



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #737

### **Registration Fees for Automobiles and Vehicle Title Fees (DOT -- Transportation Finance)**

[LFB 2003-05 Budget Summary: Page 411, #3 and #4]

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#### **CURRENT LAW**

The Department of Transportation (DOT) assesses a \$45 annual automobile registration fee. For most new motor vehicle title and title transfer transactions, applicants are required to pay an \$8.50 title fee, a \$7.50 supplemental title fee, and a \$9 environmental impact fee. The title fee revenues are deposited in the transportation fund, while the environmental impact fee revenues are deposited in the environmental fund. Consequently, most title transactions require a total fee of \$25 (\$8.50 regular title fee, \$7.50 supplemental title fee, and \$9 environmental impact fee).

#### **GOVERNOR**

Increase the annual registration fee for automobiles by \$10, from \$45 currently, to \$55 (this would also apply to human service vehicles and certain school buses, which have their registration fees set at the same level as that for automobiles). Increase estimated transportation fund revenues by \$17,437,000 in 2003-04 and \$35,726,300 in 2004-05 to reflect this increase.

Increase the fee for the issuance of a new vehicle title and the fee for a vehicle title transfer by \$10, from \$8.50 currently, to \$18.50. Increase estimated transportation fund revenues by \$7,500,000 in 2003-04 and \$15,000,000 in 2004-05 to reflect these increases. The bill would also increase the environmental impact fee to \$10.50. Therefore, under the bill, the total fee would increase to \$36.50 (\$18.50 regular title fee, \$7.50 supplemental title fee, and \$10.50 environmental impact fee).

## DISCUSSION POINTS

### Registration Fees

1. Vehicle registration fees comprise the second largest revenue source for the transportation fund. Registration fees and related collections in 2002-03 represent an estimated 27.3% of transportation fund revenues prior to the deduction of debt service for transportation revenue bonds and net fee revenues after debt service comprise 21.4% of net transportation fund revenues. Automobile registrations make up 40% of the gross fee revenues, while truck registrations make up 48% of these revenues. The automobile registration fee was last increased in 1997, from \$40 to \$45. Prior to the 1997 increase, automobile registration fees were increased in 1991, from \$25 to \$40.

2. Registration fees are pledged to make debt service payments on transportation revenue bonds. The fee increase is intended to support the state's ongoing transportation revenue bond program and to fund the increases in that program included under the bill. In general, registration fee revenues must provide coverage of at least 2.25 times annual debt service for at least 12 of the preceding 18 months in order for new bonds to be issued. However, DOT indicates that a ratio of 2.5 or more times annual debt service is desirable in order to maintain a cushion above the level at which the issuance of additional bonds would be precluded.

3. The implementation of automobile registration fees varies from state to state. In addition, several states have legislative proposals to increase their annual registration fees. Of the 50 states, 30 implement some sort of flat registration fee, while the remaining 20 states have variable registration fee structures based on some measure of vehicle value, age, weight, horsepower, or fuel type used. Some states impose different fees for initial registrations than for subsequent renewals. Finally, some states impose, or authorize local governments to impose, an annual "property or value" tax on a vehicle in addition to an annual flat or variable registration fee.

4. Among the 30 states that impose a flat, annual registration fee, Wisconsin's \$45 fee ranks third highest. Only Illinois (\$78) and Vermont (\$50) rank higher. The following table lists the distribution of those states by fee level.

#### Distribution of Fees for States with a Flat Fee Structure

<u>Range of Fees</u>	<u>Number of States</u>
\$50 and Over	2
\$40 to \$49	1
\$30 to \$39	7
\$20 to \$29	11
Under \$20	9

5. On average, states with variable rate fee structures tend to have annual registration fees that are higher than flat fee structure states. For example, in June, 2002, DOT estimated that the registration fee on a 2001 Ford Taurus LX would exceed Wisconsin's current \$45 fee in 10 of the 20 states that have variable fee structures. Registration fees in six of the states with variable rate fee structures would exceed the proposed \$55 fee.

6. Iowa, Michigan, and Minnesota are among the 20 states that have variable registration fee structures. Registration fees for most vehicles in each of these three states exceed Wisconsin's current fee and would likely continue to exceed the proposed \$55 fee. For example, in Minnesota, a vehicle would likely have to be eight or nine years old before the annual registration fee on an automobile would be less than the proposed \$55 fee in Wisconsin. The following table lists the variable fee structure for these three neighboring states.

**Iowa** Fee is 40 cents per hundred pounds, plus 1% of the list price the first five years. Basis for the value calculation declines to 75% of list price for six-year old vehicles, to 50% for vehicles seven to nine years old, and to 10% for vehicles ten years old or older. A \$20,000, 3,000 pound van would cost \$212 to register for the first five years.

**Michigan** Fees for 1984 or newer model year passenger vehicles and light trucks are calculated using a percentage (between 0.485% and 0.5%) of the manufacturer's suggested retail price (MSRP) at the time the vehicle is first titled, up to \$30,000. An additional \$5 per \$1,000 in value is assessed for those vehicles with a value over \$30,000 MSRP. The initial registration fee amount is reduced by 10% per year for the following two years. For each year thereafter, the fee equals 90% of the third year fee amount. A new, \$20,000 MSRP van would cost \$98 to register in the first year, \$88 in the second year, and \$79 in the third year.

**Minnesota** Fees for the registration of an automobile equal 1.25% of the vehicle's MSRP in the first and second years, 90% in the third and fourth years, 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 maximum fee is \$189 in the second year and \$99 in the third year and thereafter. A new, \$20,000 van would cost \$250 to register in the first year, \$189 in the second year, and \$99 in the third year.

7. While Wisconsin ranks 3<sup>rd</sup> among the states with a flat registration fee structure, focusing on those fees may not reflect the total, annual impact of registration taxes and fees on vehicle owners. All but 16 states impose, or provide local governments the authority to impose, annual "property or value" taxes or fees on automobiles, in addition to their annual registration fees. In many states, a vehicle cannot be registered until these taxes are paid. These taxes or fees increase the comparative cost of registering a motor vehicle in those states. For example, Alabama and Mississippi vehicle owners pay an annual ad valorem tax. In Alabama, the ad valorem tax is paid based on 15% of the assessed value of the vehicle multiplied by a mileage rate based on the location within the state where the vehicle is registered. An owner of a \$10,000 vehicle in Alabama would pay an estimated \$77.25 in ad valorem taxes. In Indiana, an annual auto excise tax is applied to a vehicle's base or factory advertised price, based on the year of manufacture. Annual payments of

this tax vary from \$12, on the oldest and lowest priced vehicles, to \$532 on the newest, most expensive vehicles. In California, vehicle owners pay an annual vehicle license tax, which effectively equals 0.65% of the vehicle's value. The vehicle value used to compute this tax declines by 15% each year. In 2001-02, the average vehicle license tax for autos in California was \$66.00.

8. Since the budget bill was introduced, DOT has reestimated revenues to the transportation fund and this office has reviewed those estimates. The number of registered vehicles and registration fee revenues in the biennium are projected to be lower than the earlier estimate. As a result, the projected revenues associated with the proposed \$10 increase in the automobile registration fee are also lower. Based on current estimates, the revenues associated with a \$10 registration fee increase for automobiles will total \$17,058,100 in 2003-04 and \$34,924,500 in 2004-05, which will result in revenues being \$378,900 lower in 2003-04 and \$801,800 lower in 2004-05 than the estimates in the bill.

9. No effective date for the registration fee increase is included under the bill. However, the revenue estimates associated with the fee increase assume a January 1, 2004, effective date. DOT officials indicate that it would take at least three months to implement such a fee increase and, therefore, October 1, 2003, would be the earliest possible effective date. The last two registration fee increases have been implemented in three months time or less. An October 1, 2003, effective date would increase revenues associated with the proposed registration fee increase by \$8,529,100 in 2003-04.

10. DOT indicates that using the revenues associated with a January 1, 2004, date was done to ensure sufficient time to implement the fee change in the event of late passage of the 2003-05 biennial budget and due to changes in the Department's computer system for registrations, which are due to be complete in late 2003. DOT officials indicate that it was their intent to complete the fee increase implementation using the new computer database system. If implementation is required before the new system is completed, the Department will have to program the fee changes into both computer systems, which would be somewhat more costly in terms of staff time. In addition, having to use staff to program the fee increase into the old computer system would result in staff being reallocated from the new computer system development project, which would likely delay the completion of that system.

11. With each fee increase, the Department has to inform all third parties involved in the vehicle registration process (motor vehicle dealers, banks, and various agents) of the new fee amount. In the Department's 2003-05 budget request, which included a registration fee increase, DOT indicated that it cannot completely inform all of these third parties and eliminate all outdated versions of the registration and title forms prior to implementation of a new fee structure. Therefore, registration fee increases result in some level of underpayment, which requires that Department staff re-contact vehicle owners in order to obtain the full fee amount. DOT indicates that the number of vehicle owners who underpay can be as high as 15% during the initial months of the fee increase. An earlier implementation date for the fee increase could exacerbate this situation and result in collection of fewer revenues than estimated. In order to ensure that the Department collects the additional revenues associated with an October 1, 2003, fee increase date, the Committee could also provide the \$155,000 in 2003-04 for LTE salary and fringe benefit funding the Department

requested for these purposes in its biennial budget request.

12. The proposed \$10 fee increase would exceed the price inflation that has occurred since the fee was last increased. Indexing the fee using the change in the consumer price index since 1997 would result in a \$50.40 registration fee, which would be approximately \$5 over the current \$45 fee. Providing a \$5, or 11%, increase in the automobile registration fee would result in revenues of \$12,793,600 in 2003-04 and \$17,462,300 in 2004-05, if an October 1, 2003, effective date for the increase were enacted. Such an increase would reduce projected revenues associated with the fee increase by \$4,643,400 in 2003-04 and \$18,264,000 in 2004-05, compared to the bill.

13. If the registration fee on automobiles is increased, owners of some light trucks and sports utility vehicles could avoid part of the fee increase by registering their vehicles as trucks (owners of the lightest trucks pay a \$48.50 registration fee). A fee increase on trucks could limit the potential loss of revenue from such actions. Further, a fee increase on truck registrations could reduce or eliminate the need for an automobile registration fee increase.

14. Registration fees on commercial trucks that cross state lines are administered under the international registration plan (IRP). Under IRP, each truck operator pays a registration fee through the state where the vehicle is registered to all states where the truck has traveled, based on mileage and weight. This eliminates the advantage of registering in states with lower fees. However, some registration fee losses may occur near the Michigan and Minnesota borders because of reciprocal agreements with those states allowing interstate carriers to operate in other states within 30 miles of the border without paying fees to those states. The state receives revenue associated with the payment for IRP fees by truck operators that travel in the state.

15. According to IRP administrators, Wisconsin has the fifth-highest registration fee among the 48 contiguous states for semi-trucks and trailers of 80,000 pounds or more. However, similar to automobiles, several states have annual, ad valorem taxes in addition to base registration fees. Accounting for these taxes, Wisconsin's rank would fall to 14<sup>th</sup> highest among the 48 states. Among Wisconsin's neighboring states, only Illinois would have a higher registration fee for these vehicles.

16. The following table lists the truck fees for Wisconsin and the bordering states.

Weight (Pounds)	Wisconsin	Illinois	Iowa	Michigan	Minnesota
5,000	\$79.50	\$78.00	\$80.00	\$11.00	\$35.00
10,000	137.50	138.00	90.00	32.50	70.00
15,000	236.00	242.00	165.00	56.55	105.00
20,000	292.00	490.00	235.00	491.00	190.00
30,000	486.50	842.00	445.00	649.00	360.00
40,000	726.50	1,202.00	675.00	874.00	595.00
50,000	836.00	1,538.00	965.00	1,135.00	715.00
60,000	1,069.50	1,970.00	1,200.00	1,398.00	1,015.00
70,000	1,368.00	2,294.00	1,465.00	1,529.00	1,325.00
80,000	1,987.50	2,790.00	1,695.00	1,660.00	1,760.00

17. If the Committee were to choose to delete the automobile registration fee increase and, instead, increase truck registration fees, a 20% increase in truck fees would be needed to provide a similar amount of revenue. Alternatively, a 10% increase in truck registration fees, along with a \$5 increase in automobile registrations fees, would provide nearly the same level of revenue as the revenue increases in the bill. A 10% increase in the annual truck registration fees would increase the average, annual truck fee for the lighter trucks by \$6.29, to \$69.23. The average, annual registration fee for trucks over 8,000 pounds would increase by \$29.43, to \$323.76, while the fee for the heaviest trucks would increase by \$198.75, to \$2,186.25. The following table compares the revenues that could be generated under the fee increases included under the bill and the alternative fee increases discussed here. The revenues shown in the table are based on DOT's recent reestimate of registration fee revenues in the biennium and are shown for both the October 1, 2003, and January 1, 2004, effective dates.

	<u>\$10 Auto Registration Increase (SB 44)</u>		<u>\$5 Auto/10% Truck Registration Increase</u>		<u>20% Truck Registration Increase</u>	
	<u>Revenues</u>	<u>Change to Bill</u>	<u>Revenues</u>	<u>Change to Bill</u>	<u>Revenues</u>	<u>Change to Bill</u>
<b>January 1, 2004</b>						
2003-04	\$17,058,100	-\$378,900	\$18,017,000	\$580,000	\$18,975,900	\$1,538,900
2004-05	<u>34,924,500</u>	<u>-801,800</u>	<u>37,280,700</u>	<u>1,554,400</u>	<u>39,636,800</u>	<u>3,910,500</u>
Biennium	\$51,982,600	-\$1,180,700	\$55,297,700	\$2,134,400	\$58,612,700	\$5,449,400
<b>October 1, 2003</b>						
2003-04	\$25,587,200	\$8,150,200	\$27,025,500	\$9,588,500	\$28,463,800	\$11,026,800
2004-05	<u>34,924,500</u>	<u>-801,800</u>	<u>37,280,700</u>	<u>1,554,400</u>	<u>39,636,800</u>	<u>3,910,500</u>
Total	\$60,511,700	\$7,348,400	\$64,306,200	\$11,142,900	\$68,100,600	\$14,937,300

### **Title Fees**

18. The bill would also increase the state's vehicle title fee and the fee for a vehicle title transfer by \$10, from \$8.50 currently, to \$18.50. Estimated transportation fund revenues associated with the \$10 increase would be \$7,500,000 in 2003-04 and \$15,000,000 in 2004-05. These revenue estimates assume an effective date of January 1, 2004, although there is no delayed effective date specified in the bill. An October 1, 2003, effective date for the title fee increase would provide three months of additional revenue in 2003-04, which would increase the transportation fund revenues by \$3,750,000 in the biennium, compared to the bill.

19. The bill would also increase the portion of the state's vehicle title fee known as the environmental impact fee by \$1.50, from \$9 to \$10.50, with the revenues being deposited in the environmental fund. Therefore, the total fees associated with titling a motor vehicle would increase to \$36.50 (\$18.50 regular title fee, \$7.50 supplemental title fee, and \$10.50 environmental impact fee).

20. Several states have legislative proposals that would increase their title fees. However, an April, 2003, survey of vehicle title fees across the United States indicates that Wisconsin's current \$25 vehicle title fee (\$8.50 regular title fee, \$7.50 supplemental title fee, and the \$9 environmental impact fee) is tied with two other states for the sixth highest fee among the states. The state's current \$9 vehicle impact fee is scheduled to sunset under current law on January 1, 2004. Therefore, if no legislative action is taken to approve the environmental impact fee increase or the regular title fee increase included in the bill, the state's title overall title fee under current law would decrease to \$16 per title transaction in 2004. A \$16 title fee would rank 17<sup>th</sup> among the states, based on the April, 2003, survey.

21. Increasing the total fees associated with titling a vehicle in the state to \$36.50, as proposed under the bill, would result in the state having the third highest vehicle title fee in the country. Illinois, at \$65, would be the only neighboring state with a higher title fee. Based on the April, 2003, survey, Iowa's vehicle title fee is \$15, Michigan's is \$11, and Minnesota's is \$2.

22. To be more consistent with the size of the fee increase proposed for automobile registrations, the Committee could reduce the Governor's recommended fee increase to 10% of the current total fees for titling, or a \$2.50 increase per vehicle title transaction. However, because the vehicle title fee is a one-time title transaction fee, rather than an annual fee like the registration fee, a larger percentage increase in the title fee would be less burdensome on vehicle owners than the same percentage increase in an annual registration fee. The following table provides the estimated revenues, and the change to the revenues included under the bill, at various percentage increases in the total title fees, assuming an October 1, 2003, effective date.

	<u>10% (\$2.50) Increase</u>		<u>20% (\$5) Increase</u>		<u>30% (\$7.50) Increase</u>	
	<u>Revenues</u>	<u>Change to Bill</u>	<u>Revenues</u>	<u>Change to Bill</u>	<u>Revenues</u>	<u>Change to Bill</u>
2003-04	\$2,812,500	-\$4,687,500	\$5,625,000	-\$1,875,000	\$8,437,500	\$937,500
2004-05	<u>3,750,000</u>	<u>-11,250,000</u>	<u>7,500,000</u>	<u>-7,500,000</u>	<u>11,250,000</u>	<u>-3,750,000</u>
Biennium	\$6,562,500	-\$15,937,500	\$13,125,000	-\$9,375,000	\$19,687,500	-\$2,812,500

23. Currently, revenues from the regular vehicle title fee are deposited to the state's transportation fund. Under the bill, the fee revenues would be used to support the state's transportation revenue bond program. Therefore, the revenues would first be available to fund debt service each year on the bonds before any remaining funds would be deposited in the transportation fund. The proposed increase in the fees would assist in funding debt service, and in providing the necessary debt service coverage, to support the revenue bond program increases proposed under the bill.

## ALTERNATIVES

### A. Registration Fees

1. Approve the Governor's recommendation to increase the annual registration fee for automobiles by \$10, from \$45 currently, to \$55 (this would also apply to human service vehicles and certain school buses, which have their registration fees set at the same level as that for automobiles). Reestimate transportation fund revenues associated with this fee increase at \$17,058,100 in 2003-04 and \$34,924,500 in 2004-05 to reflect this increase, which would reduce the revenues estimated under the bill by \$378,900 in 2003-04 and \$801,800 in 2004-05. Specify that the fee increases would be effective on January 1, 2004, which is the effective date assumed under the bill.

<b><u>Alternative A1</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	- \$1,180,700

2. Modify the Governor's recommendation, as reestimated, to increase the annual registration fee for automobiles by \$10, from \$45 currently, to \$55. Specify that the fee increase would first be effective on October 1, 2003. Estimated transportation fund revenues associated with the fee increase would be \$25,587,200 in 2003-04 and \$34,924,500 in 2004-05, which represent changes to the bill of \$8,150,200 in 2003-04 and -\$801,800 in 2004-05.

<b><u>Alternative A2</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	\$7,348,400

3. Modify the Governor's recommendation to increase the annual automobile registration fee by \$5, rather than \$10. Specify that the fee increase would first be effective on October 1, 2003. Estimated transportation fund revenues associated with the fee increase would be \$12,793,600 in 2003-04 and \$17,462,300 in 2004-05, which represent changes to the bill of -\$4,643,400 in 2003-04 and -\$18,264,000 in 2004-05.

<b><u>Alternative A3</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	- \$22,907,400

4. Modify the Governor's recommendation to increase the automobile registration fee by \$5, rather than \$10, and increase each category of fees for truck registrations by 10%. Specify that the fee increases would first be effective on October 1, 2003. Estimated transportation fund revenues associated with the fee increases would be \$27,025,500 in 2003-04 and \$37,280,700 in 2004-05, which represent changes to the bill of \$9,588,500 in 2003-04 and \$1,554,400 in 2004-05.

<b><u>Alternative A4</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	\$11,142,900

5. Delete the Governor's recommendation to increase the automobile registration fee. Instead, increase the annual truck registration fees by 20% for each fee category. Specify that the fee increases would be first effective on October 1, 2003. Estimated transportation fund revenues associated with the fee increases would be \$28,463,800 in 2003-04 and \$39,636,800 in 2004-05, which represent changes to the bill of \$11,026,800 in 2003-04 and \$3,910,500 in 2004-05.

<b><u>Alternative A5</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	\$14,937,300

6. In addition to any one of Alternatives 2 thru 5, provide the Department with \$155,000 SEG in 2003-04 for LTE salary and fringe benefit funding to assist with implementation of the fee increase or increases.

<b><u>Alternative A6</u></b>	<b><u>SEG</u></b>
<b>2003-05 FUNDING</b> (Change to Bill)	\$155,000

7. Maintain current law. No fee increase would be provided.

<b><u>Alternative A7</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	- \$53,163,300

## **B. Title Fees**

1. Approve the Governor's recommendation to increase the fee for the issuance of a new vehicle title and the fee for a vehicle title transfer by \$10, from \$8.50 currently, to \$18.50. Specify that the fee increases would be effective on January 1, 2004. Estimated transportation revenues from the title fee increase would be \$7,500,000 in 2003-04 and \$15,000,000 in 2004-05.

2. Modify the Governor's recommendation to increase the fee for the issuance of a new vehicle title and the fee for a vehicle title transfer by \$10, from \$8.50 currently, to \$18.50, by specifying that the fee increase would first be effective on October 1, 2003. Increase estimated transportation fund revenues by \$3,750,000 in 2003-04.

<b><u>Alternative B2</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	\$3,750,000

3. Modify the Governor's recommendation to provide a 10%, or \$2.50, increase in total title fees, applied to the vehicle title fee and the fee for a vehicle title transfer, and specify that the fee increases would first be effective on October 1, 2003. Estimated transportation fund revenues from the title fee increase would be \$2,812,500 in 2003-04 and \$3,750,000 in 2004-05, which represent decreases from the bill of \$4,687,500 in 2003-04 and \$11,250,000 in 2004-05.

<b><u>Alternative B3</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	- \$15,937,500

4. Modify the Governor's recommendation to provide a 20%, or \$5, increase in total title fees, applied to the vehicle title fee and the fee for a vehicle title transfer, and specify that the fee increases would first be effective on October 1, 2003. Estimated transportation fund revenues from the title fee increase would total \$5,625,000 in 2003-04 and \$7,500,000 in 2004-05, which represent decreases from the bill of \$1,875,000 in 2003-04 and \$7,500,000 in 2004-05.

<b><u>Alternative B4</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	- \$9,375,000

5. Modify the Governor's recommendation to provide a 30%, or \$7.50, increase in total title fees, applied to the vehicle title fee and the fee for a vehicle title transfer, and specify that the fee increases would first be effective on October 1, 2003. Estimated transportation fund revenues from the title fee increase would total \$8,437,500 in 2003-04 and \$11,250,000 in 2004-05, which represent changes from the bill of \$937,500 in 2003-04 and -\$3,750,000 in 2004-05.

<b><u>Alternative B5</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	- \$2,812,500

6. Maintain current law. No vehicle title fee increases would be provided.

<b><u>Alternative B6</u></b>	<b><u>SEG</u></b>
<b>2003-05 REVENUE</b> (Change to Bill)	- \$22,500,000

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