



THE NEW JERSEY GENERAL ASSEMBLY



Subcommittee on the Privatization of the Division of Motor Vehicles

March 1, 1988

Assemblyman Robert W. Singer, Chairman

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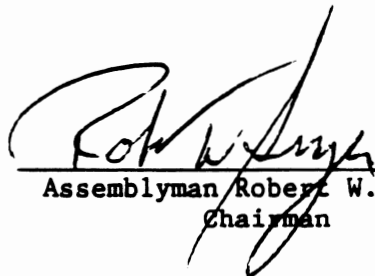
GENERAL ASSEMBLY
OF NEW JERSEY
TRENTON

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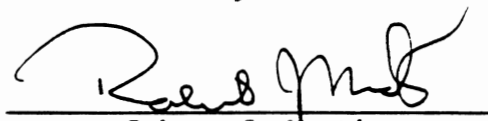
Speaker of the General Assembly Chuck Hardwick
Members of the Legislature

Ladies and Gentlemen:

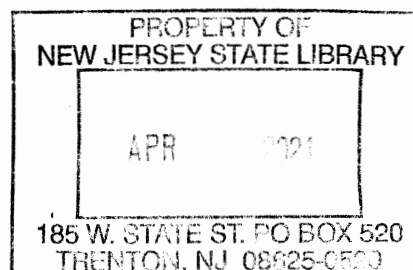
The Subcommittee on the Privatization of the Division of Motor Vehicles established by the Speaker and the Chairman of the Select Committee on the Division of Motor Vehicles under the rules of the Assembly hereby respectfully submits its report on the reform and operation of the Division of Motor Vehicles.



Assemblyman Robert W. Singer
Chairman



Robert J. Martin
Vice-Chairman





GENERAL ASSEMBLY
OF NEW JERSEY
TRENTON

March 8, 1988

Speaker of the New Jersey General Assembly Chuck Hardwick
Members of the Legislature

Ladies and Gentlemen:

I am very pleased to transmit with this letter the finding and recommendations of the Subcommittee on the Privatization of the Division of Motor Vehicles regarding the options for reform of the agency system.

The report represents the work of the subcommittee in mapping out a motor vehicle agency system which includes private sector involvement. It also shows the extent and level of interest of the private sector in participating in motor vehicle operations.

The subcommittee heard from a variety of sources, each providing valuable insight on DMV privatization. I would like to thank everyone who appeared before the subcommittee. I would especially like to thank those members of the private sector who took time from their busy schedules to spend time in Trenton to discuss the various aspects of privatization. I would also like to thank Glenn Paulsen, Director of the Division of Motor Vehicles and his staff for the time they devoted to assisting the work of the subcommittee.

The members of the subcommittee also deserve a special thanks. Their efforts in studying, evaluating and analyzing a very complex issue are well commended.

On behalf of the members, I would like to conclude by saying that the subcommittee stands ready to assist in the implementation of the attached recommendations.

Sincerely,

Robert W. Sanger
Chairman

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INTRODUCTION

This report represents the findings and recommendations of the Assembly Subcommittee on the Privatization of the Division of Motor Vehicles. The Subcommittee was established by Speaker Chuck Hardwick to map out a motor vehicle agency system which includes private sector involvement. The report illustrates the interest of the private sector in participating in the daily operation of the motor vehicle field agency system as well as outlining the extent to which this involvement is feasible. The New Jersey General Assembly is committed to the goal of reforming the Division of Motor Vehicle to make it more responsive to the State's 5.2 million motorists. Participation by the private sector will provide the Division with the means to achieve this goal.

In February, 1987, the General Assembly Select Committee on the Division of Motor Vehicles recommended that private sector providers participate in the final configuration of the motor vehicle agency system. While recognizing the advantages of private sector involvement, the Select Committee wanted to know how feasible such involvement might be. Based on testimony obtained during a year of public hearings, the Select Committee found several major problems with the course being followed by the Attorney General to reform the Division. The Select Committee recommended a halt in the development of a totally state-operated system until a special panel could be formed to evaluate and report back to the Legislature on

the optimum role, as well as the level of interest, of the private sector in the motor vehicle field agency system.

The Subcommittee on the Privatization of the Division of Motor Vehicles, a working group of the full Select Committee, was established in late Spring, 1987. The goals set for the Subcommittee included:

- identifying those motor vehicle functions that can best be provided by the private sector;
- determining the level of private sector interest in providing specific DMV functions;
- recommending procedures to keep politics out of DMV privatization and insuring the highest level of customer service; and
- recommending the optimum role and extent of private sector involvement in the final DMV configuration.

Testimony was taken from a variety of sources in an attempt to establish an alternative to state takeover. Private sector agents currently participating in the system were called upon to examine their role. Currently, there are 54 motor vehicle agencies which handle the majority of all DMV transactions. Of the 54, 28 are operated by appointed, private sector agents, one is run by a county

and the remaining 25 are run by the state. The agents were united in the belief that if allowed to operate on a truly competitive basis, they or another private sector operator could provide a higher quality of service at the same or less cost.

Representatives of the Division of Motor Vehicles testified before the Subcommittee to set basic guidelines to be followed in determining the extent of private sector participation. The Division provided the committee with information concerning which functions and services should be available to motor vehicle customers at all agencies and which functions, based on security and safety concerns, should continue to be the sole responsibility of the State agencies. These representatives, in conjunction with the private sector agents, set basic outlines to be followed in determining the extent of private sector participation.

At further hearings private sector interests testified concerning the benefits to the State's motorists if certain services now handled by the Division of Motor Vehicles are turned over to private hands.

Based on this testimony and an extensive investigation into the issue, the Subcommittee is recommending two possible approaches to the provision of motor vehicle field agency services by the private sector. These two initial "pilot projects" are recommended to test the potential of privatization for the Division of Motor Vehicles.

The initial project recommendations are:

1. A retail locations demonstration project designed to test the feasibility of offering field agency services to the public on a larger scale through numerous outlets; and
2. An "in-house" agency demonstration program with large employers in the State to test the utility of offering field agency services as an employee benefit. In addition to providing service to employees, large organizations would be able to service their own fleets.

The remainder of the report outlines testimony received by the Subcommittee as well as information gathered from a survey of business interests in the State. This documentation is used as the basis for the Subcommittee's findings. Recommendations follow the text of the report.

BACKGROUND

In 1985, the public's perception of the Division of Motor Vehicles diminished when a series of mishaps and negative evaluations hit the agency. The Division of Motor Vehicles came to a virtual standstill in July, 1985 with the malfunctioning of its computer system. A system designed specifically to expedite operations at motor vehicles was found unable to respond in a timely

manner. The system was not only unable to support the number of terminals it was intended to handle but, more important, it was unable to keep up with the processing of transactions. At the same time, the State Commission of Investigation evaluated the overall operation of the Division of Motor Vehicles finding grave flaws within the system. Citing that in the past most motor vehicle agents were selected for reasons of political patronage and only secondarily for their business acumen, it recommended a total reform of the agency system. Specifically, the Commission recommended that politics be removed from motor vehicles in order to correct the existing abuses.

In response to the criticism of the agency and the desire to provide a motor vehicle system that is efficient in serving the consumer, the General Assembly established the Select Committee on the Division of Motor Vehicles to examine the overall operation of the Division. Its focus centered on the operation of the agency system to make it a more consumer oriented, service agency.

Attorney General W. Cary Edwards testified before the Select Committee stating that, "The first, and most important component of motor vehicle reform is the need to reorient the philosophy that drives the system in New Jersey from one that emphasizes DMV's regulatory and enforcement responsibilities to one that emphasizes its retail responsibilities to the motoring public the captive consumer." To achieve these goals the Attorney General recommended

the State formally take over the operation of the field agencies. He stated that "only by providing for state-run agencies can we insure total control by management over agency operations and personnel practices, consistent and uniform management across all agencies, and easier implementation of training programs." Attorney General Edwards did not reject other options for reforming the agency system but at the time believed the State should take over the entire operation to correct its severe problems. Later the configuration could be changed if it was the wish of the Legislature and other policy makers.

The focus of the Select Committee centered on the studying, evaluating and analyzing the various alternatives which could be used to bring the Division of Motor Vehicles up to a level which satisfactorily meets the needs of the motoring public of the State. The Select Committee spent the following year reviewing the available options and on February 19, 1987 issued the following recommendations:

- The Attorney General should discontinue State takeover of the motor vehicle agency system until the feasibility of private sector involvement is fully reviewed;
- A public and private sector panel should be established to design a configuration of motor vehicle agency services;
- The private sector should be incorporated in any final configuration of the motor vehicle agency system; and

- The system must be depoliticized so that private sector involvement is based on efficiency and consumer satisfaction and not on political connections.

The Subcommittee on the Privatization of the Division of Motor Vehicles based its work on the findings of the Select Committee on the Division of Motor Vehicles, namely that the private sector is better able than its public sector counter part to engender a "consumer first" attitude. The course being followed by the State's Division of Motor Vehicles -- eventual State takeover of the motor vehicle agencies -- was not supported by strong evidence to conclude it as the only viable alternative. Full state operation of the motor vehicle field agency system will be more costly to the State, the level of service may not improve and implementation will make the state role impossible to eliminate and difficult to reform at a later date.

Many private firms have better technology, hardware and expertise, than the state. These firms offer operating efficiencies and economies that are beyond the ability of the state to provide. For example, private firms can deliver physical facilities faster and cheaper than the state through renovating existing structures. Private firms also have greater flexibility in managing their work force and can offer better incentives to boost productivity. The most important consideration, however, is the fact that private firms are in the business of consumer service. Serving the consumer in a quick, efficient, cost-effective and courteous manner is their primary mission.

Past experience has indicated that privatization of motor vehicles services can work to improve the quality of consumer services. The best example of privatization at work in New Jersey's Division of Motor Vehicles is the private/public motor vehicle dual inspection program. Approximately 22 percent of all inspections are performed by private inspection centers which are conveniently located across the State and which save drivers countless hours of waiting and aggravation. In 1982, it was not unusual to wait two to three hours to have a vehicle inspected. By January 1, 1986, the average wait for motorists was reduced to six minutes.

The Division of Motor Vehicles, under the control of Director Glenn Paulsen, is making strides to reform the operations of the main agency. He testified before the Subcommittee on the Privatization of the Division of Motor Vehicles in early June and again in August to map out the gradual improvements made by the Division to implement an overall system that is efficient and is dominated by a retail-consumer-oriented approach. Proposals for rebuilding DMV are contained in various working reports prepared by "strategic target groups (STG's)." These STG's are composed of State government officials experienced in management and chosen for their knowledge and experience in certain subject areas. Three STG's have been dedicated specifically to the study of motor vehicle agency improvement as well as making recommendations for improved operations. None of the STG's concentrated specifically on

private-sector involvement in the operation of the agency system. The groups concentrated on what functions and services should be available to motor vehicle customers at all agencies and how these functions should be structured and staffed. In addition to changes in the types of services offered at the agencies, improved performance standards for motor vehicle agencies, especially in the level of customer service, and customer average waiting time are ready for implementation.

FINDINGS

EXPERIENCE WITH PUBLIC/PRIVATE IN OTHER STATES

The experiences of other states were also studied in weighing the merits of a private sector motor vehicle agency system. States with privatization programs include Minnesota, Missouri, North Carolina, North Dakota, Ohio, Oklahoma, Vermont and Washington. In addition, the State of Oregon recently commissioned a study to examine the role of privatizing a portion of its motor vehicle system.

Minnesota's Bureau of Motor Vehicles contracts with city and county officials as well as the private sector for the operation of its vehicle service field offices. The Commissioner of Public Safety appoints deputy registrars of Motor Vehicles in each county,

city or in any location where convenience requires a field office. The compensation for operating such locations is based on a fee of \$3.25 per transaction. Those operating as deputy registrars are under contract for an indefinite length of time, provided that contract requirements are kept.

In Missouri the state's Division of Motor Vehicles collects and processes fees and distributes documents through fee agents throughout the State. The agents are responsible for fee and form collection in both driver and vehicle services. The offices are owned and operated by various organizations and members of the private sector. There are currently 176 field offices in Missouri of which only 12 locations are operated by the State. The remaining 164 offices are operated on a contractual basis within local Chambers of Commerce and private businesses, shopping centers and offices of associations. The Director of the Missouri Department of Revenue contracts positions as motor vehicle fee agents with interested parties of the private sector. The contract outlines specific standards of quality to be met. Failure on the part of the agent to meet these requirements leads to temporary or permanent dismissal by the Director.

North Carolina's Division of Motor Vehicles uses the private sector to operate "license plate" agencies. The vendors are widely located throughout the state and are responsible for collecting registration and titling fees and issuing license plates and validation stickers. Agents are appointed by the Commissioner of

Public Safety and are referred to as "commission contractors." The locations for the agencies are determined by the state. Contracts are renewed yearly, unless the obligations of the contractor are not performed satisfactorily. The commission contractor is compensated by a rate-per-transaction at his or her license plate agency.

In North Dakota the state's Division of Motor Vehicles operates driver service branch offices throughout the state. The offices are established to reduce the workload of the central office and to provide better service to the public in all matters of vehicle registration. Of the 13 motor vehicle field offices, 6 locations are permanently situated in local area Chambers of Commerce. The remaining seven locations are operated by politically-appointed, private-sector agents.

Oklahoma's Tax Commission utilizes the private sector for the operation of Motor Vehicle offices to provide driver and vehicle services to the public. The motor license agents are located throughout the state in order to carry out the provisions of the "Motor License and Registration Act." Private agents appointed by the Tax Commissioner operate 289 agencies throughout the State. They are compensated a maximum of \$30,000 per year.

The Vermont Division of Motor Vehicles uses the private sector in its vehicle registration and renewal operations. The State has the purest form of private sector involvement. Forms and fees are collected at branch offices of area banks that have entered into a

contract with the Division of Motor Vehicles. The banks act as depositories for applications and renewals from the motoring public. The information is read by a computer system and is channeled directly to the central motor vehicle office. Currently eight banks participate in the program. The Division of Motor Vehicles is just completing its first three year contract with the banks and is awaiting new bids and renewals. Vermont has found this system to be efficient and effective.

PRIVATE-SECTOR INTEREST IN THE AGENCY SYSTEM

Forty-eight business firms and industry associations, representing a range of private and non-profit business interests, were canvassed by the Privatization Council, a non-profit group assisting the Subcommittee in determining private sector interest. Major retailers, department store chains and supermarkets, as well as the State's largest utility and communications firms, the State Chamber of Commerce and the New Jersey Associations of Realtors expressed a willingness to consider participation in field agency privatization. Positive interest in privatizing various aspects of the New Jersey Division of Motor Vehicle field agency system was further evidenced by representatives of 12 major New Jersey firms and industry groups participating in a workshop sponsored by the Subcommittee on September 11, 1987.

Industry representatives at the meeting enumerated important capabilities of their organizations relevant to field agency operations including:

- locations accessible to consumers throughout the state;
- strong consumer service orientation evidenced in staffs skilled in dealing with the public, operating hours including evenings and weekends, and amenities such as ample parking at facility sites;
- sophisticated computer systems capable of handling massive volumes of mail and phone transactions efficiently; and
- experience in related activities such as in-house vehicle inspection.

Retailers such as Mr. Tru Hall, Regional Operating Manager of the Sears, Roebuck and Company pointed out the benefits of having DMV field offices in retail stores including - evening and weekend hours which would allow consumers to take care of transactions without leaving work locations and store locations in areas that are easily accessible and have ample parking for customers. Along this same line, Mr. Victor Scire, Vice President of Sales Promotion of the Jamesway Corporation discussed the efficiency of a major retail organization to service the public. He noted specifically that Jamesway currently operates 26 stores throughout New Jersey.

Mr. Richard Walters, representing AT&T, cited several experiences and a number of capabilities that could be tapped to offer agency functions to AT&T employees or the public such as experience with performing "privatized" field agency functions as a result of in-house AT&T fleet inspection; 52 major locations in the State as well as numerous store front operations (including retail phone centers); and the ability to service 50,000 employees in New Jersey as a productivity measure for the corporation.

New Jersey Bell Telephone and Public Service Electric and Gas (PSE&G) described their organization's capability in several areas including the ability to service its own fleet of 6,000 vehicles - approximately 10,000 motor vehicle transactions annually; multiple locations throughout the state; and sophisticated computer networks and mailing operations. Both organizations were concerned, however, with possible legal restrictions placed on regulated firms which might prevent them from participating.

The New Jersey Chamber of Commerce discussed the Chamber's many locations, in nearly every community. James Morford, Vice-President of the Chamber, noted that in two other states, Missouri and North Dakota, DMV transactions were handled in local Chamber offices.

In addition to the workshop, an extensive industry survey was conducted by the Privatization Council for use by the Subcommittee

on the Privatization of the Division of Motor Vehicles. The purpose of the survey was to identify private sector organizations or businesses in New Jersey with not only an interest but also with the appropriate capabilities in providing selected DMV field agency functions. A total of 48 major corporations, industry organizations and non-profit agencies were contracted.

Vermont's successful use of state banks for motor vehicle registration and renewal operations brightened the prospect of using banks here. New Jersey banks with a statewide presence were contacted including United Jersey Banks, Midlantic Banks, United Counties Trust, New Jersey Council of Savings Banks, Horizon Bank Corporation First Fidelity Bank, and Household Finance. The New Jersey Bankers Association was contacted on behalf of its other member organizations. The initial response of the association was that banks would be unlikely to show interest in adding DMV services to banking functions. The individual banks confirmed this opinion.

The Subcommittee contacted department stores with a significant number of locations in New Jersey including K-Mart, Macy's, Sears, J.C. Penney and Jamesway. Both Sears and Jamesway continue to express interest in any future projects.

Large supermarket chains contacted included A&P, Grand Union, Supermarkets General, ACME and Wakefern, the parent corporation of Shop-Rite. Wakefern expressed interest in participating in the program as a service to its customers, utilizing a convenience desk in the stores to offer license renewal and other services.

Various service providers were also contacted. Of those approached several expressed an interest and felt they might be able to play a positive role. For example, New Jersey Bell has 19,600 employees and the largest private fleet of vehicles in the State. For some time it has tried to take over license renewals, titling and other activities as a time-saving element for the organization and for the DMV. AT&T also felt that there are business opportunities in DMV service provision but not necessarily through the "traditional" field agency operations. Its recommendations include a proposal to put on premises a registration agency location for its approximately 50,000 employees. The PSE&G representative also showed interest in a similar, non-traditional role. All service organizations, however, expressed concern about a possible conflict between their role as a regulated industry and expansion of their functions into a new market.

Finally non-profit organizations such as the American Automobile Association and the New Jersey State Chamber of Commerce were contacted. Although these group successfully provide motor vehicle services in other states neither representative was willing to express an opinion for its member organizations.

MOTOR VEHICLE SERVICES

New Jersey's Division of Motor Vehicles' services 5.2 million licensed drivers in New Jersey. The Division handles 24 million transactions in over 40 areas and brings in approximately \$400 million in revenue annually for the State. The major functions performed by the Division include: license issuance and renewal; vehicle titling and registration; vehicle inspection; driver testing; license plate issuance and collection; junkyard, auto body shop and driving school licensing; collection of motor carrier fuel taxes and insurance surcharges; and maintenance of violation records. Several of these functions are only performed at the central motor vehicle agency with future plans to expand the services to regional service centers.

A motor vehicle agency system using private sector vendors should begin by permitting operators to perform only a limited variety of transactions. The agents should be limited in the services they provide, specifically being excluded from safety issues, such as administering of driver examinations, both written and road, and security issues, such as issuing official titles. These certain functions should be handled through the Division of Motor Vehicles.

Private sector businesses showing interest in participating in the program are also inclined to play only a limited role. Most are not willing to take on responsibility for services that are not perceived positively by the public, such as surcharge collection.

Services to be handled include license renewals, registrations and applications for duplicate licenses, registrations, or titles.

The following charts lists those functions which will be undertaken by the private sector agents as well as the number of transactions that occur per year.

<u>TRANSACTION</u>	<u>VOLUME</u>
Licenses	
Initial and Renewals (excluding bus and truck)	2,319,237
Titles	2,492,875
Registrations	6,163,780
Initial and Duplicate	

RECOMMENDATIONS

The Assembly Subcommittee on the Privatization of the Division of Motor Vehicles recommends, based on testimony and conversations with private sector retailers and employers that a combination of

two pilot projects involving retailers and large employers as a first step in testing the feasibility of private sector operation of motor vehicle field agencies. These recommendations will serve as the basis for evaluating a public/private cooperation in the operation of DMV services. The Subcommittee urges the Director of the Division of Motor Vehicles to begin implementing these trial programs before major expensive, expansion is completed. It also urges that legislation be prepared to effectuate the purposes of these proposals.

First, mini motor vehicle agencies should be placed in several strategically located retail business outlets on an experimental basis. A "retail locations" pilot project will test the ability of a retail organization and the Division of Motor Vehicles to offer service efficiently through new locations with the goal of improving consumer services. The second pilot, the "in house" agency program, will test the feasibility and utility of major corporate organizations in providing selected services to employees and for its own fleet operations. The intent of the "in-house" agency is to expand service availability as well as to lessen the workload of field agencies which service these large organizations. Both pilots will provide important data for future partnerships as well as information for developing effective processing systems and security procedures, and providing an opportunity for refining Division of Motor Vehicles' backup and support capabilities. A two-year period is proposed for the pilots including design, implementation, review and evaluation of the projects.

The outlines for each pilot program provide specifications for the number of providers or test locations, selection criteria for pilot participants and identification of specific services to be provided by the pilot program participants.

RETAIL LOCATIONS PROJECT

The first recommendation involves retailers. These agencies should be limited in scope, providing such services that will assist New Jersey motorists in obtaining documents with the least aggravation while not breaching security.

The pilot project should provide for three to five test locations geographically distributed throughout the State. One to three providers should be chosen from those expressing interest in participating in the pilot project including a department store, a supermarket, and/or a mall location. Those accepted for participation in the project may operate one, two, three, four or five locations as long as the cumulative number of locations operated by all private sector participants does not exceed five, the maximum number for carrying out a thorough examination.

Pilot project operators will be chosen based on the retailer's support and cooperation with the aims of the pilot project and the relationship of the pilot with the retailers' main goals and

activities. The retailer must also have proven management capabilities including cash management, use of credit cards, etc. Another important consideration is the services and utilities that the retailer is willing to provide or donate such as the space he is willing to set aside for a motor vehicle operation, including employee lounges and back office space. Available parking and hours of operation are also important considerations. Pilot project providers will be expected to meet vigorous qualifications and strict contract requirements as developed by the Division of Motor Vehicles.

The private sector vendors must be limited in the services they provide. Services to be handled within the pilot project agency include license renewals, registrations and applications for duplicate licenses, registrations, or titles.

Oversight of the pilot project will be through a project manager who will act as the liaison between the Division of Motor Vehicles and the retailer. It will be the manager's function to assure the quality of the pilot project including the program's implementation, marketing, advertising, contract compliance, and periodic and final evaluation of the project. DMV will be responsible for providing support in training employees of the retailer and establishing operational guidelines. The basis for these guidelines should be the Division's Model Agency proposal. Finally, the Division of Motor Vehicles will supply the computer hardware and the software to assure the compatibility of the systems.

IN-HOUSE AGENCY SYSTEM

The second pilot project will involve an "in-house" agency program. Based on testimony, the Subcommittee believes that these agencies should be limited in scope while at the same time providing a vital service to the employees of the pilot project company. A large employer will find a program of this nature beneficial for many reasons, for example, saving valuable labor time. The company will also save time and money by registering its own fleet of vehicles.

This pilot project will be exclusive to a major employer who employees over 5,000 individuals. This includes at least 20 firms that are either New Jersey based or have a regional headquarters in New Jersey. The facility will be for the use of the employees of the company. An important factor that must be considered is the corporation's legal and regulatory ability to participate.

The participating company will be selected based on its support and cooperation with the aims of the pilot project and the relationship of the pilot with the employer's main goals and activities. As with the retail location's pilot project, another important consideration is the services and facilities the corporation is willing to provide or donate. The reputation of the company is another important factor in maintaining the highest standards of operation and excluding any political bias.

A program manager will be responsible for overseeing the overall operations. He will act as the liaison between the corporation and the Division of Motor Vehicles to assure that the agency operates according to established performance standards. The program manager will assure that employees staffing the agency are properly trained and knowledgeable in the areas of individual transactions and computer operations.

ADVISORY PANEL

The Subcommittee is also recommending the formation of an eleven member Division of Motor Vehicle Advisory Oversight Commission responsible for reviewing the policies, programs, projects, procedures and recommendations concerning the operation of the pilot project. The panel's membership will include the Director of the Division of Motor Vehicles; the Public Advocate; 4 members of the Legislature and 5 representatives of the general public. The panel will be supported by the program manager.

At the end of the two-year period it will be up to the panel to evaluate the success of the pilot projects. All recommendations will be forwarded to the Division of Motor Vehicles, the Attorney General, the Governor and the Legislature.

