

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

| | | | |
|--|-----------------------|---|-------------------|
| Fiscal Year 2016/17 | Business Unit 2740 | Department Motor Vehicles | Priority No. 1 |
| Budget Request Name 2740-101-BCP-DP-2016-GB | | Program 2135 – DRIVER LICENSING AND PERSONAL IDENTIFICATION | Subprogram |

Budget Request Description
 Driver License and Identification Card Production Cost Increase

Budget Request Summary

The Department of Motor Vehicles (DMV) is requesting \$6.9 million for fiscal year (FY) 2016/17 and on-going. Additional funding of \$6.9 million over current base is required to fund the increase in card production costs as a result of the system software and hardware replacement to improve upon existing DL/ID/SP services. The current contract expired on October 31, 2015, and the card cost increased from \$1.385 per card to an average of \$1.920 per card over a four (4) year period.

| | | |
|--|--|------|
| Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | Code Section(s) to be Added/Amended/Repealed | |
| Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i> | Department CIO | Date |

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

FSR SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

| | | | |
|---|--------------------|--|------------------|
| Prepared By Tammy Hayward | Date 11/17/15 | Reviewed By <i>[Signature]</i> | Date 12/29/15 |
| Department Director <i>[Signature]</i> | Date 12/31/2015 | Agency Secretary <i>[Signature]</i> | Date 12/31/15 |

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

| | |
|----------------------------|---|
| PPBA <i>[Signature]</i> | Date submitted to the Legislature 1/7/2016 |
|----------------------------|---|

A. Budget Request Summary

The Department of Motor Vehicles (DMV) requests \$6.9 million ongoing funding, in fiscal year (FY) 2016/17. DMV’s contract with MorphoTrust USA, LLC for DL/ID/SP cards expired on October 31, 2015. The previous contract language requires a system software and hardware upgrade and replacement upon execution of DMV’s option to extend the contract beyond the first five years of full card production. The DL/ID/SP card costs will increase from \$1.385 per card to an average of \$1.920 per card over a four (4) year period due to the costs associated with the system software and hardware upgrade and replacement to process the cards since the last contract was executed in 2010. The projected card cost increase over current base is \$6.9 million per year.

B. Background/History (Provide **relevant** background/history and provide program resource history. Provide workload metrics, if applicable.)

One of DMV’s primary responsibilities is to grant driving privileges to California residents by issuing a California Driver License (DL) card to individuals who demonstrate the ability to safely operate a motor vehicle. DMV is also responsible for issuing personal Identification (ID) cards, monitoring driving privileges, and taking sanctions against drivers for traffic-safety related incidents, such as driving under the influence or failure to provide proof of insurance at the time of an accident. DMV also issues the Salesperson (SP) License following a similar process and design to the DL/ID cards. Approximately 9.3 million DL/ID/SP cards are projected to be issued annually and currently there are about 22.9 million DL cardholders, 4.9 million ID cardholders, and over 104,000 SP cardholders in California.

The production of the DL/ID/SP card is an integral component of the licensing program. Although the primary intent of the DL is to grant driving privileges, the DL/ID card is also considered an individual’s primary identification document by federal, state, and local agencies as well as many private entities. As such, DMV has a responsibility to ensure the accuracy and integrity of the card, the issuance process, and the related database systems. Security is one of DMV’s strategic goals which is to strengthen validity, security, and protection of personal information.

DMV’s contract with MorphoTrust USA, LLC for DL/ID/SP cards includes language that requires a system software and hardware upgrade/replacement upon execution of DMV’s option to extend the contract beyond the first five years of full card production which began in 2010. The system software and hardware upgrade and replacement includes a full technical replacement of multiple hardware components, services to test and install the new components, and provide train-the-trainer services for the image capture station operators for DMV. The contract expired on October 31, 2015. The DL/ID/SP card costs will increase from \$1.385 per card to an average of \$1.920 per card over a four year period due to the costs associated with the need for updated software and hardware to process the cards since the last contract was executed in 2010.

Resource History
(Dollars in thousands)

| Program Budget | PY – 4 FY 10/11 | PY – 3 FY 11/12 | PY – 2 FY 12/13 | PY – 1 FY 13/14 | PY FY 14/15 |
|-------------------------|--------------------|--------------------|--------------------|--------------------|----------------|
| Authorized Expenditures | \$11,487 | \$11,487 | \$11,453 | \$11,453 | \$12,451 |
| Actual Expenditures | \$8,197 | \$8,581 | \$11,465 | \$12,936 | \$13,753 |
| Revenues | \$281,413 | \$217,239 | \$284,795 | \$312,776 | \$287,018 |

Note: Actual expenditures include card production costs and additional work authorizations.

Workload History

| Workload Measure | PY – 4 FY 10/11 | PY – 3 FY 11/12 | PY – 2 FY 12/13 | PY – 1 FY 13/14 | PY FY 14/15 | CY FY 15/16 |
|------------------------|--------------------|--------------------|--------------------|--------------------|----------------|----------------|
| Card Production Volume | 8,762,971 | 6,485,209 | 8,411,802 | 9,145,729 | 9,448,178 | 9,521,207 |

Source: Workload Indicators for Budget Estimates provided by DMV’s Forecasting Department

C. State Level Considerations

This BCP addresses the department's Strategic Goal to:

- Strengthen the validity, security, and protection of personal information.
- Enhance consumer protection.
- Enhance services to our internal and external customers.

By ensuring that DMV's strategic goals for security and protection are met, the California Highway Patrol, law enforcement, commercial industry customers, and other stakeholders can be confident that the document issued provides true and correct information of the cardholder. These goals align with DMV's Mission Statement and Core Values and represent a portion of DMV's Strategic Plan. Currently, DMV conducts online verification of the legal presence documents and social security information to determine the validity of the information provided by the applicant. These verification processes greatly contribute to our efforts to prevent or deter fraud.

California statutes require DMV to issue accurate DL/ID/SP cards. When the California Vehicle Code (CVC) Sections 12800 and 13000 were amended in 1982, the California legislature declared that the DL/ID cards issued by DMV are the basic identification documents, and the state has a compelling interest in ensuring the accuracy and integrity of this identification system.

Facility/Capital Outlay Considerations:

The DL/ID/SP card production facility and capital outlay needs are part of the contractor costs, and are included in the cost per card. This request would not result in any new facility needs.

D. Justification

With the extension of the current DL/ID/SP card production contract that began November 1, 2015, the vendor will continue to provide card production services to DMV. The request is now needed due to the expiration of the previous contract on October 31, 2015, and the increased card costs due to the system software and hardware upgrade and replacement.

MorphoTrust USA Contract Card Cost Increase:

The DL/ID/SP card costs are set to increase from \$1.385 per card to an average of \$1.920 per card over a four year period due to the costs associated with the need for updated software and hardware to process the cards since the last contract was executed. DMV is requesting \$6.9 million in additional funding to cover the increased contract costs for producing the cards plus applicable taxes. The funding request is based on the average card cost and the average projected card volume over the four year contract period.

| Additional Card Cost Calculation | |
|---|-----------------------|
| Pre-Tax Card Cost Increase | |
| *Projected Average Card Volume for FY 2016/17 | 9,042,684 |
| Average Card Cost Increase | <u>x\$1.920</u> |
| Estimated Card Cost Pre-Tax | \$17,361,954 |
| Taxes | |
| Taxes (8.5%) | \$1,475,766 |
| Percentage Taxable | <u>x60%</u> |
| Cost of Taxes | \$885,460 |
| Total Card Cost (\$17,361,954 + \$885,460) | \$18,247,414 |
| Less Current Contract Base | <u>(\$11,318,366)</u> |
| Total Additional Funding Request | \$6,929,048 |

E. Outcomes and Accountability *(Provide summary of expected outcomes associated with Budget Request and provide the projected workload metrics that reflect how this proposal improves the metrics outlines in the Background/History Section.)*

This project adheres to the requirements of the Statewide Information Management Manual and the Information Technology Project Oversight Framework, and is subject to multiple levels of oversight. Project oversight is provided by the DMV Project Management Office and independent project oversight consultant services.

Projected Outcomes

| Workload Measure | CY FY 15/16 | BY FY 16/17 | BY+1 FY 17/18 | BY+2 FY 18/19 | BY+3 FY 19/20 | BY+4 FY 20/21 |
|-----------------------|----------------|----------------|------------------|------------------|------------------|------------------|
| Projected Card Volume | 9,521,207 | 7,487,745 | 9,299,703 | 9,862,083 | 10,407,923 | 10,412,894 |

*Note: BY 2016/17 is a "dip year". DL/IDs are renewed every 5 years.

**The Average projected annual card volume for the 4 years of the contract extension is 9,042,684.

F. Analysis of All Feasible Alternatives

Alternative #1: Fund the DL/ID/SP card contract increase.

Cost: \$6.9 million starting FY 2016/17 and on-going.

Advantages:

- Updating the system software and hardware supports DMV's mission and goals of quality public service, security, and alignment with evolving customer needs, by allowing DMV to continue the timely production of enhanced, secure DL/ID cards.
- Ensures there are no delays in customer service and providing quality, secure DLs and IDs to DMV customers.

Disadvantages:

- Increases costs to DMV for the DL/ID/SP card to an average of \$1.920 per card.

Alternative #2: Redirect to fund the DL/ID/SP card contract increases.

Costs: Additional card production cost of \$6.9 million for remainder of the DL/ID/SP contract TC09-001.

Advantages:

- No overall increase to DMV budget.

Disadvantages:

- Redirecting funds internally would result in fewer available resources for projects, programs and workloads.
- Will cause critical infrastructure maintenance to be deferred as departmental funds are redirected to fund DL/ID card costs.
- May force the Department to hold open vacancies in the need to redirect personal service savings to fund increased DL/ID card costs which may create workload backlogs and/or negatively affect customer service.
- Major equipment purchases will be reduced or stopped which will delay refresh of IT equipment which will result in work delays as old and outdated equipment begins to fail.

G. Implementation Plan

DMV's contract with MorphoTrust USA, LLC for DL/ID/SP cards includes language that requires a system software and hardware upgrade/replacement upon execution of DMV's option to extend the contract beyond the first five years of full card production which began in 2010. The previous contract expired on October 31, 2015 and the new contract extension and cost increase began November 1, 2015.

H. Supplemental Information *(Describe special resources and provide details to support costs including appropriate back up.)*

See table below.

I. Recommendation

Alternative #1: Approve \$6.9 million in on going funding for the DL/ID/SP contract amendment and extension with Morpho Trust.

BCP Fiscal Detail Sheet

BCP Title: Driver License and Identification Card Production Cost Increase

DP Name: 2740-101-BCP-DP-2016-GB

Budget Request Summary

| | FY16 | | | | | |
|---|------------|----------------|----------------|----------------|----------------|----------------|
| | CY | BY | BY+1 | BY+2 | BY+3 | BY+4 |
| Operating Expenses and Equipment | | | | | | |
| 5340 - Consulting and Professional Services - | 0 | 6,929 | 6,929 | 6,929 | 6,929 | 6,929 |
| Total Operating Expenses and Equipment | \$0 | \$6,929 | \$6,929 | \$6,929 | \$6,929 | \$6,929 |
| Total Budget Request | \$0 | \$6,929 | \$6,929 | \$6,929 | \$6,929 | \$6,929 |

Fund Summary

| | | | | | | |
|--|------------|----------------|----------------|----------------|----------------|----------------|
| Fund Source - State Operations | | | | | | |
| 0044 - Motor Vehicle Account, State | 0 | 6,929 | 6,929 | 6,929 | 6,929 | 6,929 |
| Total State Operations Expenditures | \$0 | \$6,929 | \$6,929 | \$6,929 | \$6,929 | \$6,929 |
| Total All Funds | \$0 | \$6,929 | \$6,929 | \$6,929 | \$6,929 | \$6,929 |

Program Summary

| | | | | | | |
|---|------------|----------------|----------------|----------------|----------------|----------------|
| Program Funding | | | | | | |
| 2135 - Driver Licensing and Personal Identification | 0 | 6,929 | 6,929 | 6,929 | 6,929 | 6,929 |
| Total All Programs | \$0 | \$6,929 | \$6,929 | \$6,929 | \$6,929 | \$6,929 |