are from outside of the United States receive a driver's license from a central issuance process.

According to MVA, the most important benefit of a central issuance process is that it reduces fraud and results in a more secure document. Fraud occurs externally when individuals present fraudulent documentation supporting an application or internally when falsified driver's licenses and identification cards are created. Through central issuance, the internal process will be secured because there is one central location that produces driver's licenses, which can be more easily monitored. Externally, individuals will only be able to receive a driver's license through the mail based upon the address provided in the application, which the MVA can now cross-reference.

REAL-ID Impact

A central issuance process will assist MVA in its efforts to comply with the requirements of REAL-ID; however, central issuance is not a requirement of REAL-ID. For example, the security of the materials needed for driver's licenses and identification cards can be easily met through a central issuance process. MVA indicates that the central issuance process would have been implemented without REAL-ID and that the timing of the procurement for driver's licensing services drove the decision.

Budget Impact

The fiscal 2010 allowance includes a net increase of \$2.4 million for the cost of central issuance. In the report to the budget committees in fall 2008, MVA indicated that the total cost of central issuance would be approximately \$14.4 million to \$14.8 million from fiscal 2010 to 2014.

Conclusion and Recommendation

Beginning in fiscal 2010, the process to obtain a driver's license will be similar to a passport process where individuals apply for a document and several days later he or she receives the document in the mail. The purpose of this central issuance process is to reduce levels of fraud internally and externally associated with the driver's license and personal identification card. In addition, a central issuance process will assist MVA's effort to comply with REAL-ID; however, the process is not a REAL-ID requirement. MVA estimates that the shift to this process will increase the MVA's budget by a net of \$2.4 million. **DLS recommends that MVA brief the committees on the central issuance process and the benefits to citizens, cost impacts, and the ability to address issues of fraud.**

3. New Vehicle Emissions Inspection Program Contract Is Awarded

The Vehicle Emissions Inspection Program was created in 1984 in response to the federal Clean Air Act (CAA). The CAA required that an enhanced inspection and maintenance program needed to be implemented in ozone nonattainment areas to reduce emissions. Currently, all model year 1977 and newer vehicles in Baltimore City and the 13 counties must undergo an emissions test. The fee for this test is set in statute at \$14.

VEIP stations are State-owned with a contractor performing the tests and maintaining the facilities under State oversight. The program is jointly administered by the Maryland Department of the Environment and MVA. The current VEIP contractor is Environmental Systems Products (ESP) of Maryland, Inc. The contract with ESP is set to expire at the end of fiscal 2009, and MVA issued a Request for Proposal for a new contract. It is expected that the VEIP fee will not need to be changed.

Following are the major anticipated changes to the contract:

- Test procedures are likely to change due to technological advancements in the vehicle fleet technology which reduce wait times and lower operating budget costs.
- The Gaithersburg location will be closed due to Federal Aviation Administration concerns about safety.

Budgetary Impact

The new contract for VEIP is significantly less costly than the prior contract largely due to savings from using technology. **Exhibit 8** shows that the estimated contract cost in fiscal 2011 is approximately \$9.7 million less than the projected contract cost in fiscal 2010. The projected cost per transaction, using the fiscal 2010 estimate for inspections, is estimated to decline from \$15.99 to \$10.38 under the new contract. The reduced cost of the contract means that the VEIP fee will be greater than the cost of the contract, which had not always been the case previously. For example, Exhibit 8 shows that in fiscal 2010, revenues were only \$0.4 million greater than the contract cost compared to an estimate of \$10.1 million in fiscal 2011 using fiscal 2010 estimated revenue. In addition, late fees, which are estimated to total approximately \$9.0 million in fiscal 2010, are transferred directly to the Transportation Trust Fund.

Exhibit 8 Vehicle Emissions Inspection Program Projected Cost Savings

	<u>Fiscal 2010 Allowance Estimate</u>	<u>Fiscal 2011 Estimate</u>
Vehicle Emissions Inspection Program (VEIP) Revenue from \$14 Fee (A)	\$22,584,865	\$22,584,865
VEIP Contract	\$21,714,143	\$12,010,016
Credit Card Processing Fee	468,634	468,634
Subtotal Contract Cost (B)	\$22,182,777	\$12,478,650
Difference (A-B)	\$402,088	\$10,106,215
VEIP Budget Cost		
Maryland Department of the Environment Contract	\$1,344,555	\$1,344,555
Other VEIP Costs	4,140,574	4,140,574
Subtotal (C)	\$5,485,129	\$5,485,129
Total VEIP Cost (B+C)	\$27,667,906	\$17,963,779
VEIP Revenue Less Total Cost (A-C)	-\$5,083,041	\$4,621,086
VEIP Late Fees Transferred to the Transportation Trust Fund	8,966,608	8,966,608
VEIP Budget Surplus	\$3,883,567	\$13,587,694
Projected Cost Per Transaction	\$15.99	\$10.38

Source: Department of Legislative Services; Motor Vehicle Administration

Issue

Lack of Transparency for Full Cost of VEIP

Currently, the VEIP ESP contract cost is not reflected in the budget. The program is set up so that the vendor collects the VEIP fee and retains all revenues until the costs are covered. If revenue is not sufficient to cover costs, then MVA adds funding in the budget to cover that shortage. The budget also includes other costs associated with the VEIP contract, such as personnel costs to oversee the program and a contract cost to the Maryland Department of the Environment, which total \$5.5 million, as shown in Exhibit 8. Due to the savings in the new contract, the VEIP fee is now likely to be sufficient to cover the contract cost and other associated costs with a surplus still available. For example, when using fiscal 2010 estimated spending levels, there is a surplus of \$4.6 million.

In not including the contract cost associated with VEIP in the budget, it is not transparent what the total cost of the program is. **To create a more transparent process for understanding the interplay between VEIP revenues and expenditures, DLS recommends that budget bill language be added that expresses the intent that the VEIP contract cost be included in the fiscal 2011 allowance.**

VEIP Revenue Should Be Included in MVA Cost Recovery

MVA is required by statute to recover 95 to 100% of its operating and capital expenses through the fees it collects which are set in regulation. The VEIP program and its statutory fee of \$14 are not included in the statutory cost recovery calculation. Currently, the VEIP fee is the only MVA fee set in statute. To accurately portray MVA expenses and revenues in the cost recovery calculation, the VEIP costs and revenues should be set and counted similar to other MVA miscellaneous revenues and expenses. In addition, the late fees that are currently transferred directly to the Transportation Trust Fund could be retained by MVA and be used to offset the cost increase of implementing REAL-ID, other future operating budget increases, or a reduced MVA fee elsewhere. **DLS recommends that provisions be included in the Budget Reconciliation and Financing Act of 2009 that would require the following:**

- **VEIP costs and revenues, including late fees, be counted as part of the MVA's statutory cost recovery requirement; and**
- **the VEIP fee be removed from statute and be included as a miscellaneous MVA fee set in regulation.**

4. One Day Per Week Closure of MVA Branch Offices Should Be Considered

In the early 1990s, when transportation revenues had declined dramatically, a policy decision was made to close branch offices one day a week to save money. As indicated in the budget section of the analysis, MVA has identified internal savings in fiscal 2009 due to revenue constraints; however, closing branch offices one day a week is not included. **DLS recommends that MVA discuss with the committees the potential savings from closing branch offices one day a week.**

Operating Budget Recommended Actions

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

, provided that it is the intent of the General Assembly that the Motor Vehicle Administration should reflect all costs for the Vehicle Emissions Inspection Program (VEIP) in the fiscal 2011 allowance.

Explanation: Currently, the Motor Vehicle Administration (MVA) does not include the actual contract cost for VEIP in its budget. The contractor collects the fee revenue and remits back to the State any revenue, excluding late fees, that exceeds the contract costs. If revenues do not meet the contract cost, MVA includes funding for the shortfall in its budget. To increase budget transparency, MVA should include the total contract cost in its allowance.

- | | <u>Amount
Reduction</u> | |
|---|------------------------------------|----|
| 2. Reduce funds for contractual employees. The fiscal 2010 allowance is \$91,052, or 2.4%, more than the fiscal 2009 working appropriation. Funding in fiscal 2010 would be equal to the fiscal 2009 working appropriation level. | \$ 91,052 | SF |
| 3. Reduce funds for equipment repairs and maintenance. The fiscal 2010 allowance increases 21,218, or 12.5%. This reduction provides funding equal to the fiscal 2009 working appropriation. | 21,218 | SF |
| 4. Reduce funds for ground maintenance. The fiscal 2010 allowance increases \$71,651, or 64%. This reduction would still provide an increase of \$35,825, or 32%, compared to the fiscal 2009 working appropriation. | 35,825 | SF |
| 5. Adopt the following narrative: | | |

REAL-ID Status Report: The committees request that the Motor Vehicle Administration (MVA) provide a status update regarding any efforts to implement the REAL-ID Act. Specifically, the report should address the following:

- the status of implementing REAL-ID and whether or not the State will meet the January 1, 2010 benchmark outlined in the regulations;
- updated estimates of costs to implement REAL-ID as well as costs to applicants;

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- updated information on the impact of REAL-ID on workflows and the process for obtaining a driver’s license and what MVA is doing to resolve any issues;
- external communication efforts;
- any additional efforts to maintain privacy and security for the information obtained from applicants;
- the impact of central issuance on implementing REAL-ID and when biometrics may be introduced; and
- any additional information that MVA feels is important for which the committees should be made aware.

Information Request	Author	Due Date
Status report on REAL-ID implementation	MVA	November 2, 2009
Total Special Fund Reductions		\$ 148,095

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 2008					
Legislative Appropriation	\$0	\$145,490	\$177	\$0	\$145,667
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	-297	0	0	-297
Budget Amendments	0	1,824	216	0	2,040
Reversions and Cancellations	0	-1,530	-41	0	-1,571
Actual Expenditures	\$0	\$145,487	\$352	\$0	\$145,839
Fiscal 2009					
Legislative Appropriation	\$0	\$154,653	\$177	\$0	\$154,830
Cost Containment	0	-576	0	0	-576
Budget Amendments	0	1,784	0	0	1,784
Working Appropriation	\$0	\$155,861	\$177	\$0	\$156,038

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

Fiscal 2008

Actual expenditures in fiscal 2008 totaled \$145.8 million, \$0.2 million higher than the legislative appropriation. The special fund appropriation was virtually unchanged. Special fund budget amendments totaled \$1.8 million to fund the 2% cost-of-living-adjustment provided for in the fiscal 2009 appropriation. Cost containment totaled \$0.3 million due to the abolition of vacant positions as required in Chapter 2 of the 2007 special session. Special fund cancellations totaled \$1.5 million for health insurance due to funds being overbudgeted as a result of actual vacancies being higher than budgeted.

The federal fund appropriation increased by a net of \$0.2 million. There was a \$0.2 million budget amendment to support a variety of federally funded programs and a cancellation of \$40,725 due to a delay in implementing the commercial driver's license testing program.

Fiscal 2009

The fiscal 2009 appropriation increases by \$1.8 million to fund the fiscal 2009 cost-of-living adjustment that was provided for all State employees.

Chapter 10 of 2008 required the Governor to reduce the fiscal 2009 general fund budget by \$50 million. As part of that reduction, overbudgeted health insurance funds were withdrawn by the Board of Public Works, and MVA's share of that totaled \$576,000 in special funds.

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,593.50	1,600.50	1,600.50	0	0%
02 Contractual	94.00	115.78	115.78	0	0%
Total Positions	1,687.50	1,716.28	1,716.28	0	0%
Objects					
01 Salaries and Wages	\$ 94,105,975	\$ 99,572,567	\$ 101,365,356	\$ 1,792,789	1.8%
02 Technical and Spec. Fees	4,870,963	5,377,373	5,339,366	-38,007	-0.7%
03 Communication	6,028,653	6,192,730	6,413,616	220,886	3.6%
04 Travel	205,421	195,099	190,888	-4,211	-2.2%
06 Fuel and Utilities	2,797,839	2,428,063	3,338,816	910,753	37.5%
07 Motor Vehicles	597,687	635,712	508,962	-126,750	-19.9%
08 Contractual Services	30,808,535	35,309,934	34,315,886	-994,048	-2.8%
09 Supplies and Materials	1,274,034	1,201,501	1,045,928	-155,573	-12.9%
10 Equipment – Replacement	189,915	47,553	57,068	9,515	20.0%
11 Equipment – Additional	22,820	42,280	51,506	9,226	21.8%
12 Grants, Subsidies, and Contributions	116,352	90,000	90,000	0	0%
13 Fixed Charges	4,819,612	4,944,478	5,207,404	262,926	5.3%
Total Objects	\$ 145,837,806	\$ 156,037,290	\$ 157,924,796	\$ 1,887,506	1.2%
Funds					
03 Special Fund	\$ 145,486,313	\$ 155,860,790	\$ 157,748,296	\$ 1,887,506	1.2%
05 Federal Fund	351,493	176,500	176,500	0	0%
Total Funds	\$ 145,837,806	\$ 156,037,290	\$ 157,924,796	\$ 1,887,506	1.2%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Fiscal Summary
MDOT – Motor Vehicle Administration

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 Motor Vehicle Operations	\$ 145,837,806	\$ 156,037,290	\$ 157,924,796	\$ 1,887,506	1.2%
03 Facilities and Capital Equipment	16,079,048	28,348,580	29,810,663	1,462,083	5.2%
08 Major IT Development Projects	3,017,232	3,672,000	1,716,000	-1,956,000	-53.3%
Total Expenditures	\$ 164,934,086	\$ 188,057,870	\$ 189,451,459	\$ 1,393,589	0.7%
Special Fund	\$ 164,582,593	\$ 187,881,370	\$ 189,274,959	\$ 1,393,589	0.7%
Federal Fund	351,493	176,500	176,500	0	0%
Total Appropriations	\$ 164,934,086	\$ 188,057,870	\$ 189,451,459	\$ 1,393,589	0.7%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Budget Amendments for Fiscal 2009
Maryland Department of Transportation
Motor Vehicle Administration – Operating**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$575,549	Special	Board of Public Works Health Insurance Reduction
Approved	1,783,643	Special	Funds the cost-of-living adjustment for eligible State employees
Projected	-4,681,119	Special	Realign cost containment actions to the financial forecast
Projected	126,172	Federal	Federal funds to continue Odometer Fraud
Total	-\$3,346,853		

CTP: Consolidated Transportation Program

Source: Maryland Department of Transportation

**Budget Amendments for Fiscal 2009
Maryland Department of Transportation
Motor Vehicle Administration – Capital**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$3,896	Special	Board of Public Works Health Insurance Reduction
Approved	21,686	Special	Funds the cost-of-living adjustment for eligible State employees
Projected	-8,367,000	Special	Realigns spending in the current year to the final CTP
Projected	-269,000	Special	Realigns spending in the current year for Major Information Technology projects to the final CTP
Total	\$8,618,210		

CTP: *Consolidated Transportation Program*

Source: Maryland Department of Transportation