



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #740

Postage Increase (Transportation -- Motor Vehicles)

[LFB 2019-21 Budget Summary: Page 428, #1]

CURRENT LAW

Under current law, the Department of Transportation's (DOT) Division of Motor Services (DMV) is generally required to mail driver and vehicle services-related communication, such as driver license and vehicle registration renewal notifications. DMV's base budget for postage costs is \$4,288,000 annually.

GOVERNOR

Provide \$1,500,000 SEG annually to fund increased postage costs to DMV.

DISCUSSION POINTS

1. DMV's postage budget, currently \$4,288,000 per year, was last increased by \$534,000 annually under 2011 Act 32 to reflect the estimated postage costs associated with driver licensing and identification card requirements of the Federal REAL ID Act. As part of complying with this federal law change, which required states to use more secure card products, DMV began to contract for the production of driver license and identification cards with private sector vendors capable of producing these enhanced cards. Postage costs increased because the cards must also be mailed directly from production facilities to Wisconsin residents, rather than issued at DMV facilities. In recent years, the postage costs associated with this change in practice have averaged about \$560,000 per year.

2. Table 1 shows changes in DMV's mail volume and postage costs since 2011-12. As shown in the table, on a percentage basis, DMV's mail volume has grown at about half the rate of its costs. Several U.S. Postage Service postage rate increases over this period, as well as changes in the

amount and composition of mail volume, are factors in this cost increase. For instance, since 2012, the general rate for a first class letter has increased by 22.2% (to 55 cents) and the rate for postcard has increased by 9.4% (to 35 cents). Some of the variation indicated in the table reflects the registration renewals for vehicles that register on a biennial basis, such as motorcycles.

TABLE 1

**Mail Volume and Postage Cost -- DMV
(\$ and Volume in Million)**

Fiscal Year	Mail Volume			Postage Cost		
	Reported Volume	Annual	Cumulative	Costs	Annual	Cumulative
2011-12	11.1			\$4.05		
2012-13	11.3	1.8%	1.8%	4.89	20.7%	20.7%
2013-14	13.3	17.7	19.8	5.70	16.6	40.7
2014-15	12.4	-6.8	11.7	5.39	-5.4	33.1
2015-16	13.3	7.3	19.8	5.67	5.2	40.0
2016-17	12.8	-3.8	15.3	5.43	-4.2	34.1
2017-18	13.4	4.7	20.7	5.74	5.7	41.7
Average % Change 2011-12 thru 2017-18		3.2%			6.0%	

Note: For some miscellaneous postage costs, DMV does not track the associated volume.

3. Table 2 compares DMV's base funding for postage costs with its estimated, annual expenditures for the 2019-21 biennium. As shown in this table, in the 2019-21 biennium, DMV estimates that its postage costs will exceed its available budget by \$3.13 million (an average of \$1.57 million per year). The Governor's recommended increase of \$1.50 million annually would provide slightly less than these estimated costs. [Alternative 1]

TABLE 2

**Estimated Postage Costs -- DMV
(\$ in Millions)**

	2019-20	2020-21	Biennium
Base Funding	\$4.29	\$4.29	\$8.58
Less Estimated Costs	<u>5.93</u>	<u>5.78</u>	<u>11.71</u>
Difference	-\$1.64	-\$1.49	-\$3.13

4. Absent the recommended funding, DMV indicates that it would fund any postage costs in excess of its base budget by reducing its expenditures in other program areas, such as for

improvements to its information technology systems. [Alternative 3] If DMV is required to continue absorbing these costs through reducing its information technology expenditures, some level of decline in the Division's related services could likely be expected over time.

5. The Department notes that it has initiated a number of mail reduction efforts, including allowing residents to opt into online driver license and registration renewal processes, contracting for bulk postage mailing rates, and making more forms available online. In spite of these efforts, DOT indicates that two primary reasons for growth in recent-year mail volume have been increases in the number of Wisconsin-registered vehicles and increases in the use of full-size letters needed to communicate additional information about local vehicle registration fees ("wheel taxes"). A full-size letter is required because the postcard registration renewal format generally used for vehicle registration renewal is too small to include local wheel tax information, as it would make the font size illegible. The number of local governments (including some large municipalities and counties, which represents affects a large percentage of vehicles registered in the state) imposing a wheel tax has grown significantly in recent years. As an example, 33 jurisdictions have adopted an ordinance to impose or increase an existing wheel tax since 2015.

6. As required by administrative code (TRANS 126.04), DMV collects and redistributes wheel taxes on behalf of local governments and assesses a 17-cent per vehicle processing fee. The Department periodically reviews the fee amount and uses its existing authority under this code to modify the fee to reflect any changes in its costs. Although the related revenue from the processing fee is deposited to the transportation fund, it is not appropriated specifically to DMV. In 2018-19, it is estimated that DOT will collected \$300,000 in wheel tax processing fees.

7. If no significant increases to transportation fund revenue are included in the bill, there would be a more limited amount of SEG revenue available in the 2019-21 biennium to fund new transportation programing as compared to the Governor's budget recommendations. However, given DMV's increasing postage costs, even under a more constrained budget, it may be desirable to provide the Division with some additional funding for these costs. In recognition of these factors, the Committee could increase the Division's appropriation by only \$300,000 annually, which would essentially allocate the existing revenue associated with wheel tax processing to DMV. [Alternative 2a]

8. Similarly, the Committee could provide \$476,000 annually for increased postage costs by taking the following actions: (a) increasing the Division's appropriation by \$300,000 annually to allocate existing wheel tax processing fee revenue to DMV; and (b) increasing this appropriation by an additional \$176,000 annually and requiring DOT to increase its wheel tax processing fee by 10 cents per vehicle (to 27 cents), which would generate an estimated \$176,000 annually in transportation fund revenue. [Alternative 2b] This alternative would reduce the funding distributed to local governments that have imposed a wheel tax by the same \$176,000. Also, any local government imposing an initial wheel tax in the future would pay 10 cents more per registration to DOT for the administration of the tax.

9. If additional funding is not provided, DOT would need to continue to fund postage costs from its base resources and shift funding from other departmental activities.

ALTERNATIVES

1. Approve the Governor's recommendation and provide \$1,500,000 annually to fund increased postage costs to DMV.

ALT 1	Change to	
	Base	Bill
SEG	\$3,000,000	\$0

2. Modify the Governor's recommendation by instead selecting either of the following alternatives:

a. Provide \$300,000 annually to fund increased postage costs associated with the processing of wheel taxes for local governments.

ALT 2a	Change to	
	Base	Bill
SEG	\$600,000	-\$2,400,000

b. Provide \$476,000 annually to fund increased postage costs by taking the following actions: (a) increase the Division's appropriation by \$300,000 annually to allocate existing wheel tax processing fee revenue to DMV; and (b) increase this appropriation by an additional \$176,000 annually and require DOT to increase its wheel tax processing fee by 10 cents per vehicle (to 27 cents), which would increase transportation fund revenue by an estimated \$176,000 annually.

ALT 2b	Change to	
	Base	Bill
SEG	\$952,000	-\$2,048,000

3. Take no action.

ALT 3	Change to	
	Base	Bill
SEG	\$0	-\$3,000,000

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