MEMORANDUM

DATE: December 1, 2009

TO: All Interested Parties

FROM: Ben Gielczyk, Fiscal Analyst

RE: Driver Responsibility Fee Modification under House Bill 4098

Driver Responsibility Fee Overview

Under statute, Driver Responsibility Fee revenue is required to be deposited into the State General Fund. If the amount of collections is high enough, revenue is also deposited into the Fire Protection Fund, which is used for Fire Protection Grants funded within the Department of Energy, Labor, and Economic Growth. Public Act 165 of 2003 provides that if Driver Responsibility Fee collections exceed $65.0 million, then $3.5 million of the revenue is to be deposited into the Fire Protection Fund. The act also provides that an additional $5.0 million may be deposited if collections exceed $100.0 million, for a potential total deposit of $8.5 million.

In FY 2008, approximately $114.2 million in net revenue was generated through the collection of Driver Responsibility Fees after collection costs. Of the $114.2 million in revenue, $8.5 million was dedicated for Fire Protection Grants and $105.7 million was deposited in the State General Fund. According to the May Consensus Revenue Estimating Conference, general fund revenue projections for Driver Responsibility Fee collections were $100 million for both FY 2008-09 and FY 2009-10.

As of 2008, the collection rate of Driver Responsibility Fees since the program's inception in 2004 was 48.5 percent. In 2008, the total of all assessments for Driver Responsibility Fees over the program's five years of existence equaled almost $800.0 million. Of this amount, just under $400.0 million has been collected. With collection rates still hovering around 50.0 percent, the uncollected amount through FY 2008-09 has likely risen to around $450.0 million.

House Bill 4098 Analysis

The provisions of House Bill 4098 would reduce revenue to the State General Fund by a significant amount due to the elimination of specified Driver Responsibility Fee assessments after December 31, 2009. The only revenue that would be recovered under the eliminated assessment categories after the specified date of fee elimination would come from collection of past assessments that individuals have not yet paid.

For this analysis, a low-end scenario and a high-end scenario has been provided. Assumptions in the low-end scenario are an assessment collection rate of 30.0 percent and a delinquency settlement participation rate of 15.0 percent. Assumptions in the high-end scenario are an assessment collection rate of 50.0 percent and a delinquency settlement participation rate of 25.0 percent. The delinquency participation rate was derived from calculating an estimated annual delinquency collection rate of 6.0 percent and assuming an increase between two to four times the current rate by offering a settlement of delinquent assessment payments at 50.0 percent of the assessment amount owed. Please note that there is a great deal of uncertainty in this analysis due to a lack of historical precedent and data.

Under this analysis, estimates of revenue for FY 2009-10, assuming the delinquency settlement period is implemented during this fiscal year, range from a low end of $75.3 million to a high of $103.8 million. Even on the high end, the annual collection in FY 2009-10 would be lower than estimated Driver

Responsibility Fee revenue under current law. The reduction would be much lower if there was not the projected increased participation in delinquency settlement under the provisions of the bill. For FY 2009-10 the delinquency settlement collection period will offset a large portion of the lost revenue due to various assessment eliminations.

Starting in FY 2010-11 and going forward, estimates of revenue from the Driver Responsibility Fees range from a low-end scenario of $35.5 million to a high-end scenario of $50.2 million under the provisions of the bill. The low revenue estimates starting in FY 2010-11 are due to the following factors:

- Only $1,000 assessments and a few $500 assessments would still be assessed under the provisions of HB 4098. Collection rates would likely be lower than the 50.0 percent average in recent years due to the higher fees only being assessed.

- Annual delinquency collection rates would likely drop due to the fact that those persons most likely to settle delinquent payments would have done so under the delinquency settlement period offered under the bill during FY 2009-10. For purposes of this analysis, a drop from 6.0 percent (the annual rate of collection calculated under current law) to 3.0 percent was assumed.

Please see attached spreadsheet for further detail and analysis of the two scenarios described above. If you have further questions please feel free to contact me.

Please call if you have questions about this information.

Attachment

c: Mitch Bean, HFA Director
Kyle Jen, HFA Associate Director