



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #755

### **Electronic Processing of Applications for Vehicle Title and Registration (DOT -- Motor Vehicles)**

[LFB 2005-07 Budget Summary: Page 486, #2a]

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#### **CURRENT LAW**

The Division of Motor Vehicles (DMV) administers vehicle registration, titling, and driver licensing laws. An application for a vehicle title and registration may be submitted by mail to DMV or in person at a DMV service counter for private, person-to-person sales. Persons who submit an application for a vehicle title and registration at a DMV service counter must pay a \$5 counter service fee. For vehicle sales conducted by a motor vehicle dealer, the dealer is required to submit the application for title and registration to DMV within seven business days of the sale and is allowed to charge the buyer a reasonable fee for providing this service. Dealers have the option of participating in a program whereby they take the additional step of processing the application for title and registration before submitting it electronically to DMV. Participants in this voluntary program are not paid by DMV for providing this service, but may charge customers a fee of \$19.50.

#### **GOVERNOR**

Require motor vehicle dealers who process applications for vehicle titles and vehicle registrations to utilize an electronic process prescribed by DOT for that purpose or an existing electronic process for processing title or registration applications, unless the Department exempts them from this requirement by rule. Specify that dealers may charge a reasonable fee for utilizing this electronic processing procedure. Require dealers who are exempted from utilizing the electronic processing procedure to pay a fee to DOT for processing the applications that are not submitted electronically. Require DOT to promulgate rules to implement and administer these provisions. Specify that the failure to comply with these requirements is grounds for the suspension, revocation, or denial of a motor vehicle dealer's license. Delete a provision that

requires dealers, within seven business days following the sale or transfer of a vehicle, to mail or deliver the dealer's title or title application for the transferred vehicle, along with the transferee's applications for a title, to the Department, reflecting that this transaction would be required to be done electronically under the bill.

Modify provisions that require or allow motor vehicle dealers to issue temporary registration plates under certain conditions to specify that these provisions also apply to the issuance of temporary permits. Modify a provision that requires DOT to issue a temporary plate in certain circumstances to specify that this requirement also applies to the issuance of a temporary permit.

Specify that these provisions would take effect on June 30, 2007, but specify that DOT may require certain motor vehicle dealers to submit applications for vehicle registrations and titles electronically prior to June 30, 2007. Reduce estimated transportation fund revenue by \$126,000 in 2005-06 and \$252,300 in 2006-07 to reflect a reduction in the collection of counter service fees due to an anticipated reduction in the number of registration and title transactions that would be processed at DMV service centers.

## **DISCUSSION POINTS**

1. The bill includes funding and position reductions for various DOT programs associated with a reorganization of the Department's division and bureau structure, process changes within certain programs, and other budget cuts not tied to specific process changes. The budget for the Division of Motor Vehicles' principal appropriation would be reduced, under this initiative, by \$5,944,600 SEG and 43.03 SEG positions in 2005-06 and \$5,731,600 SEG and 61.42 positions in 2006-07. The statutory changes discussed in this paper were included in the bill to allow DMV to absorb a portion of these reductions. By requiring motor vehicle dealers to process applications for vehicle titles and registrations and submit them electronically to DOT, DMV's workload for doing such processing would decrease. The Department estimates the total savings from this requirement at \$222,600 and 5.25 positions in 2005-06 and \$622,600 and 14.25 positions in 2006-07, or almost one-quarter of the Division's position reduction in its principal appropriation.

2. Because some of the Department's current application volume would be diverted from service centers, there would also be a reduction in transportation fund revenue from counter service fees, estimated at \$126,000 in 2005-06 and \$252,300 in 2006-07.

3. The application processing and electronic submittal requirement would take effect on June 30, 2007, at the end of the 2005-07 biennium. However, DOT would be given the authority to require certain dealers to comply with the requirement prior to that time. DOT indicates that dealers with a higher volume of sales would be required to comply within the 2005-07 biennium.

4. After June 30, 2007, the electronic processing and submittal requirement would be generally applicable for all dealers. However, DOT would have the authority to establish standards by administrative rule for exempting certain dealers from the requirement. The Department

indicates that dealers with very low-volume sales would likely be the prime candidates for exemption.

5. Motor vehicle dealers are currently required to submit a completed vehicle title and registration application for each vehicle that they sell, and submit the application, along with the required fees, to DOT for processing. Processing these applications involves keying data into the vehicle database and identifying and rectifying any errors in the information. Certain dealers participate in a voluntary program whereby they process the application and submit it to DOT electronically. Dealers who participate in this program can issue permanent license plates for the vehicle upon completion of the application process. Under the bill, dealers would be required to either participate in the existing voluntary program or process and submit applications electronically under an alternate program. Dealers in this alternate program would not have the capability to issue permanent license plates.

6. Currently, about 20% of motor vehicle dealers in the state participate in the voluntary electronic processing program. Since the participants tend to be the larger dealerships, the applications processed and submitted electronically through the program represent just under one-half of all applications submitted by dealers.

7. Although the bill is intended to require all dealers to process and submit applications for vehicle titles and registrations electronically, the Department indicates that the bill must be modified to accomplish this intent. Specifically, although the bill would require dealers who process applications for vehicle titles and registrations to utilize an electronic process prescribed by DOT, it does not require dealers to actually process such applications. To accomplish the Department's intent, the bill would have to be amended to require dealers, within seven business days of a vehicle sale, to: (a) process a buyer's title application; and (b) within the next business day following the processing of the buyer's title, mail or deliver to DOT the original application for certificate of title, plus all associated materials required by the Department. This second change is a modification to largely retain current law provisions that require dealers to deliver application materials to DOT. However, instead of those materials being used to complete the application processing, they would be used only for compliance reviews and to maintain records of the transaction.

8. In addition to these modifications, the Department indicates that the provision allowing dealers to charge a reasonable fee for the electronic processing and submittal of applications could be eliminated since dealers are already allowed to charge a service fee for processing applications. DOT's administrative rule on dealer trade practices specifies that the fee must be "reasonable" and the amount of the fee must be disclosed to the buyer. This fee is different from the fee charged by dealers who participate in the voluntary application program, which is limited to \$19.50 under the contract that the Department enters into with participating dealers. DOT indicates that the fee under the alternative program could be expected to be lower than the current fee under the voluntary program since about one-half of the voluntary program fee goes toward paying for software licenses that would not be applicable under the alternative program.

9. In addition to the provisions discussed in the previous points, the bill would modify current law provisions relating to the issuance of temporary license plates by dealers and by DOT (when a permanent metal plate is not yet available) to include a parallel reference to temporary permits in these provisions. Temporary permits are stickers that would be placed in the rear window of a vehicle indicating that a registration application for the vehicle, and the issuance of permanent license plates, is pending. DOT indicates that this change would allow the Department to require dealers to issue temporary permits in lieu of temporary plates. Since temporary permits would contain information that allows them to be more easily authenticated by law enforcement officers, the switch from temporary plates to temporary permits is intended to improve the enforcement of vehicle registration requirements. The requirement that dealers submit registration and title applications electronically is necessary to implement this change since the process used to file the application would result in the electronic issuance of a temporary permit.

10. If a decision is made to eliminate the provisions discussed in this paper, the Department would not achieve the anticipated savings. In this event, the Committee could reduce the amount of the budget reduction for DMV included in the bill under the Governor's departmental reorganization and budget reduction initiative by an amount equal to the anticipated savings from this provision. This would, in other words, increase the budget for the Division of Motor Vehicles, relative to the bill, by \$222,600 and 5.25 positions in 2005-06 and \$622,600 and 14.25 positions in 2006-07. Since the elimination of this provision would also eliminate the associated reduction in counter service fee revenue, there would be an increase in transportation fund revenues, relative to the bill, of \$126,000 in 2005-06 and \$252,300 in 2006-07. The net change to the transportation fund balance, relative to the bill, would be a reduction of \$96,600 in 2005-06 and \$370,300 in 2006-07. If the funding and positions for DMV are not restored, this would require an additional 0.8% reduction in funding and a 1.6% reduction in positions for the Division with no corresponding reduction in workload.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to require motor vehicle dealers to electronically process applications for vehicle title and registration, but modify the bill to accomplish this intent, as follows: (a) require dealers to process and submit applications for title and registration within seven business days of a vehicle sale; (b) require dealers to submit to DOT the original application for a title and all associated materials within the next business day following the processing of the application for title; and (c) eliminate a redundant provision allowing dealers to charge a reasonable fee for providing these services. Reduce estimated transportation fund revenue by \$126,000 in 2005-06 and \$252,300 in 2006-07 to reflect a reduction in the collection of counter service fees due to an anticipated reduction in the number of registration and title transactions that would be processed at DMV service centers. Delete \$222,600 SEG and 5.25 SEG positions in 2005-06 and \$622,600 SEG and 14.25 SEG positions in 2006-07 in the Division of Motor Vehicles' principal appropriation.

2. Delete the statutory provisions associated with this item and provide \$222,600 SEG and 5.25 SEG positions in 2005-06 and \$622,600 SEG and 14.25 SEG positions in 2006-07 in the Division of Motor Vehicles' principal appropriation to reflect that no savings would be generated by requiring dealers to process applications for vehicle title and registration. Increase estimated transportation fund revenue by \$126,000 in 2005-06 and \$252,300 in 2006-07.

<u>Alternative 2</u>	<u>SEG-REV</u>	<u>SEG</u>
<b>2005-07 REVENUE</b> (Change to Bill)	\$378,300	
<b>2005-07 FUNDING</b> (Change to Bill)		\$845,200
<b>2005-07 POSITIONS</b> (Change to Bill)		14.25

3. Delete provision. [This alternative would delete the funding and positions as recommended by the Governor, but would not make the statutory changes to the vehicle titling process.]

<u>Alternative 3</u>	<u>SEG-REV</u>
<b>2005-07 REVENUE</b> (Change to Bill)	\$378,300

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