From: Chad Walldorf <walldorf@gov.sc.gov>
To: Marcia.Adams@SCDMV.netMarcia.Adams@SCDMV.net
Date: 10/20/2004 5:39:25 PM
Subject: Re: MVR Revenue

I agree with your thoughts as well. I'm guessing you heard that they put off the meeting until Friday at 11 to try and address the concerns that came up at your meeting...so we'll see in a few days where they are. Thanks for the info - this will be very helpful.

CW

>>> <Marcia.Adams@SCDMV.net> 10/20/2004 4:42:11 PM >>>
Marisa, Chad, and Marshall,

The total number of driver records sold online last year is 1,954,737. If NIC charges $1.50 each, the total revenue generated is $2,932,106 annually.

In the executive summary, NIC states that revenues will only be generated for an 11-month period during the first year because they have to build the MVR transaction. (By the way, DMV already has built, tested, and placed into production an online MVR transaction over a year ago.) If this is true, the total revenue will be $2,687,764. The expenses as stated in the summary are estimated at $1,900,149, leaving $787,615 as profit. This represents a 29% operating margin. NIC states that their projected operating margin of 13.6% is "much lower than than the typical margins that mature portals usually generate". I don't know how 29% compares, but the key word is "mature portal". A portal under development is not a "mature portal" by anyone's definition, and I don't think that the margin for a "mature portal" is a valid comparison. Where is the risk for NIC?

To take this a step further, NIC says in the executive summary that "demand for DLRs has always increased during the first year of portal operations in other NIC states despite the addition of the portal transaction fee". NIC goes on to say that "the average amount of the increase during the first year was 20% and never less than 10%". If this is true, let's assume that our increase is minimal, maybe 11%. The total driver records sold would be 2,169,758 and the revenue based on 11 months would be $2,983,417. Using expenses of $1,900,149, the profit would be $1,083,268, representing a 36% operating margin. Based on our discussions with NIC and the CIO, the contract provides that all revenue generated goes directly to NIC's subsidiary, SC Interactive, and the state only gets 1% back.

As you can see, this is not a "revenue sharing" proposal. There is no

condition in which the State can share in revenue above a certain
operating
margin. NIC says that they assume the risk, but they are really
guaranteed
a payback in the first year. Also, I asked NIC if the MVR transaction
fee
would ever be decreased. The answer was no, and depending on the level
of
transactions requested by the State, the fee could be increased. The
above
illustration is just for the first year. Imagine the operating margins
in
future years if the portal is as successful as NIC says that it can
be.

The contract is not a good deal for the State. The portal is a good
idea. A
self-funded portal is a wonderful idea. However, with this contract,
the
State is giving up the rights to its asset, the information that we
collect,
and not getting fair compensation in return. Is there any way that
the
State can negotiate a more reasonable self-funded model for the
portal?

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