

### Fiscal Estimate — 2001 Session

- Original       Updated  
 Corrected     Supplemental

LRB Number - 0028/1	Amendment Number if Applicable
Bill Number SB 0009	Administrative Rule Number

**Subject**  
 Revised Article 9 of the Uniform Commercial Code

**Fiscal Effect**

State:  No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

- Increase Existing Appropriation     Increase Existing Revenues  
 Decrease Existing Appropriation     Decrease Existing Revenues  
 Create New Appropriation

Increase Costs — May be possible to absorb within agency's budget.

Yes     No

Decrease Costs

Local:  No Local Government Costs

- |                                                                                                                                 |                                                                                                                         |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| 1. <input checked="" type="checkbox"/> Increase Costs<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 3. <input type="checkbox"/> Increase Revenues<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory |
| 2. <input type="checkbox"/> Decrease Costs<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory            | 4. <input type="checkbox"/> Decrease Revenues<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory |

5. Types of Local Governmental Units Affected:

- Towns     Villages     Cities  
 Counties     Others  
 School Districts     WTCS Districts

Fund Sources Affected

- GPR     FED     PRO     PRS     SEG     SEG-S

Affected Chapter 20 Appropriations

20.144(1)(g)

**Assumptions Used in Arriving at Fiscal Estimate**

This bill makes substantial changes to Article 9 of the Uniform Commercial Code (UCC) which governs the method of establishing priority of liens on property. Article 9 relies on the public record because it provides the means for creditors to determine if there is any security interest that precedes theirs - a notice function. The public record is a statewide database system located at the Department of Financial Institutions, which is connected to the 72 county register of deeds offices.

Significant changes to the filing system are included in SB 9. The bill creates centralized filing for personal property liens with the Department. However, it also gives the Department the authority to designate register of deeds offices as agents for filing purposes. It also facilitates the provision of electronic communications and records. The only lien records that must be filed in the counties under this bill are those associated with real property.

**Effect on Revenue**

Fees for filings and searches are to be prescribed by rule with parameters set forth in statutes. Filings submitted in writing are to have higher fees than those communicated electronically. Given additional anticipated filings, the Department intends to plan for a 3 to 5 year cost recovery for the system changes. We anticipate increasing administrative savings over time as the number of on-line filings increase.

Costs to the Department associated with implementing the provisions of this bill include:

- \* redesigning and converting certain parts of the current database
- \* developing the capability to accept and report electronically filed documents
- \* providing for system reliability with adequate computer hardware and backup
- \* handling anticipated increased workload as county register of deeds offices opt out of participation as a UCC filing office
- \* training register of deeds offices that intend to participate, as well as filers
- \* other administrative costs

**Long-Range Fiscal Implications**

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### Redesign of Database

The Department currently maintains a statewide database of UCC liens filed both here and at the 72 county register of deeds offices. This revision to Article 9 requires a number of changes and reconfigurations to the database. Some of the programming changes that will be required for implementation of the revised Article 9 include: enabling the system to file documents that relate to filings in other county offices, adding a check digit to ensure integrity of the filing number, updating the database to accommodate lapsed filings, providing new coding to store and search images on rejected filings, adding new coding and converting the database to handle an increased number of fields.

The full cost of the required revisions won't be entirely known until analysis is completed. However, based on current experience with development and updates of the database to date, we estimate approximately \$255,000 will be required to accommodate the changes. This assumes approximately 3,000 contract project management and development hours at an average rate of \$85/hour. The changes must be accomplished and tested by July 1 in order to comply with the deadline imposed by the bill.

### Electronic Filings

Article 9 places strict processing deadlines for filing and indexing of documents. Initially, a 5-day turnaround is required. By July 1, 2003, the deadline is 2 days. In order to accommodate these deadlines, electronic filings, searches, acknowledgements, and the use of debit and credit cards to pay fees will be required. Electronic searching is already in place now for submitter account holders. The Department will need to extend the on-line capability and payment options. Again, until full analysis is conducted, costs for development of this web-enabled application won't be certain. But, assuming a contract project manager at \$90/hour for 700 hours and 3 web developers at \$65/hour for 1,000 hours each, total projected costs are \$258,000. Approximately 2/3 of the work will need to be completed by July 1, 2001. The remaining can be completed in fiscal year 2001-2002.

### Hardware

Also to ensure compliance with the required processing deadlines for filing and indexing, certain measures related to system reliability are needed to augment our current system. Currently, the UCC database is located on one server, with the potential of mission-critical data compromised with a single point of failure in the hardware. An additional server will provide for real-time data replication to reduce downtime and data loss. This will supply high data availability not available now. Recently, the Department waited 3 weeks for a part for a server. While a delay in the filing office is excused if there is a problem with computer facilities, 3 weeks would not be acceptable. A server with adequate capacity to handle the UCC system will cost approximately \$45,000.

### Anticipated Workload Increase

Currently, the Department processes approximately half of all filings with the other half processed at the 72 county register of deeds offices. In fiscal year 1999-2000, the Department processed approximately 93,000 filings and 24,000 terminations. The Department's 7.0 FTE processors average 13,300 filings and 3,500 terminations each. The number of counties who opt out of processing UCC filings is not known. However, the Department estimates that total filings coming to DFI will increase from 50% to approximately 75% of the statewide total. Given that increase, the Department's filings will increase to around 139,500 filings and 36,000 terminations. This will cause a temporary workload increase of 3.0 FTE, until electronic filings are fully operational. The impact included in this fiscal note is for 3.0 Program Assistant project positions beginning April, 2000 and continuing through fiscal year 2001-2002.

### Training and Administrative Costs

Informing and educating county register of deeds offices about the new Article 9 requirements will require travel to county offices. The Department also intends to make use of videoconference capabilities to reduce travel costs, both by Department as well as county personnel. In addition, information will need to be developed, printed, and mailed to the more than 10,000 submitters. Again, the Department will need to provide some on-site training. The Department estimates costs approximately \$4,000 in FY 2001 and \$2,500 in FY 2002 to training county register of deeds office staff. And additional \$3,500 will be required for informational mailings and training of filers.

Local Government Fiscal Effect

Article 9 will have some fiscal impact on county register of deeds offices, depending upon whether they continue to serve as a filing office or opt out and have the state serve as the filing office. However, at this time, the number of counties choosing to maintain their operations is not known and a cost cannot be determined.

Funding Provided in Bill

This bill makes no provision for funding the above costs identified implementing the revised Article 9. The costs identified are beyond what can be absorbed by the agency.

Funding already available

The Department has \$60,000 in unallotted reserve available to cover changes to legislation.

Cost Summary

	<u>FY 2001</u>	<u>FY 2002</u>
Redesign of database	\$255,000	
Development of electronic filing capabilities	172,000	86,000
Hardware (Server)	45,000	
3.0 FTE Program Assistants @ \$11.00/hr	17,100	69,000
Fringe benefits @ 34.9%	6,000	24,000
Travel and videoconference outreach to train county register of deeds staff	4,000	2,500
Travel and videoconference outreach to train Filers	2,500	2,500
Informational mailings	1,000	1,000
Total Costs	\$502,600	\$185,000
Less unallotted reserve	60,000	60,000
Fiscal Effect	\$442,600	\$125,000

**Fiscal Estimate Worksheet — 2001 Session**  
 Detailed Estimate of Annual Fiscal Effect

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LRB Number 0028	Amendment Number if Applicable
Bill Number SB0009	Administrative Rule Number

Subject  
 Revised Article 9 of the Uniform Commercial Code

One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):  
 Estimated costs over 2 years \$687,600; related fees to be established by rule with anticipated 3-5 year cost recovery

Annualized Costs:	Annualized Fiscal Impact on State Funds from:	
	Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>		
State Operations — Salaries and Fringes	\$	\$ -
(FTE Position Changes)	( FTE )	(- FTE )
State Operations — Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
<b>Total State Costs by Category</b>	\$	\$ -
<b>B. State Costs by Source of Funds</b>		
GPR	\$	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
State Revenues	Increased Revenue	Decreased Revenue
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
<b>Total State Revenues</b>	\$	\$ -

**Net Annualized Fiscal Impact**

	<u>State</u>	<u>Local</u>
Net Change in Costs	\$ _____	\$ _____
Net Change in Revenues	\$ _____	\$ _____

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