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How Competition Can Improve Motor Vehicle Services

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State Departments of Motor Vehicles (DMV) are emblematic of the worst failures of government. They are inefficient, inscrutable, and expensive. The cost of these failures are immense and paid not only in taxes and services fees but in the millions of hours wasted waiting in line. With an average wait time of around 59 minutes and an estimated 195 million DMV visits per year, 191 million hours are lost annually to these bureaucracies.^{1,2} These figures are a conservative estimate and do not account for the actual loss of productivity from days spent doing paperwork or in repeat visits, misleading accounting of wait times by state agencies, and the effects of the coronavirus, which has created a backlog of cases while reducing the capacity to service them.³

The evidence shows that wait times at individual DMV facilities have little correlation to consumer demand, demonstrating that the system is not overtaxed but rather structurally inefficient.⁴ No incentives exist for internal reform as the DMV has a monopoly on an essential service and, therefore, no need to be responsive to customer demand. Furthermore, current state civil service laws means there is no reward for efficiency or innovation, and there is no penalty for disorganization, lengthy waits, and poor customer service.

This does not have to be the case. The United States has a long tradition of having both public and private enterprises compete to provide government services. Multiple service providers and citizen's freedom to

choose between them means there is competition for business and, thus, an incentive to innovate and accountability for the quality of services. We intend to solve the DMV's structural inefficiency by applying this principle of competition and propose:

1. Allowing private contractors to concurrently provide DMV services including vehicle registration, title issues, title transfers, lien payments, license renewals, and conducting drivers' examinations.
2. Granting existing state motor vehicle service facilities the authority to improve services and efficiency such that they can compete with the private contractors and can be rewarded for doing so.
3. Collecting performance metrics for all public and private motor vehicle service providers, including audits of the correct issuance of documents, and conditioning funding on the basis of these performance metrics.

Through these measures, we can begin to transform this most conspicuously inept part of the state into a model of customer service. Introducing accountability, incentive structures, and freedom with how services are provided will allow the state to compete with the private sector. Collecting performance metrics will allow the state to accurately assess its motor vehicle facilities. And creating competition between both private contractors and state facilities will ensure services are provided more efficiently, more cost-effectively, and more quickly. Such reforms can also set a precedent for numerous other state services, blazing a new path for reforming large parts of antiquated state bureaucracies.

¹ Kristen, Rincon. "Why some states have longer wait times at the DMV." (Avg. Wait Time Stat.)

² Estimate of annual DMV visits extrapolated from [New Jersey Office of Management & Budget and Department of Transportation Statistics](#) accounting for changes in population.

³ Estimated 15 minutes of additional pre-wait time, i.e. the wait time prior to receiving an official service ticket, from [California wait time data](#).

⁴ Kristen, Rincon. Ibid.

EXISTING MODELS OF PUBLIC SECTOR REFORM

By applying incentives and competition to the public sector, we can encourage the innovation and create the accountability which makes the private sector thrive. As demonstrated in the cases of successful state administrative reform, there are four essential elements: clear performance benchmarks, financially rewarding superior performance, giving managers more flexibility in running their departments or branches, and the digitization of services when applicable.

Many cases have demonstrated that the public sector can successfully compete with the private sector if given the opportunity and corrective incentives. In Indianapolis during the 1990s, the city's mayor systematically reformed municipal services despite strong public sector unions.⁵ If private providers existed for a service, these firms would offer city officials a benchmark against which to measure public sector performance. They then created a financial incentive for both civil servants and management to improve their performance through shared savings: paying back a percentage of the money saved through these reforms to the employees responsible for them. After including garbage collection in these reforms, tonnage collection per employee went up 20%, customer complaints went down 75%, and high performing employees received a savings sharing payment of \$1,750. These savings and improvements were not unusual for the reformed public sector and, in a majority of cases, state agencies outperformed the private sector benchmarks.⁶

⁵ Eli Lehrer & Skip Stitt. "Rethinking Public-Service Unions"
⁶ Ibid.

The state of Indiana also showed how incentives and performance benchmarks could specifically improve motor vehicle services. Beginning in 2006, the state increased the autonomy of managers in providing DMV services (there known as the Bureau of Motor Vehicles, or BMV) and paid bonuses to those managers that successfully reduced wait times, resulting in an 80% reduction in average wait—from 40 minutes to only 8. Customer satisfaction also more than doubled, with over 98% satisfied with their experience.⁷

Greater executive autonomy can be achieved through exempting motor vehicle workers from pay-rate restrictions, state employee classification, and other civil service laws. Eliminating pay rate restrictions would allow managers to attract highly skilled labor that would otherwise work in the private sector. The federal government has regularly exempted specialized financial agencies—most notably the Export-Import Bank—from civil service salary laws as they must compete for labor against high-paying financial service firms.⁸ The need for similarly specialized labor with motor vehicle services is evidenced in Indiana motor vehicle reforms. The governor there brought in new executives to both manage customer relations and individual branches, and gave them more authority to do so, as well as to reward subordinates.⁹

Another option for improving public performance is agency franchising. Agency franchising is the fee-based provision of a government administrative service by another state agency.¹⁰ If done properly, it is

⁷ Office of the Governor, Indiana State Government. "PERFORMANCE REPORT, July - December 2007."

⁸ Congressional Research Service. "Privatizing and the Federal Government: An Introduction."

⁹ Sagamore Institute. "BMV Reform."

¹⁰ Congressional Research Service. "Privatizing and the Federal Government: An Introduction."

mutually beneficial with the outsourcing agency reducing their operating costs and the “insourcing” agency bringing in additional revenue for a service they are comparatively efficient at providing. This is already regularly done at a Federal level following the 1994 Government Management Reform Act which permitted experimentation with franchising.¹¹ It is particularly useful with services common across agencies such as human resources, accounting, and internet technology services. For example, since 1973, the Department of Agriculture’s National Finance Center has provided payroll services for agencies as diverse as the Library of Congress and the Federal Deposit Insurance Corporation (FDIC), since they save money by such franchising.¹²

The final aspect of state DMV reform is in incentivizing online services to both alleviate the burden on existing motor vehicle service facilities and improve overall customer service. During Indiana’s BMV reform, the rewards for efficiency incentivized managers to push more services online, particularly those that increased the efficiency of their branch such as the digital pre-filing of forms.¹³ While in the late 2000s, nearly all services were provided in person, now more than 70% of services are digital.¹⁴ Presently, only 10 states allow applicants to pre-file applications online and a sizable minority still do not allow simple services such as license renewals to be provided digitally.¹⁵ With more managerial discretion and with reasonable incentives, the vast majority of DMV services can be provided digitally.

¹¹ Ibid.

¹² USDA National Finance Center, “Leader in Strategic Human Resources Management Services.”

¹³ Sagamore Institute. “BMV Reform.”

¹⁴ Innovation for Successful Societies, Princeton University. “A NEW APPROACH TO MANAGING AT THE CENTER OF GOVERNMENT: GOVERNOR MITCH DANIELS AND INDIANA, 2005–2012”

¹⁵ DocuSign. “Building a More Agreeable Government.”

EXISTING MODELS OF DMV COMPETITION

Using private third-parties to provide DMV services is both common and popular. 65% of Americans are open to third-parties providing some DMV services; 80% in those states with the longest wait times.¹⁶ Two states, Oklahoma and Arizona, already allow third-parties to perform almost all DMV functions.

In Oklahoma, most motor vehicle services are provided through their “tag agency” system. No single Department of Motor Vehicles exists in the state, but services are instead divided between the *Department of Public Safety*, which licenses new drivers, and the *Tax Commission’s Motor Vehicle Division*, which handles vehicle registration, title issues, title transfers, lien payments, and license renewals. The tag agencies are state-subsidized private businesses which provide all services on behalf of the Tax Commission’s Motor Vehicle Division.¹⁷ The tag agencies are independently operated, liable for their own expenses, and generate revenue through keeping a percentage of the fees they collect in addition to a small subsidy for certain office expenses.¹⁸ The Tax Commission will periodically open applications for new tag agencies when deemed necessary by the volume of business in a certain county. The law forbids individuals to own more than one tag agency, and there are currently 283 across the state.¹⁹

The Arizona Third Party (ATP) system also allows for extensive private-sector involvement in the DMV.

While the state’s *Motor Vehicle Division* still provides

¹⁶ Kristen, Rincon. Ibid.

¹⁷ Raymond, Jeff. “As State Government Goes More Digital, Tag Agencies Endure.”

¹⁸ Denwalt, Dale. “Want to run your own tag agency? Now’s your chance.”

¹⁹ Ibid.

all the services one would expect, the state-licensed ATPs are permitted to do so as well.²⁰ Notably, some ATPs are allowed to conduct driver field testing—unusual even among those states which have experimented with third party providers. ATPs developed out of earlier experiments with some DMV services and were expanded in 2014 to include all state offered services.²¹ Like Oklahoma’s tag agencies, ATPs are independently operated, liable for their own expenses, and generate revenue through keeping a percentage of the fees they collect; however, they receive no subsidies from the state and are allowed to charge supplementary “convenience charges” on top of the standard government price for the service. This freedom to charge has created price competition with ATPs regularly offering different services at different rates—some specializing in discount services, some in additional fees for priority treatment, etc. Applications to start an ATP are continually open and contingent upon applicants demonstrating that they will be able to provide appropriate facilities and capital.²² At last count, there were 106 ATPs across the state which provide paperwork services—with 46 providing all services including driver testing.²³

Third party providers have allowed states to conduct motor vehicle services more efficiently, in more locations, and at a lower cost to the state. In fiscal year 2020, Oklahoma allocated \$31.5 million on motor vehicle services or \$7.95 per resident. This is 71.60% less than the average per resident spending in similarly sized states with state monopolies over motor vehicle services, saving the state an estimated \$110.9 million

annually.²⁴ In Arizona, \$101.47 million was allocated for motor vehicle services or \$13.94 per resident. This is the second-lowest per resident spending of any state surveyed and only greater than in Oklahoma. These savings are neither a statistical anomaly nor unusual for private provision. When compared against the average per resident spending on motor vehicle services in California, Texas, Florida, and New York, Oklahoma spends 68.17% less per resident, and Arizona spends 44.20% less than in the largest states. (Appendix A)

Further, third party providers have ensured motor vehicle services are offered in more locations with shorter waits. Oklahoma’s 283 tag agencies and Arizona’s 155 motor vehicle facilities (106 private, 49 state-operated) are unparalleled, surpassing both the gross number of facilities in almost every state, in addition to representing the highest per capita motor vehicle facilities of any state surveyed. While not all motor vehicle offices are built equally in terms of capacity, more locations will always be more convenient for the consumer. In Oregon and Connecticut, the two states closest in population to Oklahoma, there are only 60 and 34 locations, or 14.25 and 9.52 facilities per million persons, respectively, where the services equivalent to a tag agency can be performed. In Washington and Massachusetts, the two states closest in population to Arizona, there are only 52 and 65 such locations, or 6.83 and 9.43 facilities per million persons, respectively. Even in the four largest states, California, Texas, Florida, and New York, which would presumably have the most such facilities, there are only 167, 222, 67, and 144 such locations, or 4.22, 7.66, 3.12, and 7.40 per million persons, respectively. As a direct result of competitive

²⁰ Arizona Motor Vehicle Division. “MVD Third Party Providers.”

²¹ Giblon, Paul. “ADOT expands privatization of driver's licenses.”

²² Arizona Department of Transportation “Formal Application Process for Authorized Third Party Services.”

²³ All figures concerning the number of state motor vehicle service providers in this piece are taken directly from the official state website for their respective Department of Motor Vehicles.

²⁴ The similarly sized states in question are the two closest in population to Oklahoma, Connecticut and Oregon.

provision of DMV services, Oklahoma and Arizona can respectively offer 816.15% and 172.95% more facilities per capita than the average—7.80 facilities per million persons—of the non-privatized states we surveyed. (Appendix A)

The superior efficiency of these facilities can be seen in their shorter wait times when compared against the national average. While neither Oklahoma nor Arizona tracks this information officially, the evidence available suggests both states are significantly below our estimated national average of 59 minutes—44 minutes official and an estimated 15 minutes of “pre wait” time before receiving a service ticket.²⁵ During the conversion to Real-ID in Oklahoma, papers reported on tag dysfunction with wait times of 25 to 30 minutes as a result of the new standard. The newsworthiness of this story is contingent upon 25 minutes, less than half the national average, being an *unusually long* wait time for the agencies. In Arizona, the mere existence of convenience fees speaks to the superior efficiency of private facilities to the state-operated Motor Vehicle Division.²⁶ No consumer would pay more for a less efficient or less convenient service.

These states also demonstrate that using third-parties does not present a threat to public safety or to the security of official documents. Arizona, unlike even most states with private providers, allows third-party driver testing for the issuance of new drivers’ licenses, and it does not show any significant differences with crashes or fatalities relative to other states.²⁷ The other

²⁵ Estimated 15 minutes of additional pre-wait time, i.e. the wait time prior to receiving an official service ticket, from [California wait time data](#).

²⁶ Arizona Motor Vehicle Division. “Third Party Fee Board.”

²⁷ Insurance Institute for Highway Safety. “Fatality Facts 2018.” Once disparities in number of drivers and average miles driven are controlled for, Arizona safety statistics are comparable or even superior to other states in its region.

states that allow third-party providers also show no significant difference in public safety. These states also audit both private and public providers to ensure that all documents are correctly issued, and there has been no evidence of faulty issuance or fraudulent documents in those states.

These findings from Oklahoma and Arizona are consistent with the general trends for the competitive provision of state services. As a result of increased competition, there is an incentive to purchase more productive equipment, implement superior management techniques and incentive pay structures, and more accurately employ labor from making greater use of part-time employees to scheduling more work for off-peak hours, which results in savings and increased efficiency of on average 20-50%.^{28, 29}

OUR PROPOSALS

We encourage more states to adopt third party competing providers of motor vehicle services in the model of Arizona in conjunction with state administrative reform to increase competition among both public and private providers.

Despite the greater savings and locations of Oklahoma, Arizona’s model is superior as it is more competitive including all motor vehicle services, no subsidy for state providers, freedom over pricing, and is continually open to new applicants. It is also more politically realistic as it does not involve the elimination of thousands of—possibly unionized—civil service positions. Further, some of Oklahoma’s additional success can be attributed to the

²⁸ General Accounting Office. “PRIVATIZATION: Lessons Learned by State and Local Governments.”

²⁹ Hilke, John. “COST SAVINGS FROM PRIVATIZATION: A Compilation of Study Findings.”

late stage of third party provision in the state, which given time Arizona will begin to more closely mirror.

State administrative reform complements third party provision as it also increases competition in the public sector. If done properly, the state can be fully competitive with private firms, capitalizing on its comparative advantage at providing repetitive, labor-intensive services it already has substantial experience providing. Such competition creates savings for the state and superior outcomes for consumers. Previous reforms show that when properly incentivized and empowered to improve services, public providers can successfully compete against private firms.

Through this combination of public and private providers and state administrative reform, we can demonstrate the ways in which transparency, accountability, and competition can make the state itself more efficient and more effective. As such, we propose all states should:

- I. Allow private contractors to concurrently provide all state motor vehicle services. There should be two tiers of contractors: the first allowed exclusively to provide “paperwork” services including but not limited to title issues on vehicles and mobile homes, title transfers, lien filing, vehicle registration, registration renewal, license plate replacement, vehicle inspections, license renewals, and the issuance of non-driver identification, while excluding the written or road testing of drivers; the second allowed to provide all motor vehicle services.

- A. To qualify for the first tier, the private contractor must demonstrate they have an appropriate facility, sufficient capital for training employees, intended pricing, and intended floor plan.
 - B. To qualify for the second tier, the private contract must have provided the first tier of services for a period of at least three years and be in good standing with the state. Private contractors on both tiers should be subject to cancellation if audits indicate that they are incorrectly issuing documents at a higher rate than public providers.
 - C. Applications for both tiers of service should be continually reviewed and granted to anyone who meets the eligibility requirements.
 - D. The existing state training to provide motor vehicle services should be made open to any without a criminal-history for a fee.
 - E. The private contractor should be given the freedom to innovate with the specific way these services are provided. The state should allow digitization of any service that possibly can be digitized, such as title issuance, title transfers, vehicle registration and renewal, license renewal, and lien payments.
- II. Mandate these private contractors pay to the state the estimated cost of the state proportion of the motor vehicle services issuance,

generally about 3/4s of the final state fee charged to customers.³⁰

III. Permit these private contractors to charge any amount in addition to three-fourths of the standard fee for each transaction they process and be permitted to keep all of the revenue generated from these additional fees.

IV. For both public and private systems, the state should be obligated to collect and calculate the wait time for different services and customer satisfaction as measured by net promoter scores, as well as audit each to ensure that they are issuing documents correctly.³¹

A. The state shall then calculate the *public provider differential* for each public service provider defined as the percentage difference between the public service provider and the private with regards to both 1. Wait times, and 2. Net Promoter Score.

V. Provide awards to public DMV management based on the percentage of their public provider differential. I.E. a 10% Net Promoter Score and 10% reduced wait time across services over the private service will result in a 20% bonus.

A. Public DMV management should be exempted from state employee

classification and civil service pay rate restrictions such that they may receive these bonuses.

VI. Funding for each DMV branch provider will be based on fees charged. The charges set should be enough to cover costs of the state proportion of the fees (generally about 3/4s of the final customer fee) and to cover reasonable costs of the DMV branches. The state shall conduct a study to discover the reasonable costs of service for both the state and the branches. If any DMV revenue is currently returned to the general fund, that same amount shall be incorporated in the fees.

VII. Public DMV employees should be exempted from state employee classifications and civil service pay rate restrictions such that they may receive bonuses

VIII. Public DMV management should be empowered to study existing administrative procedures with a mandate of improving efficiency and submit those recommendations to the state motor vehicle agency for consideration.

IX. Public DMV management should be allowed to outsource services they are presently obligated to provide to other state agencies or DMV offices if doing so would reduce the costs of providing services for the outsourcing agency.

A. All state agencies should be empowered to accept such requests if they are capable of profitably providing the service at the rate offered by the outsourcing agency

³⁰ This three-fourths figure is in line with the general percentage of revenue passed back to the state from each transaction in both Arizona and Oklahoma. Structuring fee sharing this way will ensure the state does not lose revenue while maximizing price competition, both above and below the state standard fee, among private service providers.

³¹ Net promoter score will be collected by having customers, at the end of their transaction, answer the question "How likely is it that you would recommend our company/product/service to a friend or colleague?" on a scale from 0-10. Those who give a score of less than 7 count as detractors, 7 or 8 as passives, and 9 or 10 as promoters. The net promoter score is equivalent to the percentage of promoters minus the percentage of detractors. Net promoter scores are expressed without the percentage sign.

- X. Public DMV Management should be empowered to respond responsively to customer demand moving employees between stations or hiring temporary and part-time labor as is needed.
 - A. Part-time and temporary DMV labor should be exempted from the normal civil service hiring or pay-rate restrictions.
- XI. Online DMV services should be provided by a specialized branch of the relevant state motor vehicle agency that is subject to the same incentive structure provided above, however, wait times are not included in the public provider differential.

CONCLUSION

Introducing competition would ensure motor vehicle services are provided cheaply and efficiently. While the cost of the existing inefficiency may seem minor to many of us, a wasted day every other year, it is anything but, costing billions of dollars annually in both state spending and lost hours of productivity. Adopting our proposals would begin to reform this system, tangibly benefiting constituent’s lives, and paying dividends for any and all who attempt them. In doing so, it would also demonstrate how the state government itself can be reformed through introducing accountability and competition and create more efficient services across the board.

APPENDIX A

	Spending on Motor Vehicle Services* in Millions of Dollars (FY 2020)	Per Capita Spending on Motor Vehicle Services**	Per Million Capita Motor Vehicle Service Facilities
Oklahoma	31.50	\$7.95	71.46
Arizona	101.47	\$13.94	21.29
Louisiana	68.06	\$13.99	N/A
California	1,382.00	\$34.97	4.22
Texas	641.10	\$22.11	7.66
Florida	504.90	\$22.45	3.12
New York	395.90	\$20.35	7.40
Connecticut	65.37	\$18.36	9.52
Oregon	243.00	\$57.48	14.25
Washington	N/A	N/A	6.83
Massachusetts	N/A	N/A	9.43

* For states with multiple agencies which provide motor vehicle services (Oklahoma and Texas) the figures in this column reflect the total of all agencies
 ** Based on July 1st, 2019, Census Bureau Estimates

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