

## CASE STUDY

### The DMV

The Division of Motor Vehicles (DMV) is part of the State Department of Transportation (DOT). The purpose of that department is to ensure the safety and free flow of people and goods throughout the State by ensuring that there is a reliable system of transportation and motor vehicle services. This mission is accomplished by funding the maintenance of the existing transportation infrastructure, by adding to and improving the infrastructure, and by otherwise operating a transportation system that minimizes congestion and promotes safety and the economic growth of the State.

Among the key functions served by the DOT are:

- driver licensing and insurance
- vehicle inspection
- bridge and highway construction and maintenance
- public transit

The current year budget for the DOT is \$874 million. Of that amount, \$96 million is budgeted to be spent on the DMV, which has the following objectives:

- to provide customer-friendly, efficient motor vehicle services;
- to regulate drivers and motor vehicles to deter unlawful acts and protect the public safety;
- to further protect public safety by identifying vehicle safety problems; and
- to further protect the public by ensuring that all drivers carry insurance.

The State is currently preparing its budget for the coming fiscal year, which runs from September 1, 2013, through August 31, 2014. As the director of the DMV, you are responsible for three major areas:

- licensing, registration, and inspection of motor vehicles;
- driver licensing; and
- compulsory insurance.

A major issue for the coming year will be the overhaul of the driver's license program to include the latest enhanced digitized security technology. To cover this increased cost, the DMV is planning to charge \$5 more for new drivers' licenses and license renewals. This charge is not enough to fully cover the cost of the new licenses, but raising fees was a political hot potato during the last session of the state assembly, and the Governor would be reluctant to propose any further increase to that fee.

Another major initiative being planned for the DMV for the coming year is a centralized computer system to verify that all registered vehicles are insured. Once the system is in place, the DMV will be able to check insurance coverage not only when a vehicle is registered, but also when law enforcement officers stop a vehicle, when the vehicle has its biannual safety inspection, and at other times. The system will require an initial capital investment of \$3 million and operating costs of \$1.30 per inquiry. It is expected that there will be 1 million uses of the system spread evenly during the coming year. None of the capital investment cost appears as part of the operating budget for the coming year.

To comply with the State's 2011 Clean Air Act, the auto inspection program must be modified. The DMV has estimated that it will cost \$7.2 million to equip the state vehicle testing centers with the necessary equipment for the new, stricter test. None of this cost will be part of the operating budget for the DMV.

The DMV also expects to issue more licenses per month early in the year, as drivers try to avoid the extra cost and documentation requirements associated with the new higher security licenses. It expects to issue 923,456 licenses using the old technology, spread evenly throughout the first four months of the year, and 843,023 licenses using the new digitized technology, spread evenly throughout the last eight months of the year.

There are expected to be 342,587 vision tests, 847,129 written driving tests, and 429,222 road tests in total for the year. These tests are expected to occur in the same proportion as the number of licenses issued each month. It is expected that there will be 962,135 vehicle registrations and 1,106,455 annual vehicle inspections, and these will occur evenly throughout the year. Note that the vehicle inspection number includes re-inspections for vehicles that fail their initial inspection.

The sources of revenue for the DMV are as follows:

- auto license fees: \$25 for the old-style license and \$30 for the new improved digitized license with all security features;
- vehicle registration fees: \$53 per vehicle registered, on average;
- vehicle inspection fees: \$35 for failing the inspection—otherwise no fee. It is expected that 15 percent of the total number of vehicle registrations will result in inspection failures and re-inspections;
- state appropriation—for any balance not funded by fees; and
- transportation trust fund—for capital acquisitions.

The costs of running your department consist of personnel expenses, materials and

supplies, and a variety of purchased services. Personnel costs have a fixed administrative component of \$6.5 million per year that is not affected by the DMV’s service volume. Administrators are paid evenly throughout the year. Other personnel costs average \$2 per transaction, regardless of transaction type, including issuance of an auto license, vehicle registration, vehicle inspection, or administration of any type of test. Materials and supplies cost \$.30 per transaction. These costs are incurred each month in direct relation to the number of transactions for the month. The \$2 personnel and \$.30 materials and supplies cost per transaction are not required for insurance inquiries. Other departmental overhead costs include heat, electricity, and rent. Those costs are fixed at \$8 million, and are paid evenly throughout the year. Additionally, the DMV pays outside contractors on the following fee schedule:

- \$17 per vehicle inspected
- \$2 per vision test
- \$15 per road test
- \$5 per written test
- \$25 per license plate (30 percent of all vehicle registrations require new license plates)
- \$10 per driver’s license (old style) and \$37 per license (new digitized licenses)

The director of the DOT is hoping that DOT’s financial situation will allow for expanded subsidies of public transportation. As such, she is hoping that each division of the DOT will at least break-even, if not show a profit. Although you realize that the DMV will receive a state subsidy to operate if needed, you know that your boss would be unhappy if such a subsidy is needed for your division.

Using a computer spreadsheet, prepare a budget for the DMV for the coming year, based on the information you currently have. If the budget shows a deficit, you may need to make some adjustments, so use formulas for your calculations. That way you will be able to make changes in your worksheet and easily calculate updated results. Specifically,