

## Revised Portal Financial Model

**Objectives** – Revise the transaction fee model based on an assumed baseline volume of 1,955,000 driver records. Provide a minimum transaction fee based on the increased volume. Provide options for revenue sharing with DMV.

Portal Budgetary Costs: As stated in the business plan, Year 1 portal costs could be as high as \$1,900,000. This is the cost basis of the funding models presented herein.

DMV Records Accessed Electronically: Data provided by the Governor's office indicates that in 2003 a total of 1,955,000 driver license records (DLRs) was accessed electronically by customers of DMV. Therefore this is the baseline upon which the pricing scenarios are based. The accuracy of this volume number determines the accuracy of the revenue forecasts presented below.

Growth in Demand: The revenue sharing scenarios assume a 1<sup>st</sup> year growth of 10% in demand for DLRs. This estimate is based on our experience in other states, and depends on the portal launching other DMV applications, such as interactive DLR services, that increase demand. For the models below, we feel 10% is a reasonable assumption for the purpose of illustration.

### Baseline Funding for Portal

**Baseline (minimum) Funding:** Using the DLR volume of 1,955,000 records, we calculated a new baseline transaction fee of \$1.25. The fee of \$1.25 will provide approximately the same revenue to the portal as the originally proposed \$1.50 fee and assumed DLR volume of 1,600,000 driver license records accessed.

The baseline transaction fee of \$1.25, assuming no growth in revenue and no revenue sharing with DMV, is the minimum needed to ensure the financial viability of the portal and allow us to accomplish the objectives in the business plan.

At a transaction fee of \$1.25, the portal's operating margin will be 15% in the first year assuming 11 months of revenue but will drop to only 7% if 10 months of revenue are received. Those margins are much lower than the typical margins of 40% or more that mature portals usually generate and are significantly less than the margins that are standard in the government software development industry. This puts a strong incentive on SCI to achieve our margin target through the development of the online services identified in the business plan, not through a sole reliance on providing access to DLRs.

| 1st year budget = \$1,900,000; 11 months of DMV revenue | Baseline Year 1                    |
|---|------------------------------------|
|   | No Demand Growth, No Revenue Share |
| Price per DLR   | \$1.25                             |
| Estimated DLRs Accessed (11 months)                     | 1,792,083                          |
| Estimated Transaction Fee Revenue                       | \$2,240,104                        |
| Estimated SCI Interactive Portal Revenue                | \$2,240,104                        |
| Estimated Revenue Share to DMV                          | 0                                  |

## Revenue-Sharing Scenarios

We cannot guarantee that demand for DLRs will increase during the first year of the South Carolina portal. However, demand for DLRs has always increased during the first year of portal operations in other NIC states. We provide scenarios below that, for the purposes of illustration, assume a 10% growth in demand and allow DMV to share in the incremental revenue that will be generated if the transaction fee were set at \$1.35 or \$1.50 per record.

**Revenue Sharing Scenario 1:** \$1.35 per record; assumes 10% growth in demand, and a DMV revenue share of \$.075 per record. DMV would receive an estimated \$147,847 in revenue share in Year 1 if the demand assumptions hold.

**Revenue Sharing Scenario 2:** \$1.50 per record; assumes 10% growth in demand, and a DMV revenue share of \$.20 per record. DMV would receive an estimated \$394,000 in revenue share in Year 1 if the demand assumptions hold.

|  | Revenue Sharing<br>Scenario 1  | Revenue Sharing<br>Scenario 2  |
|--|--|--|
|  | Year 1   | Year 1   |
| <b>1st year budget = \$1,900,000; 11 months of DMV revenue</b> | 10% Demand Growth;<br>\$1.35 per record; DMV<br>Revenue Share = \$.075<br>per record; Portal Share<br>= \$1.275 per record | 10% Demand Growth;<br>\$1.50 per record; DMV<br>Revenue Share = \$.20<br>per record; Portal Share<br>= \$1.30 per record |
| Price per DLR  | \$1.35   | \$1.50   |
| Estimated DLRs Accessed (11 months)                            | 1,971,292  | 1,971,292  |
| Estimated Transaction Fee Revenue                              | \$2,661,244  | \$2,956,938  |
| Estimated SCI Interactive Portal Revenue                       | \$2,513,397  | \$2,562,679  |
| Estimated Revenue Share to DMV                                 | \$147,847  | \$394,258  |

Note: SCI Interactive Portal Revenue increases in these scenarios because the DMV revenue share increases. While most of the increase above the \$1.25 goes to the DMV revenue share, a small amount must be added to portal revenue in the two scenarios in order to maintain a constant portal operating margin in all three scenarios. Because of the 10% growth and the higher transaction fees, the operating margin in these revenue sharing scenarios is estimated to be approximately 23%, still much lower than typical for mature portals and in the industry as a whole. It should be noted, however, that if there is no growth these revenue sharing scenarios will provide comparable margins to the baseline funding requirement discussed above.

## Recommendations

The lowest transaction fee needed to keep the portal financially viable is \$1.25 per record at an assumed annual volume of 1,955,000 DLRs. However, DMV can participate in the revenue stream of the portal on a per transaction basis if the transaction fee is set above \$1.25 and up to \$1.50. We do not feel that there will be any observed price elasticity that will affect demand for DLRs if the fee were set from \$1.25 to \$1.50 per record. At the \$1.50 level, the projected revenue share to DMV would be \$394,000 in Year 1. The \$1.50 level would also provide sufficient operating income to allow for future growth of the portal to meet the needs of South Carolina and ensure a reasonable return to NIC.