SENATE BILL REPORT
SB 5955

As Reported by Senate Committee On:
Transportation, February 6, 2018

Title: An act relating to the collection of a motor vehicle excise tax approved by voters of a regional transit authority in 2016 by creating a market value adjustment program, within the existing 0.8 percent tax rate, to provide a credit based on the difference between the vehicle valuation schedule used by the authority to determine the tax amount under current law and the vehicle valuation schedule in RCW 82.44.035 in a manner that limits the delay of the voter approved 2016 plan.

Brief Description: Concerning the collection of a motor vehicle excise tax approved by voters of a regional transit authority in 2016. [**Revised for 1st Substitute:** 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: Senators Kuderer, Wellman, Keiser, Hobbs, Palumbo, Mullet, Liias, Chase, Hasegawa, Darneille, Conway, Cleveland, Nelson, Billig and Takko.

Brief History:
Committee Activity: Transportation: 1/24/18, 2/06/18 [DPS, w/oRec].

Brief Summary of First Substitute Bill

- Requires a regional transit authority (RTA) to implement a market value adjustment program, which calculates a credit on motor vehicle excise taxes.
- 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 to the extent practicable.

SENATE COMMITTEE ON TRANSPORTATION

Majority Report: That Substitute Senate Bill No. 5955 be substituted therefor, and the substitute bill do pass.
Signed by Senators Hobbs, Chair; King, Ranking Member; Cleveland, Dhingra, Liias, McCoy, Takko and Wellman.

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 Report: That it be referred without recommendation.
Signed by Senators Saldaña, Vice Chair; Chase, Fortunato, O'Ban, Sheldon and Zeiger.

Staff: Hayley Gamble (786-7452)

Background: RTAs. An RTA is authorized to use its tax revenues to plan, construct, and operate high-capacity transportation, such as express bus service and light rail. There is currently one RTA—Sound Transit—which operates light rail, commuter rail, and express bus service in Puget Sound. Sound Transit currently imposes the following voter-approved taxes:

- 1.4 percent sales and use tax;
- 1.1 percent MVET;
- an annual $0.25 per $1,000 of assessed value property tax; and
- a rental car sales tax of 0.8 percent.

MVET. A MVET is a tax paid on the value of a motor vehicle. Voter-approved Initiative 695 (2000) and Initiative 776 (2003) repealed statewide and local MVETs. Both initiatives were eventually ruled unconstitutional in whole or in part, however the Legislature repealed the statewide MVET in 2000. Certain local MVETs were retained: Sound Transit and the Seattle Monorail. Sound Transit is the only local agency currently imposing an MVET to develop and operate a high capacity transit system.

Until 1990, vehicle valuation was determined by agency rules. In 1990, the Legislature adopted statutory valuation schedules to simplify MVET 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 following vehicle valuation schedule for passenger cars and trucks is currently used by DOL and Sound Transit:

MVET Valuation Schedule Currently in Use

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 6001 pounds.

The 2005 Transportation Budget directed the Joint Transportation Committee (JTC) to study the feasibility of developing a uniform MVET depreciation schedule that would more accurately reflect vehicle value and not hinder existing debt obligations. As a result of the study, the Legislature passed SSB 6247 (2006) which enacted a new valuation schedule. This vehicle valuation schedule is currently provided in statute.

2006 Valuation Schedule

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 6000 pounds, including commercial and log use trucks. Valuation represents the average, annual national market depreciation for all vehicles in the class. The same method as provided in Schedule 2, MVET Valuation Schedule Currently in Use, is used.
** Schedule B: All other vehicles. The valuation represents average, annual western-region market depreciation for passenger vehicles and light trucks.

<u>Current RTA MVET.</u> In 2015, the Legislature passed an omnibus transportation revenue bill that included authority for an RTA to increase their MVET collection by 0.8 percent with voter approval. 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 MVET schedule as it was listed in statute in January 1996, until bonds issued against the original 0.3 percent MVET have been paid off. Bonds issued against the original 0.3 percent MVET are currently anticipated to be paid off in 2028, at which point the 0.3 percent MVET will cease

being collected. MVET that is collected after December 31 in the year the 0.3 percent MVET bond debt is retired must use the valuation schedule enacted in 2006.

DOL. Before beginning collection of an MVET, a local government, which includes Sound Transit, must contract with DOL for the collection of the tax. DOL may charge a reasonable amount for administration costs.

Summary of Bill (First Substitute): MVET 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.

Retroactive Credit. The program must allow additional one-time credits between July 1, 2019, and the end of June 2020, calculated in the same way as the ongoing credit program, for a taxpayer that paid the MVET tax before September 1, 2018.

Funding the Credit Program. 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-savings efforts, including measures that would incorporate practical design; efficiencies realized in coordinating and integrating activities with other governments; and revising project contingency budgets.

Project Delivery Impacts Prioritization. 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 first, from projects other than light rail and bus rapid transit projects, and second, light rail and bus rapid transit projects.

Contingent RTA Sales and Use Tax Offset Fee. RTA sales and use tax offset fee payments, currently due at 3.25 percent on construction contracts until an RTA has paid $518 million into the Puget Sound Taxpayer Accountability Account, do not apply to an RTA until an RTA adopts a resolution affirming that payment of the fee will not impact delivery of an RTA system plan approved in 2016.

County Permitting. RTA light-rail projects approved by RTA voters in 2016 are exempted from any county project permit requirements in unincorporated areas of a county.

DOL Cost Recovery and Notification to Taxpayers. DOL must receive full cost recovery from an RTA to administer the credit program. 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.

<u>Reporting.</u> 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.

EFFECT OF CHANGES MADE BY TRANSPORTATION COMMITTEE (First Substitute): The RTA is required to implement a market value adjustment program by September 1, 2018, instead of by December 31, 2017.

The one-time retroactive credit is modified to a one-time credit that must be provided during the July 2019 to June 2020 timeframe, if the 0.8 percent MVET had been paid for the vehicle before September 1, 2018.

DOL is required to include in vehicle renewal notices the net result owed after credit is applied under the market value adjustment program, along with an insert providing a general description of how the bill affects taxpayers, instead of requiring DOL to notify all taxpayers of the amount due under current law, the credit amount, and the net result.

RTA sales and use tax offset fee payments, currently due at 3.25 percent on construction contracts until an RTA has paid $518 million, do not apply to an RTA until an RTA adopts a resolution affirming that payment of the fee will not impact delivery of an RTA system plan approved in 2016.

The priority order of projects by which savings and cost reductions must be achieved to accommodate the system and financing plan adopted by the RTA voters in 2016 is changed. The current priority order is from parking facility projects—first, from commuter rail projects—second, and from transit bus-related projects—third. The new priority order is to any project other than light rail and bus rapid transit projects—first, and then light rail and bus rapid transit projects—second.

DOL is required to receive full cost recovery from an RTA to administer the credit program.

RTA light-rail projects approved by RTA voters in 2016 are exempted from any county project permit requirements in unincorporated areas of a county.

Technical references were updated, a severability clause was added and the title was amended to reflect the revised content of the bill.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: This bill is a great starting place for providing taxpayer relief. I have seen car tabs as high as $700. This tax disproportionately impacts low and middle-income taxpayers. The bill will provide tax relief for working families. I support a reduction of the MVET. If you want to make Sound Transit whole, do not do it based on the lease amounts they pay or in a way that impacts the gas tax.

CON: While we appreciate the efforts we cannot support this bill. There needs to be revenue offsets to mitigate the impact of this bill. It is critical not to delay Sound Transit projects. Timely delivery is essential. We would like to work with you to find a solution. The Legislature should replace any dollars lost from the credit program. The Federal impacts to Sound Transit are also an issue. The Seattle Chamber supports Sound Transit and their project delivery program will make what was a dream a reality. This bill will delay important projects. Sound Transit will provide reliable options for people to get to work to keep the region competitive. A solution needs to be identified that will not delay projects.

OTHER: There is a $2 million per month impact if the dates are not changed. The retroactive component would be best removed. Most important is moving out the effective date. We would like to work with staff on this.

Persons Testifying: PRO: Senator Patty Kuderer, Prime Sponsor; Victor Bishop, citizen.

CON: Abigail Doerr, Transportation Choices Coalition; Andrew Villeneuve, Northwest Progressive Institute; Scott Kennedy, Seattle Metropolitan Chamber of Commerce.

OTHER: Beau Perschbacher, DOL.

Persons Signed In To Testify But Not Testifying: No one.