Investigation of Driver License Issuance Alternatives

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16. Abstract
This study develops an alternative model for issuing driver licenses and personal identifications in Kentucky. Under the current model, most licenses are distributed by circuit court clerks at 142 offices across the state while the Kentucky Transportation Cabinet (KYTC) provides central and regional support for specific license types. Given the cumbersome administrative structure and impending REAL ID requirements, both circuit clerks and KYTC administrators would like to explore an alternative distribution model. Researchers at the Kentucky Transportation Center (KTC) projected the costs of transitioning from the current issuance model to a centralized DMV model where licenses are distributed at 18 to 24 regional field offices. In FY 2020, the cost for having circuit clerks distribute licenses was roughly $18.5 million. A regional model will have initial costs between $10.4 and $16.4 million depending on the number of offices and employee compensation levels. If switching from a 4-year to 8-year license renewal cycle, the ensuing revenues would more than cover costs, although the License Fund allocation from each license sale should be adjusted so that all costs are covered and do not require additional Road Fund supplements. Optimizing the centralized issuance model will depend on transitioning from 4-year to 8-year license renewal intervals, completely transitioning issuance to KYTC and avoiding a hybrid distribution system and duplication of infrastructure, increasing allocations to the License Fund, implementing an online driver license renewal system in the near future, and transitioning away from the dated mainframe driver licensing database to a newer, more dynamic system.

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Executive Summary

This study develops an alternative model of driver license issuance for Kentucky. Presently licenses and personal identifications (IDs) are issued by circuit clerks operating 142 local offices around the state, which is a costly method of distribution. Complicating matters further, the Kentucky Transportation Cabinet (KYTC) has centralized oversight of certain aspects of driver license distribution. Given the challenges presented by the current hybrid distribution model, local circuit clerk offices as well as KYTC administrators are especially concerned about implementing the REAL ID Act and the coming deadline for that implementation (October 1, 2021). Imminent changes are needed if Kentucky is to successfully meet federal requirements and establish a more efficient system for distributing licenses and making necessary changes to workflow processes. In particular officials were interested in a system that transfers all license and ID issuance functionality to the Cabinet.

Our research team estimated that it cost roughly $18.5 million for circuit clerks to distribute licenses during FY 2020. This estimate included labor, operating costs, and the current vendor contract, which supplies license and ID production equipment and provides maintenance. We also estimated the costs of opening between 18 and 24 regional field offices around Kentucky to handle implementation of REAL ID-compliant travel IDs, and eventually the issuance of standard IDs. Estimated costs for the regional model begin at $10.4 million in FY 2020 and increase to $16.4 million as more offices come online and some employees are transitioned from temporary to full-time status.

The study also forecasts license and ID issuance numbers and revenues from CY 2020 to CY 2027 assuming a four-year transition period for shifting license renewals from 4-year to 8-year intervals. The number of credentials issued grows from 1.18 million in CY 2020 to 1.33 million in CY 2023, before declining to 691,959 in CY 2024 once the 8-year renewal cycle is implemented (which cuts total issuance numbers in half). Revenue follows a similar trajectory due to extra revenue generated by the combination of 4-year and 8-year license sales during the renewal staggering process. Revenues increase from $31.8 million in CY 2020 to $35.8 million in CY 2023 once all individuals are shifted to an 8-year license.

Looking at the ratio of estimated costs to revenues from 2020 through 2027, in most years KYTC will need between 60 and 70 percent of license and ID revenue to cover all costs, with the average at nearly 68 percent. Currently, only about 35 percent of driver license revenue is deposited in the License Fund, which is insufficient. Assuming the state's current statutory cost structure of $43 for 8-year standard IDs and $48 for 8-year travel IDs, we recommend raising the License Fund share to $29 for standard IDs and $33 for travel IDs — for both originals and renewals. Allocations to the General Fund and Motorcycle Safety Education Program Fund can remain at current levels for applicable licenses.

We conclude that maximizing benefits of the alternative distribution model hinges on transitioning from 4-year to 8-year license renewal intervals, completely transitioning license issuance to KYTC and avoiding a hybrid distribution system and duplication of infrastructure, increasing allocations to the License Fund, implementing online driver license renewal in the near future, and transitioning away from the dated mainframe driver licensing database to a newer, more dynamic system.

1. Introduction

As part of the federal government's efforts to forestall additional terrorist attacks in the United States, the REAL ID Act was signed into law in May 2005. The primary objective of the act is to improve security for driver license and personal identification cards issued by state driver licensing agencies (SDLAs). The law strengthens security requirements for ID materials and requires that personal information and production be kept in a secure environment. When an individual applies for a REAL ID-compliant license or identification card, they are required to show proof of identity, proof of a social security number, and proof of residency. Because SDLA administrators must verify an applicant's identity prior to issuing IDs, these requirements make it more difficult to obtain fraudulent identification. In most cases, a U.S. citizen would bring a birth certificate, Social Security card, and documents that prove they reside at a particular address. However, other combinations of documents can be used depending on an individual's citizenship status as well as other factors. Only U.S. citizens and permanent residents are eligible for REAL IDs. Beginning on October 1, 2021, REAL ID-compliant identification will be required to board commercial aircraft, enter a federal facility, or enter a nuclear power plant.[1] The most recent deadline had been October 1, 2020, but it was pushed back a year due to the COVID-19 pandemic.

Implementing REAL ID at the state level has been a protracted and contentious process. A 2006 joint study by the National Conference of State Legislatures (NCSL), the National Governors Association (NGA), and the American Association of Motor Vehicle Administrators (AAMVA) indicated that implementation costs would exceed $11 billion nationally.[2] Lawmakers in several states, along with several privacy advocacy groups, initially opposed the REAL ID Act.[3] Groups such as the Electronic Privacy Information Center (EPIC) have argued the law creates a de facto national ID, is a costly unfunded federal mandate, and exposes sensitive information to data breaches and hacking.[4] Resistance to REAL ID culminated in 17 states passing laws that would restrict or prohibit implementation. As a result, the federal government delayed enforcement multiple times.[5] However, by 2018 the number of REAL ID-compliant states rose to 27, thereby increasing pressure on remaining states to become compliant as well. Federal officials now maintain there will be no further delays in implementation.

Consequently, Kentucky administrators and lawmakers wanted to move quickly toward REAL ID implementation. There have been internal delays in implementing REAL ID in Kentucky because of initial resistance to the law's requirements and due to indecision over how best to implement the policy. Pursuant to KRS 186.410, circuit court clerks are the primary agency authorized to process original driver licenses, renewals, and duplicates. Under the current license distribution model, 120 clerks operate 142 offices throughout the state. The costs associated with operating these offices and maintaining necessary infrastructure are quite high, particularly in rural counties with little customer traffic. Implementing state and federal policy mandates can be logistically challenging for a largely decentralized association consisting of counties with significant variability in resources. The Kentucky Transportation Cabinet's Division of Driver Licensing (KYTC-DDL) is already involved with several aspects of driver license

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[1] Department of Homeland Security. 2020. "Acting Secretary Chad Wolf Statement on the REAL ID Enforcement Deadline." Accessed 29 April 2020 at: https://www.dhs.gov/news/2020/03/26/acting-secretary-chad-wolf-statement-real-id-enforcement-deadline

[2] National Governors Association, National Conference of State Legislatures, American Association of Motor Vehicle Administrators. September 2006. "The REAL ID Act: National Impact Analysis." Accessed 26 February 2020 at: https://www.ncsl.org/Portals/1/documents/statefed/Real_ID_Impact_Report_FINAL_Sept19.pdf

[3] Electronic Privacy Information Center. 2007. "Over Forty Groups Announce National REAL ID Public Campaign." Accessed 26 February 2020 at: https://www.privacycoalition.org/stoprealid/pressrelease.php

[4] Electronic Privacy Information Center. 2020. "National ID and the REAL ID Act."

[5] Newcombe, Todd. 2018. "15 Years Later, REAL ID Act's Vision Will Finally Become Reality." Governing. Accessed 26 February 2020 at: https://www.governing.com/columns/tech-talk/gov-real-id-states-drivers-license.html

issuance and oversight (e.g., commercial driver license administration, driver history record maintenance, driver license reinstatement) and maintains several regional field offices. After significant discussion with the Kentucky Circuit Court Clerks Association, KYTC administrators agreed that it would be worthwhile to explore the possibility of transferring REAL ID processing responsibilities from the circuit clerks to KYTC-DDL. Moving forward, Kentucky will offer a REAL ID-compliant travel ID and a standard ID like those currently available at circuit court clerk offices around the state.

The following analysis details the cost of current standard driver license, permit, and ID issuance for the Kentucky circuit court clerks. It discusses a potential alternative model for issuing travel IDs at KYTC regional offices rather than at circuit court clerk offices, offers revenue projections for future years, and compares revenue with projected costs. The analysis reviews the data used to develop the model as well as the assumptions underpinning the work.

2. Kentucky Driver's License Cost and Revenue Analysis

2.1 Current Circuit Court Clerk Costs

KRS 186.410(2) mandates that "[e]xcept as provided in KRS 186.4121, all original, renewal, and duplicate licenses for the operation of motor vehicles, motorcycles, or mopeds shall be applied for with the circuit clerk in the county of the applicant's residence, or through alternative technology, including a Transportation Cabinet mobile unit, and issued by the Transportation Cabinet." While KYTC incurs some of the costs for the supplemental or auxiliary services described in Chapter 1, circuit court clerks assume most of the costs for driver license issuance in Kentucky. The first component of this analysis focuses on how much its costs for circuit clerks to issue standard licenses, permits and IDs. Specifically, we focus on costs incurred by circuit clerks with respect to issuance of driver licenses, driver permits, and personal IDs — not the processing of local court records, which is a separate agency function. Nor are REAL ID processing costs included, as circuit clerks have only issued those credentials on a pilot basis in a couple of locations. Current KYTC costs are not included in the overall current costs because they are assumed to be fixed whether license issuance is handled by the clerks or through KYTC regional offices.

KTC researchers gathered information on current labor costs and operating costs as well as the current vendor contract, which covers license issuance software, cameras, printers, printing supplies, and onsite maintenance where a technician is promptly dispatched if equipment malfunctions. Most of the information on circuit clerk costs was provided by Kentucky's Administrative Office of the Courts (AOC), which handles a significant portion of administrative oversight for the circuit clerks. The data provided by the circuit clerks is based on projected FY 2020[6] costs.

Table 1 displays Kentucky circuit court clerk labor costs. Data are shown for elected circuit clerks (there is one such official in each county) and the deputy clerks who work under the circuit clerk's supervision. According to AOC, 208 full-time-equivalent employees (FTEs) are needed to issue standard licenses, permits, and IDs. AOC also provided data on average salary, FICA, pension costs, and health and life insurance costs (combined under the *Health* column). FICA costs are calculated as 7.65 percent of the total salary. The pension contribution requirement is based on current contribution requirement of 30.8 percent. The combined health and life insurance plan is $7,911 annually. The AOC did not provide benefit information on elected circuit clerks, but they did have data on elected circuit clerk salaries on their website.[7] KTC researchers applied the same percentages for FICA and pension to circuit clerk costs as deputy clerks. Our team also assumed the same price for the health and life insurance policy as the deputy clerks. One difference is in how FTEs are measured. Circuit clerks were each assumed to spend 20 percent of their time working on driver license issues, and therefore 120(.2) = 24 FTEs. Per employee costs were calculated by summing each cost component, and the total cost was found by multiplying the per employee total by the FTEs.

Table 1 Circuit Clerks – Current Driver License Labor Costs

Labor Costs Per Employee						Totals	
Job Title	Avg. Salary	FICA	Pension	Health	Employee Cost	FTEs	Cost
Deputy Clerk	$31,006	$2,372	$9,550	$7,911	$50,839	208	$10,574,512
Circuit Clerk	$87,919	$6,726	$27,079	$7,911	$129,635	24*	$3,111,229
Total Labor Costs							**$13,685,741**

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[6] FY 2020 runs from July 1, 2019, to June 30, 2020.
[7] Administrative Office of the Courts. "Circuit Clerk Salaries." Accessed 24 August 2019 at:
https://kycourts.gov/courts/clerks/Documents/CircuitClerkSalary.pdf

Overall, we estimate total labor costs to be $13.7 million annually based on FY 2020 cost rates. These costs could vary significantly moving forward, however. The primary source of labor cost uncertainty is the pension system contribution requirements. The local government contribution requirement of 30.8 percent of employee salary are much lower than KYTC's current pension contribution requirement, which is 83.43 percent of employee salary. Given the precarious status of local pension relief, it is reasonable to conclude the pension costs are potentially lower than will be the case in future years. Health insurance costs could also rise significantly.

Table 2 presents operating expense calculations for circuit clerk employees engaged in the issuance of driver licenses, driver permits, and personal IDs. AOC breaks these costs into two categories — expenses and space. Expenses include items like phones, office supplies, and employee training. AOC numbers assume $5,100 in average expenses per employee. AOC indicated that they do not track leasing, maintenance, and utility expenses for all of the circuit clerk facilities. Most of the circuit clerk offices are located in local courthouses, which means the clerks share space with other agencies. Rather than navigate the complexity of making such determinations, the AOC has developed a benchmark metric for the average amount of space required by a deputy clerk (186 square feet) and an average cost for the space ($22.80 per square foot). This yields an average annual cost of $4,241 for office space per employee. We extrapolated the same expenses and space costs for elected circuit clerks at 24 FTEs, or 20 percent of total operating costs. Total projected operating expenses are just under $2.4 million for FY 2020.

Table 2 Circuit Clerks – Current Driver License Operating Costs

Operating Costs Per Employee				Totals	
Operating Costs	Expenses	Space	Operating Cost	FTEs	Cost
Deputy Clerk	$5,100	$4,241	$9,341	228	$2,129,748
Circuit Clerk	$5,100	$4,241	$9,341	24*	$224,184
Total Operating Costs					**$2,353,932**

*Full-time equivalent (FTEs) for circuit clerks is presumed to be 20% of overall effort given that they have other administrative and managerial obligations

Table 3 combines labor costs, operating costs, and vendor costs. Vendor costs are based on the current contract KYTC has with its vendor, which provides blank license cards, ink, cameras, software, and printers to create IDs, as well as on-call technicians to provide onsite maintenance at each of the 142 driver license locations. Under the current contract licenses, permits and IDs are printed on-demand and issued to the customer at the time of the in-office transaction. Those costs are currently $2.95 per license, permit, or ID. During calendar years (CYs) 2017-2019, KYTC issued an average 1,137,480 licenses, permits, and IDs each year. Generally speaking, KYTC forecasts an annual increase in total transactions of 4 percent. Operating under this assumption alone yields an estimate of 1,182,980 transactions in CY 2020. However, as we anticipate travel ID issuance cutting into the standard credential numbers, we estimate that only about 70 percent of transactions this CY will be for standard licenses, permits, and IDs. Therefore, the estimated vendor cost is for 828,086 licenses at a cost of just over $2.4 million. When combining labor, operations, and vendor costs, the current distribution costs for circuit clerks is about $18.5 million.

Table 3 Total Current Driver License Costs - Circuit Clerks

Cost Category	Total
Labor	$13,685,741
Operations	$2,353,932
Vendor	$2,442,854
Total Costs	**$18,482,526**

AOC projects that circuit court clerk expenses for issuing driver licenses in CY 2020 will be $12.5 million, which is much lower than our estimate. Our estimate differs from the AOC's costs projections in two important ways. First, AOC does not include labor and operating costs for each elected circuit clerk — it only looks at costs for deputy clerks. To accurately compare how much current methods of issuance cost to expenses under an alternative model, it is imperative to include managerial costs as well. Setting aside the fact that management costs might be sunk costs insofar as removing driver license functionality does not change clerk salaries, it is important to adequately capture all current economic inputs necessary to facilitate this public service. Another difference between the AOC and our estimate is the inclusion of vendor costs. We include vendor costs because they are part of the expense incurred under the current model. Also, the vendor contract will change as Kentucky moves to centralized issuance. Instead of on-demand printing at the circuit clerk office, individuals will receive a temporary license, permit, or ID to use until they receive a permanent credential via mail. After incorporating these changes we estimate total current costs for county clerks at $18.5 million.

2.2 KYTC Regional Field Office Costs Estimate
Next we estimated the costs of implementing a regional field office model throughout the state. Under this model, in the near-term offices issue REAL ID-compliant travel IDs while over the long-term they would gradually incorporate the issuance of standard IDs into their operations. We only estimated the initial costs of a transition to the regional field office model. Our estimate assumes that 16 to 24 field offices will be rolled out in three phases based on population distribution and geography. Phase I includes 12 offices; Phase II, 6 offices; and Phase III up to 6 offices depending on the remaining available revenues dedicated to driver license implementation. Figure 1 displays cities where the initial implementation is scheduled. Locations are subject to change based on available real estate and the associated leasing costs. DDL administrators foresee the initial rollout occurring in these cities: Bowling Green, Elizabethtown, Florence, Jackson, Lexington, Louisville, Madisonville, Manchester, Morehead, Paducah, Prestonsburg, and Somerset. In Phase II, officials plan to add Catlettsburg, Columbia, Frankfort, Hopkinsville, Owensboro, and Richmond. Depending on remaining funds and regional needs, Phase III could also add Carrollton, Danville, Henderson, Leitchfield, Mayfield, and Maysville.

Some caveats need to be noted. Frankfort implementation occurred ahead of schedule as KYTC was able to use a location in its state office building. In addition, the Cabinet plans to open multiple field offices in Louisville due to its population and footprint. More than one office may open in Lexington depending on the level of traffic and wait times. In most cases, the Cabinet plans to lease offices in buildings that meet their specifications. In general, KYTC has focused on identifying unused office buildings owned by state government, local governments, and colleges and universities. Some privately owned locations may also be considered as the process unfolds. KYTC may consider purchasing certain facilities depending on the cost and potential financial benefits.

Our analysis prices in the cost of developing the first 12 to 16 field offices. Current projections are that KYTC will hire 165 employees for these offices. Initially, employees will be hired on a temporary basis through an employment agency. The Cabinet has already hired some temporary employees to begin the
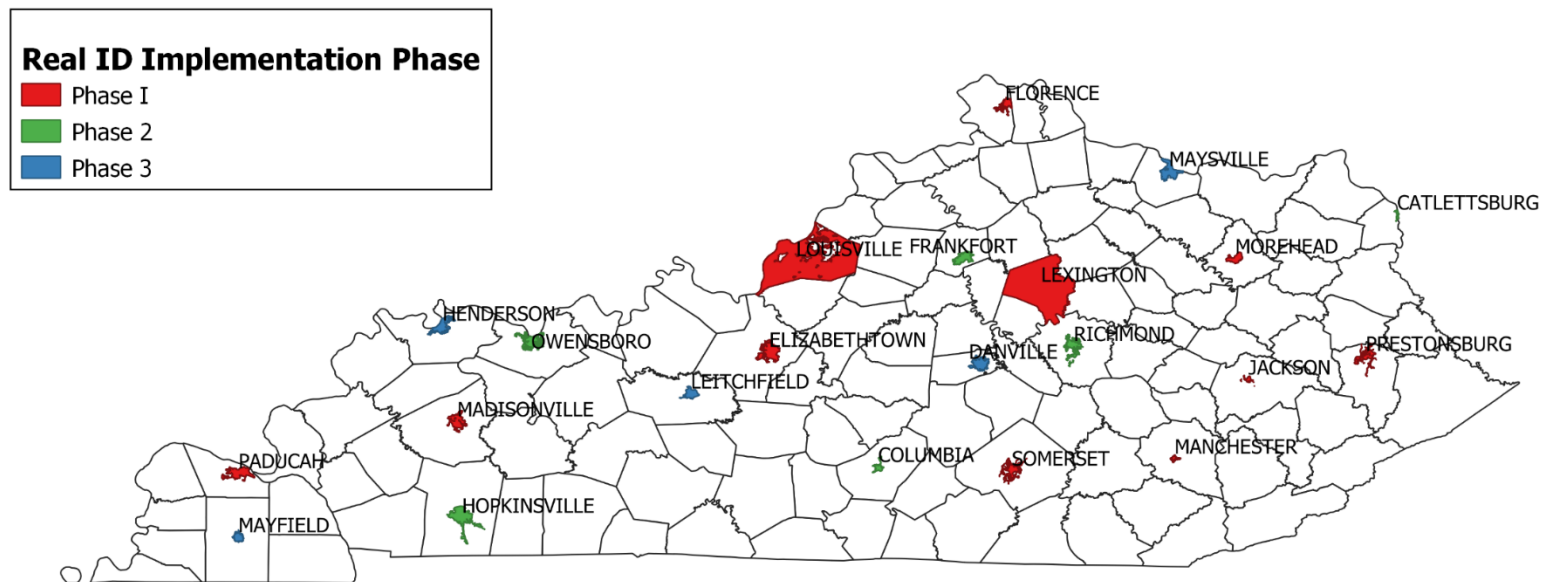
Figure 1 REAL ID Field Office Implementation Plan

process of setting up regional offices as they are gradually rolled out. The strategy is to gradually open new offices around the state with the help of staff who will move from office to office, establishing services. To staff regional field offices the Cabinet will hire local applicants and adjust salaries according to qualifications and local cost of living. In other words, individuals with more education or relevant experience will receive higher pay. Pay will also be higher in places like Lexington and Louisville where the cost of living is higher relative to the rest of the state.

Table 4 shows the projected cost of the temporary labor needed to operate the field offices and issue REAL ID-compliant travel IDs. Our calculations assume four pay brackets:

- Temporary Administrative Specialist I — $13/hour
- Temporary Administrative Specialist II — $14/hour
- Temporary Administrative Specialist III — $15/hour
- Startup Employees — $17/hour

Our estimates also assume that each employee will work 1,950 hours each year (based on a 37.5-hour workweek). Salaries for the four positions range from $25,350 to $33,150, and we assume the temping agency gets $5 per hour for worker placement. The projection also includes interim management, which is full-time personnel with benefits. Interim management will be a gradual expense added as startup employees are promoted or section supervisors are appointed to manage each regional field office. Total personnel costs for all 165 employees is about $6.7 million.

Table 4 KYTC Travel ID Issuance – Temporary Labor Costs

Temp Labor Costs Per Employee				Totals	
Job	Salary	Temp Agency	Total	Jobs	Cost
Temp Admin Specialist I	$25,350	$9,750	$35,100	60	$2,106,000
Temp Admin Specialist II	$27,300	$9,750	$37,050	60	$2,223,000
Temp Admin Specialist III	$29,250	$9,750	$39,000	20	$780,000
Startup Employees	$33,150	$9,750	$42,900	12	$514,800
Interim Management*	$39,739		$84,649	13	$1,100,437
				165	**$6,724,237**

Table 5 itemizes equipment costs for each employee. Equipment will be supplied and maintained by the Commonwealth Office of Technology (COT). Our estimated costs are based on COT rates for FY 2020. We anticipate that each employee will need a desktop computer, desktop monitor, Office 365 and email service, and a phone. It does not cover additional equipment needs (e.g., laptop, tablet) that might be needed for administrators or other employees who regularly travel as part of their job. Equipment costs for each employee are estimated at $1,092 per year. Assuming 165 individuals, this equals $180,180.

Table 5 KYTC Travel ID Issuance – Equipment Costs (FY2020)

Equipment Costs Per Employee					Totals
COT Code	Description	Unit	Monthly Rate	Year Total	
CC10	Tier-1 desktop computer	CPU	$60	$720	
CM10	20" desktop monitor	Monitor	$5	$60	
MB10	Office 365 & Email service	Software	$6	$72	
VC60	Voice -over-IP Service	Phone	$20	$240	
Total per Employee			$91	$1,092	
Total Costs based on 165 employees, COT FY 2020 rates					$180,180

Table 6 documents the full-time labor costs for each of the four positions once they are transitioned to full-time jobs. To retain institutional knowledge and prevent high turnover, some or all field office positions could eventually be made full-time positions. The full-time labor cost scenario includes the same number of administration specialists in each category (Administrative Specialist I (60), Administrative Specialist II (60), and Administrative Specialist III (20)). The other 25 employees transition the mobile startup employees and interim management into a full-time management structure with 21 Section Supervisors (those tasked with running each individual field office), 3 Branch Managers with a more regional oversight role, and an Assistant Director to coordinate activities of regional offices with KYTC's DDL.

Table 6 KYTC Travel ID Issuance – Full-Time Labor Costs

Full-Time Labor Costs Per Employee						Totals	
Job Title	Salary	FICA	Pension	Health	Total	Jobs	Cost
Admin Specialist I	$29,720	$2,274	$24,795	$8,700	$65,489	60	$3,929,340
Admin Specialist II	$32,690	$2,501	$27,273	$8,700	$71,164	60	$4,269,840
Admin Specialist III	$39,553	$3,026	$32,999	$8,700	$84,278	20	$1,685,560
Section Supervisor	$52,645	$4,027	$43,922	$8,700	$109,294	21	$2,295,174
Branch Manager	$63,698	$4,873	$53,143	$8,700	$130,414	3	$391,242
Assistant Director	$70,068	$5,360	$58,458	$8,700	$142,586	1	$142,586
Total – Based on KYTC's FY 2020 Labor Cost Rates						165	$12,713,742

Personnel costs presented in Table 6 are based on FY 2020 labor costs at the corresponding pay grade midpoint. The estimate assumes a July 1 hiring, and a 5 percent pay increase on January 1. It assumes 37.5 hours a week with non-hazardous duty. FICA is 7.65 percent of salary; the pension contribution requirement is 83.43 percent of salary; and a health insurance policy is $8,700 per employee. Total personnel costs under a scenario in which all employees are full-time is $12.7 million.

KYTC provided additional information for other cost categories. First, the budget for leasing and facilities is roughly $2 million annually, while the average lease price per square foot was below initial projections. DDL administrators projected that roughly $990,000 would be required during the first two years for office modifications and furnishings. Thus, our annual cost analysis uses half of that amount ($495,000) in the cost projection. Vendor costs will also change because under this model licenses will be produced at a secured, centralized facility and mailed to individuals after their purchase. Local DDL administrators will still collect licensee data at the regional office, but only provide individuals with a temporary credential to use while waiting for the permanent credential in the mail. This arrangement lowers requirements for the

number of printers and on-call maintenance technicians and reduces the logistical needs because it merely requires a single production facility to receive the needed license supplies (e.g., ink, blank cards) as opposed to 142 circuit clerk office locations. This reduces the cost per credential from $2.95 to $2.72, with mailing costs included. For purposes of the estimate, we assume that 30 percent of the licenses issued in CY 2020 are REAL IDs (354,894 licenses).

Error! Reference source not found. offers cost estimates for three scenarios. These estimates include costs at various stages of development. All scenarios assume: 1) 165 employees, and 2) same cost for leasing, furnishing, equipment, and vendor costs. The difference is labor costs. The temporary category is the front-end total cost for KYTC regional field office implementation. It is based on estimates for temporary labor costs summarized in Table 5. The interim scenario is half the difference between the full-time and temporary employee cost. The $13.4 million labor cost is the product of calculating the midpoint between the temporary ($6.7 million) and full-time ($12.7 million) labor costs. The interim costs are those during the second and perhaps part of the third year. By the end of year three of implementation and beyond we expect something resembling the full-time labor cost estimate. Obviously future changes in compensation could mean higher long-term costs, as could leasing costs depending on the number of offices opened. Furnishing and equipment estimates are also included, even though those cost categories should decline significantly. Therefore, we think we have mitigated those estimation errors to a large degree, at least for the next few fiscal years.

Table 7 KYTC Travel ID Issuance - Short-to-Long-term Scenarios

Total KYTC Costs for Various Labor Scenarios			
Category	Temporary	Interim	Full-Time
Labor	$6,724,237	$9,718,990	$12,713,742
Leasing	$2,000,000	$2,000,000	$2,000,000
Furnishings	$495,000	$495,000	$495,000
Equipment	$180,180	$180,180	$180,180
Vendor Contract	$965,312	$965,312	$965,312
Total	$10,364,729	$13,359,482	$16,354,234

Given that the long-term goal is to shift the issuance of standard IDs to regional field offices from the circuit clerk locations, questions remain about the impact of absorbing the rest of implementation on labor, leasing, furnishing, equipment, and vendor costs. The long-term impacts are difficult to determine, but there are several reasons to believe that the additional labor impacts will be less significant than some believe. First, the short- to medium-term burden of REAL ID implementation is the initial cycle where individuals must bring proof of birth, proof of Social Security, and proof of residence. Once those documents are scanned into the system, less information processing is required. Second, DDL administrators want to transition from 4-year to 8-year credentials. After the initial transition foot traffic at KYTC regional field offices would be nearly halved. Third, the potential exists to look at online driver license renewal, which could further reduce issuance costs. In the long run, we do not envision that transitioning standard ID issuance from circuit clerks to KYTC regional field offices will significantly increase overall costs provided that the assumed conditions (first-time REAL ID implementation, 8-year renewals, and eventual online renewals) materialize.

2.3 Driver License Issuance and Revenue Projections
We assembled projections for future driver license issuance numbers and the resultant revenues Kentucky can expect to generate. KYTC provided issuance totals for the period from January 2017 through December

2019. Our baseline issuance numbers are based on the averages from those years. It should be noted that December 2019 data were collected midway through the month, so we smoothed baseline estimates using three years of data. Each subsequent year we assume a 4 percent increase over the previous year. Figure 2 provides estimates for total licenses, permits, and IDs that will be issued for CYs 2020-2023 (based on CY 2017-2019 data). Over the last three CYs, Kentucky issued an average of 1.14 million credentials annually. Most of these credentials were licenses (865,646), followed by 124,622 permits and 147,213 IDs. The total number credentials issued, increased 4 percent annually, reaches 1.33 million in CY 2023.

We developed revenue projections based on the distribution of these credential types and their estimated future costs. Under KRS 186.531, the estimates are as follows for typical credentials: $43 for an 8-year standard driver's license, $21.50 for a 4-year standard license, $48 for an 8-year travel license, $24 for a 4-year travel license, $15 for most permits (some REAL-ID compliant permits are $18), $23 for an 8-year standard personal ID, $11.50 for a 4-year standard personal ID, $48 for an 8-year travel ID, and $14 for a 4-year travel ID. CDL credential additions are assumed to be $45 for 8-year standard licenses, $18.75 for 4-year standard licenses, $50 for 8-year travel licenses, and $23.75 for 4-year travel licenses.
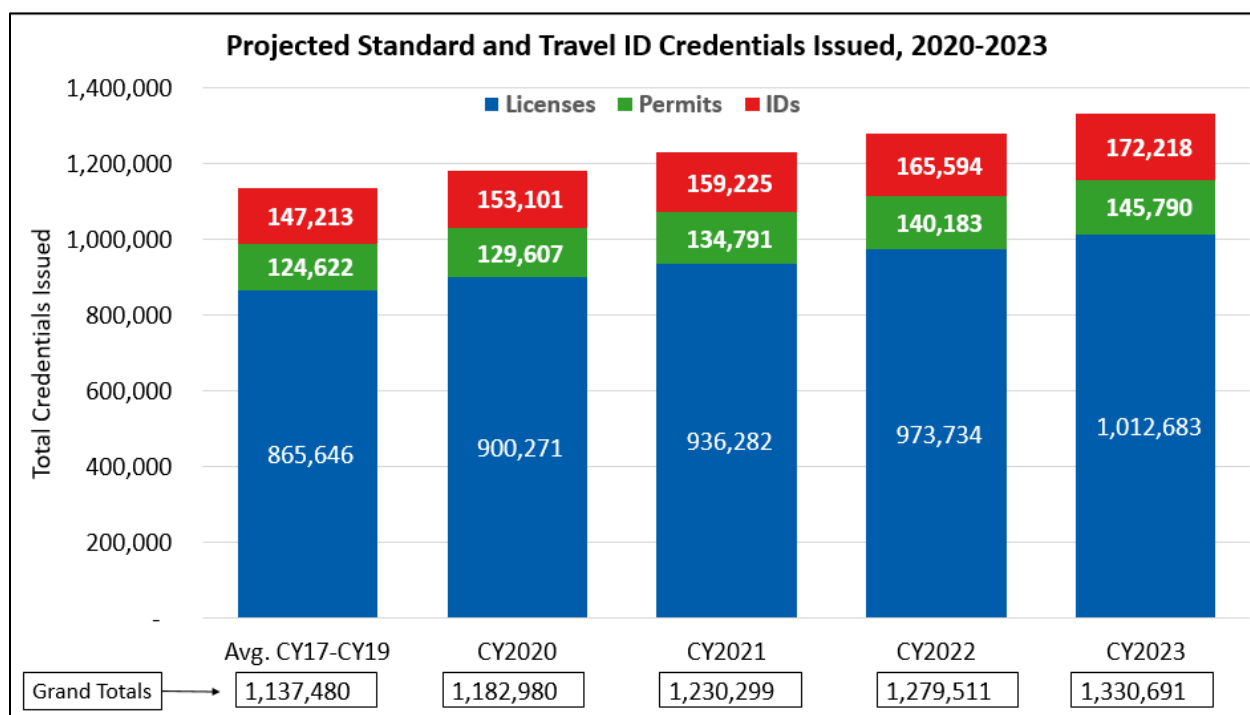

Figure 2 Projected Standard and Travel ID Credentials Issued, 2020-2023

Another important factor to remember when looking at the revenues is the impact of transitioning to licenses that are renewed at 8-year intervals. This scenario assumes the transition will begin in CY 2020 and end in CY 2023. During these years, individuals will be randomly selected for a 4-year or 8-year credential. Administrators may want to define potential reasons for making exceptions to the rule, but the main goal is to ensure that roughly half of all individuals receive the 8-year credential. This will space out the cohorts from four relatively even renewal cycles to eight renewal cycles. For example, those receiving licenses in CY 2020 would need to renew in CY 2024 or CY 2028 depending on whether they received a 4-year or 8-year credential in 2020. The recipient of the 4-year credential will renew in CY 2020, and again in CY 2024 — at which point, the licensee will receive an 8-year credential, with the next renewal in CY 2032.

Recipients of the 8-year credential in CY 2020 will renew in CY 2028 and again in CY 2036. This process gradually spreads out the recipients and stabilizes regional office traffic.

Figure 3 displays projected issuance numbers and projected revenues for CY 2020 through CY 2028. During the four-year transition phase, the number of credentials issued each year is projected to increase from 1.18 to 1.33 million — the same numbers reported in Figure 2. We use all of the same assumptions as in the previous chart. That is, the same distribution frequency for various credentials is used; we also retain

Projected Standard and Travel ID Issuance, 2020-2027

Implementation of 8-year licenses complete

	Credentials Issued
CY2020	1,182,980
CY2021	1,230,299
CY2022	1,279,511
CY2023	1,330,691
CY2024	691,959
CY2025	719,638
CY2026	748,423
CY2027	778,360

Projected Standard and Travel ID Revenue, 2020-2027

Implementation of 8-year licenses complete

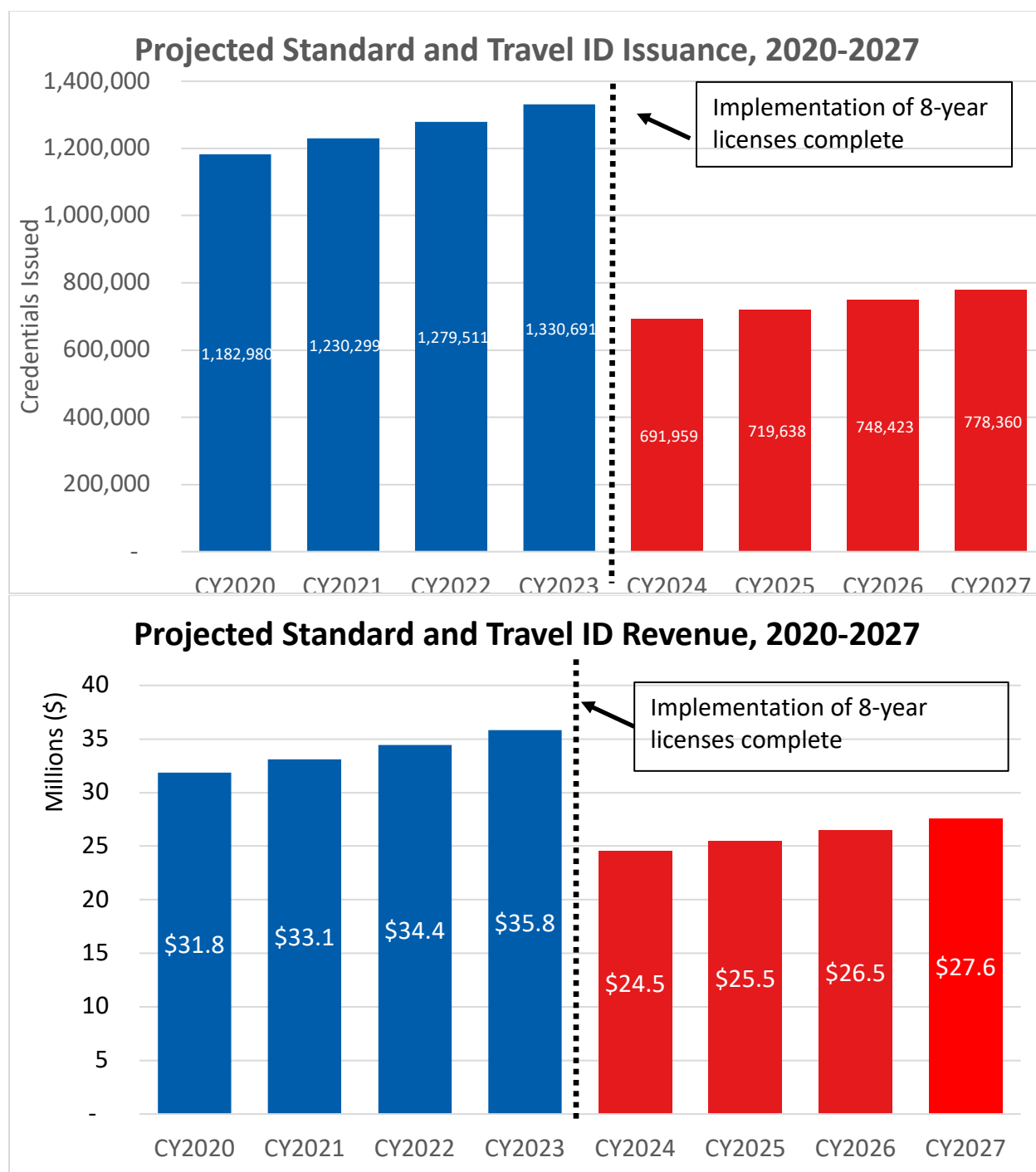|	Millions ($)
CY2020	$31.8
CY2021	$33.1
CY2022	$34.4
CY2023	$35.8
CY2024	$24.5
CY2025	$25.5
CY2026	$26.5
CY2027	$27.6

Figure 3 Long-Term License Issuance and Revenue Projections

the 4 percent year-over-year increase in the issuance of all credential types. Once implementation wraps up at the end of CY 2023, the number of credentials decreases to 691,959 in CY 2023 and gradually increases to 778,360 by CY 20207. This reduction stems from shifting to an 8-year renewal cycle, but is also mitigated slightly by the assumed growth rate. By the same token, projected license, permit, and ID revenue generated during the same time period will be significantly higher between CY 2020 and CY 2023 due to higher issuance numbers. But half of the credentials sold will be 8-year licenses, which cost twice the amount of the 4-year licenses. Once the implementation cycle for 8-year licenses is complete the number of credentials issued declines by nearly half and revenues drop sharply from $35.8 million in CY 2023 to $24.5 million in CY 2024.

2.4 Long-Term Issuance Costs
We also developed forecasts for long-term issuance costs for both the circuit clerks and KYTC. These projections show the financial investment required for Cabinet field offices and the continued issuance of standard licenses at circuit clerk offices until they are gradually phased out. These projections do not include central KYTC-DDL operational costs out of the Transportation Cabinet Office Building (TCOB) in Frankfort, nor do they include circuit clerk costs for unrelated agency functions such as the administration of district and circuit court records. We assume a transition from hybrid distribution to central distribution. During the transition we assume hybrid distribution where circuit clerks issue standard IDs until the function can be subsumed by a nearby KYTC regional field office and that all travel IDs are issued by Cabinet as it scales up operations. We also assume that clerks will be gradually phased out of the process. Specifically, clerks will be 50 percent phased out in CY 2021, 75 percent phased out in CY 2022, and 100 percent phased out in CY 2023.

Table 8 Statewide Driver License Issuance Costs

FY	Clerk Costs	KYTC Costs	Total Costs
2020	$18,482,526	$9,950,555	$28,433,081
2021	$9,518,501	$13,359,482	$22,877,982
2022	$4,902,028	$16,354,234	$21,256,262
2023	$0	$16,844,861	$16,844,861
2024	$0	$17,350,207	$17,350,207
2025	$0	$17,870,713	$17,870,713
2026	$0	$18,406,834	$18,406,834
2027	$0	$18,959,039	$18,959,039

For FY 2020-2027, Table 8 lists annual driver license issuance costs for KYTC regional field office and circuit clerks; it also provides total costs. Our forecast makes the following assumptions:

- An annual cost increase of 3 percent for circuit clerks until they are 100 percent phased out.
- Annual labor/operations cost increases of 3 percent for KYTC field offices beginning in FY 2024.

In previous years, analysts assumed that the reduction in implementation and capital costs would offset annual cost increases. In FY 2020, KYTC costs are just below $10 million and grow to $16.4 million in FY 2022 as additional regional field offices open around the state. Over the same period circuit clerk costs drop from $18.5 million in FY 2020 to $4.9 million in FY 2022 as they are gradually phased out of the process. Estimates for circuit clerk costs 1) continue to incorporate a percentage of the labor cost of the circuit clerks as those elected officials will have to work with KYTC to close out local driver license issuance, and 2)

were developed from a holistic perspective. Although state and local government agencies are not funded by the same revenue streams, the costs are nevertheless ultimately paid by Kentucky residents.

2.5 Driver License Revenue Structure

We also explored how driver license issuance costs compare with overall revenue as well as how the current driver license fee allocation structure could be modified so that license fees allocated to KYTC are sufficient to cover costs. Figure 4 displays the current (as of early 2020) driver license fee allocation structure as it would apply to an 8-year driver license for an original or renewed standard license or travel ID. Although current driver licenses are issued in 4-year cycle, this figure displays the 8-year license allocation envisioned under KRS 186.531. Standard licenses are $43 and travel licenses $48. This also makes for a simpler, cleaner comparison to the alternative model in which 8-year license cycles are implemented along with issuance at KYTC regional offices. Under current law, KYTC receives $7 via the License Fund for each 8-year driver license produced regardless of whether it is a standard license or travel ID. The AOC — the administrative backbone for Circuit Clerks around the state — receives $8 per standard license and $10 per travel ID via the AOC Fund. The AOC allocation component is ultimately distributed to the circuit clerks to cover license processing costs. The Road Fund share is $28 for a standard license and $31 for a travel ID. Under KRS 186.531, all allocations are halved for 4-year licenses. Other types of credentials (e.g., motorcycle licenses, duplicates, and personal IDs) have line items for the General Fund and Motorcycle Safety Education Program Fund, depending on the specific credential.
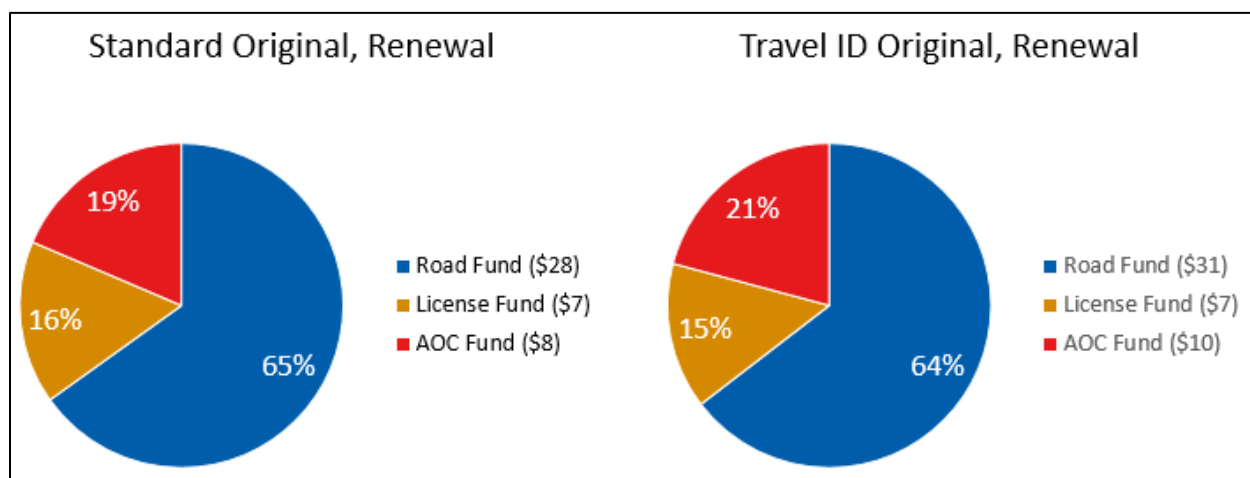

Figure 4 Current Allocation Formula for 8-Year Licenses

A longstanding issue related to driver license revenue allocation is that KYTC and circuit clerks have historically distributed licenses at a net loss, meaning the distribution costs exceed the subset of revenue allocated for that explicit purpose. This resulted in agencies issuing licenses that had to be compensated from Road Fund dollars to make up for the difference. DDL administrators have contended that they should be able to retain enough revenue to cover costs. Otherwise, the agencies cannot be self-funding. To estimate revenue share required to cover costs, our team compared costs and revenues for CY/FY 2020-2027 and calculated the cost-over-revenue percentage for each year.

Table 9 shows the distribution of revenue, costs, and the percentage of revenue for each year. Note that the FY (for which costs were derived) and the CY (for which revenues were derived based on issuance forecasts) are the same. For example, FY 2020 begins July 1, 2019 — so costs are about six years ahead of projected revenues. Despite the slightly misaligned timeframes the table is a useful tool for estimation. The results show some year-to-year variation, but in most years costs are between 60 and 70 percent of revenues. The two outliers are 2020 (when first-year transition costs are high) and 2023 (when costs stabilize, but the last year of transition from 4-year to 8-year licenses provides a buffer). Overall, we project that KYTC will

need approximately 68 percent of generated revenue to cover costs over the 8-year period assuming current license costs are fixed. Long-term, KYTC will want to update this calculation so it keeps paces with changes in operating costs.

Table 9 Cost-Revenue Comparison, CY/FY 2020-2027

CY/FY	Revenue	Total Costs	%Revenue
2020	$31,840,166	$28,433,081	89.3%
2021	$33,113,773	$22,877,982	69.1%
2022	$34,438,324	$21,256,262	61.7%
2023	$35,815,857	$16,844,861	47.0%
2024	$24,511,986	$17,350,207	70.8%
2025	$25,492,465	$17,870,713	70.1%
2026	$26,512,164	$18,406,834	69.4%
2027	$27,572,651	$18,959,039	68.8%
All	$239,297,385	$161,998,981	67.7%

Figure 5 displays a proposed alternative allocation formula for original standard licenses (and renewals) and original travel IDs (and renewals). This proposal combines the License Fund and AOC Fund into a single fund. As circuit clerks are phased out and KYTC assumes more responsibilities, it will probably be easier to pool the funds and reimburse circuit clerks at the same rate as the Cabinet based on the number of licenses they process until they are phased out. To cover the costs of transitioning to a regional distribution model, we project that $29 should go to the License Fund for standard licenses and $33 for travel IDs for revenues to cover issuance costs. General Fund and Motorcycle Safety Education Program Fund allocations for duplicates, motorcycle licenses, and personal IDs would not change from current levels. This would dedicate about 68 percent of all driver license revenue to the License Fund — significantly more than the approximately 35 percent of revenue dedicated to the License Fund for most licenses. The number may be adjusted over time to account for changes in operating costs, or if it becomes desirable to change the number of KYTC driver license issuance offices.

Several sources of uncertainty are not accounted for in the analysis. The exact cost of field offices will depend on a number of factors, including leasing or building costs as well as utilities. Future operating costs may also fluctuate. For example, Kentucky may adopt online driver license renewal, which could significantly impact operating costs. Personnel costs could also change, especially if the state pension contribution requirements are adjusted to deal with shortfalls in the state pension fund.
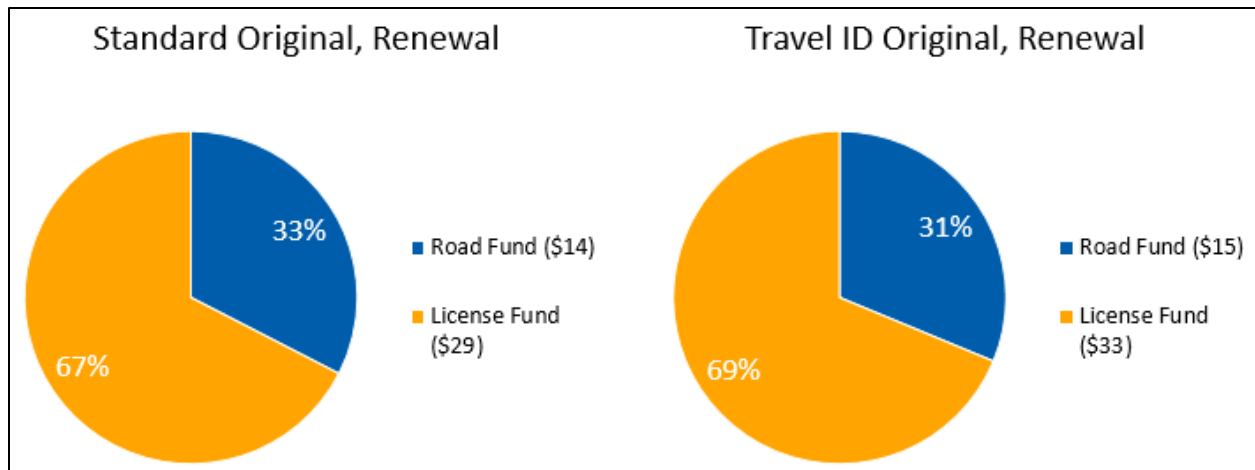
Figure 5 Proposed Allocation of Driver License Revenue for Common Licenses

2.6 Conclusions

Kentucky's current process for issuing driver licenses is cost-intensive and labor-intensive because it involves circuit clerks in all 120 counties as well as KYTC's DDL in Frankfort. A large number of local offices must be maintained and open for a specific number of hours, even in areas where there are not enough walk-in customers to justify the expenditure. Vendor costs are higher because credentials are produced on-demand, requiring that cameras, computers, software, printers, and supplies be maintained in all 142 locations, while technicians must be on call to address any issues. Circuit court employees must be cross-trained to issue licenses and frequently must switch over to perform this duty when deputy clerks who process licenses call in sick or go on vacation. This creates labor management challenges for a lot of circuit clerks.

Centralizing the distribution of travel IDs and eventually all driver licenses provides several benefits. It lowers long-term costs (saving money for taxpayers) by eliminating the vast majority of offices in favor of regionalized distribution model. There have been concerns about individuals having to travel to obtain credentials, but this would be an uncommon burden. Centralized production and distribution via mail is cheaper than the current vendor contract where machines must be operational at every office and technicians available onsite within a matter of hours to troubleshoot technical snafus. KYTC will have more flexible labor options, allowing the agency to save money through use of temporary employees during the implementation phase. The new system will harmonize license issuance and current KYTC ancillary license services for things like CDLs, administrative hearings, non-citizen licenses, and hardship licenses. The changes will reduce the burdens placed on circuit clerks and their deputies, and free up office space in current circuit clerk facilities for other uses. To maximize the benefits of centralized driver license issuance, we want to emphasize five points:

- Switching from 4-year to 8-year licenses would nearly halve in-person transactions at regional field offices, thereby reducing labor demands and wait times for customers.
- Absorbing production of standard IDs from circuit clerks will prevent duplication of effort and is necessary to maximize the cost benefits of centralized issuance.
- Increased allocations to the License Fund will ensure there is enough funding to facilitate the transition and implementation at an appropriate scale. Without adequate funding, there may not be enough regional field offices to meet customer demand.
- Officials should be prepared to take these innovations a step further and explore implementing online driver license renewal. As of fall 2019, 36 states made this option available in some form.

- Increased investment and effort is needed to transition Kentucky away from its dated, COBOL-based mainframe (the Kentucky Driver License Information System (KDLIS)) toward a newer, more dynamic system with enhanced functionality that can better accommodate changes in administrative processes and workflows.