

# HOUSE BILL REPORT

## HB 2201

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### As Reported by House Committee On: Transportation

**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 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.

**Sponsors:** Representatives Pellicciotti, Slatter, Reeves, Clibborn, Lovick, Ormsby, Pollet, Kilduff, Kloba, Orwall, Sells, Stanford, Wylie and Senn.

#### **Brief History:**

##### **Committee Activity:**

Transportation: 4/10/17 [DP].

#### **Brief Summary of Bill**

- 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, 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 savings and cost reductions in a specified priority order.
- Requires the RTA to submit annual reports to the transportation committees of the Legislature on the status of the delivery of the plan approved by the voters.

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*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.*

- Requires the Department of Licensing, if contracting with the RTA for the collection of the tax, and after the RTA implements the market value adjustment program, to clearly indicate to taxpayers of the amount owed under current law, the amount of any credit applied, and the net result.

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## HOUSE COMMITTEE ON TRANSPORTATION

**Majority Report:** Do pass. Signed by 20 members: Representatives Clibborn, Chair; Farrell, Vice Chair; Fey, Vice Chair; Wylie, Vice Chair; Orcutt, Ranking Minority Member; Hargrove, Assistant Ranking Minority Member; Harmsworth, Assistant Ranking Minority Member; Chapman, Gregerson, Irwin, Kloba, Lovick, McBride, Morris, Ortiz-Self, Pellicciotti, Riccelli, Rodne, Stambaugh and Tarleton.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Hayes, Pike, Shea, Van Werven and Young.

**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 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 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 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. 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%	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 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; 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.

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.

Department of Licensing.

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

**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 by December 31, 2017. 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 is retroactive to the date that the RTA first imposed the 0.8 percent MVET.

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 first, from parking facility projects; second, from commuter rail projects; third, from transit-bus related projects; and fourth, from light rail 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 the MVET, and after the RTA implements a market value adjustment program, the DOL must clearly indicate on taxpayer billings the amount of tax owed under current law; the amount of any credit applied; and the net result.

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**Appropriation:** None.

**Fiscal Note:** Requested on April 9, 2017.

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

**Staff Summary of Public Testimony:**

(In support) The key component of this bill recognizes the issue identified in the media and reflects a larger reality: the current car valuation system used by Sound Transit, based on the 1996 schedule, is not the most current and accurate valuation approach. The most up-to-date schedule is the one in 2006 adopted by the Legislature and it is the one that most accurately represents the depreciation of cars. In the transportation package of two years ago, the

Legislature identified the 1996 schedule. That was an oversight that can be corrected now. This adjustment will make taxpayers whole. The difference to Sound Transit is about \$780 million. This creates a program that provides a credit to essentially allow people to pay tax based on the 2006 schedule.

This program can be implemented while meeting the will of the voters with respect to Sound Transit 3. The bill lays out a way to do this using cost savings or unrestricted funds. This is a middle-ground proposal to address the issues in a very targeted way.

(Opposed) Car tab taxes are hated. Two times the voters have repealed the vehicle valuation schedule that Sound Transit is currently using, and yet taxpayers in the Puget Sound region are still facing artificially inflated car tab taxes. Sound Transit claimed to its taxpayers taxes would not go up very much. Before the election, voters were told that a \$10,000 car would have \$80 more in taxes. Later on, a \$10,000 car became a \$21,000 car. The outcome is not what voters were promised. This bill accomplishes very little. Instead of sending back a few bucks, stop Sound Transit from misleading its voters in the first place. This could be accomplished by either the Legislature or through a voter initiative. The committee should tax vehicles on what they are actually worth.

(Other) This bill is a good start in the right direction for taxpayer fairness. It is important to remember that the MVET is the most progressive tax in this state. The \$780 million is no small hit and is difficult to make up. Please prioritize working families. Cap the vehicles eligible under the program at a valuation between \$20,000 and \$30,000.

**Persons Testifying:** (In support) Representative Pellicciotti, prime sponsor.

(Opposed) Tim Eyman.

(Other) Ricardo Gotla, Transportation Choices Coalition.

**Persons Signed In To Testify But Not Testifying:** None.