



Legislative
Council Staff

Nonpartisan Services for Colorado's Legislature

**FINAL
FISCAL NOTE**

| | | | |
|-------------------------|---|------------------------|--|
| Drafting Number: | LLS 18-1042 | Date: | July 19, 2018 |
| Prime Sponsors: | Rep. Bridges; Neville P. Sen. Scott; Zenzinger | Bill Status: | Signed into Law |
| | | Fiscal Analyst: | Ryan Long 303-866-2066 RyanC.Long@state.co.us |

Bill Topic: ELECTRONIC FILING TITLE REGISTRATION MOTOR VEHICLE

Summary of Fiscal Impact:

| | |
|---|---|
| <input checked="" type="checkbox"/> State Revenue (<i>minimal, conditional</i>) | <input checked="" type="checkbox"/> TABOR Refund (<i>minimal</i>) |
| <input checked="" type="checkbox"/> State Expenditure (<i>conditional</i>) | <input checked="" type="checkbox"/> Local Government (<i>conditional</i>) |
| <input type="checkbox"/> State Transfer | <input type="checkbox"/> Statutory Public Entity |

Under this bill, the Department of Revenue (DOR) may authorize third-party providers to electronically process registration, lien, and titling information, distribute license plate inventory, and distribute DOR's registration information to business entities. Conditional on the receipt of sufficient gifts, grants, or donations, beginning in FY 2018-19, this bill will increase state expenditures and decrease local government revenue on an ongoing basis.

Appropriation Summary: In FY 2018-19, and conditional upon receiving sufficient gifts, grants, and donations, this bill requires cash fund spending authority for gifts, grants, or donations received by the Department of Revenue of \$1,187,502.

Fiscal Note Status: The fiscal note reflects the enacted bill.

**Table 1
Conditional State Fiscal Impacts Under HB 18-1299**

| | | FY 2018-19 | FY 2019-20 |
|---------------------|------------------------|---------------------|-------------------|
| Revenue | Cash Funds | \$1,227,375 | \$209,935 |
| | Total | \$1,227,375* | \$209,935* |
| Expenditures | Cash Funds | \$1,187,502 | \$171,950 |
| | Centrally Appropriated | \$39,873 | \$37,985 |
| | Total | \$1,227,375 | \$209,935 |
| | Total FTE | 3.1 FTE | 2.9 FTE |
| Transfers | | - | - |
| TABOR Refund | General Fund | - | - |

* Cash funds for this bill are required to come from gifts, grants, or donations. These amounts do not affect the TABOR refund

Summary of Legislation

Under current law, the Department of Revenue (DOR) may establish a system to allow the electronic transmission of registration, lien, and titling information for motor vehicles. To implement this system, the bill allows the DOR to adopt rules to: maintain titling information electronically; accept electronic signatures on any documents; eliminate any notarization requirements for document signatures; allow all parties to electronically file and release lien information; and authorize third-party providers to process registration, lien, and titling information on behalf of a business entity.

Third-party title and registration transactions. The DOR's approval of third-party providers to register a vehicle, file or release liens, or issue a vehicle title must be evidenced by an agreement between the third-party and the DOR. Third-party providers may charge a vendor fee for electronic registration, lien, or titling transactions. To implement these provisions, the bill requires the DOR to use gifts, grants, or donations.

Electronic interface. Under current law, tow carriers, insurers, and salvage pools use an electronic system to access the DOR's records to verify and contact a vehicle's owner or lienholder. This bill allows a motor vehicle dealer or person approved by the DOR to access this system for the same purposes.

Rental company titling. This bill allows a motor vehicle rental company to obtain a title without a manufacturer's certificate of origin if the business presents an electronic manufacturer's statement of origin to the DOR and submits a signed affidavit attesting that the motor vehicle is new and has not been issued a title.

Background and Assumptions

Third-party title and registration transactions. In FY 2016-17, there were a total of 9.7 million title and registration transactions completed by the DOR and County Clerk and Recorders. Of these transactions, approximately 1.0 million were completed on vehicles that are owned by business entities, representing about 10.5 percent of all title and registration transactions. Based on a March 2017 American Association of Motor Vehicle Administrators (AAMVA) survey, there are currently 8 entities that are established to provide electronic vehicle registration, lien, or titling services. Of the 16 states that have third-party providers, no state had all 8 operating in their state. For the fiscal note, it is assumed that there will be up to 5 third-party providers for business transactions. It is assumed that the following 2,658 entities will enter into an agreement with a third-party provider:

- of the 2,994 motor vehicle distributors, auctioneers, dealers, and wholesalers, 75 percent, or 2,246;
- of the 1,558 used motor vehicle and powersports dealers licensed in Colorado, 25 percent, or 390;
- 10 financial institutions; and
- 12 rental car companies.

Electronic interface. Under current law, the DOR provides a user interface for tow operators, insurers, salvage pools, and law enforcement to perform Colorado records searches related to abandoned vehicles. Records are used to return stolen vehicles and to notify relevant parties that a vehicle will be sold at auction if not claimed. This system is currently maintained by

a vendor and will be transferred to the DRIVES database in August 2018. Tow operators, insurers, and salvage pools pay a fee of \$2.20 for each vehicle search performed; there is no charge for vehicle searches performed by law enforcement. If passed, Senate Bill 18-183 will also extend this system to the agent of an insurance carrier.

State Revenue

The DOR must receive sufficient gifts, grants, or donations to implement provisions related to allowing third parties to complete title and registration activities. The bill is therefore expected to increase state revenue from gifts, grants, or donations to support the program. As of this writing, no gifts, grants, or donations have been identified. Revenue received from gifts, grants, or donations will be credited to the DRIVES Vehicle Services Account. Gifts, grants, and donations are exempt from TABOR requirements.

Beginning in FY 2019-20, the bill will minimally increase revenue to the DRIVES Vehicle Services Account, which is administered by DOR. The fee for each search is currently \$2.20; the number of searches is not expected to change significantly under this bill.

TABOR Refund

This bill minimally increases state revenue from fees, which will increase the amount of money required to be refunded under TABOR for FY 2018-19 and FY 2019-20. Since the bill minimally increases the TABOR refund obligation without a corresponding change in General Fund revenue, the amount of money available in the General Fund for the budget will decrease by an identical amount. State revenue subject to TABOR is not estimated for years beyond FY 2019-20.

State Expenditures

Conditional upon the DOR receiving sufficient gifts, grants, or donations to allow third parties to complete title and registration activities, as permitted by the bill, state cash fund expenditures will increase by \$1,227,375 and 3.1 FTE in FY 2018-19 and \$209,935 and 2.9 FTE in FY 2019-20. These impacts are summarized in Table 2 and described below.

Table 2
Expenditures Under HB 18-1299

| Cost Components | FY 2019-20 | FY 2020-21 |
|---|--------------------|-------------------|
| Department of Revenue | | |
| Personal Services | \$172,858 | \$169,195 |
| Operating Expenses and Capital Outlay Costs | \$17,054 | \$2,755 |
| Computer System Changes | \$997,590 | - |
| Centrally Appropriated Costs* | \$39,873 | \$37,985 |
| FTE – Personal Services | 3.1 FTE | 2.9 FTE |
| Total | \$1,227,375 | \$209,935 |
| Total FTE | 3.1 FTE | 2.9 FTE |

* Centrally appropriated costs are not included in the bill's appropriation.

Department of Revenue. This bill will require 3.1 FTE in FY 2018-19 and 2.9 FTE in FY 2019-20 in the DOR. Costs in the first year were adjusted to account for an assumed implementation date of August 2018 to allow the department time to implement the provisions in the bill.

Title and Registration section. The Title and Registration section of the DOR will require 1.7 FTE in FY 2018-19 and 1.9 FTE in FY 2019-20 and future years to serve as a dedicated liaison between the department and third-party providers to assist with record management and customer support. Staff time will also increase to provide training to third-party providers and to perform systems testing on third-party provider systems. Expenditures for Title and Registration staff are paid from the DRIVES Vehicle Services Account, and are conditional on the receipt of gifts, grants, and donations.

Accounting and Financial Services section. The Accounting and Financial Services section in DOR will require 1.4 FTE in FY 2018-19 and 1.0 FTE in FY 2019-20 and future years to reconcile accounts for new vendors; reconcile the general ledger and payment interfaces with the state's accounting system; and ensure the proper distribution of funds to taxing jurisdictions. Accounting and Financial Services FTE are conditional on the receipt of gifts, grants, and donations.

Computer system changes. In FY 2018-19 only, this bill will increase cash fund expenditures by \$981,000 to program the DRIVES system to create a new web service interface; configure and create DRIVES accounts for each approved third-party; and create a process in DRIVES to audit third-party provider transactions. These changes will be completed by a vendor, and will require 4,360 hours of work at \$225 per hour. Expenditures for the DRIVES systems changes are paid from the DRIVES Vehicle Services Account, and are conditional on the receipt of gifts, grants, or donations.

In FY 2018-19, this bill will also require network modifications and security to facilitate vendor applications. These changes will require 1,300 hours at various rates, for a total of \$16,590, and are conditional on the receipt of sufficient gifts, grants, or donations.

Access to electronic interface. Beginning in FY 2019-20, workload will increase in the DOR to annually establish new accounts, process payments for searches performed, and maintain accounts for approved entities to access the DOR's electronic records to verify and contact a vehicle's owner or lienholder. Workload will also increase to provide training and update rules, forms, manuals, and websites to reflect this change. This workload can be accomplished within existing appropriations.

Legal services. To the extent that DOR engages in rulemaking to allow third-parties to complete title and registration activities, workload will increase in the Department of Law to provide legal services. This workload is expected to be minimal and can be accomplished within existing appropriations.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance, leased space, and supplemental employee retirement payments, are estimated to be \$39,873 in FY 2018-19 and \$37,985 in FY 2019-20. These costs are conditional the receipt of sufficient gifts, grants, or donations.

Local Government

Under current law, a vendor fee is retained by counties to recover the costs of monitoring and processing the collection of state, Regional Transportation District (RTD), special district, county, and city taxes. Municipalities establish a contract with counties to set vendor fee rates, and these rates vary depending on the county. Under this bill, conditional upon DOR rulemaking, third-party providers will collect sales and use taxes, and therefore retain the vendor fee. In 2017, approximately \$967 million in sales and use taxes were collected by counties, which retained vendor fees of \$32.3 million. Allowing transactions to be completed by third-party providers is estimated to decrease the vendor fee collected by counties by approximately \$3.2 million in 2019.

County Clerk and Records offices will also experience a decrease in customers obtaining title and registration services at motor vehicle offices. While this bill is not expected to affect overall staff levels for county offices, it will increase the amount of time available for staff to perform other required duties and reduce annual growth for county offices.

Effective Date

The bill was signed into law by the Governor on May 29, 2018, and takes effect July 1, 2019, assuming no referendum petition is filed.

State Appropriation

In FY 2018-19, the bill requires an appropriation from the DRIVES Vehicle Service Account in the amount of \$1,187,502 to the Department of Revenue, conditional upon the receipt of gifts, grants, or donations.

State and Local Government Contacts

Counties
Information Technology
Regulatory Agencies

Counties
Personnel
Revenue

County Clerks
Public Safety