Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Transportation Committee

HB 2123

Brief Description: Concerning the collection of a motor vehicle excise tax approved by voters of a regional transit authority in 2016.

Sponsors: Representatives Pellicciotti, Leavitt, Kilduff, Entenman, Ryu, Goodman, Bergquist, Kloba, Slatter, Valdez, Springer, Pollet, Pettigrew, Kirby, Stanford, Lovick, Orwall, Davis, Hudgins, Ortiz-Self, Sullivan, Walen, Senn, Thai, Mead, Robinson, Peterson, Santos, Ramos and Callan.

Brief Summary of Bill

- Requires the central Puget Sound regional transit authority (RTA) to implement a market value adjustment program, under which a credit must be allowed against the 0.8 percent motor vehicle excise tax due in an amount that makes the resulting amount owed equivalent to the tax that would be due if the tax base used the vehicle valuation schedule adopted by the Legislature in 2006.
- Requires the RTA to implement the program in a manner that allows the delivery of the 2016 system and financing plan to the extent practicable.
- Requires the Department of Licensing, when issuing vehicle registration renewal notices, to notify taxpayers of the effective amount due and provide information as to how the program works.
- Limits the amounts that could be received by the Washington State Department of Transportation from the RTA through 2041, in executing leases of state land for the purposes of the 2016 system and financing RTA plan, to the share of the fair market lease value associated with the share of the original acquisition costs paid with state Motor Vehicle Fund dollars.

Hearing Date: 2/26/19

Staff: Mark Matteson (786-7145).

Background:

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.

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 Sound Transit's 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 Sound Transit 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 an 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. Until 1990 vehicle valuation was determined by agency rule, first at the Tax Commission in the 1930s and then, later, at 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 percent	100 percent
2	95 percent	90 percent
3	89 percent	83 percent
4	83 percent	75 percent
5	74 percent	67 percent
6	65 percent	59 percent
7	57 percent	52 percent
8	48 percent	44 percent
9	40 percent	36 percent
10	31 percent	28 percent
11	22 percent	21 percent
12	14 percent	13 percent
13 or older	10 percent	10 percent

* 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 Wn2d 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 Transportation; a representative of the Attorney General's Office; 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 percent	100 percent
2	81 percent	81 percent
3	67 percent	72 percent
4	55 percent	63 percent
5	45 percent	55 percent
6	37 percent	47 percent
7	30 percent	41 percent
8	25 percent	36 percent
9	20 percent	32 percent
10	16 percent	27 percent
11	13 percent	26 percent
12	11 percent	24 percent
13	9 percent	23 percent
14	7 percent	21 percent
15	3 percent	16 percent

16 or older	0 percent	10 percent

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.

In 2015 the Legislature passed an omnibus transportation revenue bill that included the new MVET authority that was adopted by Sound Transit's 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.

<u>Department of Licensing</u>.

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

<u>Leases of Washington State Department of Transportation-Owned Lands</u>.

The Washington State Department of Transportation (WSDOT) may rent or lease lands, improvements, or air space above or below any lands that are held for highway purposes but not presently needed, including lands used or to be used for both limited access and conventional highways. The WSDOT is authorized to determine the terms of the lease. Leases are subject to local zoning ordinances. If the lands are used for bus shelters provided by a local transit agency, and the shelters include commercial advertising, the WSDOT may only charge for the transit agency for the commercial space.

In executing agreements that involve the lease or sale of WSDOT-owned land that had been originally purchased in whole or in part with fuel taxes or other funds from the Motor Vehicle Fund, because of the constitutional requirements with respect to the use of funds from the Motor Vehicle Fund, the state must receive consideration that reimburses the state for amounts provided in the original purchase from the Motor Vehicle Fund.

Summary of Bill:

A RTA that includes portions of a county with a population of more than 1.5 million persons and that imposes a MVET under the authority granted by the Legislature in 2015 must establish a market value adjustment program to be implemented for vehicles with registrations that are due or become due on or after January 1, 2020. 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 authorized by the 2015 Legislature.

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.

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 projects 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.

If the DOL contracts with an RTA for the collection of an MVET, the contract must provide that the DOL receives full reimbursement for the administration and collection of the tax, including those costs related to customer service and information technology. If the DOL contracts with an RTA for the collection of the MVET authorized by the RTA voters in 2016, and after the RTA implements a market value adjustment program, the DOL must clearly indicate the net result of the program when issuing registration renewal notices and provide a description of how the program affects taxpayers generally.

With respect to WSDOT land leased to an RTA for the purposes of the plan adopted by the RTA voters in 2016, WSDOT must receive for consideration an amount of the fair market rental or lease value based on the share of the payments for the original acquisition of the land attributable to state funds from the Motor Vehicle Fund.

Appropriation: None.

Fiscal Note: Requested on February 25, 2019.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.