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Transportation Financing Alternatives (DOT -- Transportation Finance)

Bill Agency

CURRENT LAW

The transportation fund is composed of revenues from several transportation-related taxes and fees. The most significant components of the fund are revenues from the motor fuel tax and vehicle registration fees, which together account for over 90% of fund revenues. Other sources of revenue include vehicle title, driver's license, and other Division of Motor Vehicles fees, aeronautical and railroad taxes and fees, and investment earnings. In 2006-07, total transportation fund revenues are estimated at $1.62 billion.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The Joint Legislative Committee on Transportation Needs and Financing (commonly referred to as the "Road to the Future Committee") was a special joint legislative committee that was convened in 2006 to consider various issues related to surface transportation. In its first phase of deliberations, the Committee held public hearings designed to assess the extent of transportation needs in the state. In its second phase, the Committee considered several policy changes to make the delivery of transportation programs more efficient. In the Committee's final phase, the Committee considered various measures to increase funding available for transportation programs.

2. The bill contains increases to transportation fund taxes and fees generating a total of

$196.6 million in 2007-08 and $271.6 million in 2008-09. Several of the transportation fund revenue measures in the bill were included in a list that the "Road to the Future Committee" included in its final report, although the Committee made no specific revenue-raising recommendations. This includes the creation of an oil company assessment (discussed in LFB Issue Papers #761, #762, and #763), an increase to the vehicle registration fees for automobiles and light trucks (LFB Issue Paper #764), the creation of a driver's license security verification fee (LFB Issue Paper #795), and an increase to the supplemental vehicle title fee (LFB Issue Paper #586). This paper provides information on other state transportation taxes and fees that were considered by the Road to the Future Committee and that could be implemented to generate additional revenue or to replace one or more of the tax and fee increases in the bill.

Value-Based Vehicle Registration Fee

3. Over half of the states have variable vehicle registration fees or annual vehicle excise taxes based on either the value, age, or weight of the vehicle. In addition, several of the other states that have a flat state registration fee have locally-imposed property taxes or value-based excise taxes on vehicles. Of the states that have variable state registration fees, most are weight-based or age-based. However, three of the four states that base the fee on vehicle value (Iowa, Michigan, and Minnesota) border Wisconsin. A key characteristic of value-based fees is that the revenue generated by the fee tends to increase each year as the price of vehicles increases. Age- or weight-based fees may generate growing revenues, but only due to the growth of the vehicle fleet or certain changes in the composition of the fleet.

4. Iowa's vehicle registration fee combines value-based and weight-based elements, although the weight-based component generally accounts for only a small portion of the fee. For vehicles not more than five model years old, the fee is equal to 1% of the manufacturer's suggested retail price (MSRP) of the vehicle, plus $0.40 for each 100 pounds of weight. After five years, the price used in the calculation is discounted, to 75% of the original MSRP in the sixth year and to 50% of the original MSRP in the seventh and eighth years. For vehicles that are nine years old or older, the registration fee is $35, regardless of original value or weight. To illustrate, the owner of a vehicle with an MSRP of $19,900 and weighing 3,000 pounds would pay $211 for the first five years, $161 in the sixth year, $112 in the seventh and eighth years, and $35 annually thereafter.

5. Michigan's vehicle registration fee is determined according to a statutory schedule, under which vehicles are categorized in $1,000 increments, according to the manufacturer's suggested retail price. The fee in the first year is equal to 0.5% of the MSRP, where the base of the calculation is the $600 mark within the $1,000 range. For instance, the owner of a new vehicle with a MSRP of $19,900 would pay a fee of $98 ($19,600 X .005). In subsequent years, the fee paid is reduced as follows: (a) in the second year, the registration fee is equal to 90% of the fee for the first year, rounded to the nearest whole dollar (the initial $98 fee, for instance, would become $88); (b) in the third year, the registration fee is equal to 90% of the fee in the second year (the $88 fee would decline to $79); (c) in the fourth and subsequent years, the registration fee would decline to 90% of the fee in the third year (the $79 fee would decline to $71).

6. Minnesota's vehicle registration fee is $10, plus 1.25% of the vehicle's value,

although fee caps and a statutory depreciation schedule reduce the amount paid in subsequent years. In the second year (first registration renewal for a new vehicle), the registration fee is capped at $189, so the owner of any vehicle with an MSRP of $14,320 or higher will pay exactly $189 for the first registration renewal. In the third year and subsequent years, the fee is capped at $99. Beginning in the third year, the MSRP is depreciated according to a statutory schedule. In the third and fourth years, the base value is 90% of the MSRP, declining to 75% in the fifth and sixth years, 60% in the seventh year, 40% in the eighth year, 30% in the ninth year, and 10% in the tenth year. The minimum fee that is charged in the first 10 years is $35. In the eleventh and subsequent years, the vehicle registration fee is $35, regardless of the vehicle's initial value. For the purposes of calculating the registration fee, values are grouped into $200 increments, with the midpoint being used for the calculation.

7. The following table shows the fees that would be paid in these three states on a vehicle with an MSRP of $19,900 and weighing 3,000 pounds.

Annual Vehicle Registration Fees for a Vehicle with an MSRP of $19,900 and Weighing 3,000 Pounds in Three Neighboring States

Year	Minnesota	Michigan	Iowa
1	$259	$98	$211
2	189	88	211
3	99	79	211
4	99	71	211
5	99	71	211
6	99	71	161
7	99	71	112
8	99	71	112
9	85	71	35
10	35	71	35
11	35	71	35

8. This office prepared an estimate of the revenue that would be generated by a value-based registration system in Wisconsin, using the Michigan system as a model. The following table provides an updated estimate, assuming that the first year of implementation would be 2008-09. (The Department indicates that it would take about one year to implement a value-based system similar to the Michigan model.) For the purpose of this estimate, it is assumed that the new fees would first apply to 2009 model year vehicles. Revenues would increase each year as additional model years (and a higher percentage of the total fleet) are subject to the value-based fees. Although the table is based on the Michigan system, Wisconsin could choose to modify the basis of the fee by using a different percentage of MSRP or use a different discount rate for subsequent years.

Estimated Revenue Generated by a Value-Based Registration Fee, Relative to Current Law (In Millions)

	Additional Revenue	
Fiscal Year	Relative to $55 Flat Fee	Relative to Prior Year
2008-09	$14.5	$14.5
2009-10	32.3	17.8
2010-11	50.3	18.0
2011-12	66.6	16.3
2012-13	83.5	16.9
2013-14	101.6	18.1
2014-15	120.8	19.2

9. The estimates in the previous table are in relation to current law. Since the bill would increase the flat registration fee from $55 to $75, it would reduce the difference between what would be paid under a value-based system and what would be paid without such a value-based system. The following table shows the revenue that would be generated, relative to the bill, if a value-based system were adopted in addition to the registration fee increases in the bill.

Estimated Revenue Generated by a Value-Based Registration Fee, Relative to the Bill (In Millions)

	Additional Revenue	
Fiscal Year	Relative to $75 Flat Fee	Relative to Prior Year
2008-09	$10.9	$10.9
2009-10	23.6	12.7
2010-11	35.8	12.2
2011-12	46.0	10.2
2012-13	57.1	11.1
2013-14	69.3	12.2
2014-15	82.7	13.4

10. DOT estimates the cost of implementing a value-based registration system at $504,000 in 2007-08 and $97,900 in 2008-09, with 1.5 position needed in 2008-09. Most of the amount in the first year would be for data processing to establish a system for matching vehicle model information with a database of manufacturer's suggested retail prices. The funding and positions in the second year would be associated with the additional, ongoing costs of administering a more complex registration system. The Department has indicated that the data processing necessary to implement a value-based registration system may be made more difficult if these changes are done at the same time that the changes needed to implement the federal Real ID Act are being performed. This would occur if the Committee adopts a value-based registration system and also approves the provisions in the bill related to the Real ID Act.

Vehicle Title Fee

11. The current vehicle title fee consists of several components that together add to $45. Of these, the standard title fee ($28.50) and the supplemental title fee ($7.50) are deposited in the transportation fund, while the environmental impact fee ($9) is deposited in the environmental fund. The standard title fee was increased from $8.50 to $18.50 on October 1, 2003, and from $18.50 to $28.50 on October 1, 2005. Under the bill, the supplemental title fee would be increased from $7.50 to $9.50, raising the total title fee to $47.

12. In many states, title fees are used by states to cover the cost of administering titling and other vehicle functions. A total of 40 states have a title fee of $25 or less, with most of those having a fee of $15 or less. Wisconsin's title fee of $45 is among the highest in the country and likely makes it one of only a few states that generates transportation revenues in excess of the administrative costs of vehicle titling. However, other states have other one-time taxes or fees associated with vehicles that increase the cost of owning a vehicle in those states. For instance, Florida has a $100 fee for the first time a vehicle is registered in the state or reregistered by a new owner, unless the new vehicle replaces a currently registered vehicle that is disposed. Although this is not technically a title fee, its one-time nature makes its incidence similar to a title fee. An increase of $10 to the vehicle title fee would generate an estimated $10.8 million in 2007-08 and $14.3 million in 2008-09, assuming an October 1, 2007, effective date.

Transfer of Sales Tax on Motor Vehicles to the Transportation Fund

13. Although not a transportation fund tax or fee increase, various proposals have been offered in the past to transfer all or a portion of the sales tax on motor vehicles or motor vehicle-related products and services to the transportation fund. In the 2003-05 biennial budget, for instance, the Legislature proposed that 10% of the sales and use tax on vehicles be transferred from the general fund to the transportation fund, beginning in 2005-06. This provision, however, was vetoed by the Governor. Other proposals would have required that a gradually increasing percentage of sales tax revenues be deposited in the transportation fund until 100% of annual revenues are transferred. Any transfer of existing sales tax revenue to the transportation fund would result in a corresponding reduction in general fund revenues.

14. Sales and use tax returns filed by taxpayers do not identify the type of taxable good or service for which the tax is being paid. Therefore, sales tax revenues from specific types of tangible personal property and taxable services must be estimated. In the absence of changes in sales tax reporting methods, an option to transfer sales and use tax revenues related to motor vehicles, parts, or services to the transportation fund would have to base the amounts to be transferred on estimated, rather than actual, collections.

15. The following table shows the estimated revenue generated by the sales and use tax on motor vehicles, motor vehicle parts, and motor vehicle repairs in 2008-09 and 2008-09. In total, these amounts account for about one-fifth of the estimated general fund revenue generated from sales and use taxes.

Estimated Revenue Generated by the Sales and Use Tax
(In Millions)

Category of Sales	2007-08	2008-09
Motor Vehicles	$668.8	$689.7
Motor Vehicle Parts	109.0	111.8
Motor Vehicle Services	137.7	141.9
Total	$915.5	$943.4

Sales Tax Exemption on Vehicle Trade-Ins

16. The "Road to the Future Committee" report also mentioned the repeal of the sales tax exemption on motor vehicle trade-ins as a possible measure that could increase revenues to the transportation fund. The additional sales tax revenue associated with repealing the exemption would be deposited in the transportation fund.

17. Under current law, for transactions in which an article of tangible personal property is traded toward the purchase of an article of greater value, the gross receipts received by the seller to which the state's 5% sales and use taxes are applied is only that portion of the purchase price represented by the difference between the full purchase price of the article of greater value and the amount allowed for the article traded. As a result, the value of an automobile traded in by the buyer of a separate automobile at the time of purchase is deducted from the price of the automobile being purchased. The state's sales and use taxes are then applied to the net cost of the automobile after the trade-in value is deducted.

18. In 2006, 36 other states had a similar sales tax exemption on vehicle trade-ins, one state (Nevada) had a partial exemption, and one state (Ohio) exempted trade-ins on new vehicle sales. In six states (California, Maryland, Michigan, New Jersey, North Carolina, and Oklahoma) the value of a vehicle trade-in was subject to the state sales tax.

19. Based on random samples from automobile sales at dealerships, DOR estimates that trade-in automobiles equaled approximately 23.6% of the sales price of new and used vehicles sold in 2005. Base on this data, it is estimated that if the trade-in exemption would be repealed, effective October 1, 2007, the state would generate an estimated $82.7 million in additional sales tax revenue in 2007-08 and $113.9 million in 2008-09 to be deposited in the transportation fund.

20. Some contend that the tax policy behind the sales tax exemption on motor vehicle trade-ins is that the purchaser should only be taxed on the additional vehicle value being purchased. That is, a person purchasing a $30,000 vehicle, who has a $10,000 trade-in vehicle, is only purchasing $20,000 in additional vehicle value. Therefore, the contention is that the person should only be required to pay sales tax on that additional vehicle value, as under current law. Further, it may also be argued that in all likelihood the purchaser already paid sales tax on the remaining $10,000 in trade-in value on the vehicle when that vehicle was originally purchased.

21. Conversely, others may contend that the current exemption treats vehicle sales transactions differently. For example, suppose a person sells a $10,000 vehicle at private sale rather than trading the vehicle in at the time of a new car purchase. If that person would then apply that $10,000 toward the purchase of a $30,000 vehicle, that person would have to pay sales tax on the entire $30,000 value of the vehicle.

22. Sales tax revenues from new and used automobile sales are also a big component of county sales tax revenues. Currently, 60 counties have a county sales tax. Unless the county sales tax is excluded, any change to the sales tax exemption on vehicle trade-ins would also impact county sales tax revenues.

ALTERNATIVES TO BILL

1. Establish a value-based registration fee structure identical to that used in Michigan, effective with 2009 model year vehicles. Estimate increased transportation fund revenues at $10,900,000 in 2008-09 (this would increase to $14,500,000 if the automobile registration fee increase proposed in the bill is deleted). Provide $504,000 SEG in 2007-08 and $97,900 SEG and 1.5 SEG position in 2008-09 to implement the value-based registration system.

ALT 1	**Change to Bill**			**Change to Base**		
	Revenue	Funding	Positions	Revenue	Funding	Positions
SEG	$10,900,000	$601,900	1.50	$10,900,000	$601,900	1.50

2. Increase the standard vehicle title fee from $28.50 to $38.50, effective October 1, 2007. Estimate increased transportation fund revenues at $10,800,000 in 2007-08 and $14,300,000 in 2008-09.

ALT 2	**Change to Bill**	**Change to Base**
	Revenue	Revenue
SEG	$25,100,000	$25,100,000

3. Transfer 5% of estimated sales tax revenues in 2009-10 from motor vehicles and motor vehicle parts and services from the general fund to the transportation fund. Increase this transfer to 10% in 2010-11 and thereafter. Based on 2008-09 estimates, this would transfer an estimated $47.2 million in 2009-10 and $94.4 million in 2010-11.

4. Delete the sales tax exemption for vehicle trade-ins, effective October 1, 2007, and deposit the estimated revenue from this change in the transportation fund. Estimate increased transportation fund revenues at $82.7 million in 2007-08 and $113.9 million in 2008-09.

ALT 4	**Change to Bill** Revenue	**Change to Base** Revenue
SEG	$196,600,000	$196,600,000

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