

Annual Analysis of Agent and Subagent Fees

January 2014



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Introduction

Washington law (RCW 46.01.325) requires the Director of the Department of Licensing (DOL) to prepare an annual comprehensive analysis and evaluation of agent and subagent fees. The law also requires the Director to make recommendations for agent and subagent fee revisions to the Senate and House Transportation Committees by January 1 of every third year beginning in 1996. The next report is due January 1, 2017. Recommendations for fee revisions may be made more frequently when justified by the annual analysis and evaluation.

The annual fee analysis and evaluation report considers each of the following: unique and significant financial, legislative, or other relevant developments that may affect fees.

Fees

Vehicle and vessel licensing agents (county auditors), under RCW 46.17.005, are authorized to collect filing fees for vehicle and vessel title and licensing services they provide. (\$4.00 for title related transactions and \$3.00 for registrations and other non-title transactions). There has been no change in these fees since 1997.

Vehicle and vessel licensing subagents, under RCW 46.17.040, are authorized to collect service fees for vehicle and vessel title and licensing services they provide. (\$12.00 for title related transactions and \$5.00 for registrations and other non-title transactions). The subagent fee structure was changed by legislation in 2010 to increase the title related fees from \$10.00 to \$12.00 and the registration related service fees from \$4.00 to \$5.00.

Legislative or other relevant developments

State and national economic recession - For the calendar year ending 2012, total statewide title and renewal transactions slightly exceeded those of 2008. In 2008 calendar year, transaction counts were 8,129,026 and for 2012 calendar year transaction counts were 8,133,358 (2013 data is not available as of November 2013).

Transportation Benefit Districts (TBD) - There are now 35 TBD's and additionally, King County imposed the Congestion Relief Corridor fee (June 2012). County and local entities are using the vehicle registration provided through DOL to collect fees and taxes for transportation improvement projects within their areas. This creates an increased workload for the agents and subagents due to customer complaints about the fees and taxes or disputes whether the fee or tax is owed. This is exacerbated by the lack of a statewide geographic information system as well as data quality issues stemming from DOL systems.

Annual Discover Pass (\$30 fee) and "Opt-Out" Park Fee - Vehicle owners may purchase an annual Discover Pass when renewing their vehicle registration. Recent legislative changes allow for the transfer of the Discover Pass between two vehicles leading to more customer satisfaction. Conversely, agents and subagents spend a great deal of time with dissatisfied customers explaining the "opt out" charge on the customer's renewal notice.

Nearest vehicle licensing office locator - The legislature asked DOL to create a vehicle licensing office lookup function that would display the nearest vehicle licensing offices to the

address provided by the customer. This was intended to better serve the needs of the public and the subagents. Previously, the vehicle licensing offices were displayed by the county auditor first and each subagent within the county by alphabetical order. Since implementation, the subagents continue to see an increase in transaction activity.

Current funding for ongoing automation project costs affecting revenue collection and service delivery - A licensing service fee of \$0.75 is collected on all vehicle and vessel registration transactions. The revenue from this fee is distributed to DOL through the Licensing Services Account (\$0.50), and the License Plate Technology Account (\$0.25). Revenue distributed to the Licensing Services Account contributes to ongoing technology infrastructure costs for revenue collection and service delivery by licensing agents and subagents. More specifically, the revenue distributed to this account,

- *“...must be used for agent and subagent support, which is to include but not be limited to the replacement of department-owned equipment in the possession of agents and subagents.”*
- *“Expenditures from the account may be used only for information and service delivery systems for the department, and for reimbursement of county licensing activities.”*
- *“Expenditures from this account must support current and future license plate technology and systems integration upgrades for both the department [DOL] and correctional industries...[or] may be used to reimburse the motor vehicle account for any appropriation made to implement the digital license plate system.”*

The technology infrastructure costs for revenue collection and service delivery by licensing agents and subagents are impacted by changes in workload, transaction times and transaction volumes, as well as workload or infrastructure costs for DOL. In addition, DOL is engaged in a business and technology modernization project that will upgrade our driver and vehicle computer systems to meet current needs and provide better capabilities for agents and subagents to serve their customers more effectively. This project is expected to take five to seven years and require up to \$60 million.

Future system requirements including an appropriate sharing of costs between DOL, agents, and subagents - DOL provides the technology infrastructure needed to collect and distribute revenue and accurately record vehicle and vessel titling and registration data. This includes all equipment (computers and printers), paper, inventory (license plates, tabs, decals, temporary permits, disabled parking placards, etc.) and forms (applications for certificate of ownership, dealer temporary permits, affidavits of inheritance, certificates of name change, change of address, etc.). DOL notifies vehicle and vessel owners that their annual renewal fees are due and provides the amount to facilitate mail-in renewals. DOL also provides reimbursement to a number of county auditors for expenses not covered by filing fees collected for vehicle/vessel title and licensing activity.

Agents and subagents pay the costs for their office space, employees, signage, advertising, bonds, and insurance. Employee costs include all required initial employee training, and all

on-going employee training not related to DOL operating systems and procedures; as well as (in most cases) medical benefits, and/or retirement benefits.

A beneficial mix of delivery options based on a fee structure commensurate with quality performance standards - The overall fee structure for agents and subagents is determined by the legislature. The specific fee structure for each transaction is determined by service delivery option, and whether the transaction is conducted by an agent or subagent. An agent filing fee is due on all transactions. When transactions are processed at a subagent office, an additional service fee is due. Current customer service delivery options are available by mail, the Internet, or visiting a vehicle licensing office.

Quality performance standards are included in the contracts between the Department of Licensing and agents and between the agents and subagents. Customer service satisfaction surveys also assist in determining performance standards.

Conclusion

This report presents a comprehensive analysis and evaluation of agent and subagent fees for calendar year 2013 and identifies the last fee increases were implemented in 1997 (for agents) and in 2010 (for subagents).

This report finds that relevant developments described herein both increased and decreased the workload, transaction time, and transaction volume for agents and subagents. These relevant developments also increased and decreased service delivery and revenue collection costs for agents, subagents, and DOL. System enhancements and the business and technology modernization effort with DOL vehicle computer systems would be of significant benefit to the work of our agent and subagent partners.

Recommendations

DOL does not recommend any change to the current agent or subagent fee structure at this time. However, during calendar year 2014, DOL will continue to review the need for fee increases and will review the current business model in place to deliver licensing services through agents and subagents to determine if fee increases be proposed for consideration during the 2015 Legislative session, or if changes to the current business model should be considered

Economic & Revenue Forecast Council State of Washington

Economic Review: November 7, 2013

Executive Summary

- Real GDP growth in the preliminary November forecast is based on the October Blue Chip consensus forecast. For 2013 and 2014, real GDP growth is unchanged from the September forecast (1.6% and 2.6%). However, the Blue Chip long-term forecast has been updated and we have revised real GDP growth for the last three years of the forecast. As a result, real GDP growth rates are reduced from 3.1% to 2.9% in 2015, from 2.9% to 2.8% in 2016, and from 2.8% to 2.7% in 2017.
- Our oil price forecast continues to rely on the futures markets, primarily the Brent (North Sea) oil price but also the West Texas Intermediate (WTI) benchmark. This forecast was based on the Wednesday, October 30, 2013 closing prices for Brent and WTI. The near-term futures prices for WTI dropped more than \$7 since the September forecast but Brent was little changed. The combined impact is for lower average prices in the fourth quarter of 2013 but also a slower rate of decline during 2014. As in September, oil prices are expected to decline gradually in 2015, 2016, and 2017.
- The most significant economic event since the September forecast was adopted was the 16 day partial shutdown of the federal government and the last minute increase in the federal debt ceiling. In September, we had assumed that the shutdown would be averted. In the October Global Insight forecast, which is the one we are working with now, the shutdown was expected to last only one week. The direct impact of the temporary government shutdown is likely to be small. Global Insight estimates that each week of shutdown subtracts two-tenths of a percent from annualized GDP growth in the quarter. Since the shutdown lasted about two weeks, it would have reduced the annualized fourth quarter GDP growth rate by about 4 tenths of a percent rather than the 2 tenths of a percent assumed in the preliminary forecast. The full impact of the shutdown will be reflected in the final November economic forecast.
- The other way the shutdown affects the forecast is the disruption to the flow of economic data. Since the government re-opened, statistical agencies have been revising their schedules, delaying or even skipping previously scheduled data releases. Importantly, the advance GDP and personal income releases have been rescheduled from October 30th and 31st to November 7th and 8th causing Global Insight to delay the release of their November forecast from November 8th to November 14th. This significantly reduces the amount of time available to produce the revised November Washington economic forecast and November revenue forecast.
- As has been true for the last several forecasts, factors outside the state account for the high downside risk. Major threats to the U.S. and Washington economies remain

slowing Asian economies (especially China), the uncertainty surrounding U.S. tax and budget policy, and most recently concerns about a slowdown in the housing recovery.

- Weak European economies also pose a downside risk to the forecast, making it difficult to address their sovereign debt crisis and reducing demand for U.S. and Asian exports. However, the Eurozone returned to positive economic growth in the second quarter of this year, the first economic growth since the third quarter of 2011. While Europe is not out of the woods, positive GDP growth is expected for 2014 and the risk of member countries exiting the Eurozone appears to have declined.
- Data from the housing market have weakened somewhat. August existing home sales were unchanged from July, while September sales decreased 1.9% (SAAR). Pending home sales have also declined for four straight months through September. However, September sales were 10.7% above their year-ago level. The seasonally adjusted Case-Shiller 20-city home price index has increased for nineteen consecutive months through August 2013. The index is now 12.8% above the year-ago level (SA). Seasonally adjusted housing starts in August were 0.9% above their July level and 19.0% above the August 2012 level. August housing permits were 3.8% (SAAR) below July and 11.0% above their year-ago level. Data on September housing starts and permits have been delayed due to the government shutdown and will not be available until after the release of the final November forecast.
- Job growth remains tepid. For the twelve months ending in September, job growth has averaged 185,000. The September unemployment rate is 7.2% (SA). October employment data will be reported on November 8th and will be incorporated into the final economic forecast.
- Industrial production increased by 0.6% in September (SA) following a revised 0.4% increase in August. Manufacturing activity, as measured by the Institute for Supply Management's Purchasing Managers Index (PMI), increased for a fifth consecutive month in October. The October PMI reading of 56.4 (50 or higher indicates growth) was up 0.2 points from September. The non-manufacturing PMI for October increased by 1.0 points from September and has remained above 50 for 46 straight months.
- Consumer confidence appears to have been shaken by the government shutdown and debt ceiling debate. The Conference Board index of consumer confidence stands at 71.2 in October, 9.0 points below its September reading and its lowest point since April 2013. The University of Michigan consumer sentiment survey for October fell 4.3 points to 73.2, its lowest point since January 2013.
- October light motor vehicle (LMV) sales of 15.2 million units (SAAR) were essentially unchanged from the September sales level. Although slower than this summer's sales pace, October sales were still 5.8% above their year-ago level.

Washington

- We only have one month of new employment data since the September forecast was adopted. The Washington economy added 3,400 jobs in September which was 400 less than the 3,800 expected in the forecast. We have also incorporated another quarter of Quarterly Census of Payrolls and Employment (QCEW) benchmark employment data. The new QCEW data and other revisions raised the estimated level of total employment in August 2013 by 2,600. As a result of the upward revisions to history and slightly weaker than expected growth, the net effect is 2,200 (0.1%) more jobs in September 2013 than expected in the September forecast. Private service-providing employment is 3,300 higher than expected and government employment is 1,500 higher but manufacturing employment is 1,400 lower than expected and construction is 1,200 lower.
- As in September, our preliminary November forecast assumes a gradual decline in aerospace employment. Washington aerospace employment is down a total of 1,300 jobs since the peak in November 2012. We continue to believe that this downturn will be relatively mild due to the large and increasing backlog of orders. The current reductions are due to improvements in productivity rather than reductions in production.
- The Institute of Supply Management - Western Washington Index (ISM-WW) continues to indicate positive but slowing growth in the broader manufacturing sector. The index declined from 61.0 in June to 52.7 in September before edging up to 54.2 in October. Index values above 50 indicate positive growth while values below 50 indicate contractions. The last time the Western Washington index was below 50 was in July 2009.
- In late September, the Bureau of Economic Analysis released preliminary estimates for state personal income in the second quarter of 2013 and revised estimates extending back to 2001. For the first time, the state data reflect the results of the 14th comprehensive revision of the National Income and Product Accounts. Comprehensive revisions occur about once every five years. They incorporate newly available data, update the reference year for prices and quantities, and allow for major changes in concepts, methods, and tables. The most significant change for personal income is the treatment of defined benefit pension plans which are now on an accrual basis rather than on a cash basis. The revised data show a generally higher level of Washington personal income. The revision raised the estimate for Washington personal income in calendar year 2012 by \$2.9 billion (0.9%). The state data are now consistent with the national estimates which were revised in July.
- Housing construction dropped sharply in the second quarter of 2013 after rising rapidly throughout 2012 and early 2013. The number of housing units authorized by building permits fell from 36,000 (SAAR) in the first quarter of 2013 to 27,700 in the second quarter. Preliminary data for the third quarter suggest little change. In July and August there were averages of 27,000 units authorized by building permits

(SAAR). The September forecast had assumed 31,000 units. The results for the month of August were particularly worrisome since they included a significant drop in single-family permits. Single-family permits averaged 17,100 (SAAR) units in August which was the lowest level in more than a year. (Normally we would also have permit data for September by now but this month's release from the Census Bureau has been canceled due to the government shutdown.) We still think the outlook is positive for housing due to the resumption of household formation, low inventories, and still good affordability. We are interpreting the recent weakness as a pause, not a downturn.

- Regional home prices continue to rise. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last 18 months and, as of August, are now 13.2% higher than in the previous August. Though prices and mortgage rates have risen, homes are still relatively affordable. Even with the recent gains, Seattle area home prices are 17.5% lower than their 2007 peak.
- Washington new light vehicle registrations improved to 268,800 vehicles (SAAR) in October from 263,200 in September. Despite the improvement in October, new vehicle registrations are still below the post-recession high of 279,800 reached in August 2013. October new light vehicle registrations were 6.2% higher than in the previous October.
- Washington exports grew 15.0% from the second quarter of 2012 to the second quarter of 2013. Exports of transportation equipment (mostly Boeing planes) increased 42.4% over the year but exports of agricultural products fell 49.9%. Exports from all other Washington industries rose 6.7% over the year.
- Inflation in the Seattle area remains moderate and slightly weaker than in the nation. In August 2013, the Seattle all items CPI was 1.1% higher than in the previous August which was slightly weaker than the 1.5% increase for the U.S. city average. Core inflation in Seattle was 1.3% compared to 1.8% for the nation.
- Our preliminary November forecast for Washington State is very similar to the forecast adopted in September. Washington employment growth is expected to grow at an average annual rate of 1.8% per year in 2013 through 2017, which is the same rate expected in the September forecast. Our new forecast for nominal personal income growth averages 4.7% per year compared to 4.8% per year in the September forecast.