

# SENATE BILL REPORT

## EHB 2894

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As Passed Senate, March 5, 1998

**Title:** An act relating to the reallocation of motor vehicle excise tax and general fund resources for the purpose of providing transportation funding, local criminal justice funding, and tax reduction.

**Brief Description:** Reallocating motor vehicle excise tax and general fund resources for the purpose of transportation and local criminal justice funding and tax reduction.

**Sponsors:** Representatives Huff, K. Schmidt, Robertson, Lisk, Carrell, Mastin, Sehlin, Dyer, Mitchell, Pennington, Talcott, Lambert, Buck, D. Schmidt, L. Thomas, Benson, Clements, Skinner, Ballasiotes, Delvin, Parlette, Cooke, Hickel, B. Thomas, Johnson, DeBolt, Hankins, Cairnes, Crouse, Wensman, Mielke, Sherstad, Honeyford, McCune, Koster, Dunn, McDonald, Reams, Sheahan, Sterk, Schoesler, D. Sommers, Bush, Chandler, McMorris, Boldt, Backlund, Mulliken, Van Luven, Radcliff, Alexander, Zellinsky and Thompson.

**Brief History:**

**Committee Activity:** Ways & Means: 2/2/98, 2/3/98 [DP, DNP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Hochstatter, Long, McDonald, Roach, Rossi, Schow, Swecker and Zarelli.

**Minority Report:** Do not pass.

Signed by Senators Brown, Fraser, Kohl, Loveland, B. Sheldon, Snyder, Spanel and Thibaudeau.

**Staff:** Terry Wilson (786-7433); David Schumacher (786-4747)

**Background:** The state imposes an excise tax for the privilege of using a motor vehicle on the highways of the state. The tax is levied annually on the value of the vehicle. For all trucks over 6,000 pounds, the value is determined by the sales price. For all other vehicles, the value is determined by the base manufacturer's suggested retail price (MSRP). These values are reduced each year according to a statutory schedule. For vehicles other than trucks under 6,000 pounds, the value remains at 100 percent in the second year of service after which it is reduced by 8 or 9 percent of the MSRP each year until the value is 10 percent.

The rate for motor vehicles and log trucks is 2.2 percent, consisting of a basic rate of 2.0 percent and a surtax of 0.2 percent. In addition, a clean air excise tax of \$2 is imposed. The tax for truck-type power units used in combination with trailers for loads over 40,000 pounds, unless to haul logs, is subject to an additional surtax of 0.58 percent for a total rate of 2.78 percent. The trailer is exempt.

The tax is in lieu of personal property taxes on motor vehicles. The tax does not apply to rental cars which instead are subject to an additional sales tax on each rental or to travel trailers and campers which instead are subject to a separate tax of 1.1 percent.

The revenues generated by the motor vehicle excise tax (MVET) are deposited into various accounts for various purposes. Revenues remaining after all of these distributions are retained in the state general fund and are subject to appropriation for general governmental purposes.

- A portion of the MVET is deposited into the county criminal justice assistance account and the municipal criminal justice assistance account for local criminal justice purposes. Deposits into the accounts are limited to the previous year's deposit increased by the implicit price deflator. Funds available for deposit in excess of this limited amount is deposited into the violence reduction and drug enforcement account.
- A portion of the MVET is deposited into the municipal sales and use tax equalization account. Moneys in the account are distributed to cities imposing the sales tax to bring their total revenues up to 70 percent of the statewide average per capita sales tax. Any excess moneys are distributed to cities based on population. New cities are entitled to receive distributions beginning the first calendar quarter after their incorporation. The distribution is based on an estimate of the revenues they would have received if they had imposed the tax the entire year. Because many new cities have been incorporated over the last few years, the amount of money available for distribution has been insufficient to make all the distributions. No excess funds distributions have been made since 1995, and funds are insufficient to make the distributions to bring cities up to the 70 percent average.

Local transit agencies are authorized to levy a motor vehicle excise tax of up to 0.725 percent which is credited against the state tax. The revenues generated by the local tax are distributed to the local transit agencies to the extent the agencies match the tax revenues with revenues from other sources. These other sources include a sales tax of up to 0.6 percent, a household tax/utility tax of up to \$1 per month per household unit, and a business and occupation tax. However, cities may not use the sales tax revenues as a match for local MVET revenues. The difference between the amount that transit agencies match and a hypothetical local rate of 0.815 percent is deposited in four transit accounts and the transportation fund.

Under Initiative 601, the annual growth in general fund expenditures is limited to the average rate of inflation and population increase of the prior three fiscal years. The limit is lowered for moneys that are transferred from the general fund to another fund or account. In addition, Initiative 601 requires the Legislature to fully reimburse local governments by appropriation for the cost of new programs that the Legislature may impose.

The Community Economic Revitalization Board (CERB) makes grants and loans to political subdivisions for roads, bridges, and other public facilities.

**Summary of Bill:** A portion equal to 39.5 percent of MVET revenues that previously were deposited into the general fund is deposited into the motor vehicle fund beginning January 1, 1999.

The county criminal justice assistance account and the municipal criminal justice assistance account are funded in part by general fund revenues beginning in fiscal year 2000. Total deposits from the general fund and MVET revenues is 10 percent more than the amount of MVET revenues that would have otherwise been deposited into the accounts. The general fund deposits are increased each year by the fiscal growth factor under Initiative 601. The inflationary limit is removed from the remaining MVET deposits to the criminal justice assistance accounts.

A credit is authorized against the MVET for personal use vehicles equal to the lesser of \$30 or the amount of tax, effective with July 1999 license renewals. Personal use vehicles are passenger cars, trucks under 6,000 pounds, and motorcycles that are owned by individuals and not by business. The credit is financed from MVET revenues that previously were deposited into the general fund, in the county criminal justice assistance account, and in the municipal criminal justice assistance account.

The depreciation schedule for vehicles other than trucks under 6,000 pounds is modified to begin the depreciation in the second year of service.

A new MVET distribution starting at \$10 million per year is provided for distressed counties for criminal justice and other purposes beginning in fiscal year 2000.

The MVET distribution for city sales tax equalization is increased by \$4 million beginning in fiscal year 2000.

The excess revenues under the county sales tax equalization program is provided to CERB. Fifty percent is used to provide financial assistance under existing statutory CERB distributions. The other 50 percent is used to provide financial assistance to distressed counties that have experienced extraordinary costs due to the location of major new business facilities or the substantial expansion of existing business facilities. If fund balances for this purpose exceed \$25 million, the revenues are used to provide financial assistance under existing statutory CERB distributions.

Beginning in fiscal year 2000, cities over 60,000 in population that own and operate municipal public transportation systems as of January 1, 1998, may use sales tax revenues as a match for local MVET revenues. These cities may use the revenues as a match against 25 percent of the local MVET revenues in fiscal year 2000 increasing to 100 percent in fiscal year 2003 and thereafter.

The current MVET structure is consolidated. The basic 2.0 percent MVET tax rate and the 0.2 percent surtax rate are incorporated into one rate. Percentage distributions are changed to reflect the larger tax base. In addition, distributions to transit agencies are provided from the transportation fund rather than the general fund, and the percentage deposited into the transportation fund is increased to reflect this change.

The basic 1.0 percent travel trailer and camper tax rate and the 0.1 percent surtax rate are incorporated into one rate.

Initiative 601 is reenacted and reaffirmed. Initiative 601 does not apply to the reallocation of revenues under the bill. In addition, reimbursement to local governments for the costs

of new programs may be made by increases in state distributions of revenue after January 1, 1998.

A joint committee is created to study the long-term transportation funding needs in the state. The committee must study the transportation needs of state and local government with the objective of developing a fair and predictable long-term funding system for state and local transportation needs. An interim progress report must be made to the Governor and the House and Senate fiscal committees by December 1, 1998, and a final report of its findings and recommendations must be made by December 1, 1999.

A maximum of \$1.9 billion in bonding authority is authorized for the location, design, right of way, and construction of state and local highway improvements.

The State Treasurer is required to lend \$25 million from the general fund to the motor vehicle fund to be repaid by July 1, 2001.

**Appropriation:** None.

**Fiscal Note:** Requested on January 22, 1998.

**Effective Date:** The bill has multiple effective dates. Please refer to the bill.

**Testimony For:** This is a good first step in a \$27 billion problem. Congestion is worse than it was 10 years ago. This has caused a serious freight mobility problem that is causing the state to lose business to other states. There is an impending transportation crisis. This is a viable proposal to get projects built that are way behind. It makes sense to use more MVET revenues for transportation because people think this tax is used for roads and the MVET grows at a faster rate than the gas tax.

**Testimony Against:** A 10 percent increase in criminal justice funding is not enough. It is too little too late. These funds are critical for providing criminal justice services. Local government should participate in the additional funding under the bill. There is no direct allocation to local government like the gas tax. The VRDE money should instead go into the criminal justice accounts. These tax cuts could adversely affect the ability of the state to fund state employee salaries and to buy needed equipment. The majority of the MVET reductions to transit are borne by the Puget Sound region. The RTA is concerned about the revenue loss from its 0.3 percent MVET. This will affect transit services.

**Testified:** PRO: Paul Locke, citizen; Bill Harrison, City of Lakewood; Randy Ray, Puget Sound Steamship Operators Assn.; Duke Schaub, AGC-America; Rick Wickman, AWB; Tom McBride, WA Assn. of Prosecuting Attorneys (w/amend.); Judy Wilson, Assn. of Counties (w/amend.); Larry Erickson, WHSPC (w/amend.); Lynn McKinnon, WA Public Employees Assn. (w/concerns); Mark Triplett, WA Aggregate and Concrete Assn.; Ron Main, Regional Transit Authority (concerns); CON: Dan Snow, WA State Transit Assn., CSTA; Otto Herman, Community Transit; Mike Harbour, Intercity Transit.