

HOUSE BILL REPORT

ESSB 5955

As Reported by House Committee On: Transportation

Title: An act relating to the collection of certain taxes and fees as a result of a high capacity transit system approved by the voters of a regional transit authority in 2016.

Brief Description: Concerning the collection of certain taxes and fees as a result of a high capacity transit system approved by the voters of a regional transit authority in 2016.

Sponsors: Senate Committee on Transportation (originally sponsored by Senators Kuderer, Wellman, Keiser, Hobbs, Palumbo, Mullet, Liias, Chase, Hasegawa, Darneille, Conway, Cleveland, Nelson, Billig and Takko).

Brief History:

Committee Activity:

Transportation: 3/3/18 [DPA].

Brief Summary of Engrossed Substitute Bill (As Amended by Committee)

- Requires a regional transit authority (RTA) that includes portions of a county with a population of more than 1.5 million persons, if it imposes a motor vehicle excise tax (tax) of up to 0.8 percent first authorized in July 2015, to implement a market value adjustment program by September 1, 2018, under which a credit is allowed against tax due in an amount equal to the tax due under current law less the tax otherwise due based on the vehicle valuation schedule adopted in 2006, if the net result is positive.
- Requires the RTA to implement the program in a manner that allows the delivery of the system and financing plan approved by the RTA's voters in 2016 to the extent practicable and, if the RTA is unable to meet the terms of the plan as originally adopted, the RTA is required to identify certain savings and cost reductions.

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: Do pass as amended. Signed by 19 members: Representatives Clibborn, Chair; Wylie, Vice Chair; Orcutt, Ranking Minority Member; Hargrove, Assistant Ranking

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Minority Member; Harmsworth, Assistant Ranking Minority Member; Chapman, Gregerson, Hayes, Irwin, Kloba, Lovick, McBride, Morris, Ortiz-Self, Pellicciotti, Riccelli, Stambaugh, Valdez and Van Werven.

Minority Report: Do not pass. Signed by 2 members: Representatives Shea and Young.

Minority Report: Without recommendation. Signed by 2 members: Representatives Fey, Vice Chair; Tarleton.

Staff: Mark Matteson (786-7145).

Background:

Regional Transit Authorities.

In 1992 the Legislature authorized the formation of a regional transit authority (RTA) in the central Puget Sound region for the purposes of designing and implementing a high-capacity transportation system. In 1993 the county councils of King, Pierce, and Snohomish counties voted to form Sound Transit (ST), the RTA for the central Puget Sound region. In November 1996, the RTA voters approved "Sound Move," which originally included 25 miles of light rail, 81 miles of commuter rail, and high-occupancy vehicle improvements for use by regional express buses, and was funded by a 0.4 percent sales and use tax, a 0.3 percent motor vehicle excise tax, and a 0.8 percent car rental tax. Since then the RTA has gone back to its voters several times. In the 2008 general election, the voters approved "ST2," the next phase of the system development, funded by an additional 0.5 percent sales tax. At the 2016 general election, the voters approved "ST3," funded by an additional 0.8 percent motor vehicle excise tax, an additional 0.5 percent sales and use tax, and a regular property tax of 25 cents per \$1,000 of assessed valuation. Sound Transit 3 is intended to provide 62 new miles of light rail, additional bus rapid transit, expanded capacity commuter rail service, additional express bus service, and parking expansion with improved access.

Motor Vehicle Excise Tax.

A motor vehicle excise tax (MVET) is an excise tax based on the value of the vehicle and is in lieu of personal property tax. The Legislature first enacted a MVET in 1937 for state purposes, at a rate of 1.5 percent of vehicle value; this was increased to 2 percent in 1959 and to 2.2 percent in 1977. The Legislature enacted a local authorization for transit purposes, at a rate of 1 percent credited against the state rate, in 1969. In 1992 the Legislature authorized RTAs to impose a MVET for high-capacity transportation services at a rate of up to 0.8 percent, with an exemption for trucks weighing more than 6,000 pounds, certain farm vehicles, and certain fixed-load trucks.

Until 1990 vehicle valuation was determined by agency rule, first by the Tax Commission in the 1930s and then, later, by the Department of Revenue, based on information available, pertaining to the fair market value of motor vehicles. In 1990, pursuant to a legislative study in 1988, the Legislature adopted statutory valuation schedules to simplify administration. Under the 1990 change, the tax base is the manufacturer's base suggested retail price when

the vehicle is first offered for sale, multiplied by a depreciation schedule. The schedules, as of July 1, 1999, were as follows:

Year	Schedule 1*	Schedule 2**
1	100%	100%
2	95%	90%
3	89%	83%
4	83%	75%
5	74%	67%
6	65%	59%
7	57%	52%
8	48%	44%
9	40%	36%
10	31%	28%
11	22%	21%
12	14%	13%
13 or older	10%	10%

* Schedule 1: Passenger vehicles, motorcycles, light-duty trucks, and small trailers. Base manufacturer's suggested retail price (MSRP) is used in the valuation.

** Schedule 2: Certain trucks with scale weight of over 6,001 pounds.

In November 1999 the state voters enacted Initiative 695, repealing the state MVET, including the valuation schedule. In early 2000, the court ruled the initiative unconstitutional, reinstating the tax. Shortly thereafter, in the 2000 Legislative session, the Legislature repealed the state MVET and valuation schedule. However, Sound Transit, which had pledged its local MVET receipts to the repayment of bond debt for bonds issued under Sound Move in 1999, continued to collect the 0.3 percent MVET. In 2002 the state voters enacted Initiative 776, which, among other things, removed Sound Transit's authority to impose the 0.3 percent MVET. Shortly after the initiative passed, Pierce County and others challenged the initiative on multiple grounds. In *Pierce County v. State* 159 Wn.2d 16 (2006), the Washington State Supreme Court held that Initiative 776 impermissibly impaired the contractual obligations between Sound Transit and its bondholders in violation of the State Constitution's contract clause. As a result, Sound Transit was permitted to continue to levy the MVET for so long as the bonds remain outstanding. The last maturity date for the bonds is in 2028.

In 2005, in the biennial transportation budget, the Legislature directed the Joint Transportation Committee to conduct a study regarding the feasibility of a statewide uniform MVET depreciation schedule in order to more accurately reflect vehicle value without compromising any outstanding bond obligations. The participants included: a representative of Sound Transit; a representative of a regional transportation planning organization; the Secretary of the Washington State Department of Transportation (WSDOT); a representative of the Office of the Attorney General; a representative of the Department of Licensing (DOL); and a representative of the financial community. The study did not arrive at a recommendation that was revenue neutral with respect to replacing the 1999 schedule used by Sound Transit, but it did encourage the creation of a uniform, statewide valuation and depreciation methodology that would apply to the future levying of an MVET by those

jurisdictions with statutory authority to impose an MVET. In 2006 the Legislature adopted the following valuation schedules for local use:

Year	Schedule A*	Schedule B**
1	100%	100%
2	81%	81%
3	67%	72%
4	55%	63%
5	45%	55%
6	37%	47%
7	30%	41%
8	25%	36%
9	20%	32%
10	16%	27%
11	13%	26%
12	11%	24%
13	9%	23%
14	7%	21%
15	3%	16%
16 or older	0%	10%

Base vehicle valuation is defined at 85 percent of MSRP for all taxable vehicle use classes other than heavy and medium trucks. Base value for heavy and medium trucks is defined by latest purchase price (Schedule A).

* Schedule A: Heavy and medium trucks whose empty scale weights exceed 6,000 pounds, including commercial and log-use trucks. Valuation represents the average, annual national market depreciation for all vehicles in the class.

** Schedule B: All other vehicles. The valuation represents average, annual western-region market depreciation for passenger vehicles and light trucks.

2015 Transportation Funding Package and the Regional Transit Authority.

In 2015 the Legislature passed an omnibus transportation funding package, including a revenue bill that included the new MVET authority that was adopted by the RTA voters in 2016. The MVET authority provided in the revenue bill specified that the vehicle valuation method for collection of the 0.8 percent MVET would be the valuation schedule as provided in statute in January 1996, until the retirement of the bonds issued to which the original 0.3 percent MVET revenues were pledged. Any MVET that is collected after December 31 in the year that the original bond debt is retired must use the valuation schedule enacted in 2006.

The 2015 legislation also required the RTA to pay a sales and use offset fee beginning in 2017. The fee is 3.25 percent of the total payments made by the RTA to construction contractors on construction contracts that are for new projects identified in a system plan approved by voters after January 1, 2015. The fee is deposited to the Puget Sound Taxpayer

Accountability Account. The fee must be paid until a cumulative total of \$518 million has been paid.

Local Government Permitting of Transportation Projects.

Local governments, including counties and cities, are authorized to issue permits to entities seeking to develop lands under the jurisdiction of the government before the entity may develop the land.

Department of Licensing.

Before beginning collection of an MVET, a local government, including the RTA, must contract with the DOL for the collection of the tax. The DOL may charge a reasonable amount for administration costs, not to exceed 1 percent of tax collections.

Summary of Amended Bill:

Motor Vehicle Excise Tax Credit Program.

An RTA that includes portions of a county with a population of more than 1.5 million persons and that imposes an MVET must establish a market value adjustment program to be implemented for vehicles with registrations due on or after September 1, 2018. Under the program, the RTA must provide a credit against tax due equal to the tax under current law, less the tax otherwise due, were the tax to be calculated using the 2006 valuation schedule, but only if the resulting difference is positive. The credit applies only to the 0.8 percent MVET. The program must allow additional one-time credits for the period from July 1, 2019, to the end of June 2020, calculated in the same way as the ongoing credit program, with respect to any vehicle for which the MVET tax was paid before September 1, 2018.

The program may be funded by any resources available to the RTA, including unrestricted tax proceeds or other revenues and savings from the delivery of projects. The RTA must build on past and ongoing cost-saving efforts, including measures that would incorporate practical design; efficiencies realized in coordinating and integrating activities with other governments; and revising project contingency budgets.

The program must be implemented in a manner that allows delivery of the system and financing plan adopted by the RTA voters in 2016 to the extent practicable. If, when implementing the program, the RTA is not able to deliver the plan as approved originally, the RTA must identify savings and cost reductions from projects other than light rail and bus rapid transit projects.

Until the system and financing plan adopted by the RTA voters in 2016 is completed, the RTA must submit an annual report to the transportation committees of the Legislature on the status of the delivery of the plan.

Requirements of the Department of Licensing Regarding the Regional Transit Authority.

The DOL must receive full cost recovery from an RTA to administer the credit program. The DOL must include in vehicle renewal notices the net result owed after the credit is applied under the market value adjustment program, along with an insert providing a general description of how the bill affects taxpayers.

Amended Bill Compared to Engrossed Substitute Bill:

The amendment adopted by the House Transportation Committee:

- removes the provision that makes a sales and use tax offset fee, which would be paid by a RTA to the state, contingent upon adoption of a resolution by the board of the RTA that affirms that the fee will not impact the delivery of the RTA system plan approved by its voters in 2016;
- removes the provision that deletes the requirement that the fee be paid monthly and the provision that the obligation to cumulatively pay \$518 million occur over a period of five years;
- removes the provisions that, in regard to RTA projects approved by voters after January 1, 2016, require cities, counties, and the WSDOT to:
 - take all reasonable, feasible, and lawful measures necessary to facilitate preparation and processing of any required permits as soon as practicable with the goal of issuing land use permit decisions within 120 days of submittal; and
 - participate in any project preferred alternative selection process as early as possible in the environmental process to facilitate expedited planning for RTA projects approved by voters after January 1, 2016; and
- removes the requirement that the RTA submit biennial reports to the transportation committees of the Legislature on the status of permit timelines and the effectiveness of the new requirements in expediting the permitting process for RTA projects approved by voters after January 1, 2016.

Appropriation: None.

Fiscal Note: Available on the original bill.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) None.

(Opposed) The Snohomish County Council is opposed to the provisions regarding permitting. State and local laws already exist to facilitate permitting for Sound Transit projects in a timely manner. The language in the bill has the potential to create uncertainty in the permitting process. Sound Transit has already demonstrated that it is a willing partner in the permitting process through two resolutions the board has adopted.

(Other) The DOL is concerned because the credit program would be a big risk to the development of the new Driver and Vehicle System (DRIVES). The DOL will have to send out new notices to RTA taxpayers in June. With respect to DRIVES, this is the worst possible time to have this done. We have been working with legislators to let them know about the risk to DRIVES. It would be better if the effective date were pushed back to July 1, 2019. The DOL will need additional funding to implement this. Also, implementing the credit for past payments is complex for a number of reasons. It is not prescriptive as to whether it applies to the vehicle or the taxpayer and this should be spelled out. The DOL is concerned about the administrative and legal risk of the one-time credit piece.

Please put the Puget Sound Taxpayer Accountability Account back into the legislation. This account supports vulnerable children and youth outcomes across the Puget Sound region. It is what went before voters, but the Senate took it out. In King County, the children and youth organizations across vulnerable populations have been scoping out how the money can be used to make the greatest impact.

Tens of millions of dollars per year will be provided over a 25-year period to early learning educational opportunities and higher education. That is an entire generation of kids. This is particularly true for vulnerable kids: low-income, homeless, and foster kids. The tens of millions of dollars make a real difference for these children and families. The Legislature made a commitment to people in addition to transportation and transit. Many of these vulnerable families ride transit. Maintain the promise that that the Legislature and Sound Transit made.

Persons Testifying: (Opposed) Shelly Helder, Snohomish County.

(Other) Beau Perschbacher, Department of Licensing; David Beard, Schools Out Washington; and Nick Federici, United Way of King County.

Persons Signed In To Testify But Not Testifying: None.