



The 2012-13 Budget:

Improving Customer Service Efficiency at the DMV

MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 24, 2012

Summary

Currently, the Department of Motor Vehicles (DMV) provides service to over 20 million customers a year and operates 313 facilities. More than half of these facilities are customer service field offices, with the remaining consisting of telephone service centers, commercial licensing facilities, headquarters, and driver safety and investigations offices. In the last decade, DMV has made efforts to improve its efficiency and provide better customer service in field offices and elsewhere, in order to potentially reduce the number of customers that visit field offices.

The 2012-13 Governor's budget includes several proposals to build on these efforts. Specifically, the budget proposes to incentivize DMV customers to complete transactions in ways other than visiting a field office by reducing vehicle registration fees for certain customers, combining two information technology (IT) systems that help to manage the volume of customers in field offices, and expanding the use of electronic driver license testing. The budget also proposes several infrastructure projects, some of which are intended to meet increased demand at DMV field offices due to increases, or shifts, in population.

We find that the Governor's budget proposals have merit and could improve DMV's efficiency by reducing customer wait times and minimizing congestion in field offices. However, based on our analysis, we have identified a number of shortcomings inherent in the proposals. In order to address these shortcomings we recommend that the Legislature modify some of the Governor's proposals, as well as take actions to further expand some of the department's current efforts to increase efficiency and outreach.

BACKGROUND

Overview of the DMV

The DMV is responsible for registering vehicles and for promoting public safety on California’s streets and highways by issuing driver licenses. Additionally, DMV licenses and regulates vehicle-related businesses such as automobile dealers and driver training schools, and collects certain fees and tax revenues for state and local agencies. Currently, the department provides service to over 20 million customers a year and operates 313 facilities, which include customer service field offices, telephone service centers, commercial licensing facilities, headquarters, and driver safety and investigations offices. Over half of all DMV facilities are customer service field offices.

Most of the department’s funding comes from the Motor Vehicle Account (MVA), with additional support from the State Highway Account (SHA), the Motor Vehicle License Fee Account, and reimbursements. The MVA derives its revenues from vehicle registration fees, driver license and identification card fees, and a variety of miscellaneous fees for special permits and certificates. Vehicle registration fees are the primary source of MVA revenues, which consist of (1) a base vehicle registration fee of \$43 per vehicle, (2) a California Highway Patrol (CHP) fee of \$23 per vehicle, (3) a \$3 fee for the repair or replacement of high polluter vehicles, and (4) late payment penalties that vary

from \$20 to \$200 depending on the lateness of the payment. In 2011-12, MVA expenditures are estimated to support the activities of the CHP (63 percent), DMV (30 percent), the California Air Resources Board (4 percent), and various other activities (3 percent).

Recent Efforts to Increase DMV Customer Service and Efficiency

Over the last ten years, DMV has made efforts to improve customer service and increase efficiency, so that customers have additional options for renewing their vehicle registration. These options, which we discuss in more detail, include the use of self-service terminals (SSTs) in DMV field offices to complete vehicle registration renewal transactions, the development of the business partner automation program (BPA), and enabling customers to complete vehicle registration renewal transactions online. The DMV has also recently implemented the automated customer appointment system (CAS), which allows customers coming into field offices to make appointments in advance. Figure 1 summarizes the number of vehicle registration renewals processed in the past four fiscal years using traditional options (such as mailing in renewals, coming into field offices or auto clubs, and using telephone services), as well as more nontraditional options (such as completing renewals over the internet and through business

Figure 1
Vehicle Registration Renewal Transactions

(In Thousands)

Fiscal Year	Mail	Field Office	Internet	Auto Club	Business Partners	Phone	Self-Service Terminals	Totals
2007-08	13,351	7,256	5,051	3,020	387	253	—	29,318
2008-09	11,756	7,403	5,825	3,051	461	174	—	28,670
2009-10	11,341	7,051	6,708	3,016	546	123	—	28,785
2010-11	9,871	6,228	6,749	3,386	667	137	111	27,149

partners and SSTs). As shown in Figure 1, there has been an increase in the use of nontraditional vehicle registration renewal methods since 2007-08.

SSTs. In 2010-11, DMV began, and recently completed the installation of 35 freestanding SSTs in high-volume field offices. These terminals allow customers to complete vehicle registration renewal transactions at a kiosk, rather than using DMV field office staff. The terminals accept multiple methods of payment (including cash, check, credit cards, and debit cards) and provide customers with a printed registration card and sticker upon completion of the transaction. When customers use these terminals, they have very little or no interaction with DMV staff. As a result, these types of transaction are generally less costly than in-person transactions. In 2010-11, over 111,000 vehicle registration transactions were complete at SSTs throughout the state.

BPA. Under existing state law, the DMV is authorized to contract with qualified business partners (such as automobile dealers, vehicle dismantlers, smog test centers, automobile insurers, and rental car companies) for the electronic processing of certain vehicle-related transactions, including vehicle registrations, titling transactions, and issuing vehicle license plates. Since the BPA program began in 2003, an increasing number of businesses have partnered with the DMV. In order to become an approved DMV business partner, a company must comply with certain requirements. Currently, there are over 2,600 businesses throughout the state that provide DMV services. As indicated in Figure 1, 667,000 vehicle registration renewals were completed at business partner locations throughout the state in 2010-11. This is an

increase of over 120,000 transactions, or 18 percent, from the previous year. The cost to the state to use business partners to process vehicle registration renewals is less because DMV does not have to pay for overhead costs related to operating a facility, such as utilities and routine maintenance.

The DMV allows business partners to charge a maximum service charge of \$25 per vehicle registration renewal, and state law requires DMV to charge the business partner a \$4 transaction fee for each transaction processed through the BPA program. Business partners can pass the \$4 DMV transaction fee onto customers, in addition to the \$25 service charge.

Online Vehicle Registration Renewals.

In April 2000, the department began allowing customers to complete vehicle registration renewals online. In 2010-11, over 6.7 million vehicle registration renewals were completed online. There is no additional charge to customers who complete their vehicle registration through the DMV website. Similar to the BPA program, using online services to process vehicle registration renewals cost less than DMV's costs to process them at field offices because online transactions do not include overhead costs related to operating a facility, such as utilities and routine maintenance.

CAS. Currently, DMV customers can schedule a field office appointment prior to their visit by using the CAS process. Specifically, CAS allows field office staff and telephone service center staff to make appointments for DMV customers and allows customers to self-schedule certain appointments through the Internet. The department established the CAS in the mid-1980s and added the online function in 2001.

GOVERNOR'S BUDGET PROPOSALS

The Governor's budget proposes total expenditures of \$967 million (including capital outlay expenditures) to support DMV in 2012-13, which is

a net increase of \$17.5 million, or roughly 2 percent, above estimated current-year expenditures. The net increase is mostly the result of an increase in general

administration costs (\$17 million), an increase to offset DMV costs previously funded from the vehicle license fee (\$23 million), a reduction in capital outlay expenditures (\$33 million), and various other budgetary increases (\$11 million). The budget proposes a staffing level of 8,221 positions for 2012-13, which is a slight decrease compared to the current year. About \$871 million (90 percent) of the department's total funding is proposed to come from the MVA, \$50 million (5 percent) from the SHA, and \$19 million (2 percent) from the Motor Vehicle License Fee Account, and other sources and reimbursements (3 percent).

Budget Proposes to Further Increase DMV Efficiency

The Governor's budget for 2012-13 includes three specific proposals to increase efficiency at DMV field offices. We describe each proposal below.

Reduce Vehicle Registration Fee by \$5 for Certain DMV Customers. The Governor's budget proposes to reduce vehicle registration fees by \$5 for DMV customers who complete vehicle registration renewal transactions through the mail, Internet, phone, business partners, auto clubs, or an SST. This would reduce the base vehicle registration fee from \$43 to \$38 for these particular customers. According to the administration, the intent of the proposal is to reduce the total number of vehicle registration renewal transactions that staff at DMV field offices must process, which would reduce wait times and congestion at the field offices.

The Governor's budget assumes that the above proposal would result in a 10 percent decline in field office vehicle registration renewals. Such a decline would reduce the amount of MVA revenue collected in the budget year by \$75 million and by about \$100 million each year thereafter. The department estimates that this proposal would result in savings of about 19 positions and \$531,000

in 2012-13, and 25 positions and \$706,000 in 2013-14.

Create Centralized Customer Management and Appointment System. As discussed earlier, DMV's CAS process allows customers to make DMV field office appointments through the Internet. In addition to CAS, the department maintains a computer-based customer queuing system that keeps record of real-time workload information, so that field office managers can make staffing adjustments throughout the day to meet customer needs. Currently, these two systems do not interface. However, the Governor's budget requests an augmentation of \$250,000 in 2012-13 to begin the process of modernizing and combining CAS and the department's customer queuing system into one IT system. This new project would use an Internet-based system to manage customers and reduce the amount of time they have to wait at a DMV field office. According to the administration, the intent of the proposal is to reduce the number of customers that visit field offices during peak hours (typically Monday morning, the lunch hour, and workdays immediately following a holiday). The proposed project is estimated to be completed in 2015-16 at a total cost of \$15.7 million. The department intends to fund \$4.2 million of the project with existing resources and request the remaining \$11.5 million in future budget requests (including the \$250,000 being requested in the Governor's 2012-13 budget). Annual ongoing costs for the project are estimated to be \$400,000.

Expand Automated Knowledge Testing Statewide. Currently, individuals can complete driver licensing exams electronically—rather than by paper—at a limited number of DMV field offices. The Governor's budget for 2012-13 proposes \$4.2 million in federal funds to expand this automated testing capability to all field offices, which would result in the installation of additional testing terminals throughout the state.

The proposal is intended to improve customer service by reducing the amount of time it takes to administer driver license tests, which would effectively reduce wait times at DMV field offices. The total cost to complete the project is estimated to be \$9.7 million, with the plan that most of it will be funded with federal funds. The department estimates that the project would result in staff savings of about \$1 million and 20 positions upon full implementation beginning in 2014-15.

Budget Proposes Various Infrastructure-Related Projects

The Governor's budget requests a total of \$3.4 million in one-time funding for DMV to consolidate, relocate, and replace several of its facilities. Specifically, the budget proposes:

- \$760,000 for DMV and the Department of General Services (DGS) to plan for the consolidation of the Palmdale and Lancaster field offices. The project was initially approved in the 2010-11 budget, but funds were reverted in 2011-12 due to project delays.
- \$873,000 for the department to work with DGS to relocate the San Francisco investigations office because the current lessor will not renew DMV's current lease. The budget also includes \$147,000 for rent and other ongoing expenses, such as utilities and telecommunications costs.
- \$2 million to (1) relocate the Escondido field office because the lessor will not renew the lease and (2) support planning activities to relocate the Newhall, Reedley, and Santa Maria field offices due to service capacity deficiencies. The DMV will submit additional funding requests for the Newhall, Reedley, and Santa Maria field offices once DGS has determined whether to pursue leases and/or purchase property to replace these particular field offices.
- \$20,000 to establish a consolidated Commercial Driver License (CDL) center in Northern California. Specifically, the proposal would consolidate the Modesto, Stockton, Vallejo, West Sacramento, and Yuba City CDL activities into one office. According to DMV, new federal regulations require that the department provide additional space to conduct commercial driver tests. The department plans to close the current West Sacramento CDL center and put it on the state's surplus property list to be sold or leased.
- \$562,000 to fund the working drawings phase of the Grass Valley field office replacement project. The 2011-12 budget included funding for the preliminary plans of this project. The total cost of the project is estimated to be \$7.7 million.

GOVERNOR'S PROPOSALS HAVE MERIT, BUT SOME SHORTCOMINGS

The Governor's budget proposals to increase DMV's efficiency have merit and could improve DMV's efficiency by reducing customer wait times and minimizing congestion in field offices.

However, based on our analysis, we have identified a number of shortcomings with the proposals, which we discuss in more detail next.

Proposal Not Most Effective Way to Reduce Field Office Visits

As discussed earlier, the Governor’s budget proposes to incentivize customers to use less costly means of completing vehicle registration renewals by providing a \$5 discount to those who do not directly use the staff services provided at DMV field offices. Figure 2 summarizes the average cost of each type of vehicle registration transaction (such as by mail or using an SST). As shown in the figure, field office transactions are the most costly by far (\$14.74 per transaction) and transactions completed at auto clubs are the least costly (\$3.04 per transaction). The Governor’s proposal assumes that the reduced vehicle registration fee will shift 10 percent of field office transactions to less costly alternatives. As previously mentioned, this shift would result in a \$75 million (or 3 percent) reduction in total MVA revenues in 2012-13 and a reduction of about \$100 million each year thereafter.

We concur with the administration’s objective of reducing the number of registration renewals performed at field offices. We are concerned, however, that the Governor’s approach to changing customer behavior would permanently reduce MVA revenues. Although the fund condition of the MVA is healthy at this time (partly due to recent budget actions to reduce MVA expenditures such as hiring freezes and travel restrictions), it is unlikely

that this trend would persist in the long run. This is because DMV and other departments funded by the MVA (such as CHP) are likely to have future funding requests for additional staff and capital outlay projects that could strain the MVA’s fund condition. (As we have done in recent years, our office will monitor the MVA’s fund condition and advise the Legislature accordingly during its budget deliberations this spring.)

Moreover, we find the resulting reduction in MVA revenues (\$75 million in 2012-13 and about \$100 million annually thereafter) does not provide a good return considering the minimal annual savings in DMV operational costs (\$706,000) that is estimated to be achieved under the Governor’s proposal. Alternatively, as we discuss later in this brief, the Legislature could change vehicle registration fees to more effectively change DMV customer behavior in a way that would not significantly change the overall level of MVA revenues.

Automated Testing Proposal May Understate Savings

As we mentioned earlier, the department estimates that implementing automated driver license testing at all of its field offices (as proposed by the Governor) would save \$1 million and 20 positions upon full implementation in 2014-15. Of the estimated 20 staff positions that would be saved, the DMV estimates that about 18 positions are directly related to correcting and reporting driver license test scores. Given that the bulk of all driver licensing tests (roughly 4 million annually) will be conducted through newly installed automated terminals at all 169 field offices, we believe that the reduction in field office staff may be understated. At the time of this analysis, the department has been unable to provide information on the total number of field office employees who currently administer written driver license tests.

**Figure 2
Vehicle Registration Transaction Costs Vary**

Transaction Type	Cost
Field office	\$14.74
Phone	7.84
Internet	5.93
Business partner	4.37
Self-service terminals	3.75
Mail	3.57
Auto club	3.04

Infrastructure Proposals Fail to Consider Future Reduction in Field Office Visits

Since shifting people away from completing vehicle registration transactions in field offices will not occur in the near term, we find that the Governor's budget proposals to make investments in DMV infrastructure are generally reasonable. This is because field offices will continue to be needed, replaced, and potentially expanded until customer

behavior is significantly changed. However, recent efforts, as well as the Governor's budget proposals, to create greater efficiencies and reduce service levels at DMV field offices, could reduce the need to build new state-owned facilities in the long run. As a result, our analysis indicates that it generally would be more cost-effective to pursue leases (rather than construct new facilities) to accommodate the department's current facility needs.

LAO RECOMMENDATIONS

The Governor's proposals would move DMV in the direction of better serving the public and could potentially reduce out-year costs by decreasing the need for future infrastructure investments. However, in order to address the concerns outlined above, we recommend that the Legislature modify some of the Governor's proposals in order to improve their effectiveness. In addition, we recommend that the Legislature take steps to further expand some of the department's current efforts to increase efficiency and outreach. Figure 3 summarizes our specific recommendations, which we discuss in more detail.

Change Registration Fees to Better Incentivize Use of Less Costly Transactions. To address concerns with the Governor's registration renewal fee proposal, we recommend that the Legislature consider an alternative approach that would still change DMV customer behavior but in a way that would not significantly change the overall level of MVA revenues. Specifically, we recommend that the Legislature (1) increase vehicle registration fees by \$7 (from \$43 to \$50) for customers that use the much more expensive services of field office staff to renew their vehicle registrations and (2) reduce vehicle registration fees by \$2 (from \$43 to \$41) for customers who complete vehicle registration renewal

transactions using the much less expensive alternatives—through the mail, Internet, phone, business partners, auto clubs, or an SST. Unlike the Governor's proposal, our recommended approach would only result in a minimal decline in MVA revenues of \$1.4 million in 2012-13 and \$1.8 million each year thereafter. Figure 4 (see next page) compares the fees that would be charged and the revenue that would be raised under the Governor's proposal and our alternative.

Figure 3

LAO Recommendations

- ✓ Change registration fees to better incentivize use of less costly transactions.
- ✓ Expand availability of self-service terminals.
- ✓ Require Department of Motor Vehicles (DMV) to develop plan for expanding business partnerships.
- ✓ Direct the DMV to better inform customers of other transaction methods.
- ✓ Approve customer management and automated testing expansion proposals.
- ✓ Approve infrastructure proposals with an eye to the future.

Expand Availability of SSTs. Installing additional SSTs in DMV field offices statewide, has the potential to reduce costs by reducing the number of state staff used to process renewal transactions in field offices and improve customer service by reducing wait times. Such an expansion would provide DMV customers a greater opportunity to use this less costly transaction option. Thus, we recommend that the Legislature direct DMV to develop and present a plan during budget subcommittee hearings this spring for installing SSTs at additional field office locations. This plan should include an estimated time line and projected costs.

Require DMV to Develop Plan for Expanding Business Partnerships. We recommend that the Legislature adopt supplemental report language directing the DMV to develop a plan to establish more business partners and to allow them to conduct a wider variety of DMV transactions. In developing this plan, the department shall seek to reduce the number of customers that visit field offices. Combined with this action, we also recommend that the Legislature direct DMV to give business partners and auto clubs the authority to install SSTs in their offices.

Direct DMV to Better Inform Customers of Other Transaction Methods. We also recommend that the Legislature direct the department to increase their outreach efforts and adopt supplemental report language that requires the department to develop an outreach strategy about these efforts to ensure that customers are aware of other methods to conduct DMV transactions. For example, the department could better advertise these other transaction methods on its website, as well as run a few outreach campaigns (such as press releases).

Approve Customer Management and Automated Testing Expansion Proposals. We recommend that the Legislature approve the Governor’s budget proposals for the centralized customer flow management and automated knowledge testing expansion. We also recommend that the Legislature direct the department to report at budget hearings this spring on the assumptions used to determine staff savings related to the expansion of automated knowledge testing.

Approve Infrastructure Proposals With An Eye to the Future. We recommend that the Legislature adopt the Governor’s proposal to

Figure 4

Comparison of Governor’s Proposal to LAO Recommendation

Full-Year Implementation

Transaction	Current Law		Governor’s Proposal ^a		LAO Recommendation ^a	
	Vehicle Registration Fee	Revenue (In Millions)	Vehicle Registration Fee	Revenue (In Millions)	Vehicle Registration Fee	Revenue (In Millions)
Field office	\$43	\$272	\$43	\$245	\$50	\$285
Self-service terminal	43	5	38	19	41	21
Phone	43	6	38	5	41	6
Internet	43	273	38	245	41	264
Business partner	43	35	38	31	41	33
Mail	43	408	38	365	41	394
Auto club	43	143	38	128	41	138
Totals		\$1,142		\$1,038		\$1,141

^a Assumes a 10 percent shift in field office vehicle registration renewals.

2012-13 BUDGET

fund working drawings for the Grass Valley replacement facility since this project is currently underway. We also recommend that the Legislature approve the proposal to relocate the San Francisco investigations office and fund the consolidated CDL in Northern California. Finally, we recommend funding the planning activities to

relocate the Newhall, Santa Maria, and Reedley field offices and requiring DMV to enter into lease agreements for these facilities. This is because lease options can provide the department the flexibility to more easily consolidate field offices in the future.

2012-13 BUDGET

2012-13 BUDGET

LAO Publications

This brief was prepared by Russia Chavis, and reviewed by Farra Bracht. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

To request publications call (916) 445-4656. This brief and others, as well as an e-mail subscription service, are available on the LAO's website at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.