

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4207-02
Bill No.: Perfected HB 1081
Subject: Revenue, Department Of; Taxation and Revenue - General; Licenses - Driver's;
 Licenses - Motor Vehicle
Type: Original
Date: February 20, 2014

Bill Summary: This proposal would create the Paperless Documents and Forms Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	More than \$100,000	More than \$100,000	More than \$100,000
Total Estimated Net Effect on General Revenue Fund	More than \$100,000	More than \$100,000	More than \$100,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Road	More than \$100,000	More than \$100,000	More than \$100,000
Total Estimated Net Effect on <u>Other</u> State Funds	More than \$100,000	More than \$100,000	More than \$100,000

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	0	0	0

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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** provided the following response.

Section 32.029, RSMo. - Paperless Documents and Forms Act:

DOR officials noted this provision would create the "Paperless Documents and Forms Act." The legislation would require DOR to develop and implement a method that provides all records, documents, returns, etc. to the public in an electronic format.

Section 32.400, RSMo. - Electronic Notifications:

Officials from DOR noted this provision would allow DOR to notify persons, using electronic means, to carry out the responsibilities of the Department relating to motor vehicles, drivers license, and collection of tax. This means would also satisfy the requirement of using certified mailings if the taxpayer or license holder agrees to this method of notification.

Estimated postage and mailing cost reductions

DOR officials assume the proposal would result in significant cost savings due to the reduction in printing, forms, and postage by utilizing an electronic notification process.

In FY 2013, Personal Tax sent 926,084 notices or pieces of correspondence; 697,523 pieces were sent regular mail at a cost of \$366,200 and 228,561 pieces were sent certified mail at a cost of \$813,677. DOR officials assume the correspondence could be eliminated using electronic notifications, generating potential savings (with 100% participation) of $(\$366,200 + \$813,677) = \$1,179,877$ per year.

During a calendar year, Collections and Tax Assistance sends approximately 134,800 notices and correspondence through regular mail each year at a cost of \$70,770. DOR officials assume the correspondence could be eliminated using electronic notifications, generating potential savings (with 100% participation) of \$70,770 per year.

ASSUMPTION (continued)

During a calendar year, Business Tax sends approximately 732,000 notices and correspondence by regular and certified mail at a cost of \$827,400. DOR officials assume the correspondence could be eliminated using electronic notifications, generating potential savings (with 100% participation) of \$827,400 per year.

DOR officials stated that "Notices of Intent to Offset" were not included in the savings calculations since the Department is required by the federal government to send these by certified mail.

DOR officials stated that the Motor Vehicle Bureau response has changed from previous years. The Department has determined it would create a self service web portal within the DOR website by which a citizen would be able to create and maintain a user account. The web portal would provide the ability to submit identifying information and an email address that could receive electronic motor vehicle and driver license renewal notices. Once an account is created, the citizen would be responsible for maintaining accurate information and a current email address in their individual account. This option would be available for renewal notices for motor vehicles, trailers, marine units, and ATV's.

This proposal would result in savings to the Department on the cost of postage (\$.268 per renewal notice) and card stock (\$.022 per renewal notice). Envelopes are not needed for renewal notices.

DOR officials noted that by eliminating some portion of renewal notices currently sent by ordinary mail the amount of savings would depend on the level of participation in the electronic notification system. The Department does not anticipate a large participation percentage of registered owners during the first three years of implementation. Assuming at least a 15% participation level in the first year of implementation, 25% the second, and 37% the third, the Department could anticipate savings reflected when electronic renewal notices are implemented.

Approximately 100,000 Marine renewal notices and 3,600,000 Motor Vehicle renewal notices are sent out each year. At \$0.29/notice, the estimated savings at a 15% participation would be \$80,475; at a 25% participation rate, \$268,250; and at a 35% participation rate, DOR would save an estimated \$375,550.

DOR officials also noted that Motor Vehicle Bureau receives a discount on postage due to the amount of each bulk mailing, and the unit cost reflected (\$.268) is an average cost.

ASSUMPTION (continued)

Estimated postage and mailing costs for the Driver License Bureau (DLB) have been developed based on a total of 771,413 driver license postcards mailed during FY 2013.

Estimated cost per card for FY 2014	\$0.022
Estimated postage cost per notice for FY 2014	\$0.268
Estimated State Data Center cost per notice	<u>\$0.009163</u>
Total Estimated FY 14 Cost Per Renewal Notice Mailed	<u>\$0.299163</u>

The DOR estimate of Drivers License Renewal Postcards for FY 2013 was
 $(771,413 \times \$0.299) = \$230,652$

DOR officials stated that the cost savings estimate for DLB based on an estimated 15% participation rate for electronic notifications in the first year of implementation, saving $(771,413 \times \$0.299 \times .15) = \$34,598$. An increase to 25% participation in the second year would save $(771,413 \times \$0.299 \times .25) = \$57,663$, and an increase to 35% participation in the third year of implementation would save $(771,413 \times \$0.299 \times .35) = \$80,729$.

In total, the DOR response included savings from reduced postage, printing, and mailing of \$2,193,120 for FY 2015, \$2,403,960 for FY 2016, and \$3,254,326 for FY 2017.

Estimated cost to implement

DOR officials assume the proposed changes would require administrative and management personnel to prepare and review forms and procedures.

Procedures would need to be revised by a Management Analyst Specialist I requiring 40 hours of overtime at a cost of \$840 in FY 2015.

The Department's web site would need to be updated to include information regarding the availability of electronic renewal notices and the web portal. This would require 10 hours of overtime for an Administrative Analyst III, at a cost of \$230 in FY 2015.

Renewal notices would need to be modified to include information regarding the availability of electronic renewal notices and the web portal. This would require 40 hours of overtime for a Management Analyst Specialist I at a cost of \$840 in FY 2015.

ASSUMPTION (continued)

Forms would need to be modified to include information regarding the availability of electronic renewal notices and the web portal. This would require 40 hours of overtime for a Management Analyst Specialist I at a cost of \$840 in FY 2015.

The renewal process would need updating and testing for conversion into a suitable format for electronic distribution. This would require 40 hours for a Revenue Manager Band I at a cost of \$1,040 in FY 2015 and 40 hours for a Management Analyst Specialist I at a cost of \$840 in FY 2015.

The DOR response included a total of \$25,750 in overtime costs for existing staff to implement the proposal.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$43,680 based on 1,600 hours of programming to make changes to DOR systems.

Bill as a whole responses

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost 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 **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

ASSUMPTION (continued)

Oversight assumptions

Oversight notes the proposal would require the Department of Revenue to begin development of the program no later than January 1, 2015, with implementation required by January 1, 2021.

The Department of Revenue response, however, assumes implementation and related cost savings in FY 2015. Oversight assumes the Department of Revenue estimates of participation in the proposed electronic notification system may be reasonable but will not, for fiscal note purposes, assume that full implementation and projected cost reductions could be realized in FY 2015, FY 2016, or FY 2017.

Oversight also notes the projected savings for this program are significantly greater than the estimated cost; accordingly, Oversight will assume the Department of Revenue could have significant savings from this program beginning in FY 2015. For fiscal note purposes, Oversight will reflect annual savings of more than \$100,000 in addition to the cost of the program for the General Revenue Fund. Oversight will also reflect savings of more than \$100,000 to the state's road funds since the Department of Revenue operates licensing programs for vehicles and drivers from the state's road funds subject to a statutory limitation of 3% of collections.

Oversight assumes the electronic notification process could lead to a potential reduction in Department of Revenue personnel requirements but is not able to estimate the timing or extent of such reductions.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	More than <u>\$100,000</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	More than <u>\$100,000</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
ROAD FUNDS			
<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	More than <u>\$100,000</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
ESTIMATED NET EFFECT ON ROAD FUNDS	More than <u>\$100,000</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

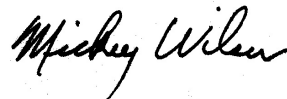
FISCAL DESCRIPTION

The proposal would require the Department of Revenue to develop beginning no later than January 1, 2015, and implement by January 1, 2021, a method by which all documents and forms provided to the public by the department relating to taxes and fees would be available in an electronic format online and capable of electronic submission to the department except those that require a notary or authorization by a third party.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Revenue



Mickey Wilson, CPA
Director
February 20, 2014

Ross Strobe
Assistant Director
February 20, 2014

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