

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4847-01
Bill No.: HB 2263
Subject: Motor Vehicles; Insurance Dept.; Insurance - Automobile
Type: Original
Date: April 20, 2010

Bill Summary: Establishes the Insured Vehicle Identification Network Act to track insured motorists and identify uninsured motorists in this state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$94,730,049)	(\$94,730,049)	(\$94,730,049)
Total Estimated Net Effect on General Revenue Fund	(\$94,730,049)	(\$94,730,049)	(\$94,730,049)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Insured Motorist	\$82,040,772 to \$85,040,772	\$91,754,242 or \$94,730,049	\$91,677,135 or 94,730,049
Total Estimated Net Effect on <u>Other</u> State Funds	\$82,040,772 to \$85,040,772	\$91,754,242 or \$94,730,049	\$91,677,135 or 94,730,049

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Insured Motorist	61	0 or 61	0 or 61
Total Estimated Net Effect on FTE	61	0 or 61	0 or 61

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Administrative Hearing Commission, Department of Public Safety - Missouri State Highway Patrol, Office of State Treasurer, and Missouri Senate** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** state the proposal would change the funding of the database project from 6% of General Revenue from premium taxes to 100% of General Revenue from premium taxes. According to figures from the Department of Revenue, one-half of the collections from premium tax that was deposited into General Revenue in FY 09 were \$94,730,049. The DIFP assumes future deposits will be of a similar amount.

The DIFP anticipates needing at least three (3) FTE to perform the functions of this program if it would continue beyond the initial six months. An Insurance Manager (\$45,000 annual salary) would be needed to oversee the Insured Vehicle Identification Network Program; one Insurance Product Analyst (\$29,580 annual salary) would be needed to perform the requirements of the legislation and an Office Support Assistant (\$21,984 annual salary) would be needed to handle correspondence and phone calls received.

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

Officials from the **Department of Revenue (DOR)** state the department currently has a program which requires insurance companies to report insurance data regarding insurance policies written on personal passenger vehicles. This program is used to verify insurance coverage for purposes of registering motor vehicles within the State of Missouri.

ASSUMPTION (continued)

The DOR provides the following information relating to the fiscal impact of this proposal on their organization:

ADMINISTRATIVE IMPACT

Motor Vehicle Bureau

Section 303.409:

The promulgation of rules associated with this section will require 40 overtime hours for a Revenue Manager Band I to prepare, communicate with executive staff, and finalize the administrative rules and 15 hours overtime for an Administrative Office Support Assistant to finalize and complete all filing requirements with the Secretary of State's Office. Total costs for this section are estimated to be \$1,417 for FY 11.

This section also requires the agent to provide the DOR with notice of all cancellations of motor vehicle liability insurance policies. The department is to review such list and authorize the agent to send suspension notices. In addition the DOR is required to suspend all vehicle registrations upon notification of non-compliance from the agent. It is assumed this process will be electronic and will not need additional FTE to implement.

Section 303.409.1(3)

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

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

The following assumption for insurance cancellations has been prepared using statistics from the current system that requires insurance companies to report liability insurance on personal passenger vehicles (1.1 million cancellations).

The DOR will require additional FTE resources in order to process information submitted by the agent, respond to telephone inquiries, and prepare written responses to correspondence sent from customers.

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ASSUMPTION (continued)

Telephone Inquiries:

Based on a program the DOR previously administered which contained similar requirements, the department experienced a 90% telephone inquiry rate from the notices mailed. The DOR assumes the same rate for this program. A telephone information operator is expected to process 90 telephone inquiries per day. Assuming 1.1 million notices are mailed by agents, 90% of which will result in telephone inquiries and 260 work days per year, the DOR expects to receive an average of 3,807 telephone inquiries per day. If each telephone information operator processes 90 inquiries per day, the DOR will need an additional 42 Revenue Processing Technicians 1 to process the phone calls ($1.1 \text{ million notices} \times 90\% = 990,000 \text{ annual telephone inquiries} / 260 \text{ work days} / 90 \text{ inquiries per day per operator} = 42.3 \text{ FTE}$). The department will require equipment, floor space and expenses associated with this FTE requirement.

Written Correspondence:

It is estimated that 5% of the 1.1 million cancellation notices sent will result in written correspondence to the DOR from the individual(s) receiving the notice. This will require staff to research the issues presented in the correspondence and prepare a written response. Based on current department expectations, one (1) FTE can research and prepare 30 written correspondence responses per day. Therefore, the DOR expects to respond to 55,000 correspondences per year ($1.1 \text{ million} \times 5\%$). Assuming 260 work days per year, 212 pieces of correspondence will be received per day; if each staff processes/responds to 30 pieces of correspondence per day, 7 FTE Revenue Processing Technicians I will be needed to handle the increase in workload ($55,000 \text{ correspondence} / 260 \text{ work days} / 30 \text{ responses per day} = 7 \text{ FTE}$). The department will require equipment, floor space and expenses associated with this FTE requirement.

Document Imaging:

The proposal will require 2 million documents be digitally imaged in order for the DOR to meet its document retention obligations. One staff person can image 7,500 documents per day; therefore, the DOR will need one (1) FTE Photographic Machine Operator ($2 \text{ million documents} / 7,500 \text{ documents imaged per day} / 260 \text{ work days} = 1 \text{ FTE}$). This FTE will require necessary equipment, expenses, and work space.

The Motor Vehicle Bureau (MVB) will require the purchase of 1 high volume document imaging machine at a cost of \$25,000 (cost includes software license).

ASSUMPTION (continued)

Management/Supervision:

The requirements of this proposal will create an entire new unit within the MVB which will require management and supervision in order to properly administer the program. A unit of this size will require one (1) Revenue Manager Band I and two (2) supervisors to provide the management and supervisory services to the new unit. The DOR will require equipment, floor space and expenses associated with this FTE requirement.

Public Communication:

The DOR will be required to incorporate the requirements of this proposal into the department's website. This will require 120 hours of overtime for research and development by an Administrative Analyst III. The total cost for FY 11 is estimated to be \$2,551.

Special Note Regarding Office Space:

The physical space for work area which is required for the FTE resources associated with this fiscal note is not available within the MVB. This may result in the Office of Administration procuring office space outside of the current bureau location resulting in additional unknown costs.

Other Cost Increases:

The DOR estimates annual postage costs will increase \$24,200 (55,000 pieces of correspondence X \$0.44/piece). In addition, form and envelope costs will increase approximately \$2,338 annually.

Driver License Bureau (DLB)

Section 303.406.3(1) of this proposal requires the DLB to provide the designated agent with the self-insured records for inclusion in the insurance database. The DLB assumes the self-insured records would be provided to the designated agent in electronic format. The DLB currently utilizes a self-insured database. Only a minimum amount of data is entered into this database due to a lack of adequate staffing for the high volume of self-insured vehicles covered under this program.

For FY 09, there were 57,306 self-insured vehicles covered. A Revenue Processing Technician I can research and key enter 45 vehicle records daily. Assuming the number of self-insured

ASSUMPTION (continued)

vehicles would remain the same in the next fiscal year, the DLB would need to hire five (5) FTE Revenue Processing Technicians I to process the volume of self-insured vehicles (57,306 self-insured vehicles / 260 working days per year / 45 transactions per day = 4.9 FTE).

OAIT Information Technology

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

REVENUE IMPACT

Funding for creation of database to be via the “Insured Vehicle Identification Database Fund,” which is to be funded by a tax on motor vehicle insurance policy premiums. Provisions of the proposal are not clear as to whether funds will be available from the Fund to the DOR for its obligations or if the fund is only for the database established by the Department of Insurance, Financial Institutions, and Professional Registration. The DOR assumes it will not receive monies from this fund and assumes all costs will be covered by the General Revenue Fund.

In total, excluding unknown rental space expense, the DOR estimates the FY 11 impact of this proposal to be \$2,594,549; FY 12 costs of \$2,570,995; and FY 13 costs of \$2,647,328.

Oversight has, for fiscal note purposes only, changed the starting salary for Telephone Information Operators (42 FTE), Revenue Processing Technicians I (12 FTE), Revenue Section Supervisor (2 FTE) and Photographic Machine Operator (1) to correspond to the second step above minimum for comparable positions in the state’s merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months of FY 2002 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of Administration (COA) - Facilities Management, Design and Construction (FMDC)** state, in response to DOR’s fiscal request for additional space to accommodate 58 staff in a new building, it appears the additional staff to be hired by the DOR could be accommodated within existing leased or owned space in Jefferson City. However, there would be a cost for phone, data and some renovations to accommodate the staff. The COA-FMDC estimates leasing/rental space cost for the proposal at \$53,200 annually.

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

ASSUMPTION (continued)

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

Officials from the **Missouri House of Representatives** did not respond to our request for a statement of fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2011	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Loss - DIFP</u>			
Premium tax revenue to Insured Motorist Fund	<u>(\$94,730,049)</u>	<u>(\$94,730,049)</u>	<u>(\$94,730,049)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$94,730,049)</u>	<u>(\$94,730,049)</u>	<u>(\$94,730,049)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2011	FY 2012	FY 2013
INSURED MOTORIST FUND			
<u>Income - DIFP</u>			
Premium tax revenue from General Revenue Fund	\$94,730,049	\$94,730,049	\$94,730,049
<u>Costs - DIFP</u>			
Personal service (3.0 FTE)		\$0 or	\$0 or
	(\$82,482)	(\$101,453)	(\$103,989)
Fringe benefits	(\$43,254)	\$0 or (\$53,202)	\$0 or (\$54,532)
Database and maintenance cost	(\$7,000,000 to \$10,000,000)	\$0 or (\$300,000)	\$0 or (\$300,000)
Equipment and expense	(\$14,631)	\$0 or (\$11,180)	\$0 or (\$11,515)
Total <u>Costs</u> - DIFP	<u>(\$7,140,367 to \$10,140,367)</u>	<u>(\$0 to \$465,835)</u>	<u>(\$0 to \$470,036)</u>
FTE Change - DIFP	3 FTE	0 to 3 FTE	0 to 3 FTE
<u>Costs - DOR</u>			
Personal service (58 FTE)	(\$1,264,760)	\$0 or	\$0 or
		(\$1,558,339)	(\$1,605,089)
Fringe benefits	(\$663,240)	\$0 or	\$0 or
		(\$817,193)	(\$841,709)
Equipment and expense	(\$576,577)	\$0 or (\$81,240)	\$0 or (\$82,880)
Total <u>Cost</u> - DOR	<u>(\$2,504,577)</u>	<u>(\$0 or \$2,456,772)</u>	<u>(\$0 or \$2,529,678)</u>
FTE Change - DOR	58 FTE	0 or 58 FTE	0 or 58 FTE
<u>Costs - COA-FMDC</u>			
Leasing/rental costs for DOR	(\$44,333)	\$0 or (\$53,200)	\$0 or (\$53,200)
ESTIMATED NET EFFECT ON INSURED MOTORIST FUND	<u>\$82,040,772 to \$85,040,772</u>	<u>\$91,754,242 or \$94,730,049</u>	<u>\$91,677,135 or \$94,730,049</u>
Estimated Net FTE Change on Insured Motorist Fund	61 FTE	0 or 61 FTE	0 or 61 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2011	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal replaces the Motorist Insurance Identification Database Act which expired June 30, 2007, with the Insured Vehicle Identification Network Act to track insured motorists, identify uninsured motorists, and maintain this information in a statewide database. In its main provision, the proposal: (1) Requires the Department of Insurance, Financial Institutions and Professional Registration, in collaboration with the departments of Revenue and Public Safety, to establish and operate for six months the Insured Vehicle Identification Network Pilot Program. At the end of the six-month period, the Department of Insurance, Financial Institutions and Professional Registration may continue the program, terminate the program, or continue the program and submit a recommendation to terminate it to the General Assembly by December 31, 2010. The General Assembly may, upon receiving the termination recommendation, authorize the department to terminate the program by enacting a concurrent resolution within the first 60 days of the first regular session of the Ninety-sixth General Assembly; (2) Creates the Insured Motorist Fund and specifies that all fees from the program must be deposited into the fund; (3) Requires the department to annually review the operation and performance of the program and submit a report of its findings to the General Assembly by January 15, 2011, and every year thereafter, if the program has not been terminated; (4) Requires the designated agent of the program to notify the Department of Revenue of any vehicle owner who cannot be identified as maintaining financial responsibility. The Department of Insurance, Financial Institutions and Professional Registration, in consultation with the Department of Revenue, will determine the intervals for notification. Upon receiving the notification, the Department of Revenue will review the list and authorize the designated agent to notify owners of their noncompliance; and (5) Authorizes the Department of Insurance, Financial Institutions and Professional Registration to enter into reciprocal agreements with other states for the mutual use of the information contained in the database and similar information contained in a database operated by another state.

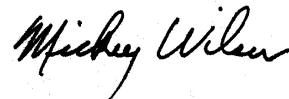
The proposal contains an emergency clause.

This legislation is not federally mandated.

SOURCES OF INFORMATION

Office of Administration -
 Administrative Hearing Commission
 Facilities Management, Design and Construction
Department of Insurance, Financial Institutions, and Professional Registration
Department of Revenue
Department of Public Safety -
 Missouri State Highway Patrol
Missouri Senate
Office of Secretary of State
Office of State Treasurer

NOT RESPONDING: Missouri House of Representatives



Mickey Wilson, CPA
Director
April 20, 2010