

# Joint Transportation Committee Vehicle Subagent Study

**Presentation to the Joint Transportation Committee**

**November 17, 2020 | Allegra Calder, Jason Hennessy,  
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# Volume and Revenue Recap

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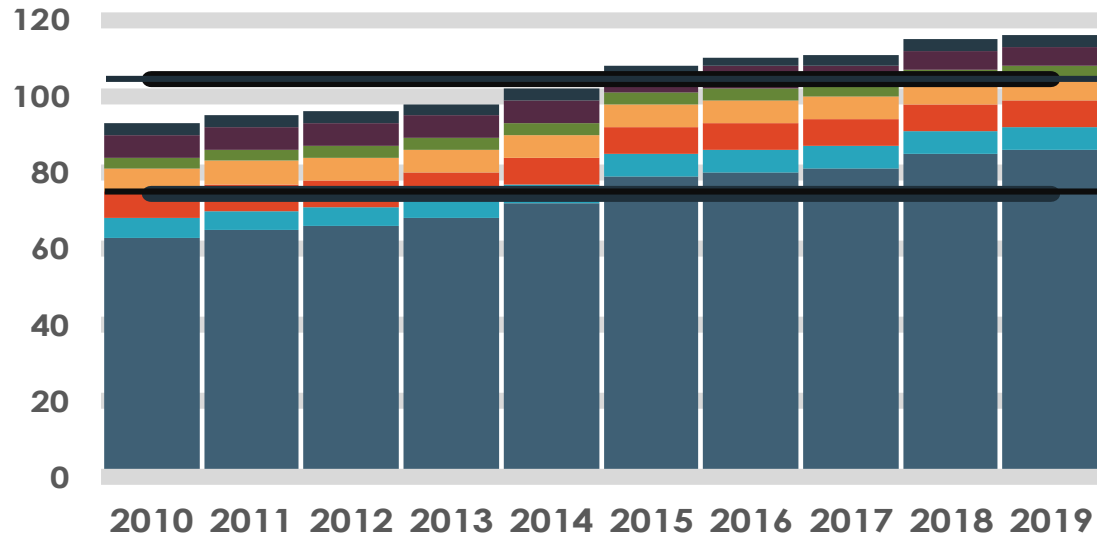
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- Mostly stable number of licensing transactions available in the state each year.
  - 10.75M service fee transactions in 2019, generating \$82.5M in fee revenues
  - Subagents account for 78% of service fees by volume. Market share has grown steadily (vis a vis Agents and DOL), up from 64% in 2013.
- Subagent revenue growth rate:
  - 3.7% from 2013-18 (pre fee increase)
  - 27.0% from 2018-19 due to the fee increase and policy change which affected transaction volume.
- Subagents vary greatly in volume and revenue growth over the 2013-19 period.
  - In 2019, half collected less than \$386,291 and half collected more
  - 2019 revenue ranges from \$14,118 (representing a partial year) to \$1.9M
  - Individual subagent revenue growth ranged from 1 to 4% from 2013-18, after-inflation
    - Very few experienced 0 or negative growth.
    - ~10 experienced major revenue growth in this time period.

# Expenditure Findings

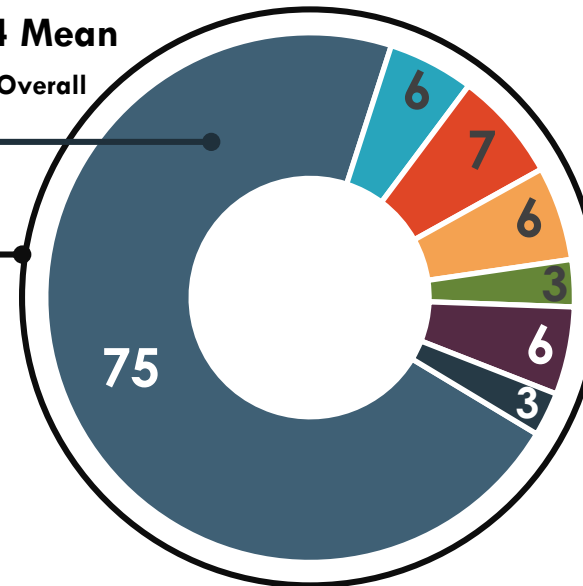
# Matching Subagents in ESD Data by Business Type

Annual ESD Matched Subagents



2010-2019 Mean ESD Matched Subagents

104 Mean  
125 Overall



- Primarily Licensing
- Professional Services
- Governmental & Nonprofit
- Financial & Dealership
- Grocery
- Retail
- Other & Unknown

Sources: BERK, 2020 using: DOL, 2020; ESD QCEW, 2020.

# There are at least three Subagent typologies



	Small Community, Low Volume – Primarily Licensing	Large Community, High Volume – Primarily Licensing	Low Volume – Licensing as Add-on Service
Employees	1-3 employees	10 or more employees	Employees may not work full time on licensing
Transactions	<10,000 annual transaction (2013-19 averaged 5,950)	>125,000 annual transactions (2013-2019 averaged 145,000)	<10,000 transactions (2013-19 average 3,900)
Typical Licensing Revenues	2013-2018 average: \$55,000 2019: \$79,000	2013-2018 average: \$1,000,000 2019: \$1,600,000	2013-2018 average: \$35,000 2019: \$52,000
Expenses	Wages less predominant	Sensitive to wages	Most expenses are unrelated to licensing. Overhead may be absorbed by other businesses.

# ESD Data Presents Some Challenges

Subagent wage analysis uses ESD data which report hours worked and lump sum wages paid.

Inconsistencies in the data do not prevent analysis but do warrant caution when interpreting results.

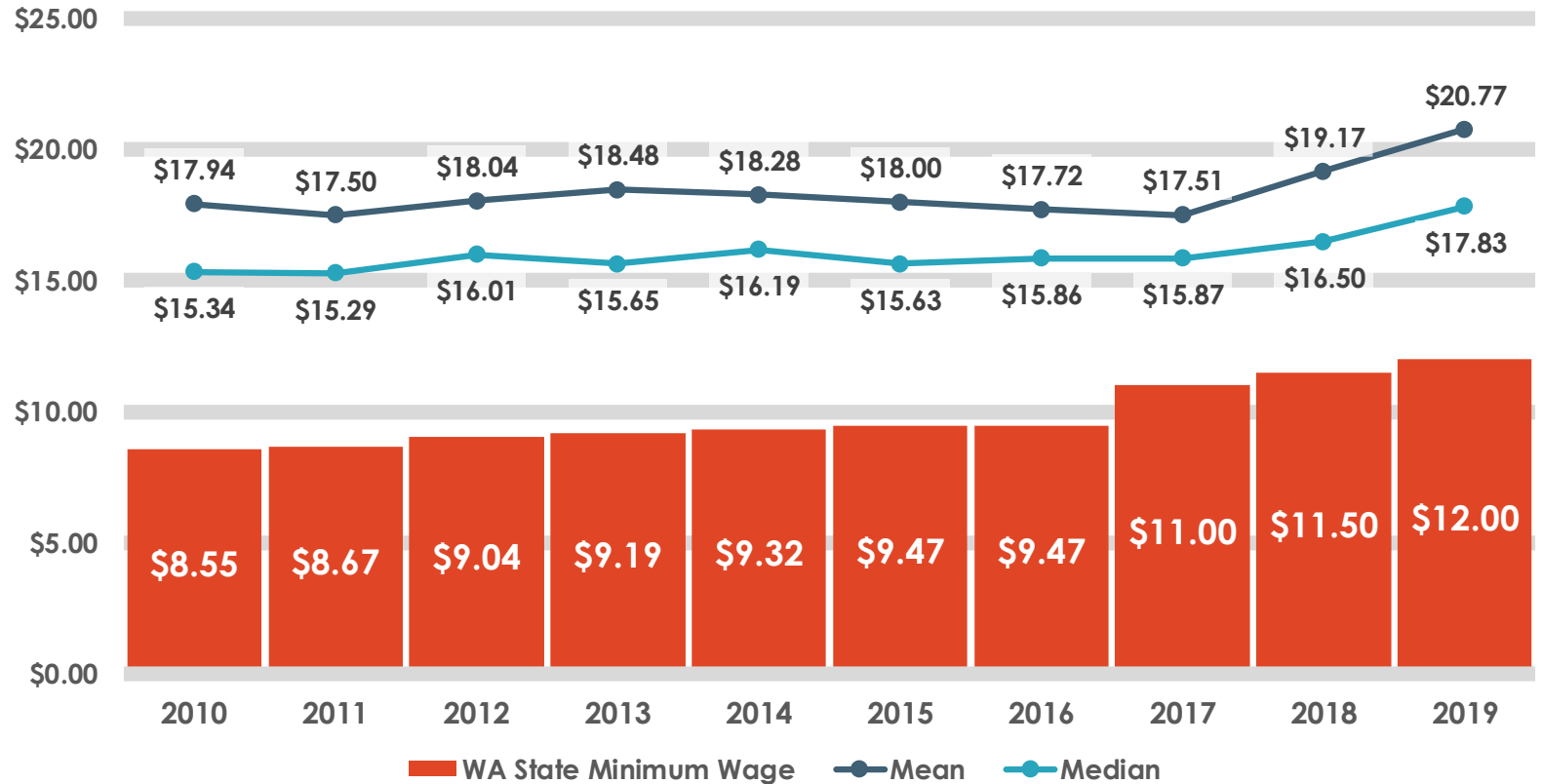
## Sources of Ambiguity

- Hours and wages for some subagents appear underreported relative to transaction volume
- Each year, an average of 7 subagents with known transactions do not show up in ESD data
- Some inaccuracies on names or SSNs
- Reporting of assumed hours rather than actual

# Wage Expenditure Trends – Primarily Licensing Subagents

- Mean and median wages for all matched VLRs are above minimum wage and have risen similarly to the minimum wage.
- The 2019 fee increase appears to have increased wages, which is consistent with subagent interviews.
- Mean wages vary by region with the highest wages being paid in Seattle-King and the Puget Sound region

**Mean and Median VLR Wages Compared to State Minimum Wage, 2010-2019 (Nominal\$)**



Sources: BERK, 2020 using: DOL Legacy and DRIVES, 2020; ESD QCEW, 2020.

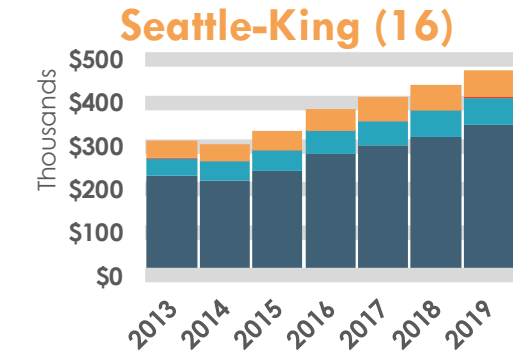
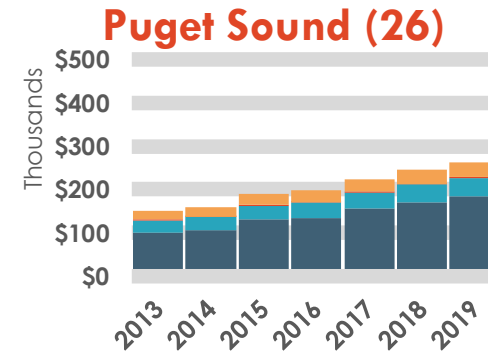
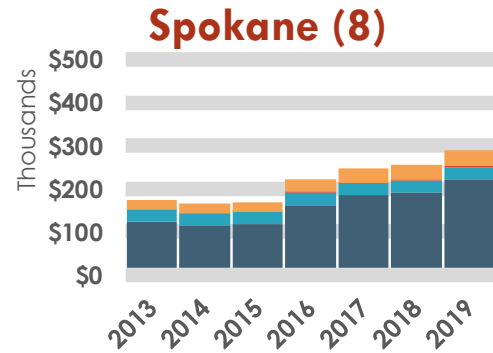
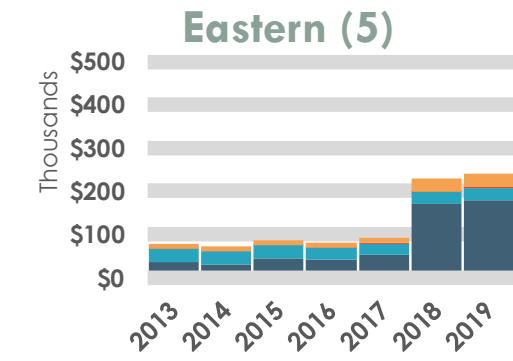
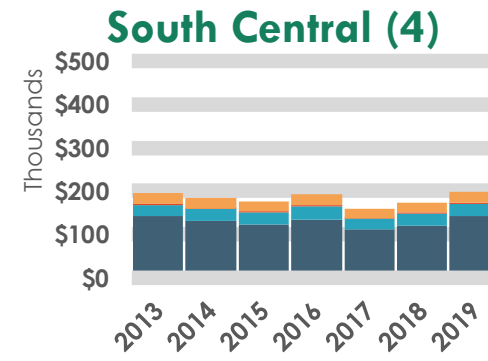
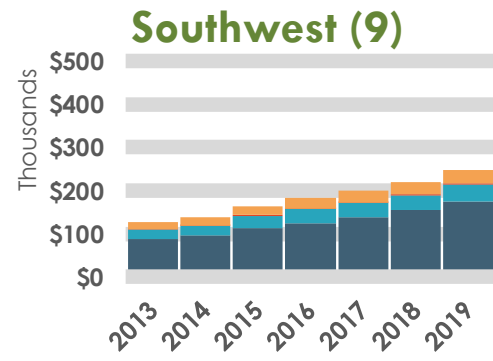
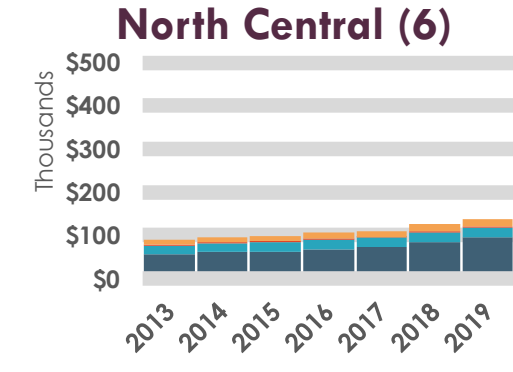
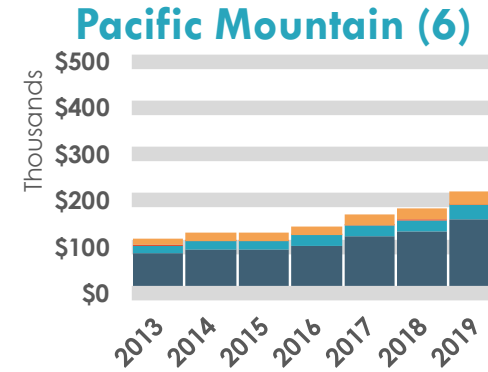
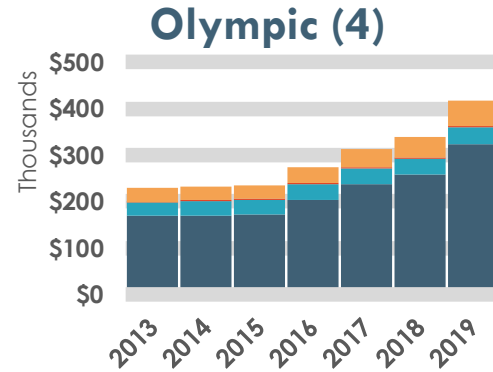


# Primarily Licensing Subagents: Expenses by Regional Economic Zone, 2010-2019 (Nominal\$)



- Wage (Reported)
- Occupancy (Estimated)
- Postage (Estimated)
- Miscellaneous (Estimated)

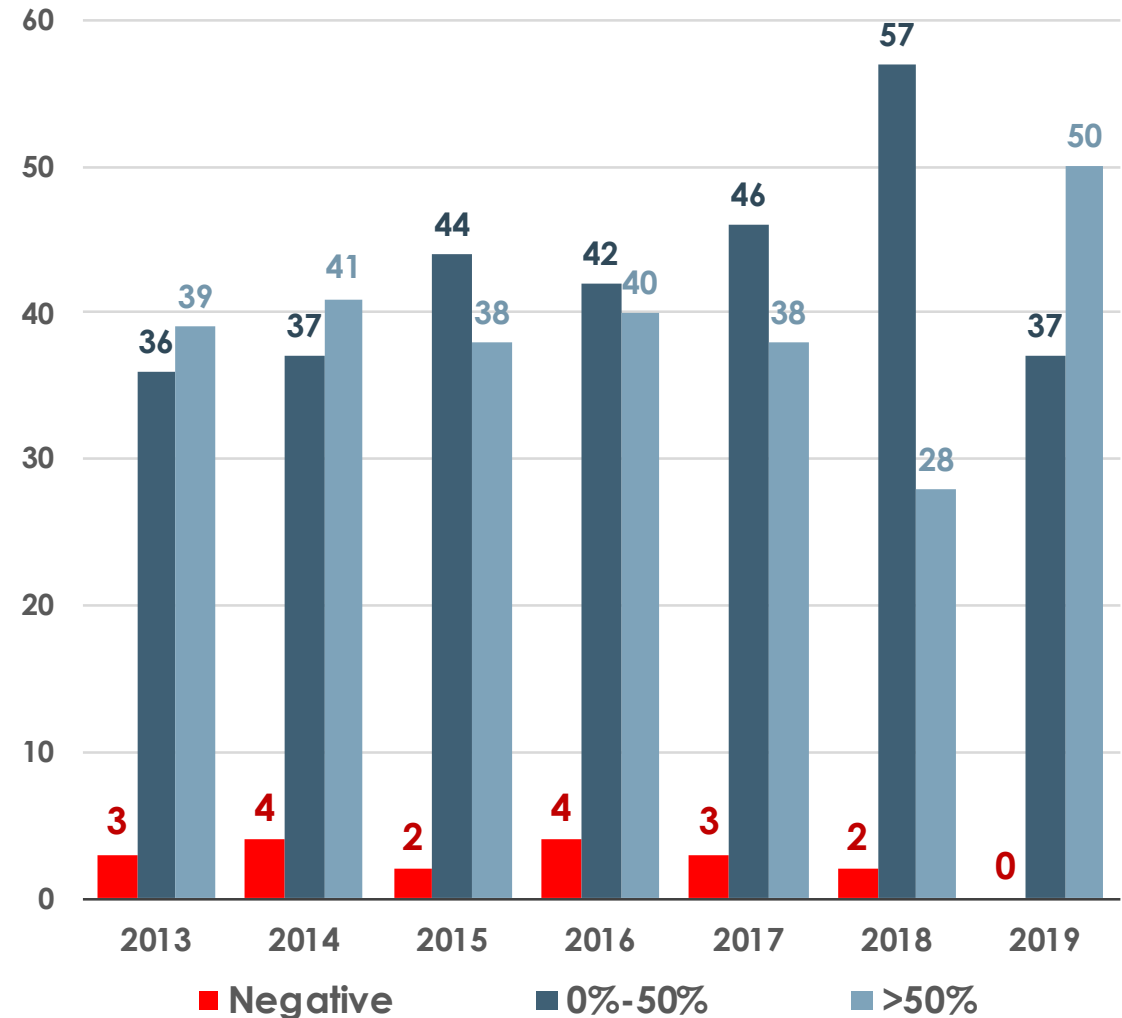
Sources: BERK, 2020 using: DOL Legacy and DRIVES, 2020; ESD QCEW, 2020.



# ***“It is the intent of the legislature to make fee adjustments to keep the vehicle subagents and county auditors healthy.” RCW 46.17.040***

## **Healthy needs to be defined**

- Through 2018, some Primarily Licensing Subagents were likely losing money and others were operating near expenses
- Most subagents were covering costs
- How much above break-even is healthy?  
Does this change if fees are not adjusted on a schedule?



Sources: BERK, 2020 using: DOL, 2020; ESD QCEW, 2020.

# Summary

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## **Subagencies are a variable business with a flat fee; this produces winners and losers**

- The fee is meant to “keep subagents healthy” but is the same regardless of location and volume.
- Subagent wages are above the state minimum and have increased over the 10-year period, alongside other expenses (primarily occupancy)
- Expenditures differ by region and by transaction volume
- We believe that some subagents were operating with near zero or negative profits before the fee increase; among the primarily licensing subagents, we believe the fee increase addressed these issues.
- This flat fee approach produces winners and losers (or those who win less), but to date 135 subagents remain in operation though margins vary significantly across the state.
- Reducing this variation would require the legislature to define healthy, require standardized expenditure information from subagents, and develop a mechanism to rebalance revenues (either use a variable fee system or centralize all fees with DOL to then reimburse subagents). All these changes would add complexity and create new issues.

# Recommendations

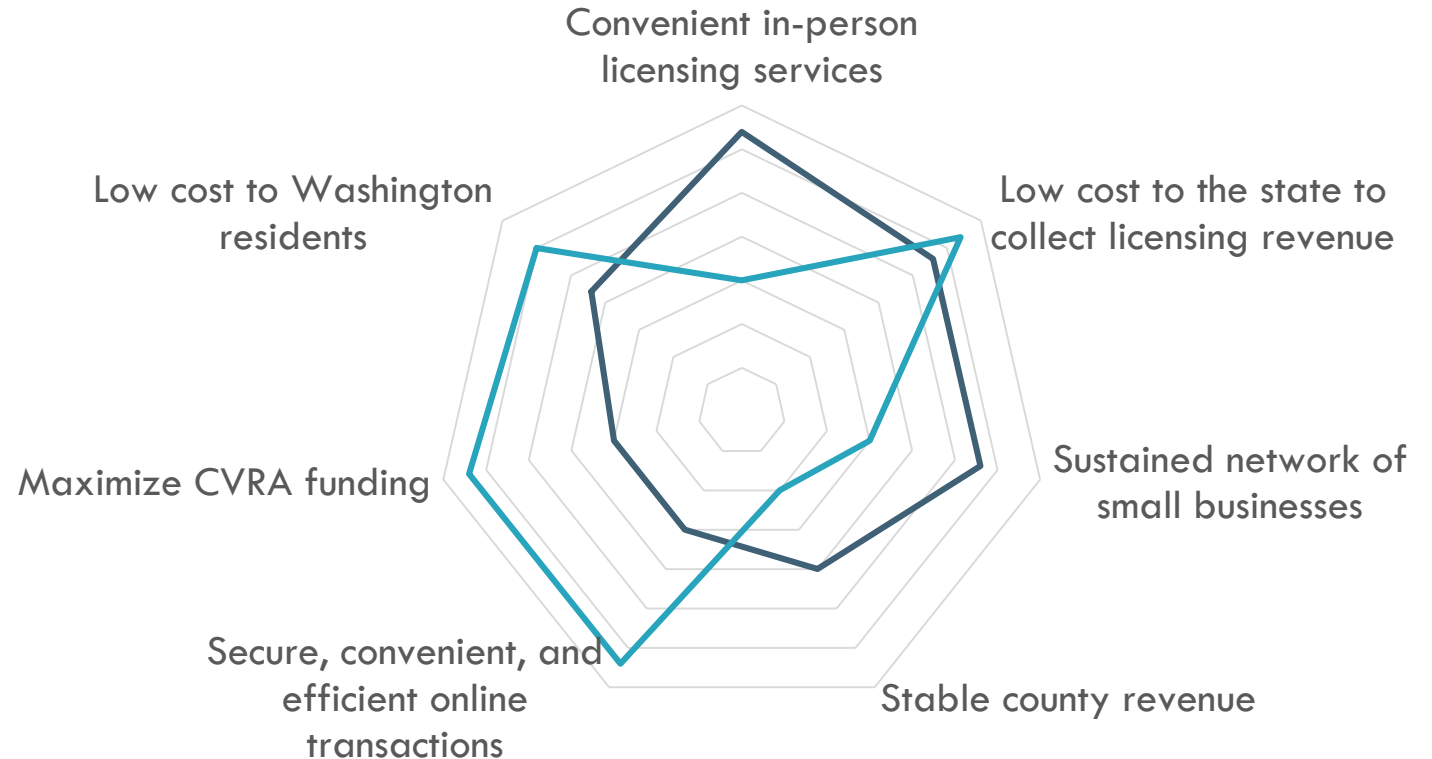
## Potential Goals and Trade-offs (illustration only)

# 1. Clarify Goals of the System

The subagent system has evolved over times to serve multiple, sometimes competing, goals.

Before the CVRA and advances in technology, the goals were more clearly aligned. Today, they represent significant trade-offs.

Clarifying the overarching goal and State interest in the delivery system will make system improvement decisions easier and in the face of a technological or other disruption help figure out the best response.



## 2. Reduce Barriers to Entry

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**With 135 subagencies and a relatively stable transaction base there are few opportunities to open a new subagency. However, opportunities do come up and could be more accessible:**

- **Increase Outreach and Assistance for Interested Subagency Applicants.**
  - Create a central distribution site for all RFPs in the state
  - Provide technical assistance for potential bidders
  - Communicate with a broader pipeline, including those in related sectors (title clerks, etc.), local small business resources, including Chambers of Commerce or Small Business Administration offices.
- **Improve communication and more timely installation of equipment from DOL.**
  - The cost of rent and sometimes salary incurred before terminal installation is a significant financial barrier. Better coordination and more timely communication and implementation by DOL and WaTech related to cabling and workstation installation is recommended.

### 3. Encourage Online Transactions and Consistent Technology

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Within a status quo system this could entail the following:

- Refer all online transaction to subagents who can staff accordingly, while county agents retain the filing fee. This has implications for the CVRA.
- Introduce payment plans to reduce the cost burden of an annual payment and potentially move more renewals online.
- Revise RCW 46.12.665 to allow for electronic submission of odometer disclosure statements consistent with the CFR. This change would remove one barrier to moving title work online.

## 4. Change the Process for Service Fee Updates

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- As revenue opportunities for subagents are limited by overall licensing volume, there is a rationale to provide subagents with predictable revenue increases. This should be combined with **Recommendation 1 Clarify Goals of the System** and defining “healthy”.
- This update mechanism could take many forms, but the essential features are a threshold that triggers a set response to change fees to improve transparency and predictability.
- A “subagent health”-based policy requires a mechanism for consistent and valid expense information (perhaps through contract requirements, or an audit process for businesses over a certain revenue threshold). Alternatively, providing expense data could be voluntary, but required for fee updates.



## 5. Revise Licensing Certification Requirements

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- Consensus that 1,800 hours is no longer the right requirement to become a *certified* VLR.
- Training Subcommittee is exploring moving to a skills-based certification and continuing education requirement.
- Develop a transaction-based, skills-based certification process and update *VEH.19*. This would not require a statute change.
  - Include an online or DRIVES based training module to facilitate transaction experience somewhere other than at the counter for low volume VLOs.

## 6. Alternate Service Delivery Models

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**A full review of other states was out of scope, but examples arose in research. Assessing alternatives requires clear systems goals (see Recommendation 1).**

- Subagents can set a convenience charge for in-person transactions to help account for differences in volume and local costs.
- Subagents are compensated based on quality and availability rather than (or in addition to) volume. If volume exceeds or meets certain thresholds, there is an overage payment.
- State or county maintain subagency locations and pay occupancy costs. The subagent would operate like a concessionaire in that space, providing only the labor.

Implementing a new model relative to status quo would have significant costs. It seems more likely that a disruption related to online service delivery will occur and could be more practical to prepare for that eventuality relative to the State interest and system goals to understand how best to respond.

**Thank you**