



STATE OF CALIFORNIA

MEMO

Date: February 27, 2013

To: Fiscal Committee
Victoria Rusnak, Chair
Tom Flesh, Member

From: William G. Brennan
Dawn Kindel

Subject: DISCUSSION AND CONSIDERATION OF DEALER/MANUFACTURER BOARD FEE ADJUSTMENTS ALONG WITH OTHER POTENTIAL SOURCES OF REVENUE

Background

At the January 22, 2013, General Meeting of the Board, the members discussed adjustments to the Board’s fee structure. A lengthy discussion was held in which the members asked the staff to do additional research on possible different sources of revenue. The members also asked that sales numbers for calendar year 2012 be adjusted to reflect higher than previously forecast numbers. This matter was tabled until the March 13, 2013, meeting.

Status of Board’s Reserve Fund

It is the intent of the Board to maintain a one-year operating surplus of between \$1.5 - \$1.7 million dollars which is equal to one-year of expenditures.

The current fee rate coupled with lower than anticipated vehicle sales will leave the Board with approximately \$266,610 in reserve at the close of FY 14/15. By the close of FY 16/17 the Board would be in the red. The chart below demonstrates the depletion of the Board’s reserves under the current fee structure:

<i>CY Sales</i>	<i>Beginning Surplus</i>	<i>Fiscal Year</i>	<i>Total Revenue</i>	<i>Expenditures</i>	<i>Ending Surplus</i>
1,362,192 (2011)	\$796,423	12-13	\$1,280,977	\$1,520,000	\$557,400
1,617,000 (2012)	\$557,400	13-14	\$1,398,180	\$1,540,000	\$415,580
1,690,000 (2013)	\$415,580	14-15	\$1,431,030	\$1,580,000	\$266,610
1,750,000 (2014)	\$266,610	15-16	\$1,458,030	\$1,610,000	\$114,640
1,750,000 (2015)	\$114,640	16-17	\$1,458,030	\$1,640,000	-\$67,330

Analysis and projections

Staff used the attached spreadsheets as a tool to project the Board's fund condition under the current fee structure. Two additional scenarios which outline the impact of a small fee increase are provided to demonstrate that an increase in fees will allow the Board to build its surplus to a prudent level.

In the spreadsheets, staff projected that there would be no increase in the dealer body in the out years. In addition, staff contacted the CNCDA regarding updated vehicle sales numbers for calendar year 2012. Board staff were directed to CNCDA publication *California Auto Outlook* (attached), for the most up-to-date sales numbers.

In an effort to provide a cost savings to small manufacturers, staff is proposing to implement a tiered minimum fee based on sales. We have provided two options for a tiered system, based on the following sales numbers:

Option 1 -

TIER 1	UNIT SALES 1-250	FEE - \$300
TIER 2	UNIT SALES 251-806	FEE - \$450

Option 2 -

TIER 1	UNIT SALES 1-50	FEE - \$300
TIER 2	UNIT SALES 51-250	FEE - \$350
TIER 3	UNIT SALES 251-550	FEE - \$400
TIER 4	UNIT SALES 551-806	FEE - \$450

The total "Tier Based Revenue" in the attached spreadsheets was based on calendar year 2011 sales.

Expenditure cut-backs

We are making every effort to hold the line with expenditures, and will continue to try to reduce any expenses that we can control. Outlined below are some of the cut-backs that have already been implemented.

Staff Expense:

Two permanent-full time positions were cut from the Board's allocated positions. In addition to these cuts, the Board's two students were let go during the summer of 2012, and a position vacated last June due to a retirement, has not been filled. The Board's offices are currently staffed by nine staff members.

Court Reporter Expense:

In March 2012, the Board adopted a policy whereby counsel will be responsible for the cost for transcripts for themselves and the Board if the hearing goes beyond one day. This will result in a savings to the Board on hearings that last multiple days.

Other Sources of Revenue Considered

At the January 22, 2013, meeting, the members suggested other revenue sources such as charging a fee to consumers who use Board's Consumer Mediation Services Program and increasing filing fees. I will address these items separately:

Consumer Fee for Use of the Mediation Services Program: In order to charge a fee to consumers for the use of this program, Vehicle Code Section 3016 (a) would need to be amended. This sections states that new motor vehicle dealers and other licensees under the jurisdiction of the board shall be charged fees sufficient to fully fund the activities of the board other than those conducted pursuant to Section 472.5 of the Business and Professions Code. Since consumers are not licensees, an amendment would be needed.

If the code section is changed and fees for this service are set at the same fee charged for a Small Claims Court filing of \$75.00, approximately \$20,400 would be generated per year based on a three-year average of 272 cases mediated cases per year.

Given the fact that this program is currently voluntary, legislative or regulatory changes would need to be considered to make participation mandatory for dealerships and manufacturers.

Increase the current filing fee: California Code of Regulations section 553.40 sets the current fee for filing a petition, appeal, or protest at \$200.00. The cost for filing a response to the initial pleading is also set at \$200.00. This fee could be raised via the regulatory process, but as with a Mediation fee, it may not be a large source of revenue.

The fee to file an unlimited civil case in Sacramento County Superior Court is \$435.00. If the Board's filing fee was comparable, \$47,850 could be generated based on the average number of cases filed in the last three years.

Per regulation, the executive director may, upon showing of good cause, waive any such fee.

Due to the fluctuation in the volume of cases, the user fees outlined above or any other user fees would be extremely unreliable. User fees could potentially supplement the Board's traditional revenues streams, but could not be relied upon as a major source of revenue.

Recommendation

As noted in the previous memo discussed in January 2013, the DMV is on board with a fee increase. On January 14, 2013, staff met with Robbie Crockett, Chief of DMV's Budget and Fiscal Analysis Office to discuss our fund condition and ways to remedy our declining reserve. We discussed the projections, and were all in agreement that raising the fees was a reasonable option.

While I am disinclined to raise fees assessed to the industry at any time, the reality is that it is a necessity at this time. Therefore, it is recommended that the Board approve a per unit fee of \$0.60, with a tiered charge for manufacturers and a \$400.00 fee for dealerships.

This topic is being agendized for consideration at the March 13, 2013, General Meeting. Should you have any questions or require additional information, please do not hesitate to call me at (916) 324-6197, or Dawn at (916) 323-7201.

cc: Bismarck Obando, President

NMVB REVENUE PROJECTIONS \$0.45 / \$300.00 (Current Fee Structure)

Total CY vehicle sales	Beginning surplus	Fiscal Year	Avg. # of Ms who sell under min.	Min. Manu. Fee	Total min. fee	Vehicles sold over minimum	Fee per vehicle	Total per vehicle fee	Total Manu. Revenue	Dealerships	Fee per Dealer	Total Dealership fee	Misc. revenue	Total Revenue	Estimated Expenditures	Ending Surplus
*1,362,192 (2011)	\$796,423	12-13	118	\$300	\$35,400	1,347,949	0.45	\$606,577	\$641,977	2,030	\$300	\$609,000	\$30,000	\$1,280,977	\$1,520,000	\$557,400
1,617,000 (2012)	\$557,400	13-14	127	\$300	\$38,100	1,602,400	0.45	\$721,080	\$759,180	2,030	\$300	\$609,000	\$30,000	\$1,398,180	\$1,540,000	\$415,580
1,690,000 (2013)	\$415,580	14-15	127	\$300	\$38,100	1,675,400	0.45	\$753,930	\$792,030	2,030	\$300	\$609,000	\$30,000	\$1,431,030	\$1,580,000	\$266,610
1,750,000 (2014)	\$266,610	15-16	127	\$300	\$38,100	1,735,400	0.45	\$780,930	\$819,030	2,030	\$300	\$609,000	\$30,000	\$1,458,030	\$1,610,000	\$114,640
1,750,000 (2015)	\$114,640	16-17	127	\$300	\$38,100	1,735,400	0.45	\$780,930	\$819,030	2,030	\$300	\$609,000	\$30,000	\$1,458,030	\$1,640,000	-\$67,330
1,800,000 (2016)	-\$67,330	17-18	127	\$300	\$38,100	1,785,400	0.45	\$803,430	\$841,530	2,030	\$300	\$609,000	\$30,000	\$1,480,530	\$1,670,000	-\$256,800

NMVB REVENUE PROJECTIONS \$0.60 per unit / Tiered Minimum Fee / \$400 Per dealer - Effective FY 14/15 for CY 2013 Sales

Total CY vehicle sales	Beginning surplus	Fiscal Year	Tier 1 Revenues (\$300)	Tier 2 Revenues (\$450)	Total Tier Based Revenue	Total per vehicle Revenue	Total Manu. Revenue	Dealerships	Fee per Dealer	Total Dealership fee	Misc. revenue	Total Revenue	Estimated Expenditures	Ending Surplus
1,690,000 (2013)	\$415,580	14-15	\$26,700	\$14,400	\$41,100	\$1,005,240	\$1,046,340	2,030	\$400	\$812,000	\$30,000	\$1,888,340	\$1,580,000	\$723,920
1,750,000 (2014)	\$723,920	15-16	\$26,700	\$14,400	\$41,100	\$1,041,240	\$1,082,340	2,030	\$400	\$812,000	\$30,000	\$1,924,340	\$1,610,000	\$1,038,260
1,750,000 (2015)	\$1,038,260	16-17	\$26,700	\$14,400	\$41,100	\$1,041,240	\$1,082,340	2,030	\$400	\$812,000	\$30,000	\$1,924,340	\$1,640,000	\$1,322,600
1,800,000 (2016)	\$1,322,600	17-18	\$26,700	\$14,400	\$41,100	\$1,071,240	\$1,112,340	2,030	\$400	\$812,000	\$30,000	\$1,954,340	\$1,670,000	\$1,606,940
1,820,000 (2017)	\$1,606,940	18-19	\$26,700	\$14,400	\$41,100	\$1,083,240	\$1,124,340	2,030	\$400	\$812,000	\$30,000	\$1,966,340	\$1,700,000	\$1,873,280
1,840,000 (2018)	\$1,873,280	19-20	\$26,700	\$14,400	\$41,100	\$1,095,240	\$1,136,340	2,030	\$400	\$812,000	\$30,000	\$1,978,340	\$1,730,000	\$2,121,620

NMVB REVENUE PROJECTIONS \$0.62 per unit / Tiered Minimum Fee / \$400.00 Per Dealer - Effective FY 14/15 for CY 2013 Sales

Total CY vehicle sales	Beginning surplus	Fiscal Year	Tier 1 Revenues (\$300)	Tier 2 Revenues (\$450)	Total Tier Based Revenue	Total per vehicle Revenue	Total Manu. Revenue	Dealerships	Fee per Dealer	Total Dealership fee	Misc. revenue	Total Revenue	Estimated Expenditures	Ending Surplus
1,690,000 (2013)	\$415,580	14-15	\$26,700	\$14,400	\$41,100	\$1,038,748	\$1,079,848	2,030	\$400	\$812,000	\$30,000	\$1,921,848	\$1,580,000	\$757,428
1,750,000 (2014)	\$757,428	15-16	\$26,700	\$14,400	\$41,100	\$1,075,948	\$1,117,048	2,030	\$400	\$812,000	\$30,000	\$1,959,048	\$1,610,000	\$1,106,476
1,750,000 (2015)	\$1,106,476	16-17	\$26,700	\$14,400	\$41,100	\$1,075,948	\$1,117,048	2,030	\$400	\$812,000	\$30,000	\$1,959,048	\$1,640,000	\$1,425,524
1,800,000 (2016)	\$1,425,524	17-18	\$26,700	\$14,400	\$41,100	\$1,106,948	\$1,148,048	2,030	\$400	\$812,000	\$30,000	\$1,990,048	\$1,670,000	\$1,745,572
1,820,000 (2017)	\$1,745,572	18-19	\$26,700	\$14,400	\$41,100	\$1,119,348	\$1,160,448	2,030	\$400	\$812,000	\$30,000	\$2,002,448	\$1,700,000	\$2,048,020
1,840,000 (2018)	\$2,048,020	19-20	\$26,700	\$14,400	\$41,100	\$1,131,748	\$1,172,848	2,030	\$400	\$812,000	\$30,000	\$2,014,848	\$1,730,000	\$2,332,868

* Actual sales

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1,617,000 (2012)	\$557,400	13-14	127	\$300	\$38,100	1,602,400	0.45	\$721,080	\$759,180	2,030	\$300	\$609,000	\$30,000	\$1,398,180	\$1,540,000	\$415,580
1,690,000 (2013)	\$415,580	14-15	127	\$300	\$38,100	1,675,400	0.45	\$753,930	\$792,030	2,030	\$300	\$609,000	\$30,000	\$1,431,030	\$1,580,000	\$266,610
1,750,000 (2014)	\$266,610	15-16	127	\$300	\$38,100	1,735,400	0.45	\$780,930	\$819,030	2,030	\$300	\$609,000	\$30,000	\$1,458,030	\$1,610,000	\$114,640
1,750,000 (2015)	\$114,640	16-17	127	\$300	\$38,100	1,735,400	0.45	\$780,930	\$819,030	2,030	\$300	\$609,000	\$30,000	\$1,458,030	\$1,640,000	-\$67,330
1,800,000 (2016)	-\$67,330	17-18	127	\$300	\$38,100	1,785,400	0.45	\$803,430	\$841,530	2,030	\$300	\$609,000	\$30,000	\$1,480,530	\$1,670,000	-\$256,800

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1,690,000 (2013)	\$415,580	14-15	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,005,240	\$1,046,490	2,030	\$400	\$812,000	\$30,000	\$1,888,490	\$1,580,000	\$724,070
1,750,000 (2014)	\$724,070	15-16	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,041,240	\$1,082,490	2,030	\$400	\$812,000	\$30,000	\$1,924,490	\$1,610,000	\$1,038,560
1,750,000 (2015)	\$1,038,560	16-17	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,041,240	\$1,082,490	2,030	\$400	\$812,000	\$30,000	\$1,924,490	\$1,640,000	\$1,323,050
1,800,000 (2016)	\$1,323,050	17-18	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,071,240	\$1,112,490	2,030	\$400	\$812,000	\$30,000	\$1,954,490	\$1,670,000	\$1,607,540
1,820,000 (2017)	\$1,607,540	18-19	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,083,240	\$1,124,490	2,030	\$400	\$812,000	\$30,000	\$1,966,490	\$1,700,000	\$1,874,030
1,840,000 (2018)	\$1,874,030	19-20	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,095,240	\$1,136,490	2,030	\$400	\$812,000	\$30,000	\$1,978,490	\$1,730,000	\$2,122,520

NMVB REVENUE PROJECTIONS \$0.62 per unit / Tiered Minimum Fee / \$400.00 Per Dealer - Effective FY 14/15 for CY 2013 Sales

Total CY vehicle sales	Beginning surplus	Fiscal Year	Tier 1 Revenues (\$300)	Tier 2 Revenues (\$350)	Tier 3 Revenues (\$400)	Tier 4 Revenues (\$450)	Total Tier Based Revenue	Total per vehicle Revenue	Total Manu. Revenue	Dealerships	Fee per Dealer	Total Dealership fee	Misc. revenue	Total Revenue	Estimated Expenditures	Ending Surplus
1,690,000 (2013)	\$415,580	14-15	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,038,748	\$1,079,998	2,030	\$400	\$812,000	\$30,000	\$1,921,998	\$1,580,000	\$757,578
1,750,000 (2014)	\$757,578	15-16	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,075,948	\$1,117,198	2,030	\$400	\$812,000	\$30,000	\$1,959,198	\$1,610,000	\$1,106,776
1,750,000 (2015)	\$1,106,776	16-17	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,075,948	\$1,117,198	2,030	\$400	\$812,000	\$30,000	\$1,959,198	\$1,640,000	\$1,425,974
1,800,000 (2016)	\$1,425,974	17-18	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,106,948	\$1,148,198	2,030	\$400	\$812,000	\$30,000	\$1,990,198	\$1,670,000	\$1,746,172
1,820,000 (2017)	\$1,746,172	18-19	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,119,348	\$1,160,598	2,030	\$400	\$812,000	\$30,000	\$2,002,598	\$1,700,000	\$2,048,770
1,840,000 (2018)	\$2,048,770	19-20	\$18,600	\$9,450	\$9,600	\$3,600	\$41,250.00	\$1,131,748	\$1,172,998	2,030	\$400	\$812,000	\$30,000	\$2,014,998	\$1,730,000	\$2,333,768

* Actual sales