

Joint Transportation Committee Vehicle Subagent Study

Presentation to the Joint Transportation Committee

June 23, 2020

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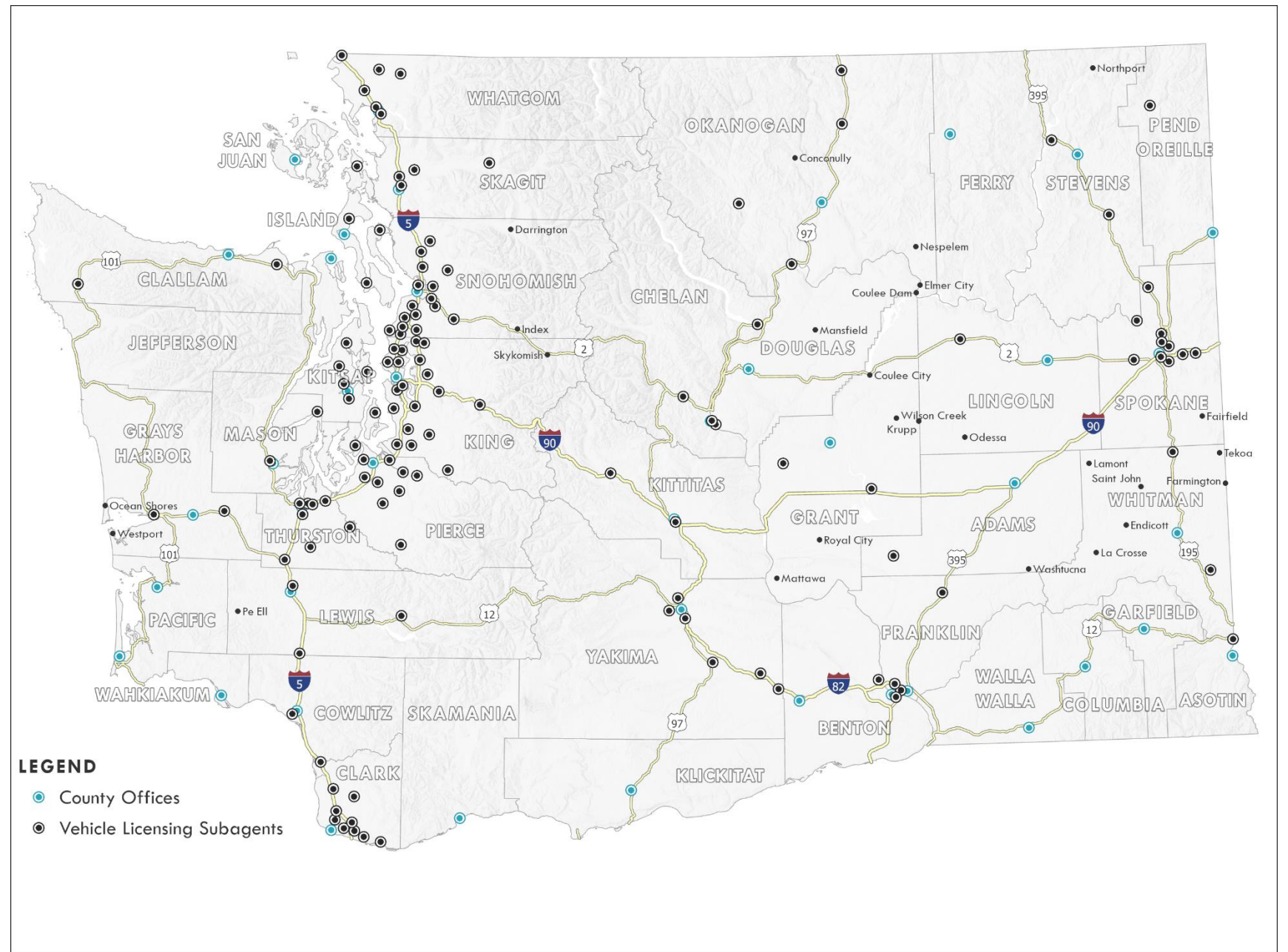
Presentation Objectives & Approach

- Present initial findings based on interviews and transaction data analysis
- Provide a status update on expenditure analysis
- Share preliminary areas for recommendation
- Answer questions

County Agent and Subagent Locations

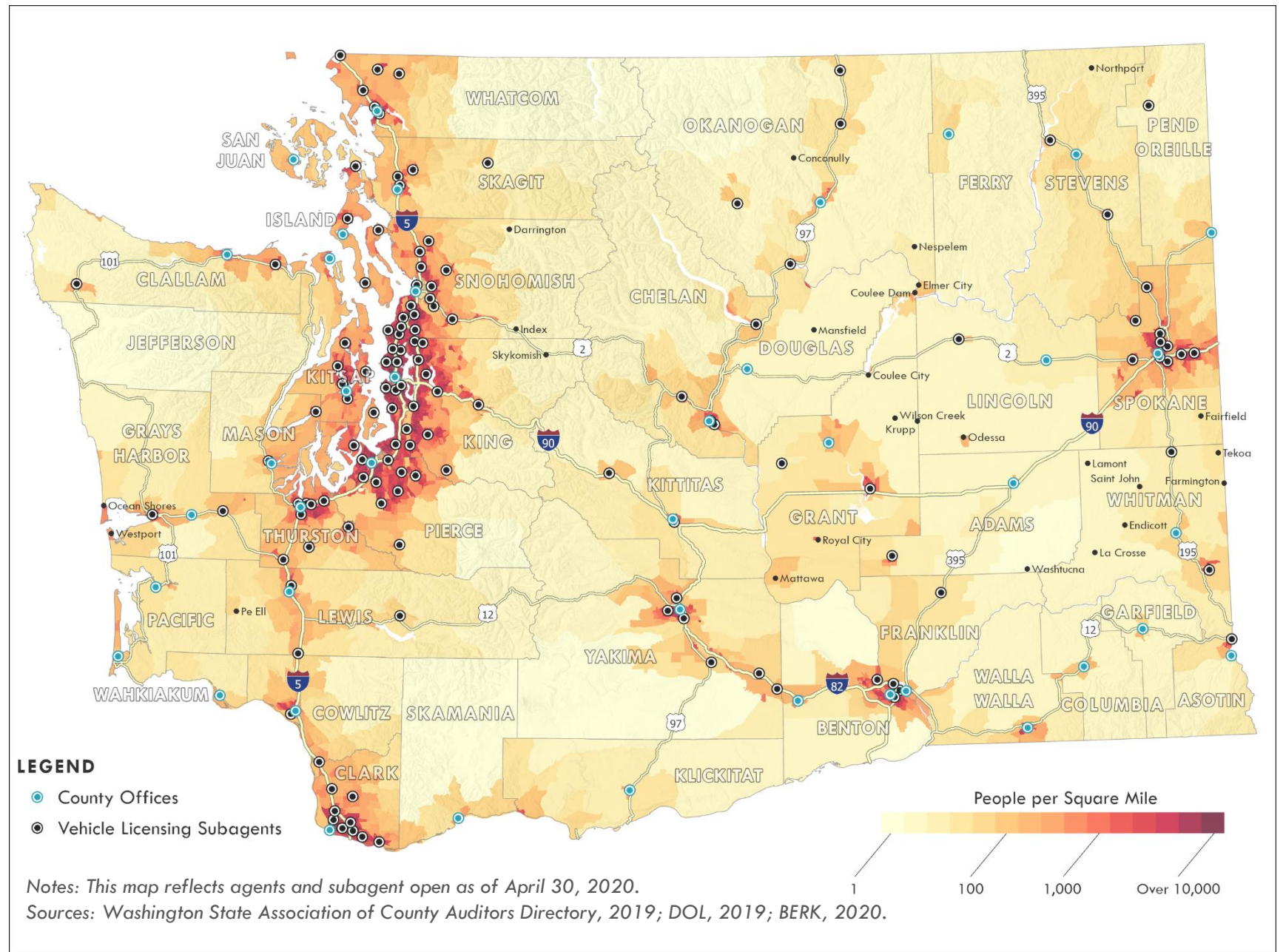
10 counties have no subagents

- Columbia
- Ferry
- Garfield
- Jefferson
- Klickitat
- Pacific
- San Juan
- Skamania
- Wahkiakum
- Walla Walla



Office Locations Correspond with Population Density

- As a volume-based enterprise, most offices are proximate to urban areas
- Towns labeled on the map are more than a 30-minute drive from a vehicle licensing office



Subagent Characteristics

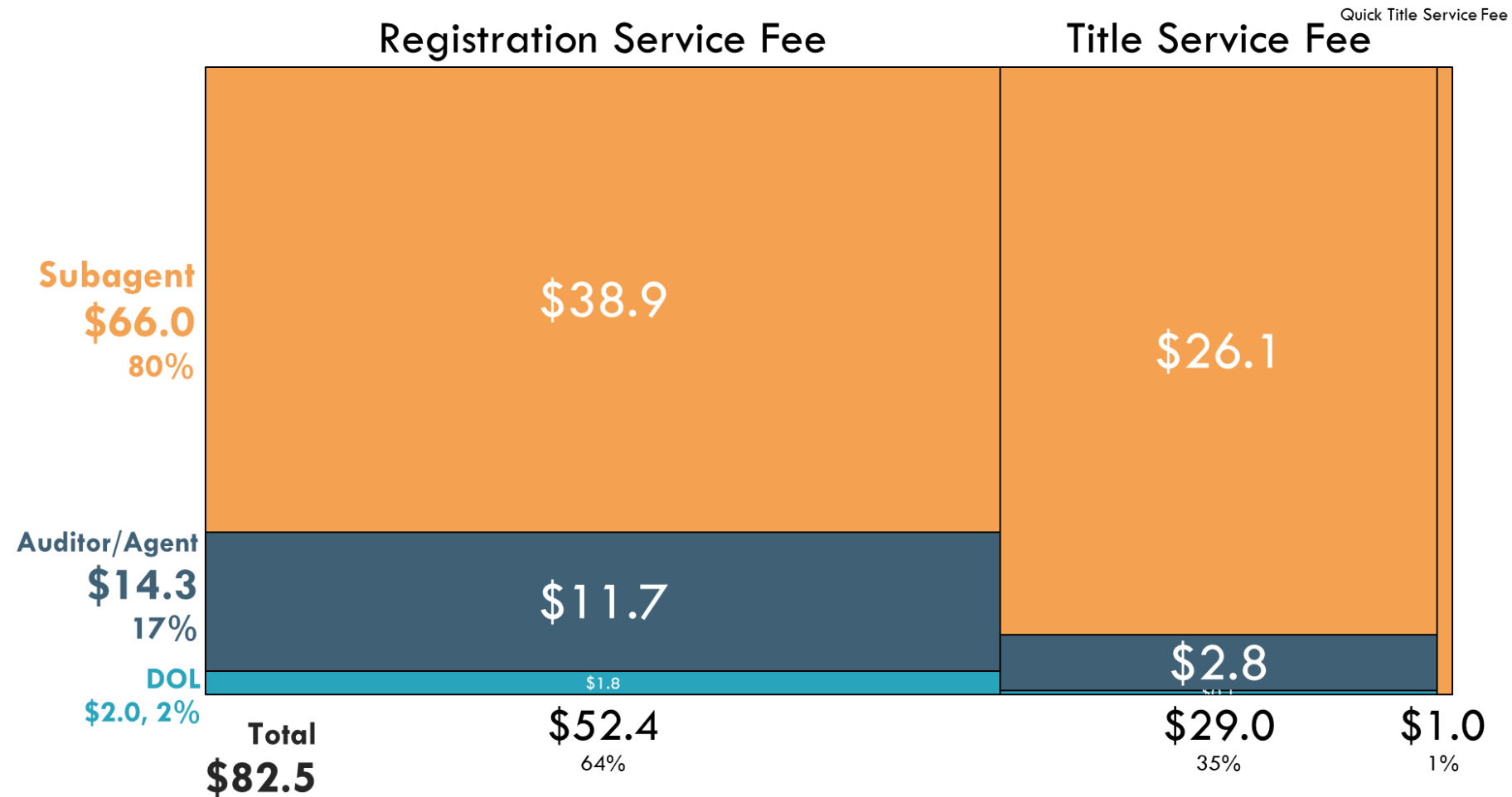
- **135** subagencies operated in 2019
 - 10 subagents own 2 subagencies each (20 of the 135)
 - 7 subagents are public/community entities, including
 - 5 Chambers of Commerce (Anacortes, Bainbridge, Concrete, North Mason, and Sedro-Wooley);
 - the Town of Ione (population 447); and
 - Yelm Community Services, a nonprofit social services provider

Subagent Business Model - Not fully public or private

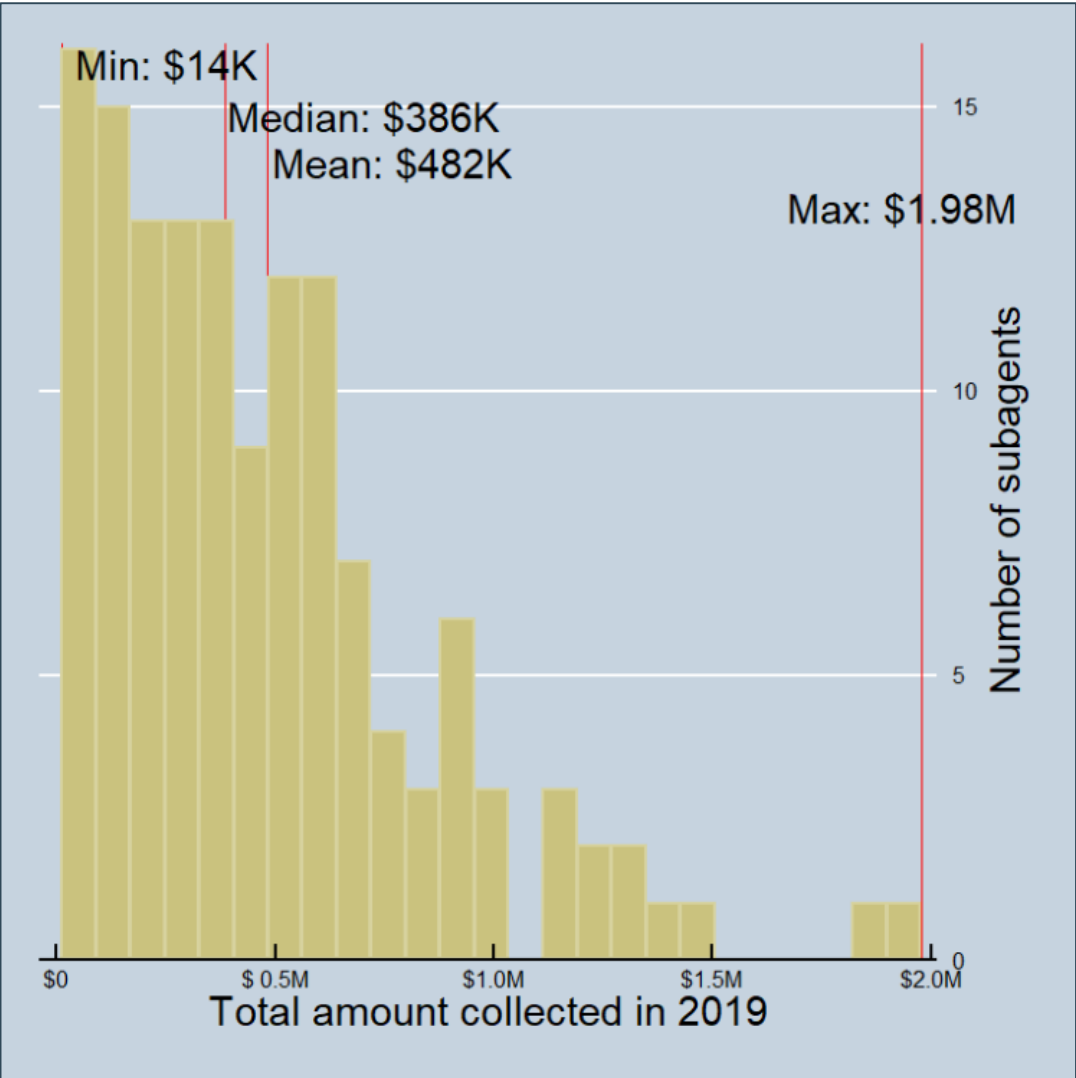
- Revenue
 - Service is legally required to purchase, but it is a static market
 - Fees set by legislature are intended to “keep the vehicle subagents and county auditors healthy¹”
 - No schedule for fee review
 - No transparent information about subagent costs
- Costs
 - Labor and occupancy
 - Competition over skilled staff
- Profitability requires
 - Pursuing volume and market share
 - Subagencies process over 98% of dealership transactions; 15 subagencies account for over 50% of the dealer revenue in the state
 - Managing costs and increasing operating efficiencies

2019 Service Fee Revenue (\$M)

Subagents account for 80% of the service fee revenue



Range of Subagent Business Sizes, 2019

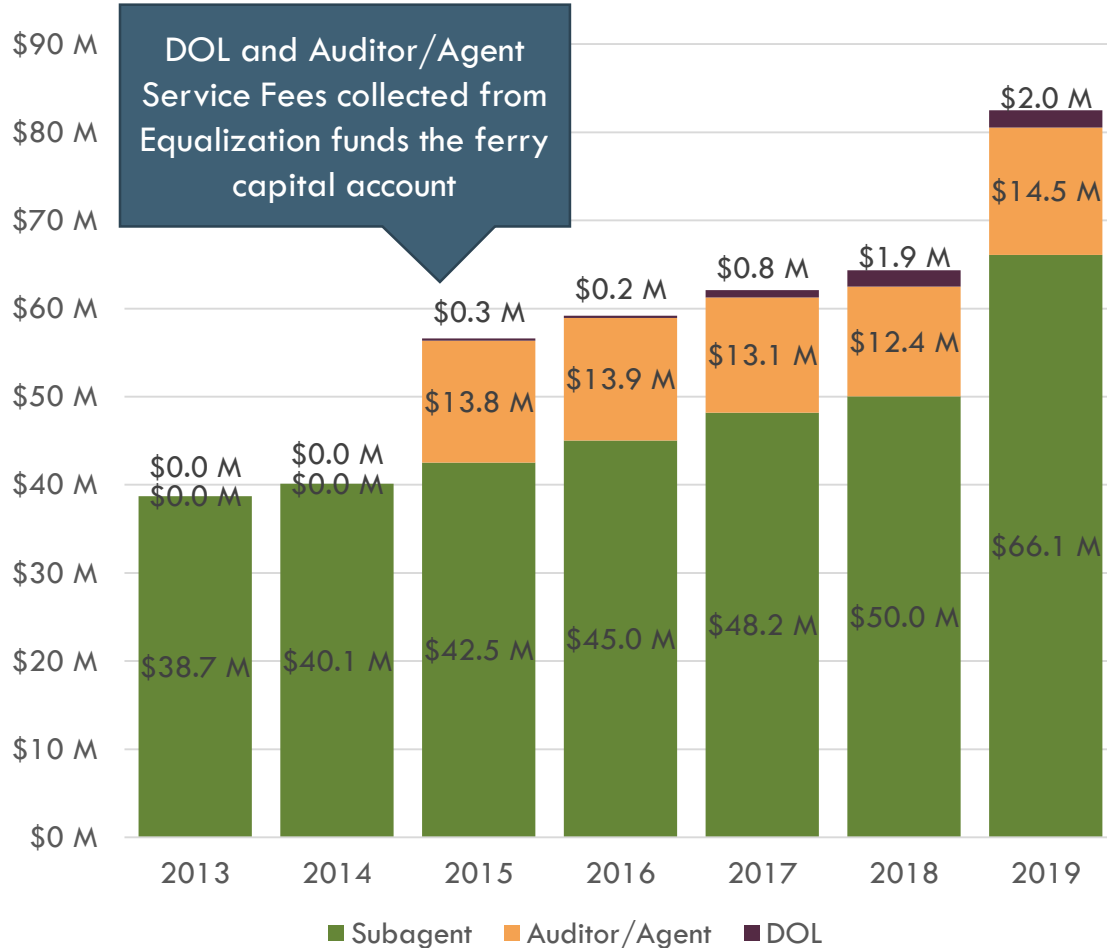


- In 2019, half of subagents collected \$386,291 or less in service fee revenue and half collected more
- Two subagents collected more than \$1.5 million in service fees
- The largest subagent holds 3.0% of the statewide market (in dollars)

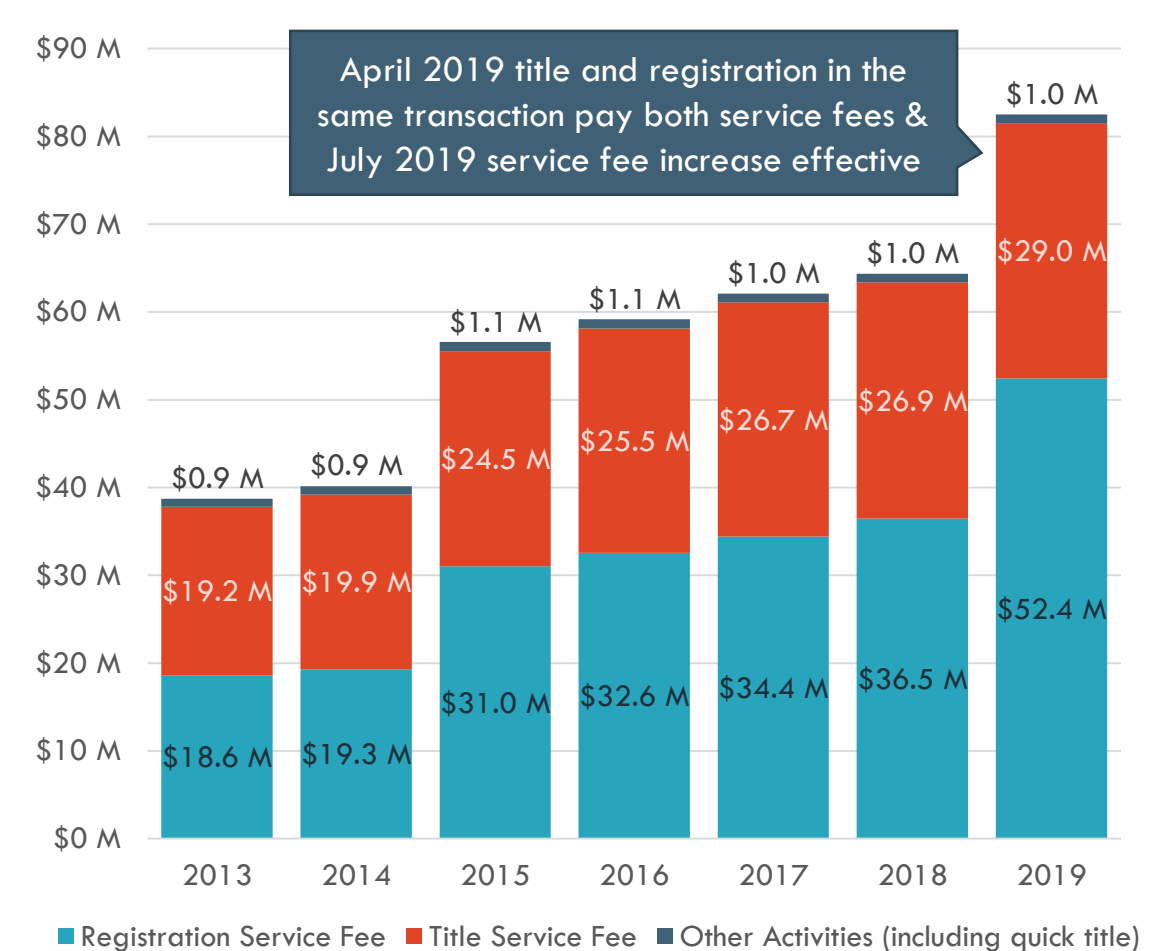
	Statewide Subagent Total	Subagent Minimum ¹	Subagent Median	Subagent Mean	Subagent Maximum
Amount of Fees Collected	\$66,083,184	\$14,118	\$386,291	\$482,359	\$1,978,492
Market Share by Dollars		0.0%	0.6%	0.7%	3.0%

Service Fee Trends by Office and Fee Type

By Office Type



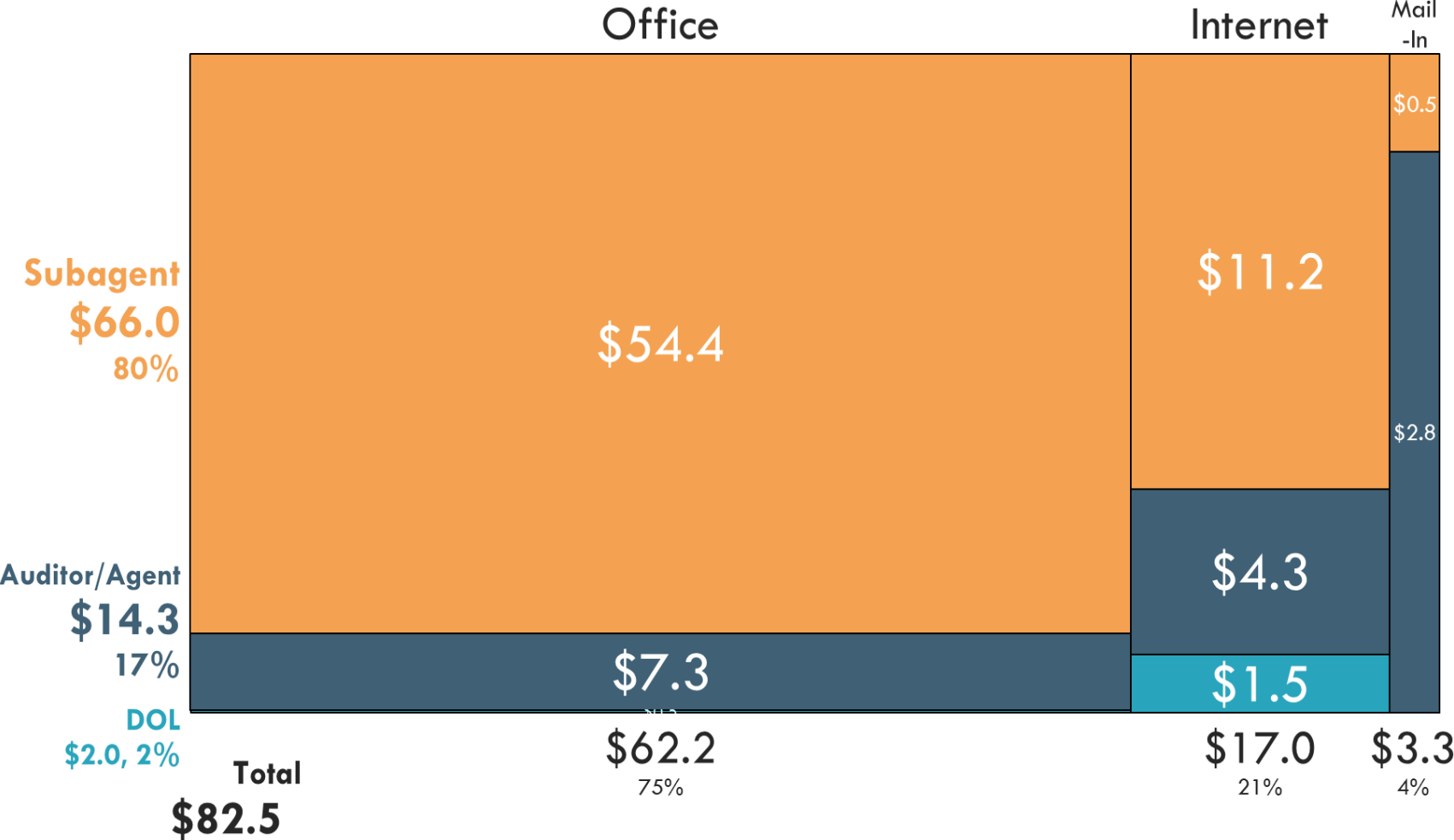
By Fee Type



Note: Service fee collected amounts are not adjusted for inflation

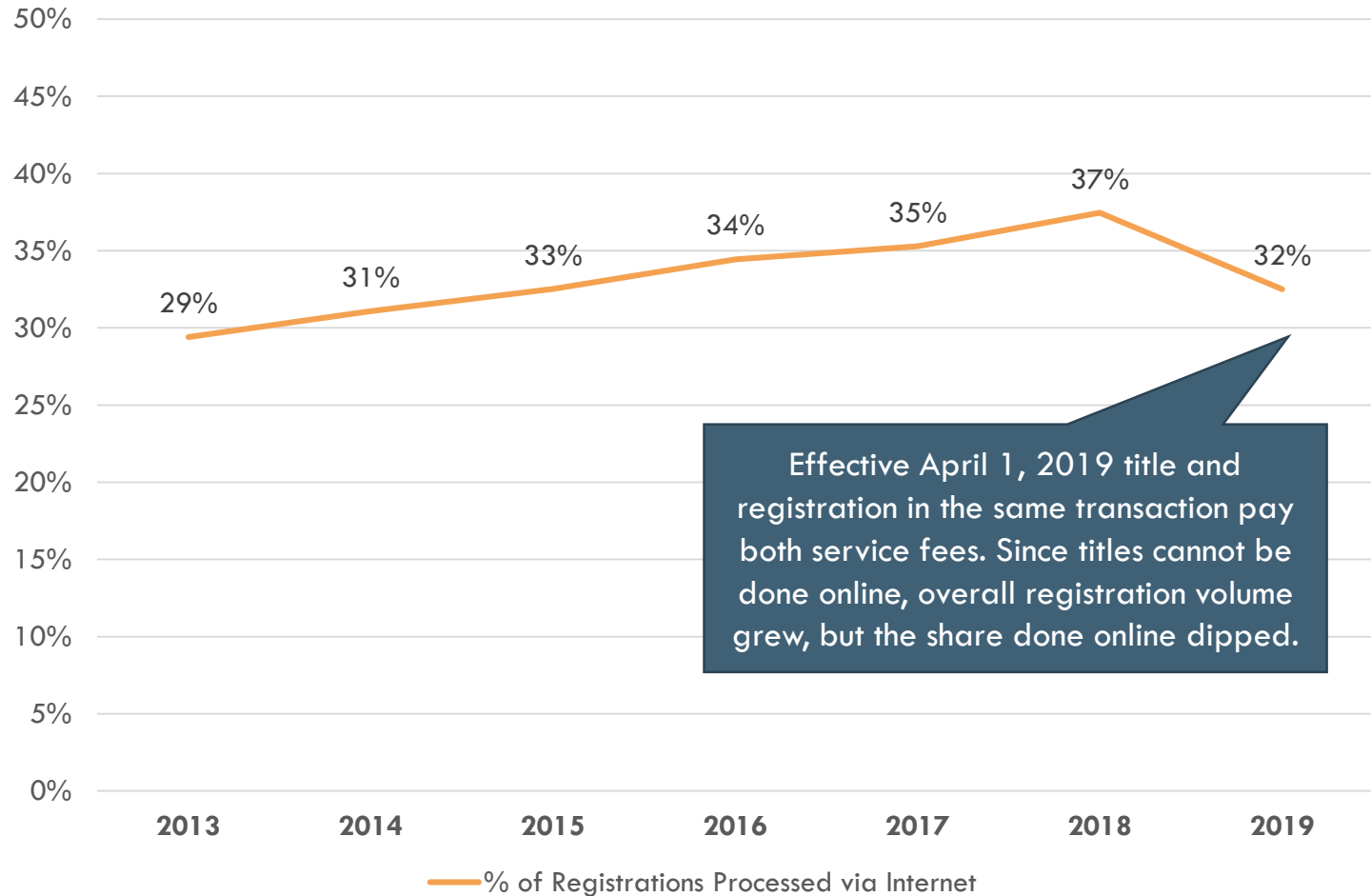
2019 Service Fee Revenue (\$M)

In-office transactions account for 75% of service fee revenue



Trends in Online Processing

Share of Registration Work processed online (vs mail or in-office)



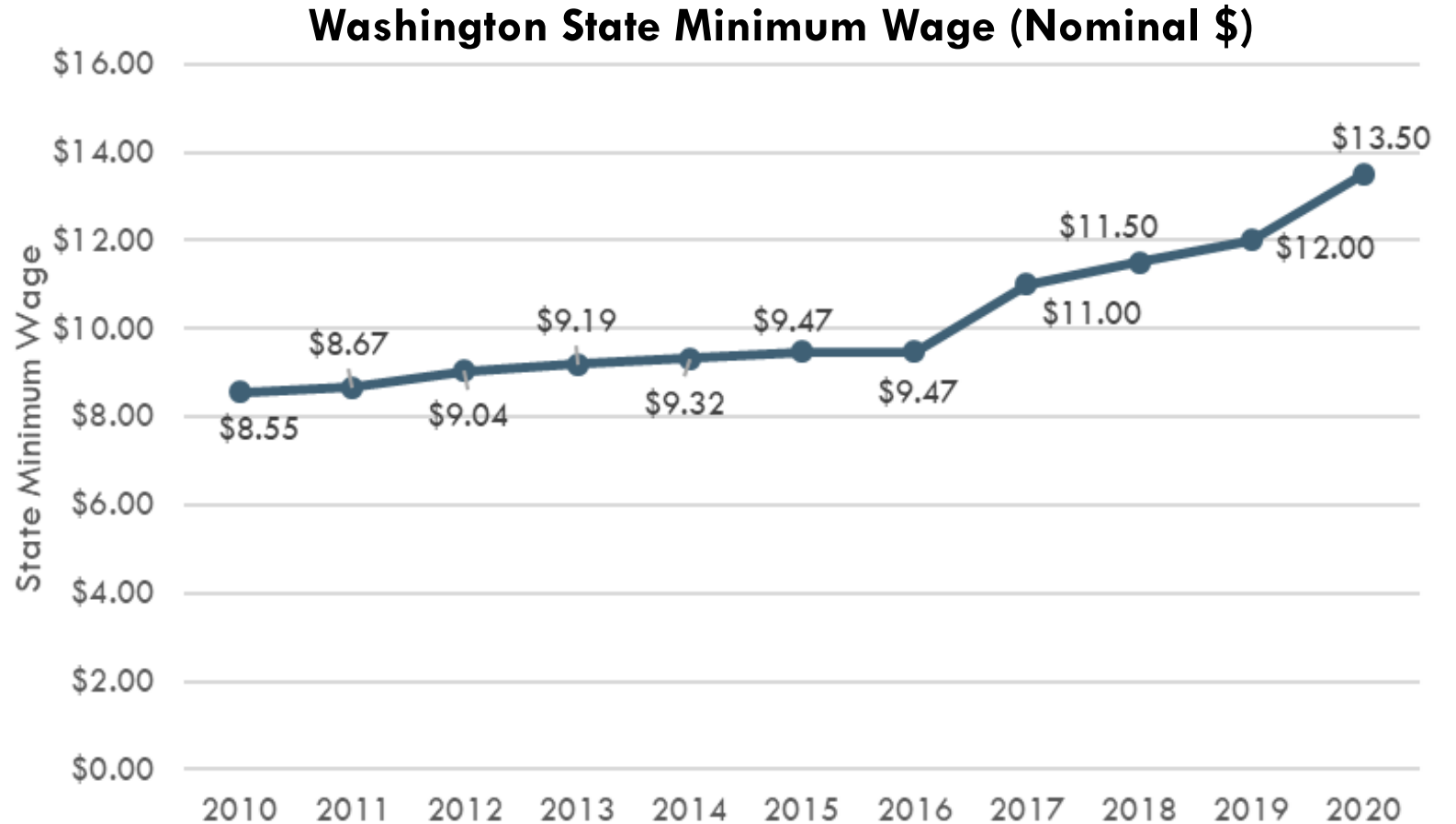
- Title work cannot be transacted online.
- Internet transactions are nearly all renewals.
- The share of registrations/renewals transacted online has grown, and represents about one third of this work.

Note: Customers can choose to process their transaction online then pick up at a subagency (instead of waiting for the mail).

Expenditures Update – Full analysis forthcoming

Labor is the primary cost for subagents

- **Employment and wage** data agreement in progress with ESD
 - Employee-level data that must be reported at a non-identifiable level
- **Benefits** are not universally provided and not tracked by central source



Note: As of 2021, Labor & Industries will use the CPI-W to make an annual adjustment.

Source: Washington State Labor & Industries, 2020; BERK, 2020.

Subagent Costs

After labor, occupancy is the second largest cost for most subagents

- **Occupancy** data gathered from national real estate data source
 - Subagents occupying self-owned spaces have been identified by cross-referencing DOL contacts, county assessor data, and Secretary of State records
- **Additional costs** are relatively minor compared to labor and occupancy, estimated from interview sample data and known quantities (e.g., postage as a function of transaction volume)
 - Utilities
 - Insurance
 - Postage
 - Disposable supplies
 - Non-DOL equipment
 - B&O taxes
 - Bank fees
 - Advertising
 - Community sponsorship, WAVS membership, political contributions

Subagent opportunities are limited

Supply. Given limited transactions in the state and a desire for subagencies to at a minimum cover costs, the supply is capped until such time that DOL or agents see increased demand for services due to population growth or transaction volume.

Training. A subagency is not a turnkey business. Outside of working at an existing subagency (or working at an agent or at DOL) there is no way to train on DOL's DRIVES system. To be certified as a vehicle licensing representative (VLR) requires 1,800 hours (and that is after a minimum three month process to be qualified).

While some applicants have taken over subagencies with limited personal experience, they have often inherited certified staff to keep operations running while the new owner comes up to speed.

Challenges and Barriers to Entry

- **Infrequent openings.** RFPs are rarely released, limiting entry or expansion opportunities.
- **Lack of clear access to information.** No single place for RFPs. County advertisement of and outreach for RFPs is limited.
- **Required level of expertise.** Appointees without experience encountered an uphill battle to gain a working knowledge of the rules, regulations, and DRIVES interface.
- **Extensive training requirements with inconsistent support.** 1,800 hours of training necessary to become a licensed operator. Subagents report they must train their own staff (sometimes with little to no support) and this is costly in terms of time. (VEH 19 describes Training and Certification of VLRs.)

Challenges and Barriers to Entry

- **Upfront costs for new locations.** One interviewee spent \$100,000 to set up a new office.
- **WaTech delays.** Long gap between receiving appointment and WaTech installing workstations. In a few cases, subagents paid several months of rent without income.

Recommended Successor: Partially to ensure continuity of service, SSB 5274 (2001) enables subagents to name a recommended successor at any time by notifying the county agent and filing a copy with the DOL director. The RFP process is still required at transition.

Data from 2015-2020 on 32 RFPs in 17 counties showed:

- 3 for new offices & 29 for continuation
- 19 of the 29 had a recommended successor; most are competitive (more than one applicant).
- 16 of the 19 resulted in selection of the recommended successor.

Preliminary Areas for Recommendations

- Clarifying goals of the system and state interest
- Barriers to entry
- Training requirements
- Service fee review process and structure
- Potential expansion to services
- Technology

Next Steps

- Expenditure analysis
- Final Report, September 30, 2020
- Committee presentations in 2021, as needed
- Direct questions to:
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 - Paul Neal Paul.Neal@leg.wa.gov