

*Section one -
Transportation Issues -*

**Privatization of DMV's State-operated
Vehicle Registration Offices**

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Issue Statement

This paper assesses the feasibility of privatizing the Department of Transportation's two state-operated vehicle registration offices

Background

All motor vehicles and trailers must be registered and licensed to operate in the state in which the owner is located. Interstate commercial vehicles require proportional or multi-state registration and licenses. There are over 200 million vehicles registered in the United States, of which 6 million are registered in North Carolina. The motor vehicle registration process varies widely among the states.

In North Carolina, the Division of Motor Vehicle's (DMV) Vehicle Registration Section administers licensing, titling, and lien recording activities related to motor vehicles and employs 126 people. Only two of its 127 offices are state-operated (Raleigh and Charlotte); the remainder are contractor-operated branch offices. Of the total vehicle registration volume, 4 percent is from state-operated offices, 87 percent is from contract offices, and 9 percent is mail-in business. During 1991, 6.03 million vehicle registrations (including mail-ins) were processed in North Carolina. Exhibit 1 shows the number of vehicle registrations for five years, which have grown at a compound annual rate of 2 percent.

Currently, North Carolina has an annual volume of 5,479,000 vehicle registrations/renewals. The registration system includes a state-level central office with one state branch office in Charlotte and 119 contractual offices. The system has a central computer to which all contractual offices and the Charlotte branch office have direct input access.

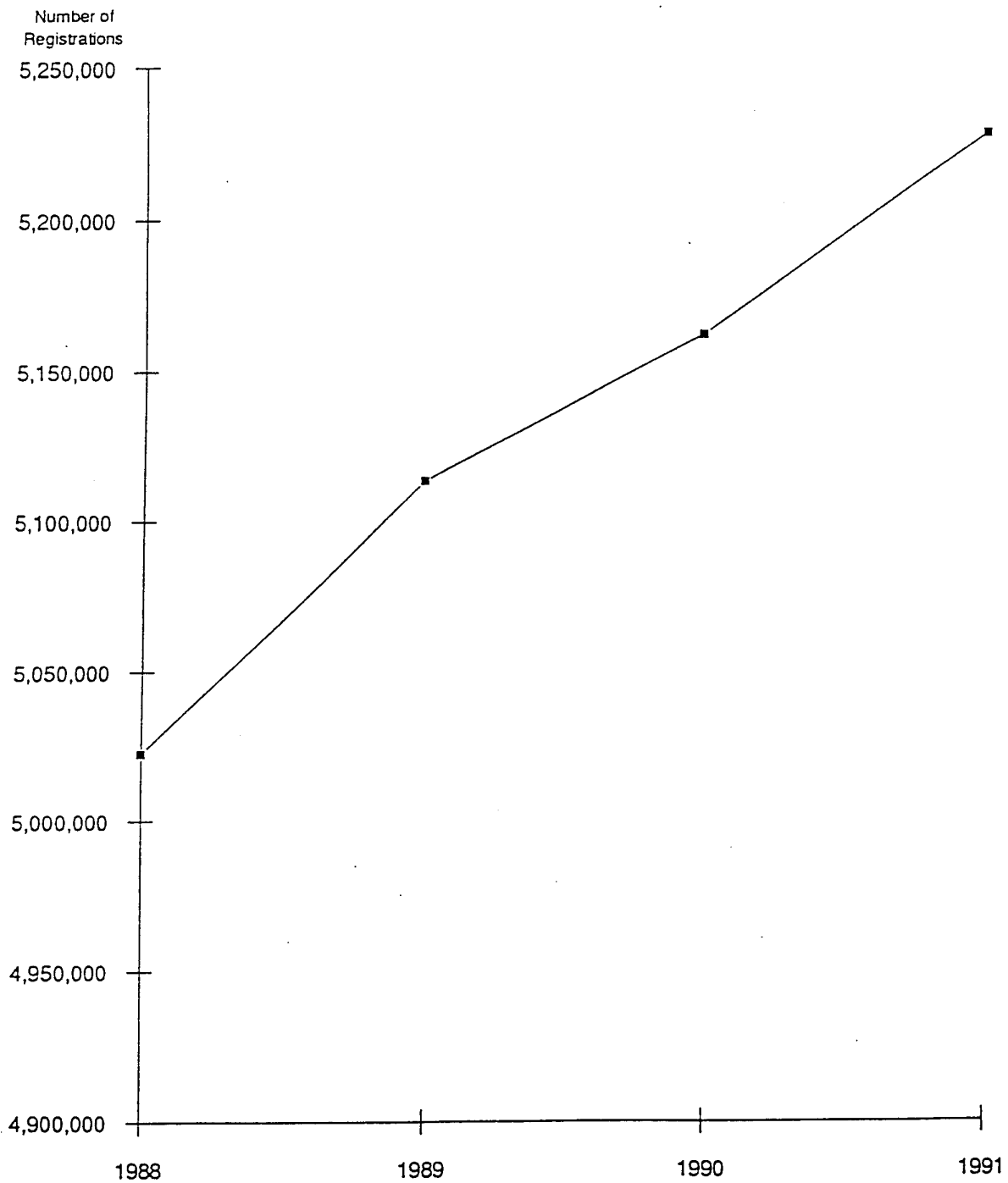
The state-run branch in Raleigh employs 28 people, and the Charlotte branch employs 23, for a total of 51 state employees. In fiscal year 1991, salaries and benefits totaled approximately \$772,000 and \$631,000 for the Raleigh and Charlotte branches, respectively. Besides the normal vehicle registration transactions, these branches typically process more complicated transactions, such as international registrations and instant titles.

Contract license plate agencies are owner-operated businesses that employ at least two people at minimum wage, are open 39 hours a week, and were paid approximately \$7.2 million for processing 7.85 million transactions in fiscal year 1991. The contractors are paid \$.92 per transaction, the lowest of all states we surveyed. Prior to November 1990, they were paid for only half of a transaction when they processed Highway Use Tax items. They are now paid for a full transaction.

These contracts automatically renew unless the contractor violates the contract terms. In some small offices (less than 25,000 transactions), the Chamber of Commerce has the contract since these offices are not thought to be profitable due to the low volume of transactions.

Exhibit 1

North Carolina Vehicle Registrations for 1988 - 1991



NOTE: The above figures do not include the two state offices' registrations, personalized license plates, and approximately 500,000 mail-ins annually

Source: U.S. Department of Transportation Highway Statistics - 1988, 1989, 1990, and 1991

Every transaction processed in the contract offices is reviewed by state employees in the Vehicle Registration Section. DMV also completes the data entry, codes in the insurance company, and prepares the document for microfilming. In addition, DMV assigns new titles, where appropriate.

If any errors are found in the transactions that resulted in a monetary difference, the contract agents are charged for the mistake. Note that this charge only covers the dollar error and does not cover the cost of processing letters to the contract agents or other administrative expenses associated with the error. According to personnel in the Vehicle Registration Section, the contract agents typically make more errors than the state-operated offices because they are more concerned with quantity since their reimbursement is based on the volume of their work.

Findings

Finding 1: It costs approximately \$2.26 more to process a transaction in a state-run office than in a contract office.

To compare the cost of processing a transaction in a DMV-run office to one processed in a contractor-operated office, the "variable costs" of the operations were evaluated. These include salaries, benefits, rent, and utilities for the state offices; and branch agency fees, field supervisors' salaries, and travel for contractor offices. We did not assess "fixed" costs such as telephones, supplies, plates, "Bates" machines, and other office equipment because the state pays for these items for both the state-run offices and the contractors. Based on our analysis, it costs approximately \$2.26 more to process a transaction in a state-run office than in a contract office. (See Exhibit 2)

Finding 2: The Department of Transportation has a modernization plan that calls for the development of automated systems that other states are now completing.

DOT indicated that it had contacted several states a couple of years ago to see if they had systems that could be acquired to replace vehicle registration systems. DOT found that most systems in other states at that time were either old or still under development. Furthermore, DOT's MIS division stated that North Carolina's requirements are unique in many ways.

Recommendations

Recommendation 1: State-operated vehicle registration offices in Raleigh and Charlotte should be privatized to reduce costs and improve productivity.

Based on the cost analysis and productivity comparisons presented above, the state-operated vehicle registration offices in Raleigh and Charlotte should be privatized. The staffing, financial, and service implications of this recommendation are discussed below.

Exhibit 2

Comparison of North Carolina State-run to Contractor-operated Vehicle Registration Offices

OFFICE ATTRIBUTES	REF	STATE-RUN	CONTRACT- OPERATED
Number of locations		2	125
Number of Employees		51	550
Transactions/Year		451,291	7,852,521
Salaries and Benefits		\$1,403,000	\$7,224,319
Rental & Utilities		50,000	303,289
Total "Office Related" Costs		\$1,453,000	\$7,527,608
Cost per Transaction	1	\$3.22	\$0.96
Average Transactions Processed/Employee Day	2	35	57
Avg Number of Minutes per Transaction	3	14	8

1 Cost per transaction = Total "office related" costs /Total transaction per year

2 Avg number of minutes/transaction = no. of minutes/work day (60min/hr*8hr/day) +
no. of transaction per employee/day

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Staffing implications. If the two state-owned vehicle registration offices are privatized, staff can be reduced by 41 over 5 years, assuming only one office will be privatized in the first year and 20 percent of the current staff will be necessary for administrative oversight and quality review of the contractor's work. This 20 percent includes one additional field supervisor. (See Exhibit 3.)

EXHIBIT 3
Estimated Staff Reductions for Ten-year Period

	Current year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6-10
Total staff reductions	0	-26	-25	0	0	0	0
Total driver registration office state employees	51	25	0	0	0	0	0
Additional quality review staff required (cumulative)	0	5	10	10	10	10	10
Cumulative net change in state employee work force	0	-21	-41	-41	-41	-41	-41

Financial implications. Privatizing the Raleigh and Charlotte offices will result in an estimated savings of approximately \$10.6 million over ten years. (See Exhibit 4) This assumes that the average Department of Transportation salary is \$24,059 and the average benefit cost is \$6,351. This estimate accounts for the cost of the additional administrative oversight that would be required for the new contract offices, estimated at 20 percent, and assumes that, in the first year, only one office will be privatized.

Service implications. In addition to the dollar savings, transactions may be processed more quickly if the Raleigh and Charlotte offices are privatized. During 1991, each employee in the contract offices processed an average of 57 transactions per day, whereas the average was 35 in the two state-run offices. In other words, contract offices can process one transaction in 8.42 minutes while the state-run offices take 13.71 minutes. Although the state-run offices

EXHIBIT 4
Estimated Annual Savings
(1992 dollars)

	Fiscal Year ending June 30									
	Current	1994	1995	1996	1997	1998	1999	2000	2001	2002
Yearly	--	\$638,610	\$1,246,810	\$1,246,810	\$1,246,810	\$1,246,810	\$1,246,810	\$1,246,810	\$1,246,810	\$1,246,810
Cumulative	--	\$638,610	\$1,885,420	\$3,132,230	\$4,379,040	\$5,625,850	\$6,872,660	\$8,119,470	\$9,366,280	\$10,613,090

are reported to handle a larger percentage of more complex transactions, there appear to be major differences in the levels of transactions processed.

Implementation considerations

To implement this recommendation, DMV should issue requests for proposals and competitively bid the operation of each office. When a contractor is selected, DMV will need to specify the number of state employees needed to manage the contractor and review the quality of the contractor's work.

To ensure that the contractor's work is performed efficiently and effectively, the state-run quality review process will need to be enhanced.

Recommendation 2: DMV should enhance its automated vehicle registration system and encourage significantly greater use of mail-in registrations and other innovative programs to improve efficiency.

In addition to privatizing these offices, DMV should encourage vehicle owners to mail in their vehicle registration business, thereby reducing the need for 126 vehicle registration offices.

In addition, we recommend that the DMV purchase a computer system that will accommodate direct transmission of registration information by contractors and branch offices to a central system at least on a daily basis. We further recommend that the system be designed to accommodate possible future applications such as direct customer telephone input through automated teller machines and credit card usage. The use of automated teller machines would have to be negotiated with the banks.

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