



Legislative Fiscal Bureau

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Joint Committee on Finance

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Automated License Issuance System (DNR -- Fish, Wildlife and Recreation)

[LFB 2001-03 Budget Summary: Page 473, #10]

CURRENT LAW

The Department of Natural Resources currently administers an automated hunting and fishing license sales system. There are a wide variety of licenses authorizing residents and nonresidents to hunt, fish, and trap. Hunting and fishing licenses vary according to the type of species that may be pursued, the method of pursuit, the number of people for whom the license is valid and the time period for which the license is valid. To hunt or fish certain species, a stamp must be purchased in addition to the license.

Most licenses may be purchased directly from DNR or from sales agents appointed by the Department (such as county clerks, sporting goods stores, discount stores and bait shops), although certain licenses are only available through the Department. A sales agent may retain 50¢ per license and 15¢ per stamp from the purchase price. Currently, 236 different licenses and approvals are issued through the automated system.

GOVERNOR

Provide \$983,000 SEG annually from the fish and wildlife account of the conservation fund for the operation of the Automated License Issuance System (ALIS). This would include \$30,000 annually to contract for a professional evaluation of the system and planning associated with the rebidding of the ALIS contract in 2002. The remainder would go towards meeting the ALIS transaction charges, including kit supplies for the printing of licenses at ALIS terminals and consultant time for change orders to the ALIS system.

DISCUSSION POINTS

1. Under the prior license sales system, DNR distributed paper licenses to county clerks, who in turn distributed them to sales agents. DNR indicates that the prior system was problematic in terms of license distribution and revenue collection. The Department also indicates that the system was too paper-intensive and inconsistent across counties. The number and variation of licenses sold created problems for sales agents, and the prior delivery system did not allow agents to readily respond to variation in license demand.

2. Under ALIS, a data terminal and printer are placed at license sales locations. Hunting and fishing licenses are printed by agents on demand. In addition, license sales information is captured electronically and license revenue is collected via electronic funds transfer. All DNR licenses are programmed into the system and thus, all agents are able to sell all DNR licenses and stamps. Licenses are printed on durable stock and multiple licenses can be printed on one form. Agents can also be updated on new information through notices on an electronic bulletin board system. The delays of a paper system are minimized and license inventory control is improved.

3. The Department signed a contract for ALIS with Central Trust Bank of Missouri in December, 1997. Design negotiations for the system were completed in April, 1998. The system was piloted at 150 locations throughout the state in November and December of 1998, and was implemented statewide in March, 1999.

4. License sales agents do not purchase the sales terminals under the new system. Agents who participated in the previous license system are required to pay a one-time, refundable security deposit of \$250 to receive the equipment, while new agents under ALIS must pay a deposit of \$500.

5. The Department indicates there are approximately 1,600 agents under ALIS. Under the prior system, there were 2,400. Among those agents who left the system, DNR licensing staff do not believe that there are any trends with respect to region of the state or type of agents. The Department indicates that this loss of agents is mitigated by the fact that all licenses are available at all agent locations (rather than only certain licenses being available at various locations depending on the preference of the agent) and that licenses can also be purchased by telephone through a toll-free number under the new system.

6. In 1995-96, \$100,000 SEG from the conservation fund was provided to contract for the development of design specifications for an automated license system. In the 1997-99 biennial budget, over \$1.9 million SEG from the fish and wildlife account (\$657,000 in 1997-98 and \$1,288,000 in 1998-99) was provided for the development, marketing, proof of performance prototype and operational charges of ALIS. The 1999-01 biennial budget provided an additional \$916,100 in 1999-00 and \$897,700 in 2000-01 from the fish and wildlife account for ALIS expenses including transaction charges, systems maintenance, master lease costs for license terminals, and training and support costs. In total, base funding for the ALIS system is almost \$3.3 million annually.

7. Despite these funding increases, ALIS was in deficit for 1999-00, and required an additional \$1.7 million to cover costs. The majority of this was paid for out of the Division of Administration and Technology with federal funds and with fish and wildlife SEG. This cost overrun was part of a larger \$2.4 million shortfall experienced by the Customer Assistance and External Relations (CAER) Division. The Department's spending adjustments to cover this shortfall are detailed in Table 1. The licensing system cost overrun was attributed to the fact that the budget request for ALIS operations in 1999-01 was not based on prior experience with the system; DNR underestimated the number of transactions that would take place through ALIS during license year 1999, and consequently budgeted too little for license kit supplies, contract changes for system modifications, and the associated consultant fees. In total, for fiscal year 2000, ALIS costs exceeded \$5 million.

TABLE 1

Funds Used to Pay for CAER Shortfall, 1999-00

<u>Fund</u>	<u>Description</u>	<u>Funds Used to Cover Shortfall</u>
GPR	Administrative Division Operations	\$25,000
Conservation SEG	Law Enforcement Operations	40,000
Conservation SEG	Fisheries Management & Habitat Operations	500,000*
Conservation SEG	Wildlife Management Operations	250,000*
Various	Workers Compensation Surplus	189,500
Various	Departmentwide Excess Charge Balances	91,100
FED	Federal Indirect Administrative Surplus	1,260,700
Conservation SEG	Finance Insurance & WISMART Billing Surplus	116,500
GPR & Conservation SEG	Payplan surplus from Division of Water	23,200
Conservation SEG	Equipment Pool Operations	48,000
Conservation SEG	CAER Division Lapse	<u>(59,900)**</u>
Total:		\$2,484,100

*Uncommitted federal Dingell-Johnson (sport fish restoration) and Pittman-Robertson (wildlife restoration) funds were available. Because of restrictions on which expenditures are eligible for federal funding, other planned fish and wildlife expenditures were transferred to federal funding, and the equivalent amount deducted from the fish and wildlife programs to support CAER.

**This represents the amount lapsed from CAER at the end of the fiscal year.

8. During license year 1999 (April, 1999, through March, 2000), approximately 4,237,000 transactions were completed through ALIS by 1,628,700 customers. Approximately \$61.1 million in revenue was collected in license year 1999. For license year 2000 (April, 2000, through March, 2001), sales increased to 4,769,700 approvals generating over \$60.7 million in revenue. License year 1999 showed higher revenues than license year 2000 despite lower

transaction numbers due to a one-time bookkeeping gain from collections efficiencies. Before the implementation of ALIS, approximately eight weeks passed between the sale of a license and the transfer of revenue to DNR. Agents selling licenses through ALIS now make weekly electronic transfers. Consequently, in the first year of ALIS operations, DNR reported all revenues received for sales within the 52-week period and, in addition, received approximately eight weeks worth of revenues for sales that had actually occurred during the previous license year. This resulted in revenues to DNR for license sales in license year 1999 appearing higher than expected.

9. In addition to providing more accurate information regarding license sales, DNR indicates that it experienced increased revenues through the ALIS system. As previously mentioned, the implementation of ALIS decreased the amount of time between the sale of a license and the collection of revenue by DNR by approximately seven weeks. The fish and wildlife account gains interest on these funds accrued because of decreased transit time. Also, DNR now receives the portion of the issuing fee formerly retained by county clerks (approximately \$580,000).

10. In 2000-01, \$3,248,900 is appropriated for ALIS operations. DNR expects to experience ALIS-related cost overruns of approximately \$1.5 million, for the same reasons as cited earlier. Expenditures to date support this estimate. Again, the ALIS deficit is part of a larger CAER shortfall (estimated at \$1.9 million in 2000-01). DNR anticipated the ALIS cost overrun, and made funding adjustments early in 2000-01. The wildlife management, fisheries habitat, and law enforcement subprograms each supplied \$250,000 from their base budgets towards the shortfall, and approximately \$750,000 from the federal indirect cash balance supplied the remainder. (Federal indirect funds are supplied as part of the grants administration process. For all federally supported fish and wildlife project grants that provide staff, between 20 and 23% of funding may be directed by DNR for administrative costs.) The remaining \$470,400 shortfall attributable to CAER operations would most likely be covered from any savings realized at the end of the fiscal year primarily from lower than expected WISMART accounting costs.

11. A variety of cost-reduction initiatives have been enacted by customer service and licensing staff. Licenses are printed on paper receipts whenever possible, reducing the use of the more costly Valeron durable-stock printable material. Procurement, packaging, and distribution of supply kits are now managed by DNR, and change orders are processed in batches when feasible to reduce consulting costs. Based on monthly assessments of expenditures, transaction costs for 2000-01 are estimated to decline by 11% from 1999-00 levels; help desk and monthly terminal maintenance costs are estimated to decline by 8%, and the cost of supply orders (paper, Valeron, printing kits) are estimated to decrease by 19%. Together, this would represent a cost savings of \$362,000 in 2000-01 in these areas. In addition, DNR will begin selling all licenses currently available through ALIS over the internet by May, 2001. Individuals purchasing licenses online would print their own receipts, generating further savings.

12. Table 2 shows the actual costs of ALIS for the previous two years and estimated expenditures for 2000-01 and 2001-02.

TABLE 2**Automated License Issuance System Costs
(\$ in thousands)**

	Actual		Estimated	
	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
Terminal Master Lease and Installation	\$182.0	\$696.7	\$668.6	\$668.6
Transaction Charges	375.5	1,026.5	912.5	912.5
License Printing Supplies	565.0	1,148.6	925.0	925.0
Maintenance, Training & Support	149.2	398.3	398.3	398.3
Postage	363.4	363.4	363.4	363.4
Monthly PC Maintenance Fee	55.6	171.4	157.2	157.2
Data Processing	188.9	212.7	209.2	209.2
BEITA Chargebacks	156.4	146.6	142.6	142.6
Record Updates	0.0	0.0	23.4	23.4
Help Desk	26.1	80.3	73.7	73.7
Planned Change Orders	0	87.6	171.4	50.0
Other Materials, Marketing and Supplies	227.2	98.5	98.5	98.5
LTE Salaries	79.8	79.8	79.8	79.8
Forms	170.6	246.5	170.6	170.6
Banking Fees	4.5	5.3	5.3	5.3
Systems Development	777.4	242.0	372.4	92.4
Bonding for County Clerks	<u>2.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	\$3,324.5	\$5,004.2	\$4,771.9	\$4,370.5
Expenditure Authority	<u>2,433.2</u>	<u>3,292.3</u>	<u>3,248.9</u>	<u>3,248.9*</u>
SB 55				983.0
Difference	-\$891.3	-\$1,711.9	-\$1,523.0	-\$138.6

*Base expenditure authority.

13. The major increases in costs that would be funded under the bill include transaction charges, systems maintenance, master lease costs for license terminals and training and support costs. Under the bill, \$4,231,900 would be available annually. As shown in Table 2, while the estimated expenditures in 2001-02 would result in a cost overrun of \$138,600 for ALIS, the Department indicates that it expects cost-saving measures being implemented to offset this shortfall.

14. The Department indicates that there is some uncertainty regarding ALIS costs over the 2001-03 biennium due to the rebidding of the system's contract. The Department's current contract with Central Trust Bank is scheduled to expire in the fall of 2002. The master lease on

ALIS terminals is also scheduled to expire in September 2002, meaning DNR would own the equipment and no further payments on licensing units would be required. The Department has indicated that it intends to negotiate for a new ALIS terminal master lease as part of its contract bidding process, as DNR believes that the current equipment would not last through another three-year service contract, and anticipates adding additional terminal upgrades to increase efficiency. The terminals that DNR currently uses are not compatible with internet technology. This requires change orders to be executed by downloading software onto each unit. Use of a system with web-compatible terminals would reduce change order costs by eliminating this process. One alternative, given the uncertainty of costs associated with the contract rebidding process, would be to provide additional funds under the bill for ALIS operations in 2001-02 but not for 2002-03. This would require DNR to submit a request to the Joint Committee on Finance under s.13.10 detailing costs associated with operations under the new contract in time to receive funding for 2002-03. The Committee could then consider the request for funding in 2002-03 based on the new contract.

15. Licensing staff indicate that without additional funding, the continued operation of the ALIS system would be compromised. Funding would most likely continue to be reallocated from a variety of administrative and fish and wildlife programs. Funding may also be directed away from field service operations, such as fisheries management, wildlife management, and law enforcement activities.

ALTERNATIVES TO BASE

1. Approve the Governor’s recommendation to provide \$983,000 SEG annually from the fish and wildlife account of the conservation fund to continue funding for the operation of the Automated License Issuance System (ALIS), including \$30,000 annually to contract for a professional evaluation of the system and planning associated with the rebidding of the ALIS contract in 2002.

<u>Alternative 1</u>	<u>SEG</u>
2001-03 FUNDING (Change to Base)	\$1,966,000
<i>[Change to Bill]</i>	<i>\$0</i>

2. Approve \$983,000, including \$30,000 to contract for a professional evaluation of the system and planning associated with the rebidding of the ALIS contract in 2001-02. (DNR would submit a request to the Joint Committee on Finance under s.13.10 for a 2002-03 funding adjustment after the rebidding process has been completed and contract costs for the ALIS system are known.)

<u>Alternative 2</u>	<u>SEG</u>
2001-03 FUNDING (Change to Base)	\$983,000
<i>[Change to Bill]</i>	<i>- \$983,000</i>

3. Maintain current law.

Alternative 3	SEG
2001-03 FUNDING (Change to Base)	\$0
<i>[Change to Bill</i>	<i>- \$1,966,000]</i>

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