

MEMORANDUM

TO: The Joint Budget Committee

FROM: Scott Thompson, Joint Budget Committee Staff x4957

SUBJECT: Conference Committee on H.B. 16-1415 (DMV Funding)

DATE: April 13, 2016

Current law provides counties with the authority to retain a portion of the fee for driver's licenses when they are the agency issuing the license. Counties with a population that exceed 100,000 are permitted to retain \$8.00, while counties with a population of less than 100,000 can retain \$13.60. While H.B. 16-1415 was making its way through the Senate, a county clerk identified that while the fee for driver's licenses has increased and will increase again under the bill, the part of the fee that counties may retain remains unchanged. This led to an amendment adopted by the Senate, which increased the amount counties may retain to \$13.00 and \$18.00 respectively.

After the Senate adopted the amendment, the Department explained to JBC staff that the change will reduce anticipated revenue in its calculations by \$717,000 in FY 2016-17, which results in the Department requiring an additional \$717,000 appropriation to continue providing services at the same level of customer service and continue reducing wait times. This effectively reduces the anticipated new revenue for the Department that is generated from the increased fee by a like amount.

One of the goals of providing the Department of Revenue with an appropriation of \$2.0 million from the Highway Users Tax Fund Off-the-Top was to allow the Department of Revenue to begin managing the Licensing Services Cash Fund in a manner that allows the DMV to build a balance in strong years and expend that balance in lean years. If the Department does not receive an additional \$717,000 from some source, this goal is unlikely to succeed. If the bill delayed increases to the county share of fees for driver's licenses until FY 2017-18, no change would need to be made in the bill and adjustments for the FY 2017-18 budget can be addressed during the regular budget process.

The current bill phases in the driver's license fee over three years. Beginning in FY 2016-17, the fee increases to \$26 and finally in FY 2018-19, the fee reaches \$28. The Committee could amend the bill to phase in the increase of revenue that counties may retain, which would reduce the amount of additional funding needed to fully fund the DMV in FY 2016-17. This would still have a detrimental impact on the Department being able to manage the Licensing Services Cash Fund.

JBC staff has provided the Committee with a few options for it to consider on the following pages. The first table is a summary of how each option would affect FY 2016-17.

H.B. 16-1415 FY 2016-17 Estimated Revenue					
Fee Description	Current Bill	Option A	Option B	Option C	Option D
Total new revenue from fee increases	1,776,850	1,776,850	1,776,850	1,776,850	1,776,850
DOR-estimated revenue reduction from Senate version of the bill ¹	<u>(717,000)</u>	<u>0</u>	<u>(286,800)</u>	<u>(430,200)</u>	<u>0</u>
Total Estimated Revenue Increase	1,059,850	1,776,850	1,490,050	1,346,650	1,776,850

¹Estimate assumes the \$717,000 number provided by the Department of Revenue was calculated by multiplying county issuance rates by \$5

Option A

Option A phases in the county share increase over two years and postpones the first year of increases until FY 2017-18. In FY 2017-18, the amount of the fee the county may retain is increased to \$10 for counties with a population that exceeds 100,000 and to \$15 for counties with populations lower than 100,000. Then in FY 2018-19, the county share is increased for a final time to \$13 and \$18, respectively. This option does not require any further change to the appropriations included in the bill.

Option A County Share of Drivers' License Fee			
	FY 2016-17	FY 2017-18	FY 2018-19
County Share of Drivers' License Fee			
Counties with Population > 100,000	8.00	10.00	13.00
Counties with Population < 100,000	13.60	15.00	18.00

Option B

Option B phases in the county share increase over three years. In FY 2016-17, the amount of the fee the county may retain is increased to \$10 for counties with a population that exceeds 100,000 and to \$15 for counties with populations lower than 100,000. This increases to \$12 and \$17 respectively in FY 2017-18 and finally to \$13 and \$18 respectively in FY 2018-19. If the Committee decides on Option B, it will need to appropriate an additional \$286,800 from either the General Fund or the Highway Users Tax Fund Off-the-Top.

Option B County Share of Drivers' License Fee			
	FY 2016-17	FY 2017-18	FY 2018-19
County Share of Drivers' License Fee			
Counties with Population > 100,000	10.00	12.00	13.00
Counties with Population < 100,000	15.00	17.00	18.00

Option C

Option C also phases in the county share increase over three years, but varies how much it is increased by fiscal year. In FY 2016-17, the amount of the fee the county may retain is increased to \$11 for counties with a population that exceeds 100,000 and to \$16 for counties with populations lower than 100,000. This increases to \$12 and \$17 respectively in FY 2017-18 and finally to \$13 and \$18 respectively in FY 2018-19. If the Committee decides on option B, it will

need to appropriate an additional \$430,200 from either the General Fund or the Highway Users Tax Fund Off-the-Top.

Option C County Share of Drivers' License Fee			
	FY 2016-17	FY 2017-18	FY 2018-19
County Share of Drivers' License Fee			
Counties with Population > 100,000	11.00	12.00	13.00
Counties with Population < 100,000	16.00	17.00	18.00

Option D

Option D postpones the effective date of the county share increase by one year, but makes the increase entirely in FY 2017-18. Selecting this option not change DMV funding for FY 2016-17, and would not require any additional appropriation this year. The revenue effect the change will have on the Licensing Services Cash Fund would be addressed during the regular budget process for FY 2017-18.

Option D County Share of Drivers' License Fee			
	FY 2016-17	FY 2017-18	FY 2018-19
County Share of Drivers' License Fee			
Counties with Population > 100,000	8.00	13.00	13.00
Counties with Population < 100,000	13.60	18.00	18.00

The Department has expressed a desire to keep the bill in its current form, with the county's share increasing all in FY 2016-17 and funding the \$717,000 reduction with an increase to the appropriations from the General Fund and HUTF. Phasing in fees over several years complicates the model the Department uses to project cash flow cycles. Further, phasing in the county share of the fee over several years means that the Department will not have a stable or established baseline on its cash flow until after the final year of fee changes.

There is approximately \$1.3 million in the HUTF that is still below the 6 percent allowable growth.

JBC staff recommends the Committee approve Option D because it allows JBC staff and the Department to work on the effect the increased county share will have on the Licensing Services Cash Fund in the FY 2017-18 budget. It also does not require any increased appropriations in FYU 2016-17. Further, the Department has said that while it prefers keeping the bill in its current form, Option D is more preferable than the other alternatives.