

Minnesota Scrap Metal and Auto Recycling

Data Collection and Management Initiative
Report to the Legislature – August 18, 2014

INTRODUCTION

Chapter 126 of Minnesota Laws, 2013, requires the Minneapolis Police Department (MPD) to submit a report that addresses the following issues and goals regarding the regulation of scrap metal recycling in the state. This report is directed to the chairs and ranking minority members of the Senate and House of Representatives committees and to those divisions having jurisdiction over commerce and criminal justice policy and funding.

1. Minimizing financial and administrative burdens created by this act on the regulated industries;
2. Developing a user-friendly system that allows one data entry point to update multiple reporting systems;
3. Implementing database management and control protocols, data security protocols, record retention guidelines and procedures, and audit procedures
4. Controlling and minimizing system costs and developing cost allocation guidelines;
5. Identifying outstanding concerns of any member of the group;
6. Proposing legislation supported by the group; and
7. Addressing any other issues identified by the group, including any minority or dissenting opinions.

Chapter 126 of Minnesota Laws, 2013, requires the regulated metal recycling industries to use the “Automated Property System” (initially developed for use by the state’s pawn industry) to report all transactions in order that law enforcement may effectively investigate stolen property. APS is currently tailored for the pawn, used, and secondhand merchandise markets.

In order to develop an APS-based system tailor-made for the scrap metal recycling industries, the MPD convened a planning team that includes law enforcement, prosecutors, public safety, legislators, and representatives from each regulated industry. The following summarizes the progress made by these stakeholders in developing this system.

1. Minimizing financial and administrative burdens created by this act on the regulated industries

The act specifically identifies the Automated Property System (APS) interchange file specification format as the system to be used for regulated industries reporting, as required by the act. The current APS is not set up to receive the specific data that scrap metal recycling business provides. The infrastructure of the system exists, but the tailor-made interface still needs to be developed.

Building the new tailor-made user interface upon the existing foundation of APS is a significant cost savings in the act. Developers estimate that to build a system completely from scratch, rather than build upon the existing APS system, would likely triple the project cost, and therefore the costs to business owners and customers.

A large goal of the planning group and the software design team will be to provide businesses that don’t already have an inventory or point-of-sale system a means of tracking their transactions through

this new software. Also, the new APS software will help businesses comply with multiple reporting systems. One report thru APS will also report to the State BCA system.

2. Developing a user-friendly system that allows one data entry point to update multiple reporting systems

The group identified various data collection practices in use and the extent to which dealers are not currently using any data collection software. A large number of dealers are not currently using any software to collect data or track sales. This new reporting software can help them with both of these needs. The developers will be working with industry representatives to examine several questions in creating the new AP software: What benefits would you like to see included in new “data capture” software? What features would you find useful in the new record-keeping system – e.g., price entry and calculation options? Ability to export data to business reports? Are you better equipped to implement a web-based or client-based software system? Are you currently receiving “crime alerts”? From whom?

For industry operations that currently employ a point-of-sale data collection and management software system, APS designers are reviewing the types of software in use and how best to interface these with the new APS (interface file specification format). The goal in this interface is to make data transfer as seamless and user-friendly as possible.

The group also worked together to identify “categories” of scrap metals and the sub-terms that are included per each (via drop-down menu selection) to incorporate in the new APS. Representatives from the scrap industry shared existing spreadsheets of metals categories they currently use and worked to identify commonalities among them. These commonalities will be used as the foundation for the new software, and relevant universal categories identified through this process will be used in the new program. Industry representatives also met to determine sub-terms to be assigned under these larger categories. Articulating and defining the categories and sub-terms is important to help law enforcement better learn the industry terms, since none of the industry terms line up with terms for stolen items, e.g., air conditioner, catalytic converter. Most stolen metals are broken down before bringing to scrap metal dealers and are not recognizable as what was stolen.

APS administrators and an APS design consultant met at a metro area metal recycler for a tour and to experience their data collection/management practices. APS and regulated industry leaders looked into Texas systems regarding categories, and fee structures for creative ideas to set up the system and keep costs down.

3. Implementing database management and control protocols, data security protocols, record retention guidelines and procedures, and audit procedures

It is recommended that the legislature examine the data classification of the identity of sellers and information regarding the business transaction between the buyer and seller. Current law states that the data describing the property in a regulated transaction with a licensed pawnbroker, secondhand goods dealer, or a scrap metal dealer are public. Such data might be considered by the recycling industry as business information of a proprietary nature. Competing businesses should not be permitted to collect business information on each other. Group members examined laws governing scrap and recycling reporting in other states and found language that might be helpful in updating the Minnesota statute to ensure proprietary trade information is not publically available.

APS has been in effect since 1997 and has had strong protocol management and administrative oversight since its implementation. The APS database is a current version of Microsoft SQL Server platform and all security measures available within this platform (for managing data access, users, groups and auditing) have been implemented for APS. The data retention cycle has been a 7-year cycle based on the current state guidelines and procedures. All network traffic between the client and APS uses encrypted protocol where it is necessary, and uses the state CJDN network when communicating with the BCA. The physical hardware is located with the State of Minnesota infrastructure and MN.IT assists the APS team in maintaining the physical security and access to the APS infrastructure.

4. Controlling and minimizing system cost and developing cost allocation guidelines

Extensive time was devoted to pursuing ways to keep the cost of developing, implementing and managing the new APS system low. Building the system from the existing APS base will be a significant cost-saver, estimated to cost one-third the cost of a from-scratch build-out. In addition, the APS system is known to law enforcement, being used in 80 of 87 counties in Minnesota, thus reducing any cost associated with re-training law enforcement on a new system.

In an attempt to ensure costs are evenly and fairly distributed throughout the regulated industries, extensive time and effort was spent trying to identify all licensed scrap metal and auto recycling dealers in the state, and also estimating the number of transactions that occur in Minnesota each year. Some dealers are not even licensed by the state; they have a city-issued certificate, as they do not recycle autos. Many are “hidden” buyers/recyclers who are not licensed by any entity. This posed a challenge in developing a formula through which to determine the per transaction cost that would be charged to support the development and ongoing maintenance of the system.

One strategy was to have the Minnesota Sheriffs Association ask their members to reach out to known dealers in their areas and identify all scrap metal dealers, including unlicensed ones. More work needs to be done on identifying all dealers to ensure compliance with the law. One solution could be to require all scrap dealers to be licensed by – or at least registered with – the state.

5. Identifying outstanding concerns of any member of the group

- Concern was raised regarding the confidentiality of sellers’ identities, business transactions. Legislation is recommended to ensure proprietary information remain with law enforcement and is not accessible by competing business.
- Ensure all dealers are complying with the law and using the system. This would more equitably distribute the per transaction fee to recover the new APS development cost AND ensure that all operators are known to law enforcement.
- How do we include other large, non-licensed dealers, e.g., Best Buy, Sears, Costco? These dealers conduct a lot of scrap recycling and are not included in the legislative mandate.
- Need to clarify to sellers what data is collected and with whom is it shared.
- Cost to implement for those who don’t have, and are disinclined to adopt, electronic data systems.
- Some areas of the state do not have fast or reliable internet service. If the new system is going to be web-based, how can this be done in these areas? Can we offer a client-based software option, for daily uploads?

- There will be a need to develop tutorials for dealers/users, as well as for law enforcement re: which of the metal categories would represent the most commonly stolen items. The State Department of Public Safety might be a good avenue to examine these trainings.
- There should be more aggressive investigation and prosecution of metal theft, accompanied by higher consequences. Industry leaders see bad actors re-appear at area scrap metal recyclers days after arrest.
- There should be a review of the 2007 scrap metal legislation and its implementation. We need to make sure all scrappers are participating (many currently are not), and provide education for law enforcement agencies and prosecutors across the state about the legislation and mandate.
- There needs to be improved/better coordinated “crime alerts” for metal theft. Better determination of the sources, and who is receiving them.
- Currently, compliance for small dealers would be impossible for a variety of reasons, including hardware investments, coding issues and education. More work needs to be done in finding ways for smaller dealers who currently do not use technology to comply.
- Capital investment costs for smaller dealers who do not currently use computers or the internet need to be identified. This is likely to be a barrier to compliance for smaller and medium-sized dealers.
- While the issue of materials coding is taking shape, both law enforcement and industry will need to spend more time on ensuring the system is coded in a manner that is useful for all parties.

6. Proposing legislation supported by the group

A fee schedule for the development, implementation and ongoing maintenance of the APS system for scrap metal recyclers must be passed by the 2014 legislature, as according to the 2013 legislation. Extensive research was done by the stakeholder team to determine how many dealers are in Minnesota, identify those dealers, and inquire how many transactions they do annually in order to be able to extrapolate an overall number of transactions occurring each year, as the basis for the per-transaction fee calculation.

The per transaction fee of 0.72 cents, spread over four years was determined to be sufficient for the estimated development cost of \$1.29 million plus the annual costs of City of Minneapolis resources and externally sourced IT service and maintenance to support the new system (\$607,930/yr). After the first four years, the City of Minneapolis should be required in legislation to adjust the fee schedule to reflect only the ongoing maintenance costs. The City of Minneapolis should also be required to allow the State Auditor to examine the finances of the APS system once per year. And the City of Minneapolis should be required to report on the status of the system build out, and the fee schedule every two years through the build-out, and every four years thereafter.

Also, the group recommends some form of legislation to address the data practices issues, and an amendment to the statute that currently finds this data to be public. While the City of Minneapolis does not release this information, as it currently considers it private, to ensure consistency, this statute should be amended to ensure no propriety or business information is shared with competing business.

7. Addressing any other issues identified by the group, including any minority or dissenting opinions

On February 21, 2014 the scrap industry introduced information about another software company that is developing a data capture/management product for similar purposes in Michigan, which they

anticipate will be implemented by October of this year. Upon further inquiry, the task force agreed to evaluate this software system and alert the chief legislative authors by June 1 if there is a recommendation to change course (re: APS).

The task force proposes a Memorandum of Understanding with the authors of the bill to include the following:

I. The proposed timeline for investigating another software alternative:

- By March 28 – Share with the other software company specific information about Minnesota legislation and issues identified by stakeholders (per section #5, above) so they can prepare a proposal for the task force. This list of issues will be shared with APS at the same time, as both systems will need to provide a response per item for review by the task force.
- By mid-April– Task force reviews software product presentations. In addition to addressing concerns (per above), presentations should include cost to develop, implement, train, and maintain data capture software.
- By the end of April-- Task force will request any additional information needed regarding software development/implementation.
- By mid-May– Software companies will respond to follow up questions.
- By end of May– The task force will complete its evaluation and submit its recommendations to appropriate legislators.

II. Additional issues:

- Timeframe for implementing [APS] has been requested to move out to June 1, 2015.
- Recommended amendments to the bill include:
 - a registration requirement for all dealers who are required to participate in the program;
 - identified penalties for non-compliance to support enforcement; and
 - a statement to the effect that the mandated fee per transaction “must be identified in writing and passed on to the customer.”