Multiple Agency Fiscal Note Summary

Bill Number: 5955 SB	**Title:** MVET collection

Estimated Cash Receipts

NONE

Estimated Expenditures

Agency Name	2017-19			2019-21			2021-23		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Department of Licensing	.0	0	8,156,100	.0	0	0	.0	0	0
Total	**0.0**	**$0**	**$8,156,100**	**0.0**	**$0**	**$0**	**0.0**	**$0**	**$0**

Local Gov. Courts *									
Loc School dist-SPI									
Local Gov. Other **	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Impact

NONE

Prepared by: Veronica Jarvis, OFM	**Phone:** (360) 902-0649	**Date Published:** Revised 1/25/2018

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 50267

Department of Revenue Fiscal Note

Bill Number: 5955 SB	Title: MVET collection	Agency: 140-Department of Revenue

Part I: Estimates

☒ **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Hayley Gamble	Phone: 3607867452	Date: 01/18/2018
Agency Preparation:	Diana Tibbetts	Phone: 360-534-1520	Date: 01/19/2018
Agency Approval:	Don Gutmann	Phone: 360-534-1510	Date: 01/19/2018
OFM Review:	Kathy Cody	Phone: (360) 902-9822	Date: 01/19/2018

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

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.

This legislation allows for the Regional Transit Authority (RTA) to create a market value adjustment program and provide a credit against the motor vehicle excise tax due in an amount equal to the tax due calculated using the vehicle valuation schedule in chapter 82.44 RCW as it existed on January 1, 1996, less the tax otherwise due calculated using the vehicle valuation schedule in RCW 82.44.035, if the resulting difference is positive.

Any adjustments are to registrations that are due or become due on or after January 1, 2018.

And emergency clause with an immediate effective date is included.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

This legislation results in no revenue impact to taxes administered by the Department of Revenue.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

The Department of Revenue will not incur any costs with the implementation of this legislation.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No rule-making required.

Individual State Agency Fiscal Note

Bill Number: 5955 SB	Title: MVET collection	Agency: 240-Department of Licensing

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2018	FY 2019	2017-19	2019-21	2021-23
Account					
Motor Vehicle Account-State 108-1	156,100	8,000,000	8,156,100	0	0
Total $	156,100	8,000,000	8,156,100	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Hayley Gamble	Phone: 3607867452	Date: 01/18/2018
Agency Preparation:	Don Arlow	Phone: (360) 902-3736	Date: 01/23/2018
Agency Approval:	Dan Weeks	Phone: (360) 902-0147	Date: 01/23/2018
OFM Review:	Veronica Jarvis	Phone: (360) 902-0649	Date: 01/23/2018

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years					
E-Goods and Other Services	156,100	8,000,000	8,156,100		
Total:	$156,100	$8,000,000	$8,156,100	$0	$0

III. C - Expenditures By Program (optional)

Program	FY 2018	FY 2019	2017-19	2019-21	2021-23
Mgmt & Support Services (100)		8,000,000	8,000,000		
Information Services (200)	156,100		156,100		
Total $	156,100	8,000,000	8,156,100		

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Agency 240 – Department of Licensing

Bill Number: SB 5955 Bill Title: MVET collection

Part 1: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts

Account Name	Account	FY 18	FY 19	17-19 Total	19-21 Total	21-23 Total
	Account Totals	**-**	**-**	**-**	**-**	**-**

Estimated Expenditures:

	FY 18	FY 19	17-19 Total	19-21 Total	21-23 Total
FTE Staff Years	-	-	-	-	-

Account Name	Account	FY 18	FY 19	17-19 Total	19-21 Total	21-23 Total
Motor Vehicle	108	156,100	8,000,000	8,156,100	-	-
	Account Totals	**156,100**	**8,000,000**	**8,156,100**	**-**	**-**

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions.

☐ If the fiscal impact is **less than $50,000** per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I)

☒ If fiscal impact is **greater than $50,000** per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form

☐ Capital budget impact, complete Part IV

☐ Requires new rule making, complete Part V

Legislative Request: Hayley Gamble	Phone: 360-786-7452	Date: 1/18/18
Agency Preparation: Don Arlow	Phone: 360-902-3736	Date: 1/22/18
Agency Approval: Diamatris Winston	Phone: 360-902-3644	Date: 1/23/18

Request #	1
Bill #	5955 SB

Part 2 – Explanation

This bill states that if the Department of Licensing (DOL) enters into a contract to collect motor vehicle excise tax (MVET) for a regional transit authority (RTA) that meets certain conditions (Sound Transit) that has implemented a market value adjustment program, DOL must provide information to taxpayers that indicates the amount of MVET owed under current law, the amount of any credit applied, and the net result.

The program applies only to the 0.8 percent MVET authorized by the 2015 Legislature. The program is retroactive to March 1, 2017, the date that Sound Transit first imposed the 0.8 percent MVET, through December 31, 2017. The program requires use of a 2006 depreciation schedule for calculation of a revised MVET assessment.

2.A – Brief Description on what the measure does and how it has a fiscal impact

Section 1 adds a new section in Chapter 82.44 RCW. When notifying taxpayers of expected tax due, DOL must indicate the amount of MVET owed under current law, the amount of any credit applied, and the net result.

Section 2 adds a new section in Chapter 81.112 RCW. This section specifies that:

- Sound Transit must establish a market value adjustment program to be implemented by December 31, 2017.
- Sound Transit must provide a credit against the MVET based on calculating the difference from schedule in statute v. schedule currently used.
- Directs which resources Sound Transit should use to fund the program.
- Retroactive to March 1-December 31 payments in the form of a one-time credit against a person's next MVET.
- Provides priorities for cost saving measures for Sound Transit in case the program negatively impacts their ability to implement projects.
- Sound Transit must submit annual reports to the Legislature.

Section 3 states that the bill applies to registrations due on or after 1/1/18.

Section 4 is an emergency clause.

Note: This bill is effective for registrations due on or after January 1, 2018. DOL cannot meet this effective date. For purposes of this fiscal note, DOL assumes the bill will be amended with a 90 days sine die effective date.

2.B - Cash Receipt Impact

This bill is expected to have an impact on cash receipts, however the impact is not to state revenue. Changing the depreciation schedule used to calculate a portion of the MVET would result in an indeterminate RTA revenue decrease. RTA revenues are not estimated by DOL.

2.C – Expenditures

Indeterminate:

The volume of workload would not be known until Sound Transit develops the market value adjustment program and DOL completes supporting systems modifications. Modifications would include alternate valuation information for purposes of determining updated RTA assessments, then comparing those new valuations to those determined by current methodology for credits. Remaining expenditure estimates are indeterminate due to unknown details of how Sound Transit would implement a market value adjustment program.

Vehicle services programs and accounting services

New workload would be related to customer questions and disputes about vehicle valuation, and record updates. All costs are dependent on the actual number of disputes processed, and the actual credit process implemented, and are therefore indeterminate.

DOL expects additional resource needs in the following areas:

- Call Center and Self-Service Channel unit workloads: The self-service channel unit manages customer email queries. These units are primarily staffed with Customer Service Specialist 2 (CSS2) positions.
- Vehicle Services program: Program resources may be required to assist agents and subagents with the credit process. Staffing would include Vehicle Services Liaison Officer 1 positions. Additional valuation disputes may be received, analyzed, and processed by Excise Tax Examiner 1 (ETE1) positions.

Determinate:

The DRIVES project is currently under a code freeze through December 2018. Any changes during this time frame increases risk and delay costs to the project. To avoid DRIVES project risks and delay costs, and allow sufficient time to implement enacted bills:

- DOL recommends an implementation date of April 2019 for new system changes that require one month to complete.
- DOL recommends an implementation date on or after September 2019 for new system changes that require more than one month to complete.
- Actual dates will depend on the logistics of implementing multiple bills, complexity, and length of time required to make system changes. Later in session once legislative bills cross over to the opposite house, DOL will be able to provide better implementation timelines and workload estimates related to system changes – allowing DOL to coordinate implementation dates with the legislature.

The system changes in this bill require 4 months to complete.

- The DRIVES project has a spend rate of about $2 million per month. Implementing system changes required by legislation while the project is being rolled out requires DOL and its vendor to stop the project to create new business rules, design the solution, implement the solution (coding), test scenarios, make adjustments to accommodate the change, test again and retrain users. Each month the modernization project is delayed could cost the state around $2 million, not including business impacts such as training.
- Delays also impact multiple state agencies that link to DOL's system for data.

If Sound Transit establishes a market value adjustment program, $156,100 will be needed for system changes.

All costs would be attributed to the Motor Vehicle Fund, Private/Local (108-7).

<u>Information Services</u>

Note: This bill is effective for registrations due on or after January 1, 2018. DOL cannot meet this effective date. For purposes of this fiscal note, DOL assumes the bill will be amended with a 90 days sine die effective date.

The agency will use appropriated funds to hire contract programmers to accomplish this work or to support current staff implementing this legislation within the required timeline. Appropriated funds may also be used to hire agency temporary staff to support permanent staff assigned to this legislative effort.

Cost Category	Description	Rate	2018	2019	2020	2021	2022	2023	Total Cost
TESTER	Test to verify individual components meet requirements; ensure that other business transactions have not been impacted.	$ 18,444	35,000	-	-	-	-	-	35,000
BUSINESS ANALYST	Determine business requirements; translate requirements into what changes are needed to various systems including account codes, inventory codes, testing considerations, etc.	$ 26,448	13,200	-	-	-	-	-	13,200
PROJECT MANAGER	Manage schedule and contracts	$ 27,492	11,000	-	-	-	-	-	11,000
QUALITY ASSURANCE	Plan and carry out activities to assure project deliverables; e.g. preventative defect activities, align quality measures and business objectives.	$ 31,668	28,500	-	-	-	-	-	28,500
SECURITY AND ARCHITECT SERVICES	Create the conceptual model that defines the structure, behavior and framework of a computerized system including a breakdown of the system into components, the component interactions and interfaces (including with the environment, especially the user), and the technologies and resources to be used in the design.	$ 27,144	8,100	-	-	-	-	-	8,100
DEVELOPERS	Modify programming and coding to all major systems	$ 18,444	46,100	-	-	-	-	-	46,100
Project Contingency	Office of the Chief Information Officer designated rate of 10%	$ -	14,200	-	-	-	-	-	14,200
		Totals	**156,100**	**-**	**-**	**-**	**-**	**-**	**156,100**

Support Services

Administrative support is included at a rate of 12 percent of the direct program costs, captured in object EZ. This percentage is split 7 percent for Management and Support Services (MSS) and 5 percent for Information Services Division (ISD) functions. DOL uses a Fiscal Technician 2 (MSS) and an IT Specialist 4 (ISD) staffing costs as a proxy to determine FTE and display them under Indirect Staff in table 3.B.

Administrative support funding received covers agency-wide functions such as vendor payments, contract administration, financial management, mail processing, equipment management, help desk support, and technical assistance to DOL employees.

Part 3 – Expenditure Detail

<u>3.A – Expenditures by Object or Purpose</u>

Object Name	FY 18	FY 19	17-19 Total	19-21 Total	21-23 Total
Goods and Services	156,100	8,000,000	8,156,100	-	-
Total By Object Type	**156,100**	**8,000,000**	**8,156,100**	**-**	**-**

3.A.1 – Detail of Expenditures by Sub-Object (Goods and Services Only)

Object E - Description	FY 18	FY 19	17-19 Total	19-21 Total	21-23 Total
ER - Application Programmers	156,100	8,000,000	8,156,100	-	-
Total Goods & Services	**156,100**	**8,000,000**	**8,156,100**	**-**	**-**

3.B – FTE Detail

Position	Salary	FY 18	FY 19	17-19 Total	19-21 Total	21-23 Total
	Total FTE	**-**	**-**	**-**	**-**	**-**

3.C – Expenditures by Program (Optional)

Program		FY 18	FY 19	17-19 Total	19-21 Total	21-23 Total
100 - Mgmt & Support Services	MSS	-	8,000,000	8,000,000	-	-
200 - Information Services	ISD	156,100	-	156,100	-	-
	Totals by Program	**156,100**	**8,000,000**	**8,156,100**	**-**	**-**

Part 4 – Capital Budget Impact

None.

Part 5 – New Rule Making Required

None.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5955 SB	**Title:** MVET collection

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [ ] Cities:
- [ ] Counties:
- [ ] Special Districts:
- [X] Specific jurisdictions only: Sound Transit
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [X] Expenditures represent one-time costs: To form the market value adjustment program
- [ ] Legislation provides local option:
- [X] Key variables cannot be estimated with certainty at this time: Costs to form, operate, and issue credits to taxpayers within the market value adjustment program

Estimated revenue impacts to:

Indeterminate Impact

Estimated expenditure impacts to:

Indeterminate Impact

Part III: Preparation and Approval

Fiscal Note Analyst: Britt McVicar	Phone: (360)725-5042	Date: 01/25/2018
Leg. Committee Contact: Hayley Gamble	Phone: 3607867452	Date: 01/18/2018
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 01/25/2018
OFM Review: Veronica Jarvis	Phone: (360) 902-0649	Date: 01/25/2018

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This legislation would require Sound Transit to establish a market value adjustment program. The effect is to provide a motor vehicle excise tax credit to taxpayers that would be equal to the tax due under current law, less the valuation schedule established in 2006.

Section 2 -- A regional transit authority (RTA) that imposes a motor vehicle excise tax (MVET) must establish a market value adjustment program. The program must be implemented by December 31, 2017. The RTA must provide a credit to taxpayers against the MVET paid 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, a credit would be awarded.

The market value adjustment program may be funded by the resources available to the RTA including:
-- Unrestricted tax proceeds or other revenues
-- Savings from the delivery or projects

The RTA must allow additional one-time credit against the MVET to any taxpayer that paid the tax in 2017. The credit is equal to the tax paid in 2017, less the tax that would have otherwise been due in 2017, if the net result is positive.

The RTA must build on ongoing cost saving efforts and must continue to evaluate measures that may be needed to reduce costs. The RTA would have to submit annual reports to the Legislature until the system and financing plan is completed.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

This legislation would have an indeterminate but potentially significant effect on Sound Transit's expenses relative to the creation of a market value adjustment program. Program costs include those to form, operate, and dispense Motor Vehicle Excise Tax (MVET) credits to taxpayers. Formation costs are unknown, and would vary based on the intensity of staffing decisions, including procurement and implementation of technical systems and technical staff, equipment, and policy and procedure development. Potential administrative and taxpayer credit costs are covered below. Based on the financing necessary to establish and operate the MVET credit program, Sound Transit may need to issue new debt; these costs are illustrated below. Additionally, the bill specifies that Sound Transit must report to the Legislature regarding progress with the system and financing plan, as approved by the voters in 2016.

ADMINISTRATION OF MVET CREDIT:
The cost for Sound Transit to administer an MVET credit program is unknown. The City of Seattle's Vehicle License Fee (VLF) rebate program for low-income individuals might offer a relevant example of potential administrative impacts. Despite the differences in income thresholds, and the potential number of qualifying clients between the two programs, the respective processes entail similar activities: creating and promoting a tax credit program, processing applications, verifying eligibility, and issuing credits. Despite the city's promotion of the program through various means, in 2016 the City of Seattle only issued approximately 5,000 rebates, out of an estimated 51,000 vehicles whose owners were expected to qualify for the VLF rebate. The likelihood of participation in a Sound Transit program cannot be determined. However, it is reasonable to assume that the higher the potential rebate, the more likely it would be for people to apply, assuming that the application process was no more difficult for taxpayers to complete than the City of Seattle's.

COST OF MVET CREDIT:
The Department of Licensing reported that there are more than 2.5 million vehicles within Sound Transit's boundaries, and a majority would likely be eligible for a refund. Depending on the potential range of the credits' value in relation to the difference in value between the two different vehicle valuation standards, the cumulative cost to issue credits would be approximately $2.5 million per dollar value of the credit issued. To illustrate, if each credit averaged $50, the costs to issue MVET credits would be $125 million. In addition, Sound Transit assumes that in order to complete its capital program and meet the requirements of this legislation, additional bonds would have to be sold, which would entail debt service, and a larger fiscal impact.

Sound Transit anticipates a loss of ($780) million from MVET collections that are retroactive and extend through 2028. Sound Transit anticipates it will cost $1.4 billion, through 2028, to finance the $780 million in credit payments. For an example, please see "Cost to Issue Debt" below.

COST TO ISSUE DEBT:
Sound Transit may need to issue debt to finance the MVET credit program. The Bond Users Clearinghouse provides an illustration of the

costs Sound Transit may expend to issue debt. Sound Transit issued three new or combination of new and refund sales tax bonds in 2015 for a total par value of approximately $943 million. Total issuance costs were approximately $616,000, with 92 percent of costs coming from bond counsels, rating agents, financial advisors, and miscellaneous costs. One issue from the sample of three held a total par value of approximately $793 million with issuance costs of approximately $512,000, and an interest rate of 4.0299 percent.

Generally, the costs to issue a debt instrument are approximately 10 percent of the total par value. However, this is not always the case. From the sample of three bonds above, issuance costs totaled 6.5 percent of total par value.

COST OF REPORTING TO LEGISLATURE:
According to Sound Transit, an estimate for an annual process for tracking, evaluating, and reporting the progress of the system and financing plan is between $5,000 to $10,000 for each annual report. This would include detail on the extent to and manner in which Sound Transit has used cost savings to maintain the delivery of the plan, as approved by voters in 2016. The range in the cost estimate depends on whether readily available data sources exist or if significant work would be required to create estimates from multiple data sources or sample data, and assumes internal agency staff perform the work. If performed by outside consultants, an independent cost estimate to complete the work would be 50 percent higher, or approximately $7,500 to $15,000 per annual report.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

This legislation would have an indeterminate and likely negative impact on Sound Transit revenues. Revenue would be required to form and operate the market value adjustment program, while revenue from the motor vehicle excise tax (MVET) would decrease with the issuance of credits under this standard.

This legislation requires Sound Transit to fund the market value adjustment program from available resources, including unrestricted tax proceeds or other revenues, and savings from the delivery of projects. It is not known how much additional revenue may be required to form, operate, and distribute credits under this standard. However, any revenues raised for the purposes of the market value adjustment program would not constitute surplus revenues to Sound Transit, but rather the expenditures required to operate the market value adjustment program.

It is unknown to what magnitude this legislation would decrease Sound Transit's revenues beyond those necessary to fund the MVET credit program. The Department of Licensing stated that there are more than 2.5 million vehicles within Sound Transit's boundaries, and a majority would likely be eligible for a refund.

SOURCES:
Sound Transit
City of Seattle
Department of Licensing fiscal note
Department of Revenue fiscal note