



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0488	Title:	Revise license plate laws
Primary Sponsor:	Dooling, Julie	Status:	As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	\$1,920	\$0	\$0	\$0
State Special Revenue	(\$502,912)	(\$1,637,903)	(\$1,709,937)	(\$1,744,493)
Other	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$270,258)	(\$770,364)	(\$797,132)	(\$809,144)
State Special Revenue	(\$1,081,032)	(\$3,081,456)	(\$3,188,528)	(\$3,236,576)
Proprietary	(\$148,986)	(\$297,972)	(\$297,972)	(\$297,972)
Net Impact-General Fund Balance:	<u>(\$272,178)</u>	<u>(\$770,364)</u>	<u>(\$797,132)</u>	<u>(\$809,144)</u>

Description of fiscal impact: The bill eliminates the automatic replacement of license plates after 5 years per 61-3-332(3)(a)(ii), MCA, which will result in an overall revenue reduction, but adds the requirement to get a new plate upon permanent registration.

FISCAL ANALYSIS

Assumptions:

Department of Justice

1. The bill is effective January 1, 2022 so revenue numbers for the FY 2022 are for half of a fiscal year.
2. Based on industry research consumers on average replace their vehicles every 11.5 years.
3. In FY 2017, there were 339,036 transactions resulting in issuance of new license plates. New license plate transactions require a fee of \$10. Of the \$10 total fee, \$2 goes to the general fund and \$8 goes to the Motor Vehicles Division (MVD) Vehicle Insurance Verification and License plate state special revenue fund.

4. The elimination of the 5-year license plate replacement will result in a revenue loss as follows:
 - a. FY 2022 (There will be 339,036 transactions reaching the 5-year replacement cycle, resulting in a revenue loss as follows):
 - i. General fund (GF) reduction of \$339,036. ($\$2 * 339,036$ transactions / 2 (half year).
 - ii. State special revenue (SSR) reduction of \$1,356,144. ($\$8 * 339,036$ transactions / 2 (half year))
 - b. FY 2023 (There will be 453,960 transactions reaching the 5-year replacement cycle resulting in a revenue loss as follows):
 - i. General fund reduction of \$907,920 (GF $\$2 * 453,960$ transactions).
 - ii. State special revenue reduction of \$3,631,680 (SSR $\$8 * 453,960$ transactions).
 - c. FY 2024 (There will be 467,344 transactions reaching the 5-year replacement cycle resulting in a revenue loss as follows):
 - i. General fund reduction of \$934,688 (GF $\$2 * 467,344$ transactions).
 - ii. State special revenue reduction of \$3,738,752 (SSR $\$8 * 467,344$ transactions).
 - d. FY 2025 (There will be 473,350 transactions reaching the 5-year replacement cycle resulting in a revenue loss as follows):
 - i. General fund reduction of \$946,700 (GF $\$2 * 473,350$ transactions).
 - ii. State special revenue reduction of \$3,786,800 (SSR $\$8 * 473,350$ transactions).
5. In FY 2020, there were 68,778 permanent registrations. The bill requires all owners of vehicles registered on or after January 1, 2010 who elect to permanently register to get a new plate. FY 2020 numbers will be used to estimate the revenue from new plates acquired at the time of permanent registration.
 - a. FY 2022
 - i. general fund gain \$68,778 (GF 68,778 plates / 2 (half year) * \$2 fee)
 - ii. SSR gain \$275,112 (SSR 68,778 plates / 2 (half year) * \$8 fee)
 - b. FY 2023
 - i. general fund gain \$137,556 (GF 68,778 plates * 2)
 - ii. SSR gain \$550,224 (SSR 68,778 plates * \$8)
 - c. FY 2024
 - i. general fund gain \$137,556 (GF 68,778 plates * 2)
 - ii. SSR gain \$550,224 (SSR 68,778 plates * \$8)
 - d. FY 2025
 - i. general fund gain \$137,556 (GF 68,778 plates * 2)
 - ii. SSR gain \$550,224 (SSR 68,778 plates * \$8)
6. MVD collects a 3% administrative fee. The net loss of revenue from the elimination of the 5-year plate replacement cycle requirement, but addition of the permanent registration plate requirement in the bill will be as follows:
 - a. FY 2022 loss \$40,538 ($-\$339,036 + \$68,778 - \$1,356,144 + \$275,112 * .03$ fee / 2 (half year))
 - b. FY 2023 loss \$115,555 ($-\$907,920 + \$137,556 - \$3,631,680 + \$550,224 * .03$ fee)
 - c. FY 2024 loss \$119,570 ($-\$934,688 + \$137,556 - \$3,738,752 + \$550,224 * .03$ fee)
 - d. FY 2025 loss \$121,372 ($-\$946,700 + \$137,556 - \$3,786,800 + \$550,224 * .03$ fee)
7. MVD pays the Montana Correctional Enterprise \$5.50 for each plate produced. With the elimination of the 5-year license plate replacement and the addition of the plate replacement for permanently registered vehicles, MVD expenditures will be reduced as follows:
 - a. FY 2022 savings of \$743,210 (270,258 net transactions * \$5.50 plate fee / 2 for half of fiscal year).
 - b. FY 2023 savings of \$2,118,501 (385,182 net transactions * \$5.50 plate fee)
 - c. FY 2024 savings of \$2,190,535 (398,279 net transactions * \$5.50 plate fee)
 - d. FY 2025 savings of \$2,225,091 (404,562 net transactions * \$5.50 plate fee)

8. Montana Correctional Enterprises (MCE) estimates the reduction in plate production from the elimination of the 5-year replacement requirement will cause an increase in their costs to \$9.55 per plate set (see assumption #13). Per Montana law, MVD cannot pay more than \$8 per plate set to MCE, so this will increase MVD costs by \$2.50 per plate set they purchase from MCE.
9. MCE estimates plate production will drop by half to 192,239 per year in absence of the 5-year replacement requirement (see assumption #15).
10. Total annual expenditures for MVD plate set purchases will increase by \$480,598 per year (\$2.50 per plate set increase multiplied by 192,239 plate sets purchased). This impact is halved in FY 2022 (\$240,298).
11. It is estimated that 16 hours of programming at \$120 per hour will be necessary to modify the registration processes in MERLIN and removing the 5-year plate replacement cycle for a total general fund cost of \$1,920.

Department of Corrections

12. Montana Correctional Enterprises (MCE) produces approximately 380,000 sets of license plates annually. It is estimated that plate production would decrease by 50%. If plate production is reduced by more than 50%, the charge per plate set will be increased accordingly.
13. MCE currently charges the Division of Motor Vehicles (DMV) \$5.50 per plate set. MCE anticipates increasing the cost per plate set to \$9.55 to compensate for diseconomies of scale.
14. The MCE plate rate includes all fixed costs of the license plate manufacturing program and the cost of raw materials and supplies to produce plates. When the number of plates decreases, the cost per set of plates increases, as fixed costs must be amortized over fewer sets of plates.
15. The cost of producing plates with the decrease in production will raise the MCE's cost to \$9.55. Offsetting for maximum amount that the DMV can pay for plates of \$8 leaves a deficit of \$1.55 per plate. Corrections production of plates currently averages 384,479. A 50% cut in production reduces their proprietary revenue by \$297,972 per FY (\$148,986 for half of FY 2022). ($192,239 * \$1.55 = 297,972$). Rates are set only to recover the cost of producing the plates. MCE does not have other resources to cover the increased cost of plate production above the amount DMV could pay.

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Personal Services	\$1,920	\$0	\$0	\$0
Operating Expenses	(\$502,912)	(\$1,637,903)	(\$1,709,937)	(\$1,744,493)
TOTAL Expenditures	(\$500,992)	(\$1,637,903)	(\$1,709,937)	(\$1,744,493)
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	(\$502,912)	(\$1,637,903)	(\$1,709,937)	(\$1,744,493)
Other	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	(\$502,912)	(\$1,637,903)	(\$1,709,937)	(\$1,744,493)
<u>Revenues:</u>				
General Fund (01)	(\$270,258)	(\$770,364)	(\$797,132)	(\$809,144)
State Special Revenue (02)	(\$1,081,032)	(\$3,081,456)	(\$3,188,528)	(\$3,236,576)
Proprietary Revenue (06)	(\$148,986)	(\$297,972)	(\$297,972)	(\$297,972)
TOTAL Revenues	(\$1,500,276)	(\$4,149,792)	(\$4,283,632)	(\$4,343,692)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$270,258)	(\$770,364)	(\$797,132)	(\$809,144)
State Special Revenue (02)	(\$578,120)	(\$1,443,553)	(\$1,478,591)	(\$1,492,083)
Other	(\$148,986)	(\$297,972)	(\$297,972)	(\$297,972)

Long-Term Impacts:

1. MCE anticipates that plate production will continue to decrease after FY 2025. This will reflect in an adjustment in the plate set rate.

Technical Notes:

1. The license replacement cycle is the same language as HB 272 except for the addition of the requirement to obtain a new plate upon permanent registration. Fiscal projections are less for this bill due to that requirement.
2. Based on 61-3-321, MCA, the cost of license plates to the customer is \$10, of which \$2 must be deposited in the general fund leaving \$8 to cover the cost of production. MCE estimates the new cost per plate set which would be over the current amount allowed by statute by \$1.55 per plate set. This bill requires a change in statute to either cover the cost of producing the license plates or reduce the amount that goes to the general fund. The MCE rates are designed to only cover the cost of production and does not have resources to offset the difference the new estimated cost of \$9.55 and the statutory max of \$8.

NOT SIGNED BY SPONSOR

_____ 2/25/21 KA 2/24/21
 Sponsor's Initials Date Budget Director's Initials Date