

# **Vehicle Registration Task Force**

## **Report to the Legislature\***

**February 24, 2020**

*\*Report Required by Minnesota Special Session Laws 2019 Chapter 3, Article 2, Section 38*

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# I. Background

## A. Enabling Legislation

The Vehicle Registration Task Force (“Task Force”) was established by the Minnesota Legislature in 2019 to study various methods of vehicle registration and the corresponding fee structures. The Task Force was directed to study:

1. how each of the following methods could be implemented in Minnesota in a revenue neutral manner: flat rate, weight-based, value-based, and age-based;
2. a two-year vehicle registration period and any other changes related to timing of vehicle registration periods;
3. the financial effects of the changes considered in clauses (1) and (2) including, at a minimum, costs for vehicle owners and deputy registrars; and
4. whether the changes considered in clauses (1) and (2) will require customization to the vehicle title and registration system and the potential cost of the customization.

The Legislative Coordinating Commission provided administrative services for the Task Force. Staff from the Department of Transportation, the Department of Public Safety, and MN.IT Services provided general information and technical support to the Task Force.

*Minnesota Special Session Laws 2019 Chapter 3, Article 2, Section 38*

## B. Task Force Membership

The Vehicle Registration Task Force consisted of 20 members appointed as follows:

- Two senators appointed by the senate majority leader: **Senator John Jasinski and Senator Mary Kiffmeyer**
- Two senators appointed by the senate minority leader: **Senator Scott Dibble and Senator Susan Kent**
- Two members appointed by the speaker of the house: **Representative Steve Elkins and Representative Brad Tabke**
- Two members appointed by the house minority leader: **Representative Dave Baker and Representative John Petersburg**
- One member appointed by the governor from the Office of the Governor: **Policy Advisor Suzanne Sobotka**
- The commissioner of transportation or a designee: **Commissioner Margaret Anderson Kelliher**
- The chief financial officer of the Department of Transportation or a designee: **Chief Financial Officer Kristi Schroedl**
- The commissioner of public safety or a designee: **Assistant Commissioner Tim Lynaugh**
- The director of Driver and Vehicle Services Division of the Department of Public Safety or a designee: **Director Emma Corrie**

- The chief financial officer of the Department of Public Safety or a designee: **Fiscal Analyst Nicole Mickelson**
- The state chief information officer or a designee: **Deputy Commissioner Jon Eichten**
- The chief financial officer of MN.IT Services or a designee: **Chief Financial Officer Tu Tong**
- One deputy registrar appointed by the Minnesota Deputy Registrars Association: **Deputy Registrar Mike Hintz**
- One deputy registrar appointed by the Minnesota Deputy Registrar Business Owners Association: **Deputy Registrar Gaye Smith**
- Two members, one of whom is familiar with the title and registration process, appointed by the Minnesota Automobile Dealers Association: **Vice President of Public Affairs Amber Backhaus and Title Manager Aly Quinn**

## II. Task Force Meetings

The Task Force was provided specific topics to study in the enacting legislation. These topics provided a framework for the meetings and presentations.

Task Force activities included:

- Developing an understanding of the financial context for registration taxes and revenue.
- Reviewing the current structure and laws on registration taxes and fees.
- Reviewing findings from the Office of the Legislative Auditor on transaction accuracy.
- Identifying goals for potential registration changes; examining challenges and limitations of the current tax structure and timely data collection.
- Comparing Minnesota to other states.
- Exploring capabilities of the replacement motor vehicle IT system being developed by FAST enterprises.
- Identifying options to modify the registration tax in a revenue-neutral manner, with preliminary analysis for alternative funding methods based on: flat rate, age-based rate, weight-based rate and hybrid structures.

The Task Force met five times. Audio of each Task Force meeting as well as meeting minutes, agendas and handouts are all available on the [Vehicle Registration Task Force website](http://www.lcc.leg.mn/vrtf) ([www.lcc.leg.mn/vrtf](http://www.lcc.leg.mn/vrtf)).

### Meeting One - September 25, 2019

The Task Force elected Senator Mary Kiffmeyer as Chair. Staff from Senate Counsel, Research and Fiscal Analysis and House Research presented an introductory overview on the financial context for vehicle registration taxes and revenues. (See Attached Appendix B for Meeting Minutes. See Attached Appendix C for the Introductory Overview provided by Matt Burress, Legislative Analyst, House Research Department and Alexis Stangl, Lead Counsel, Senate Counsel, Research and Fiscal Analysis.)

### **Meeting Two - October 29, 2019**

Representatives from FAST Enterprises provided an update on the development of the software for the Vehicle Title and Registration System as related to possible changes to the registration fee structure. In addition, Deputy Legislative Auditor Judy Randall, Office of the Legislative Auditor (OLA), presented on the findings and recommendations from the OLA 2018 report on MNLARS Transaction Accuracy. (See Attached Appendix B for Meeting Minutes. See Attached Appendix D for Recommendations from the OLA Report.)

### **Meeting Three - December 2, 2019**

Staff from the Minnesota Department of Transportation and Department of Public Safety provided background information on the current registration tax structure and presented an analysis of how the alternate funding methods of flat rate, value-based and age-based could be implemented in a revenue neutral manner. (See Attached Appendix B for Meeting Minutes. See Attached Appendix E for the Vehicle Registration Funding Methods Overview provided by Josh Knatterud-Hubinger, Minnesota Department of Transportation, and Tony Anderson, Department of Public Safety.)

### **Meeting Four - February 6, 2020**

Staff from the Minnesota Department of Transportation and the Department of Public Safety presented an analysis of how a weight-based funding method along with three hybrid structures (modified value based, tiered age-based and hybrid age-based) could be implemented in a revenue neutral manner. (See Attached Appendix F for the Vehicle Registration Funding Overview provided by Josh Knatterud-Hubinger, Minnesota Department of Transportation, and Tony Anderson, Department of Public Safety).

The Task Force discussed and voted on proposed recommendations to be included in the report to the Legislature. (See Attached Appendix B for Meeting Minutes.)

### **Meeting Five – February 24, 2020**

The Task Force adopted the final report to the Legislature. (See Attached Appendix B for Meeting Minutes.)

## **IV. Task Force Recommendations**

### **1. Remove destination charge from calculation of the tax.**

**Finding:** A key concern raised in the OLA review of MNLARS accuracy is that since there is not a single, timely source for data on a vehicle's value, it can lead to variability in the amount of registration tax calculated for a given type of vehicle. The amount of registration tax imposed should be consistent across registrations of each make and model vehicle.

The "base value" calculation can be simplified by eliminating the destination charge, so that the value of the vehicle is only the manufacturer's suggested retail price (MSRP) for newly registered vehicles. The MSRP appears to align with data available at the time of new vehicle

registration. This change supports calculating vehicle value more consistently across all vehicle owners.

**Recommendation:** The Task Force recommends amending the “base value” calculation in Minn. Stat. §168.013, subd. 1a, by eliminating the destination charge, so that the base value of the vehicle is the manufacturer’s suggested retail price (MSRP) base price for newly registered vehicles.

**Proposed legislative change:** the change would be made to Minnesota Statutes, section 168.013, subdivision 1a, paragraph (b):

(b) Subject to the classification provisions herein, "base value" means the manufacturer's suggested retail price of the vehicle ~~including destination charge~~ using list price information published by the manufacturer or determined by the registrar if no suggested retail price exists, ~~and shall~~ provided that base value (1) includes a destination charge for a vehicle previously registered in Minnesota before the effective date of this section, and (2) does not include the cost of each accessory or item of optional equipment separately added to the vehicle and the suggested retail price. In the case of the first registration of a new vehicle sold or leased by a licensed dealer, the dealer may elect to individually determine the base value of the vehicle using suggested retail price information provided by the manufacturer. The registrar must use the base value determined by the dealer to properly classify the vehicle. A dealer that elects to make the determination must retain a copy of the suggested retail price label or other supporting documentation with the vehicle transaction records maintained under Minnesota Rules, part 7400.5200.

## **2. Eliminate the hold harmless provision.**

**Finding:** Legislation enacted in 2008 (as part of phasing in a registration tax increase) is viewed by the Department of Public Safety as preventing any increase in the amount of registration tax imposed. Under this interpretation, the department is unable to modify the amount due after it receives revised data on vehicle base value and has identified an undercharge.

**Recommendation:** The Task Force recommends eliminating the “hold harmless” provision in Minn. Stat. §168.013, subdivision 1a, paragraph (j).

**Proposed legislative change:** the change would be made to Minnesota Statutes, section 168.013, subdivision 1a, paragraph (j):

~~(j) For any vehicle previously registered in Minnesota and regardless of prior ownership, the total amount due under this subdivision and subdivision 1m must not exceed the smallest total amount previously paid or due on the vehicle.~~

## **V. Appendices**

Appendix A: 2019 Session Law Establishing the Vehicle Registration Task Force

Appendix B: Meeting Minutes

Appendix C: Introductory Overview by Matt Burress, House Research Department, and Alexis Stangl, Senate Counsel, Research and Fiscal Analysis

Appendix D: Recommendations from OLA report on MNLARS Transaction Accuracy

Appendix E: December 2, 2019 Vehicle Registration Funding Methods Overview by Josh Knatterud-Hubinger, Minnesota Department of Transportation, and Tony Anderson, Department of Public Safety

Appendix F: February 6, 2020 Vehicle Registration Funding Overview by Josh Knatterud-Hubinger, Minnesota Department of Transportation, and Tony Anderson, Department of Public Safety

# **Appendix A**

**2019 Law Establishing the Vehicle Registration Task Force**



(d) In the calculations under paragraph (a), the commissioner of public safety must exclude transactions for a deputy registrar office operated by the state.

Subd. 3. **Grant distribution.** (a) Within 30 days of the enactment date of this act, the commissioner must notify each deputy registrar of the amount of the reimbursement grant the deputy registrar is eligible to receive under this section. In order to receive the reimbursement grant, the deputy registrar must:

(1) request the disbursement of the reimbursement grant to the deputy registrar; and

(2) agree to release and hold harmless the state and its employees from any liability or claim arising from the development and deployment of the Minnesota Licensing and Registration System (MNLARS) including: (i) a claim under Minnesota Statutes, section 3.732, or (ii) any claim or action before a court or administrative agency.

(b) The request and release agreement must be submitted on a form developed by the commissioner and must be submitted on or before June 30, 2019. The commissioner must disburse the reimbursement grant to the deputy registrar within 30 days of receiving the request and release agreement.

(c) Any funds not disbursed after the initial grants are disbursed must not be distributed and must cancel back to the general fund.

Subd. 4. **State liability limitations.** The creation or payment of reimbursement grants under this section is not: (1) an admission of liability by the state or its employees for any act or omission arising from the development and deployment of MNLARS; and (2) admissible in a judicial or administrative proceeding to establish liability or a legal duty.

**EFFECTIVE DATE.** This section is effective the day following final enactment.

#### Sec. 37. **SELF-SERVICE OPTIONS.**

The commissioner of public safety must consider ways in which the driver services system and the vehicle title and registration system allow for the addition of self-service options and on-the-spot fulfillment. The commissioner of public safety must consider capabilities such as allowing individuals to receive a driver's license or identification card at the same time and in the same location that the application is made. The commissioners must report the findings to the Driver and Vehicle Systems Oversight Committee established in section 34.

**EFFECTIVE DATE.** This section is effective the day following final enactment.

#### Sec. 38. **VEHICLE REGISTRATION TASK FORCE.**

Subdivision 1. **Membership.** (a) The Vehicle Registration Task Force consists of the following 20 members:

(1) four senators, including two senators appointed by the senate majority leader and two senators appointed by the senate minority leader;

(2) four members of the house of representatives, including two members appointed by the speaker of the house and two members appointed by the minority leader of the house of representatives;

(3) one member appointed by the governor from the Office of the Governor;

(4) the commissioner of transportation or a designee;

(5) the chief financial officer of the Department of Transportation or a designee;

(6) the commissioner of public safety or a designee;

(7) the director of Driver and Vehicle Services Division of the Department of Public Safety or a designee;

(8) the chief financial officer of the Department of Public Safety or a designee;

(9) the state chief information officer or a designee;

(10) the chief financial officer of MN.IT Services or a designee;

(11) one deputy registrar appointed by the Minnesota Deputy Registrars Association;

(12) one deputy registrar appointed by the Minnesota Deputy Registrar Business Owners Association;  
and

(13) two members, one of whom is familiar with the title and registration process, appointed by the Minnesota Automobile Dealers Association.

(b) Appointing authorities must make initial appointments to the Vehicle Registration Task Force by June 1, 2019.

Subd. 2. **Duties.** The Vehicle Registration Task Force is established to study various methods of vehicle registration and the corresponding fee structures. At a minimum, the task force must study:

(1) how each of the following methods could be implemented in Minnesota in a revenue neutral manner: flat rate, weight-based, value-based, and age-based;

(2) a two-year vehicle registration period and any other changes related to timing of vehicle registration periods;

(3) the financial effects of the changes considered in clauses (1) and (2) including, at a minimum, costs for vehicle owners and deputy registrars; and

(4) whether the changes considered in clauses (1) and (2) will require customization to the vehicle title and registration system and the potential cost of the customization.

Subd. 3. **Report.** By January 15, 2020, the task force must report to the chairs and ranking minority members of the legislative committees with jurisdiction over transportation policy and finance. The report must:

(1) summarize the activities of the task force;

(2) provide an explanation of how each method examined could be implemented in Minnesota in a revenue neutral manner;

(3) provide recommendations by the task force on which method is preferable and why; and

(4) include any draft legislation needed to implement the recommendations.

Subd. 4. **First meeting; chair.** The chair of the Legislative Coordinating Commission must convene the first meeting of the Vehicle Registration Task Force by July 1, 2019. At the first meeting, the task force shall elect a chair by a majority vote of those members present.

Subd. 5. **Meetings.** The meetings of the task force are subject to Minnesota Statutes, chapter 13D.

Subd. 6. **Administration.** (a) The Legislative Coordinating Commission shall provide administrative services for the task force.

(b) The Department of Transportation, the Department of Public Safety, and MN.IT Services must provide the task force with general informational and technical support.

Subd. 7. **Compensation.** Public members are compensated as provided in Minnesota Statutes, section 15.059, subdivision 3.

Subd. 8. **Expiration.** This section expires the day after submission of the report required in subdivision 3 or on January 16, 2020, whichever is later.

**EFFECTIVE DATE.** This section is effective the day following final enactment.

Sec. 39. **REVISOR INSTRUCTION.**

The revisor of statutes must correct all cross-references to the paragraphs that are relettered in sections 10 and 30.

Sec. 40. **REPEALER.**

Laws 2018, chapter 101, section 3, subdivision 2, is repealed.

Sec. 41. **EFFECTIVE DATE.**

Except as otherwise provided, this article is effective August 1, 2019.

### ARTICLE 3

#### TRANSPORTATION POLICY

Section 1. Minnesota Statutes 2018, section 3.972, is amended by adding a subdivision to read:

Subd. 2c. **Audits of the Department of Transportation.** The legislative auditor must audit, as resources permit, the programs and services administered by the Department of Transportation.

Sec. 2. Minnesota Statutes 2018, section 3.972, is amended by adding a subdivision to read:

Subd. 2d. **Audits of the Department of Public Safety.** The legislative auditor must audit, as resources permit, the programs and services administered by the Department of Public Safety.

Sec. 3. Minnesota Statutes 2018, section 13.46, subdivision 2, is amended to read:

Subd. 2. **General.** (a) Data on individuals collected, maintained, used, or disseminated by the welfare system are private data on individuals, and shall not be disclosed except:

- (1) according to section 13.05;
- (2) according to court order;
- (3) according to a statute specifically authorizing access to the private data;

# **Appendix B**

## **Meeting Minutes**

## Vehicle Registration Task Force

### Minutes

September 25, 2019  
Room G-23, State Capitol  
12:30 PM

#### Members Present

Senator Mary Kiffmeyer, Chair  
Commissioner Margaret Anderson Kelliher  
Amber Backhaus  
Senator Scott Dibble  
Jon Eichten  
Representative Steve Elkins  
Mike Hintz  
Senator John Jasinski  
Timothy Lynaugh  
Nicole Mickelson  
Representative John Petersburg  
Aly Quinn  
Kristi Schroedl  
Gaye Smith  
Suzanne Sobotka  
Tu Tong

#### Members Excused

Representative Dave Baker  
Emma Corrie  
Senator Susan Kent  
Representative Brad Tabke

#### Call to Order

Senator Jeremy Miller, Chair of the Legislative Coordinating Commission, convened the meeting of the Vehicle Registration Task Force at 12:33 PM in Room G-23 of the State Capitol.

A quorum was present.

Task Force members introduced themselves.

#### Election of Chair

Senator Miller requested nominations for the position of chair of the Vehicle Registration Task Force. Senator Jasinski nominated Senator Kiffmeyer for the position of chair. THE MOTION PREVAILED.

Senator Kiffmeyer assumed the gavel.

**Vehicle Registration Task Force Introductory Overview**

Matt Burress, Legislative Analyst, House Research Department and Alexis Stangl, Lead Counsel, Senate Counsel, Research and Fiscal Analysis, provided background information on vehicle registration, which included a review of the duties of the Vehicle Registration Task Force and an introductory overview of the vehicle registration tax.

**Task Force Discussion**

Each member provided input on their goals for the Task Force.

There being no further business, the meeting adjourned at 1:30 PM.

## Vehicle Registration Task Force

### Minutes

October 29, 2019

Room 1100, Minnesota Senate Building

11:00 AM

#### Members Present:

Senator Mary Kiffmeyer, Chair  
Commissioner Margaret Anderson Kelliher  
Amber Backhaus  
Emma Corrie  
Senator Scott Dibble  
Jon Eichten  
Representative Steve Elkins  
Mike Hintz  
Senator John Jasinski  
Timothy Lynaugh  
Senator Susan Kent  
Nicole Mickelson  
Representative John Petersburg  
Aly Quinn  
Kristi Schroedl  
Gaye Smith  
Suzanne Sobotka  
Representative Brad Tabke  
Tu Tong

#### Members Excused:

Representative Dave Baker

Senator Kiffmeyer, Chair, called the meeting of the Vehicle Registration Task Force to order at 11:07 AM in Room 1100 of the Minnesota Senate Building.

A quorum was present.

Senator Jasinski moved approval of the minutes from the September 25, 2019 meeting. THE MOTION PREVAILED.

Members discussed the analysis the Department of Transportation is to conduct on the registration fee structures of flat rate, weight-based, value-based and age-based utilizing data provided by the Department of Public Safety.

Commissioner John Harrington, Department of Public Safety, provided background on the Vehicle Title and Registration System and spoke to the data the Department of Public Safety provided for the fee structure analysis.

Ken Buna, FAST Enterprises, provided an update on the development of the software for the Vehicle Title and Registration System as related to the registration fee structure.

Judy Randall, Deputy Legislative Auditor, Office of the Legislative Auditor (OLA), presented an overview of the OLA 2018 report on MNLARS Transaction Accuracy.

The following people addressed Task Force member questions:

Joan Redwing, Chief Business Technology Officer, Department of Public Safety

Tony Anderson, Program Director, Department of Public Safety

There being no further business, the meeting adjourned at 12:47 PM.



## Vehicle Registration Task Force

### Minutes

December 2, 2019

Room 1100, Minnesota Senate Building

9:00 AM

#### Members Present:

Senator Mary Kiffmeyer, Chair

Commissioner Margaret Anderson Kelliher

Amber Backhaus

Emma Corrie

Representative Steve Elkins

Mike Hintz

Senator John Jasinski

Timothy Lynaugh

Senator Susan Kent

Nicole Mickelson

Representative John Petersburg

Kristi Schroedl

Gaye Smith

Suzanne Sobotka

Representative Brad Tabke

Tu Tong

#### Members Excused:

Representative Dave Baker

Senator Scott Dibble

Jon Eichten

Aly Quinn

Senator Kiffmeyer, Chair, called the meeting of the Vehicle Registration Task Force to order at 9:18 AM in Room 1100 of the Minnesota Senate Building.

A quorum was present.

Senator Jasinski moved approval of the minutes from the October 29, 2019 meeting. THE MOTION PREVAILED.

Josh Knatterud-Hubinger, Budget Director, Minnesota Department of Transportation, and Tony Anderson, Program Director, Department of Public Safety, provided an overview on vehicle funding registration methods and presented on how the scenarios of flat rate, age based rate and value based rate could be implemented in Minnesota in a revenue neutral manner.

Ken Buna, FAST Enterprises, addressed Task Force member questions.

There being no further business, the meeting adjourned at 11:18 AM.

# Vehicle Registration Task Force

## Minutes

February 6, 2020

Room 1100, Minnesota Senate Building

9:00 AM

### Members Present:

Senator Mary Kiffmeyer, Chair  
Commissioner Margaret Anderson Kelliher  
Amber Backhaus  
Senator Scott Dibble  
Jon Eichten  
Representative Steve Elkins  
Mike Hintz  
Senator John Jasinski  
Timothy Lynaugh  
Nicole Mickelson  
Representative John Petersburg  
Aly Quinn  
Kristi Schroedl  
Gaye Smith  
Suzanne Sobotka  
Representative Brad Tabke  
Tu Tong

### Members Excused:

Representative Dave Baker  
Emma Corrie  
Senator Susan Kent

Senator Kiffmeyer, Chair, called the meeting of the Vehicle Registration Task Force to order at 9:08 AM in Room 1100 of the Minnesota Senate Building.

A quorum was present.

Senator Jasinski moved approval of the minutes from the December 2, 2019 meeting. THE MINUTES WERE ADOPTED.

Kristi Schroedl, Chief Financial Officer, Minnesota Department of Transportation, Josh Knatterud-Hubinger, Budget Director, Minnesota Department of Transportation, and Tony Anderson, Program Director, Department of Public Safety, provided an overview on how a weight-based funding

structure along with three hybrid structures (modified value based, tiered age-based and hybrid age-based) could be implemented in a revenue neutral manner.

Members discussed possible Task Force recommendations.

The following people addressed member questions and spoke to potential Task Force recommendations:

Ken Buna, FAST Enterprises

Rick King, Chair of the Blue Ribbon Council on Information Technology

Rep. Tabke moved the Task Force recommend to the Legislature 1) amending the “base value” calculation in Minn. Stat. §168.013, subd. 1a, by eliminating the destination charge, so that the base value of the vehicle is the manufacturer’s suggested retail price (MSRP) base price for newly registered vehicles and 2) eliminating the “hold harmless” provision in Minn. Stat. §168.013, subdivision 1a, paragraph (j). Seconded.

THE MOTION PREVAILED. (The Chair noted that there was no opposition to the motion.)

There being no further business, the meeting adjourned at 10:48 AM.

## Vehicle Registration Task Force

### Minutes

February 24, 2020

Room 1100, Minnesota Senate Building

9:00 AM

#### Members Present:

Senator Mary Kiffmeyer, Chair  
Commissioner Margaret Anderson Kelliher  
Emma Corrie  
Senator Scott Dibble  
Jon Eichten  
Representative Steve Elkins  
Senator John Jasinski  
Timothy Lynaugh  
Nicole Mickelson  
Aly Quinn  
Kristi Schroedl  
Gaye Smith  
Representative Brad Tabke  
Tu Tong

#### Members Excused:

Amber Backhaus  
Representative Dave Baker  
Mike Hintz  
Senator Susan Kent  
Representative John Petersburg  
Suzanne Sobotka

Senator Kiffmeyer, Chair, called the meeting of the Vehicle Registration Task Force to order at 9:10 AM in Room 1100 of the Minnesota Senate Building.

A quorum was present.

Senator Jasinski moved approval of the minutes from the February 6, 2020 meeting. THE MOTION PREVAILED.

Rep. Tabke moved approval of the Vehicle Registration Task Force Report to the Legislature. THE MOTION PREVAILED.

Josh Knatterud-Hubinger, Budget Director, Minnesota Department of Transportation, provided an update on the estimated fiscal impact of the Task Force's recommendations adopted on February 6, 2020.

Matt Burress, Legislative Analyst, House Research Department and Alexis Stangl, Lead Counsel, Senate Counsel, Research and Fiscal Analysis, provided an overview of HF 3547 (Tabke)/SF 3497 (Kiffmeyer): Motor vehicle registration tax determination amended.

There being no further business, the meeting adjourned at 9:45 AM.

# **Appendix C**

## **Introductory Overview**

**Matt Burress, House Research Department**

**Alexis Stangl, Senate Counsel, Research and Fiscal Analysis**

# Vehicle Registration Task Force

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## Introductory Overview

### I. Task Force background & overview

- Proposed as part of broader legislative discussions of MNLARS
- Established in transportation budget legislation, Laws 2019, 1st spec. sess., ch. 3, art. 2, § 38
- 20 members with a mix of legislative, executive branch, and stakeholder representation
- Administrative support from LCC and executive branch agencies
- Duties include examining:
  - Taxation structures
  - Registration periods
  - Associated financial impacts
  - Implications for IT system customization
- Legislative report due by January 15, 2020

### II. Financial context

- Highway finance overview – see *Highway Finance* handout
  - Registration tax is part of a constitutional framework
  - Revenue goes into the Highway User Tax Distribution (HUTD) fund and is allocated via multiple formulas to state and local road systems
- Registration tax revenue – see *Minnesota HUTD Revenue* handout for history
  - \$781.9 million in FY 2018
  - Accounts for about 35% of HUTD revenue and 31% of state highway revenue
  - Roughly 82% is from passenger vehicle registration
- Passenger vehicle fleet overview:

**Passenger Vehicle Registration, FY 2018**

Vehicle Age	Vehicle Count	% of Count	Tax Revenue	% of Revenue
New (1st year)	0.26 M	5.8%	\$114.3 M	17.8%
2nd to 10th year	2.08 M	45.5%	\$452.1 M	70.2%
11th+ year	2.22 M	48.7%	\$77.7 M	12.1%
<b>Total</b>	<b>4.56 M</b>	<b>100.0%</b>	<b>\$644.1 M</b>	<b>100.0%</b>



Vehicle Age	Vehicle Count	% of Count	Tax Revenue	% of Revenue
<b>Notes</b> Vehicle counts and revenue are in millions.				

- Registration tax is one several vehicle-related taxes & fees – see *Motor Vehicle Taxes & Fee Flow* handout for examples

### III. Registration tax introduction

- Generally, imposed annually as part of the motor vehicle registration process
- Vehicle registration administered by Driver and Vehicle Services in conjunction with appointed deputy registrars
- Tax is calculated differently depending on vehicle type

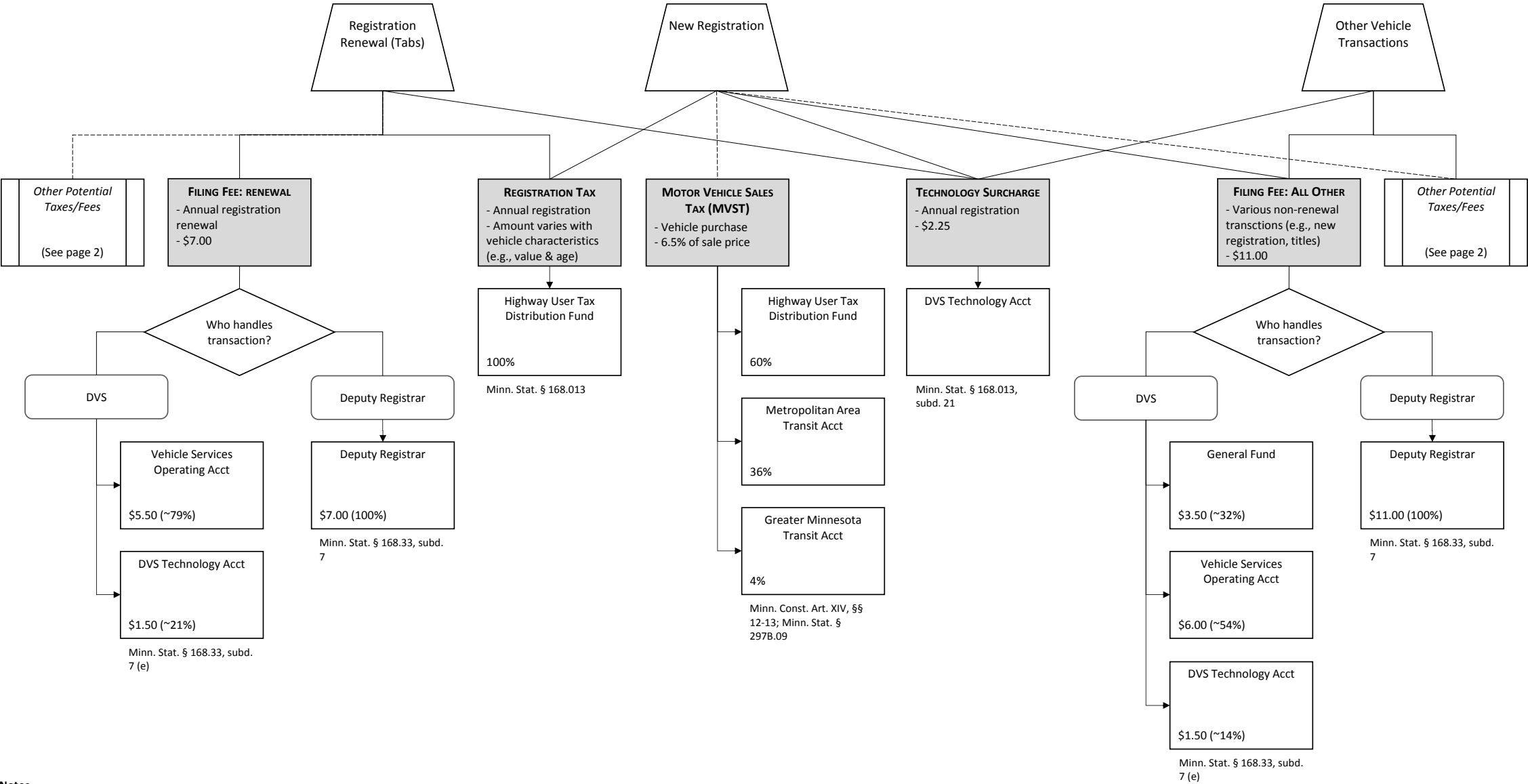
#### Registration Tax Calculation Methods

Vehicle Type	Registration Tax Determination
Bus	Weight schedule, graduated based on age
Commuter van	Weight schedule, graduated based on age
Electric vehicle	Formula; original vehicle value, graduated based on age, plus flat amount
Moped	Flat amount
Motorcycle	Flat amount
Passenger vehicle	Formula; original vehicle value, graduated based on age
Recreational vehicle (self-propelled)	Weight schedule, graduated based on age
Trailer (up to 3,000 lbs.)	Onetime flat amounts (various)
Trailer (over 3,000 lbs.)	Weight schedule, graduated at age thresholds
Truck	Weight schedule, graduated at age thresholds
<b>Notes</b> Listing is not comprehensive. Various exceptions and adjustment scenarios not shown. Weight schedule differs across vehicle types. Minn. Stat. § 168.013.	

- Formula for passenger vehicles: sum of (1) \$10 flat amount, plus (2) 1.25% of “base value” as adjusted by a depreciation schedule
  - “Base value” is the original manufacturer’s suggested retail price, including destination charge and excluding any options & accessories
  - Depreciation schedule is an annual reduction in the percentage rate (lowering the rate as the vehicle ages)
  - For vehicle year 11 and after, the tax is no longer based on vehicle value and is instead \$35 (i.e., the \$10 flat amount plus a \$25 minimum)
  - “Hold harmless” provision (from changes in 2008)

Motor Vehicle Taxes & Fees Flow

Partial Summary (not comprehensive for all scenarios)

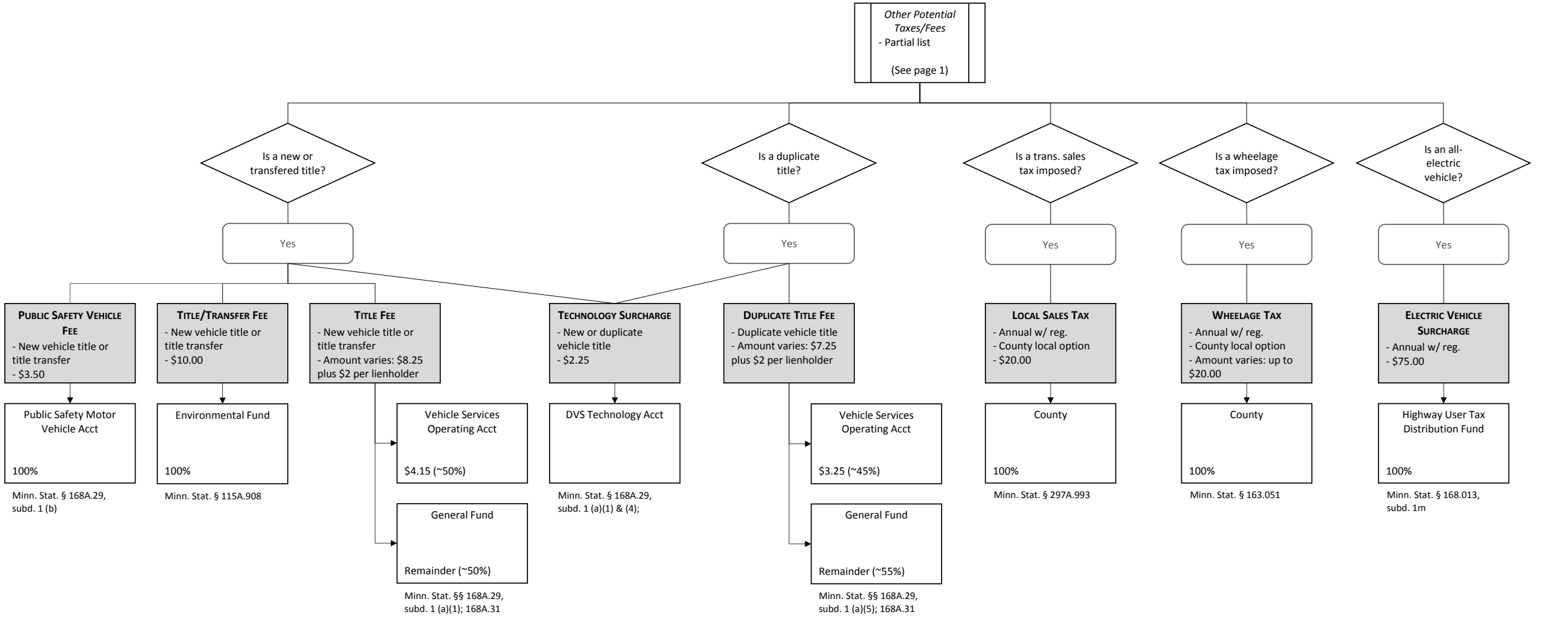


**Notes**

"DVS" refers to Driver and Vehicle Services

Chart excludes various fees and transaction scenarios, such as for exempt vehicles, expedited service, trailer registration, late penalties, and special plate contributions

Chart does not show other state sales taxes (general sales tax on motor vehicle leases, rental sales tax, and general sales tax on automotive parts)



## **Appendix D**

### **Recommendations from OLA report on MNLARS Transaction Accuracy**

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# List of Recommendations

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- The Department of Public Safety (DPS) should correct a VIN descriptor's base value once it receives updated information from the vehicle manufacturer. (p. 13)
- DPS should correct base-value amounts in MNLARS, so future registration transactions will be correct. (p. 19)
- DPS and the Legislature should work together to ensure all vehicle owners pay the correct amount of registration tax, regardless of previous transaction errors. (pp. 19 and 46)
- DPS should work with Minnesota IT Services (MNIT) to ensure MNLARS is programmed to accurately calculate vehicle registration tax for heavy vehicles based on a consistent interpretation of state law. (p. 29)
- DPS and the Legislature should work together to clarify state law regarding vehicle registration tax rates for heavy vehicles. (p. 29)
- DPS should work with MNIT to ensure MNLARS is programmed to accurately calculate vehicle registration tax for older self-propelled recreational vehicles with gross weights of 4,500 pounds or less. (p. 29)
- DPS should work with MNIT to establish controls in MNLARS to prevent system users from miscoding registration tax transactions for low-weight trailers. (p. 29)
- DPS should develop procedures to monitor the accuracy of variable-rate vehicle registration tax transactions for nonpassenger vehicles, and to initiate corrections and system enhancements as necessary. (p. 29)
- DPS should develop procedures to monitor the accuracy of flat-rate registration tax transactions for nonpassenger vehicles, and initiate corrections and system enhancements as necessary. (p. 32)
- DPS should enter county wheelage tax rate changes into MNLARS on a more timely basis. (p. 35)
- DPS should prevent transactions for registration periods starting in subsequent calendar years until after it updates county wheelage tax rates in MNLARS. (p. 35)
- DPS should correct the registration periods in MNLARS that incorrectly exceeded 12 months. (p. 35)
- DPS should develop procedures to monitor the accuracy of county wheelage tax transactions, and to initiate corrections and system enhancements as necessary. (p. 35)

- DPS should refund vehicle registration tax and county wheelage tax collected from customers that qualified for the active military service exemption. (p. 36)
- DPS should work with MNIT to ensure MNLARS is programmed to effectively prevent vehicle registration tax and county wheelage tax from being charged for transactions that include the active military service code. (p. 36)
- DPS should assess the contribution deposits in the state parks and trails donation account and correct any outstanding errors. (p. 39)
- MNIT and DPS should ensure MNLARS does not allow system users to inappropriately apply outdated or expired fees. (p. 43)
- DPS should provide MNLARS users training on how to accurately record the value of trade-in vehicles. (p. 43)
- DPS and the Legislature should consider reimbursing customers where known errant collections were made. (p. 46)
- DPS and MNIT staff should work together to correct programming and coding issues. (p. 46)
- DPS and MNIT should implement controls to help prevent errors introduced by system users. (p. 47)
- DPS should evaluate and improve policies, procedures, communications, and training for all system users. (p. 47)
- The Legislature should consider simplifying the laws that govern vehicle licensing and registration. (p. 48)

# **Appendix E**

## **Vehicle Registration Funding Methods Overview**

**Josh Knatterud-Hubinger, Minnesota Department of Transportation**

**Tony Anderson, Department of Public Safety**





## Vehicle Registration Funding Methods

Josh Knatterud-Hubinger (MnDOT)

Tony Anderson (DPS)

December 2, 2019



## Minnesota Constitution Article XIV, Public Highway System

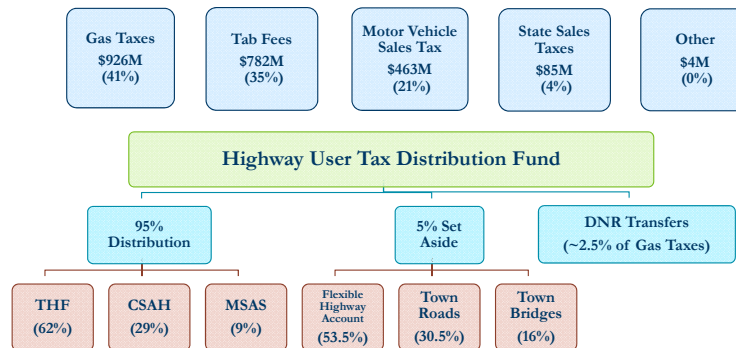
- Constitution establishes the ability to tax the registration of motor vehicles

*The legislature by law may tax motor vehicles using the public streets and highways on a more onerous basis than other personal property.*

- Under the constitution, revenue from the registration tax is dedicated to state and local highways
  - The distribution of funds follows a constitutional formula



## Highway User Tax Distribution Revenue Sources and Uses FY 2018 Revenues



3

## Minn. Stat. 168.013

- Current passenger motor vehicle registration tax policy was instituted in 2008
- Any changes recommended by the task force would require a change in law
- Passenger vehicles using the public streets or highways in the state shall be taxed each calendar year on the following basis:
  - \$10 tax, plus:
  - 1.25% of vehicle's base value, depreciated over 10 years (10% increments/year)
  - After 10<sup>th</sup> year the additional tax is \$25 (\$35 total)



4

## Other Registration Taxes

### • Other Vehicles



- Motorcycles: \$10
- Trucks and tractors: based on gross weight - ranges from minimum \$120, up to \$1,760 for 80,000 pounds
- Other vehicles generate ~20% of revenues

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## Motor Vehicle Annual County Summary Report CY 2018

Vehicle Description	Vehicle Count	% Vehicle Count	Tax Collected	% Tax Collected	Average Tax Per Vehicle
Passenger <sup>(09)</sup>	3,660,210	49.6%	\$447,233,057	59.4%	\$122
Pickup Truck <sup>(10)</sup>	1,098,867	14.8%	\$170,720,998	22.7%	\$155
Y-Class One-ton Non-Commercial Pickup <sup>(11)</sup>	11,794	0.2%	\$871,439	0.1%	\$74
Bus <sup>(12)</sup>	5,314	0.1%	\$414,199	0.1%	\$78
Intra-City Bus <sup>(13)</sup>	56	0.0%	\$703	0.0%	\$13
Recreational Trailer <sup>(14)</sup>	143,992	2.0%	\$1,964,268	0.3%	\$14
Motorcycle <sup>(16)</sup>	223,856	3.0%	\$2,208,429	0.3%	\$10
Self-Propelled RV <sup>(17)</sup>	29,342	0.4%	\$3,069,467	0.4%	\$105
School Bus <sup>(18)</sup>	7,934	0.1%	\$194,435	0.0%	\$25
Farm Truck <sup>(19)</sup>	49,199	0.7%	\$12,852,787	1.7%	\$261
Prorate Trailer <sup>(21)</sup>	431	0.0%	\$761	0.0%	\$2
Concrete Pumpers/Truck Sweeper <sup>(22)</sup>	278	0.0%	\$27,760	0.0%	\$100
Moped <sup>(24)</sup>	13,295	0.2%	\$78,434	0.0%	\$6
Prorate Truck <sup>(25)</sup>	39,707	0.5%	\$394,745	0.1%	\$10
Commercial Trailer <sup>(26)</sup>	272,697	3.6%	\$8,160,808	1.1%	\$30
Semi-Trailer <sup>(27)</sup>	293,620	4.0%	\$1,352,380	0.2%	\$5
Farm Trailer <sup>(30)</sup>	6,875	0.1%	\$428,942	0.1%	\$62
Y-Class One-ton Commercial Pickup Truck <sup>(31)</sup>	1,954	0.0%	\$102,352	0.0%	\$52
Commercial Zone Truck <sup>(32)</sup>	17	0.0%	\$3,950	0.0%	\$232
Off Highway Motorcycle <sup>(33)</sup>	620	0.0%	\$6,136	0.0%	\$10
Van Pool <sup>(38)</sup>	139	0.0%	\$4,929	0.0%	\$35
Y-Class Commercial Truck/Tractor <sup>(41)</sup>	155,065	2.1%	\$39,172,299	5.2%	\$253
Tax Exempt/State-Owned <sup>(60)</sup>	17,033	0.2%	\$289,256	0.0%	\$17
Tax Exempt <sup>(61)</sup>	41,723	0.6%	\$404,260	0.1%	\$10
Utility Trailer <sup>(62)</sup>	1,058,316	14.3%	\$57,336,632	7.6%	\$54
Street Rod <sup>(80)</sup>	5,796	0.1%	\$143,171	0.0%	\$25
Pioneer <sup>(81)</sup>	17,484	0.2%	\$213,269	0.0%	\$12
Classic <sup>(82)</sup>	1,012	0.1%	\$14,519	0.0%	\$14
Collector <sup>(83)</sup>	212,675	2.8%	\$5,207,396	0.7%	\$24
Classic Motorcycle <sup>(84)</sup>	15,921	0.2%	\$174,248	0.0%	\$11
<b>TOTAL</b>	<b>7,385,222</b>		<b>\$753,046,028</b>		

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## Current Passenger Vehicle Fleet

November 2019

- About 4.9 million passenger vehicles and pickup trucks
- Average age of cars and light trucks in U.S. rose to 11.8 years in 2019 (IHS Markit)
- Of the 4.9 million vehicles approximately 44% are 11+ years

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## Electric Vehicles

- Annual **\$75 Electric Vehicle Surcharge** (effective January 1, 2018)
- 5,300 battery electric vehicles registered in Minnesota (~10,000 including PHEVs)
  - About 0.2% of fleet
  - Sales have grown ~85%/year over past 3 years
- Surcharge collects approximately \$400,000 in revenue/year (0.05% of total revenues)
- 20% of Americans say their next car will be electric
- Electric Vehicles in neighboring states:
  - **Wisconsin:** \$100 fee for electric vehicles and \$75 fee for hybrids
  - **Iowa:** \$25 (\$15 for vehicles older than 6 years)



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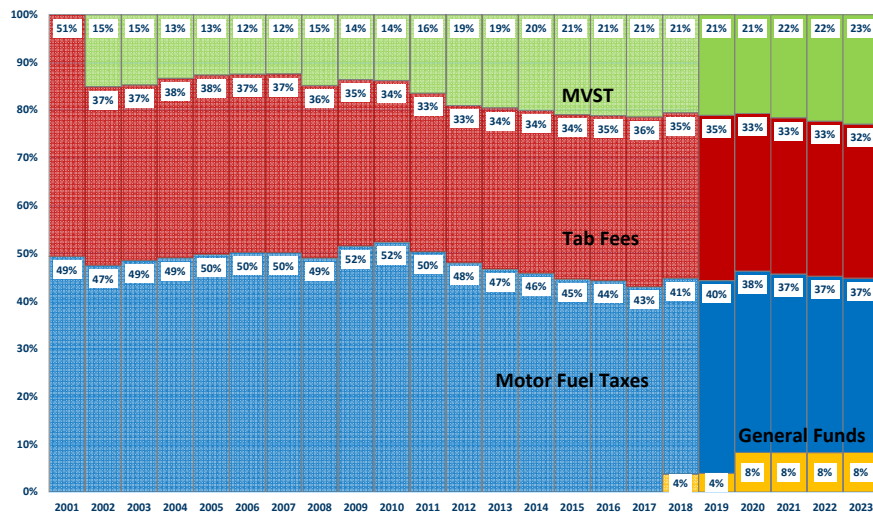
## Passenger Vehicle Composition February 2019 Forecast

Years	Vehicle Fleet Age	Vehicle Revenue
0-1	6%	19%
2	6%	17%
3	5%	14%
4	6%	12%
5	6%	9%
6	6%	7%
7	5%	5%
8	5%	3%
9	4%	3%
10	3%	2%
11+	47%	13%

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## Percent of Total Revenues

FY 2001-2018 Actuals, 2019-2023 Based on Feb. 2019 Forecast



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## Registration Tax Revenue

- Revenue collected by passenger vehicles comprises **80%** of total registration tax revenue
- **Remaining 20%** of revenue is from other vehicle types, including:
  - Utility trailers
  - Semi trailers
  - Commercial truck
  - Motorcycles
  - Farm trucks and trailers
  - Buses



11

## Registration Tax Revenues

Change Year Over Year

### Registration Tax Revenue

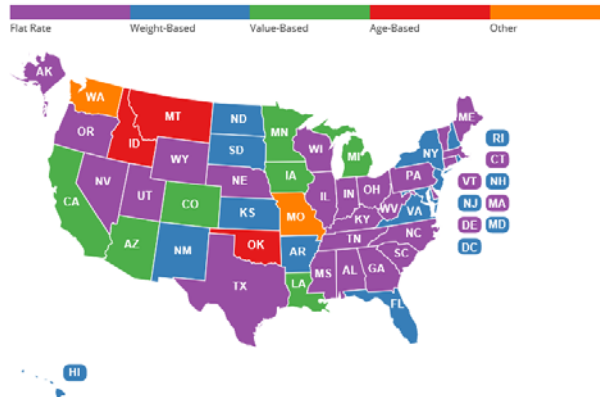
February 2019 Forecast  
(\$ in thousands)

	2016 (act)	2017 (act)	2018 (act)	2019	2020	2021	2022	2023
Passenger Vehicles (80% of registered vehicles)	4,626	4,516	4,650	4,770	4,894	4,894	4,894	4,894
Passenger Vehicle Revenue	576,974	618,389	644,119	664,146	677,845	685,990	690,015	692,308
Total Vehicle Registration Revenue	701,635	752,676	781,867	806,149	822,766	832,716	837,591	840,278
Year-Over-Year Growth	2.2%	7.3%	3.9%	3.6%	2.1%	1.2%	0.6%	0.3%

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## Registration Taxes & Fees by State Per NCSL

According to National Conference of State Legislatures, the various types of [registration and title fees by state](#):



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## Registration Taxes & Fees by State Per NCSL

Registration Type*	Number of States
Flat Rate	25
Weight Based Rate	14
Value Based Rate	7
Age Based Rate	3
Other	2

*\*10 State implement hybrid/combination of registration types*

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## Neighboring States Per NCSL

### Iowa

- Value and weight based:
  - 1.0% for 1-7 model years old
  - 0.75% for 8-9 model years old
  - 0.50% for 10-11 model years old
  - \$50 for 12+ model years old
  - **Plus 40 cents for each 100 lbs.**

### North Dakota:

- Weight based
- Calculated based on weight and age, ranging from \$49 - \$274

### South Dakota:

- Weight based:
  - \$36 for vehicles 2,000 lbs. or less
  - \$72 for vehicles 2,001-4,000 lbs.
  - \$108 for vehicles 4,001-6,000 lbs.
  - \$144 for vehicles over 6,000 lbs.

### Wisconsin

- Flat registration fee of \$75

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## Registration Taxes Year When Minimum Tax Applies – Varies by State

State	Years	Minimum Tax
<b>Minnesota</b> (value based)	<b>11+</b>	<b>\$35</b>
<b>Colorado</b> (value based)	5+	0.45% of taxable value
<b>Idaho</b> (age based)	7+	\$45
<b>Montana</b> (age based)	11+	\$28
<b>Iowa</b> (value based)	12+	\$50 (plus fixed fee for weight)
<b>Oklahoma</b> (age based)	17+	\$15

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## Vehicle Registration Revenue Other States with FAST

State	Dedicated to Transportation	Percent of State Transportation Revenue
Oklahoma	Statutory (partially dedicated <sup>1)</sup> )	< 1%
Massachusetts	Statutory	30%
Nebraska	Statutory	10%
Oregon	Constitutional	25%
Michigan	Constitutional	42%
New Mexico	Statutory (mostly dedicated <sup>2)</sup> )	22%
North Dakota	Constitutional	32%
Mississippi	Statutory (partially dedicated <sup>3)</sup> )	2%
Georgia	No	0%
Colorado	Constitutional	13% <sup>4</sup>

**Notes:**

1) Statutory: 31% State Transportation; about 33% County Transportation

2) About 13% currently to counties and cities general funds; unsure if dedicated

3) The \$15 Privilege tax portion of "tag fees" is primarily allocated to state and local roads and bridges

4) There are two surcharges added to registration taxes for Road and Bridge Safety; not included.

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## Illustrative Vehicle - Neighboring States Sedan

### Estimated vehicle registration tax over life of Toyota Camry

- \$26,000 MSRP
- Approximately 3,300 lbs. curb weight

Year	Minnesota	Iowa	Wisconsin	South Dakota
1	335	273	75	72
2	303	273	75	72
3	270	273	75	72
4	238	273	75	72
5	205	273	75	72
6	173	273	75	72
7	140	273	75	72
8	108	208	75	72
9	75	208	75	72
10	43	143	75	72
11	35	143	75	72
12	35	63	75	72
13+	35	63	75	72
Total	1,993	2,742	975	936
\$ Difference		749	(1,018)	(1,057)
% Difference		38%	51%	53%

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## Illustrative Vehicle - Neighboring States Crossover/SUV

### Estimated vehicle registration tax over life of **Nissan Rogue**

- \$31,000 MSRP
- Approximately 3,500 lbs. curb weight

Year	Minnesota	Iowa	Wisconsin	South Dakota
1	398	324	75	72
2	359	324	75	72
3	320	324	75	72
4	281	324	75	72
5	243	324	75	72
6	204	324	75	72
7	165	324	75	72
8	126	247	75	72
9	88	247	75	72
10	49	169	75	72
11	35	169	75	72
12	35	64	75	72
13+	35	64	75	72
Total	2,336	3,227	975	936
\$ Difference		891	(1,361)	(1,400)
% Difference		38%	58%	60%

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## Illustrative Vehicle - Neighboring States Pickup Truck

- Estimated vehicle registration tax over life of **F-150**
- \$42,000 MSRP
- Approximately 4,100 lbs. curb weight

Year	Minnesota	Iowa	Wisconsin	South Dakota
1	535	436	75	108
2	483	436	75	108
3	430	436	75	108
4	378	436	75	108
5	325	436	75	108
6	273	436	75	108
7	220	436	75	108
8	168	331	75	108
9	115	331	75	108
10	63	226	75	108
11	35	226	75	108
12	35	66	75	108
13+	35	66	75	108
Total	3,093	4,303	975	1,404
\$ Difference		1,211	(2,118)	(1,689)
% Difference		39%	68%	55%

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## Vehicle Value

- Statute defines **Base Value** as:

*The manufacturer's suggested retail price of the vehicle including destination charge using list price information published by the manufacturer or determined by the registrar if no suggested retail price exists, and shall not include the cost of each accessory or item of optional equipment*

- **Alternative:** *Manufacturer's Suggested Retail Price (MSRP)*

- Price the manufacturer suggests that the dealer should ask for a vehicle (including accessories and optional equipment)

[illegible]

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## Destination Charge

- Option to simplify base value calculation by removing the destination charge
- Costs to deliver a new vehicle from assembly plant to dealership (~\$800 on average per vehicle added to base value)

- According to OLA:

*There is no single source for base-value data, which results in variability and inconsistency (MNLARS Transaction Accuracy, September 25, 2018, p. 9)*

- Estimated destination charge (~1% of total revenue):

2020	2021	2022	2023
2,560,000	4,864,000	6,912,000	8,704,000

- Approximately \$23 million impact over 4 years

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## Hold Harmless Provision Minn. Stat. 168.013 subd. 1a.(j)

- 2008 legislation (modified slightly in 2017) requires that the tax paid on any vehicle previously registered in Minnesota cannot increase:

*For any vehicle previously registered in Minnesota and regardless of prior ownership, the total amount due under this subdivision and subdivision 1m **must not exceed the smallest total amount previously paid** or due on the vehicle.*

- Any proposed change in the tax rate or structure would require eliminating this provision to maintain neutral revenues

- OLA comment:

*Minnesota statutes may prevent the DPS from charging customers the correct amount of registration tax if the tax on their vehicle had been previously undercharged (MNLARS Transaction Accuracy, September 25, 2018, p. 46)*

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## Scenarios

- All scenarios are implemented in a revenue neutral manner over FYs 2020-23
- Scenarios assume the average life of a vehicle is 12 years
- Methods include:
  - Flat Rate
  - Age Based Rate
  - Value Based Rate
  - Weight Based Rate

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## Data Quality

- Current snapshot consist of over 8 million vehicle records
- Minimal outliers in vehicle data (vehicle age and value)
- Limited data available on vehicle weight for passenger vehicles and pickups
  - Registered Weight: No data on 99.9% of vehicles
  - Polk Vehicle Identification Number (VIN) Decoder: data on 53% of vehicles
    - 1.4 million vehicles under 6,000 lbs.
    - 1.2 million vehicles over 6,000 lbs.
    - Data reflect large weight ranges (0-6,000, 6,000-10,000, etc.)
- Weight based scenarios are difficult based on available data

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## Flat Rate

- **\$138 flat tax rate** each year
- Amount each of the 4.9 million vehicles pay to remain revenue neutral
- A vehicle would pay \$1,794 over 13 years



26

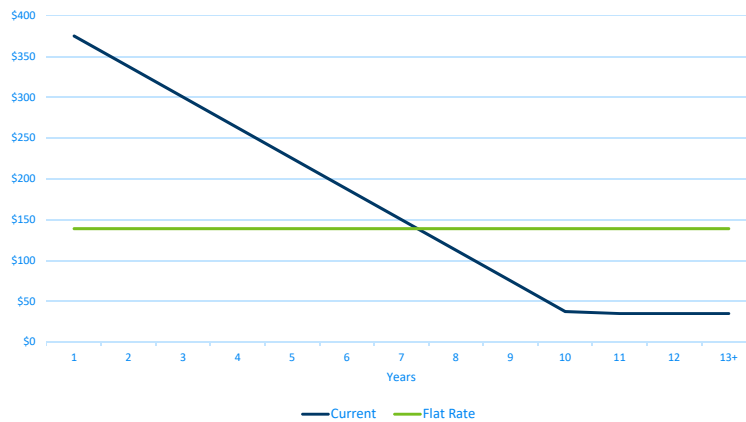
## Flat Rate Based Comparison

Years	Current Camry	Flat Rate Camry	\$ Change	% Change	Current F 150	Flat Rate F 150	\$ Change	% Change
1	325	138	(187)	-58%	525	138	(387)	-74%
2	293	138	(155)	-53%	473	138	(335)	-71%
3	260	138	(122)	-47%	420	138	(282)	-67%
4	228	138	(90)	-39%	368	138	(230)	-62%
5	195	138	(57)	-29%	315	138	(177)	-56%
6	163	138	(25)	-15%	263	138	(125)	-47%
7	130	138	8	6%	210	138	(72)	-34%
8	98	138	41	42%	158	138	(20)	-12%
9	65	138	73	112%	105	138	33	31%
10	35	138	106	325%	53	138	86	163%
11	35	138	103	294%	35	138	103	294%
12	35	138	103	294%	35	138	103	294%
13+	35	138	103	294%	35	138	103	294%
<b>Total</b>	<b>1,893</b>	<b>1,794</b>	<b>(99)</b>	<b>-5%</b>	<b>2,993</b>	<b>1,794</b>	<b>(1,199)</b>	<b>-40%</b>

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## Flat Rate Comparison Yearly Rate

**Flat Rate vs. Current Registration Rate**  
\$30,000 Vehicle



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## Age Based Rate

- Vehicles would pay a standard rate based on age
- Over the first 12 years the rate would decrease on average by ~10% per year (varies by year)
- Vehicles 13 years and older would pay \$35/year
- A vehicle would pay \$2,440 over 13 years



29

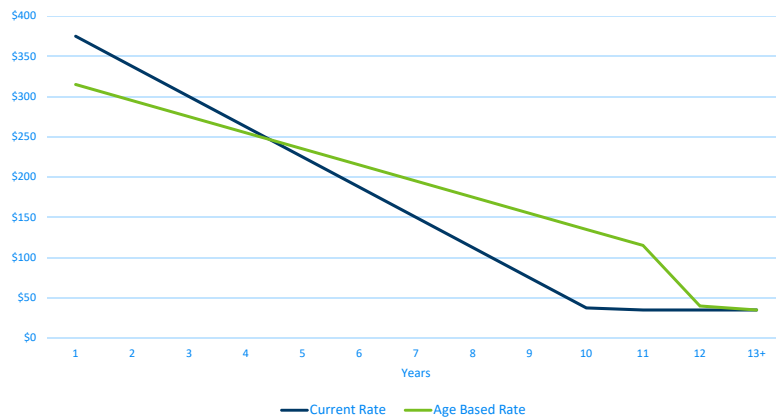
## Age Based Rate Comparison

Years	Current Camry	Age Rate Camry	\$ Change	% Change	Current F 150	Age Rate F 150	\$ Change	% Change
1	325	315	(10)	-3%	525	315	(210)	-40%
2	293	295	3	1%	473	295	(178)	-38%
3	260	275	15	6%	420	275	(145)	-35%
4	228	255	28	12%	368	255	(113)	-31%
5	195	235	40	21%	315	235	(80)	-25%
6	163	215	53	32%	263	215	(48)	-18%
7	130	195	65	50%	210	195	(15)	-7%
8	98	175	78	79%	158	175	18	11%
9	65	155	90	138%	105	155	50	48%
10	35	135	103	315%	53	135	83	157%
11	35	115	80	229%	35	115	80	229%
12	35	40	5	14%	35	40	5	14%
13+	35	35	-	0%	35	35	-	0%
<b>Total</b>	<b>1,893</b>	<b>2,440</b>	<b>548</b>	<b>29%</b>	<b>2,993</b>	<b>2,440</b>	<b>(553)</b>	<b>-18%</b>

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## Age Based Rate Comparison Yearly Rate

Age Based Rate vs. Current Rate  
\$30,000 Vehicle



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## Value Based Rate

- Vehicles are **taxed 0.48%** of the vehicle's base value
- A \$30,000 vehicle would pay \$144/year for the first 12 years
- A vehicle 13 years and over would pay \$35
- A \$30,000 vehicle would pay \$1,763 over 13 years



32



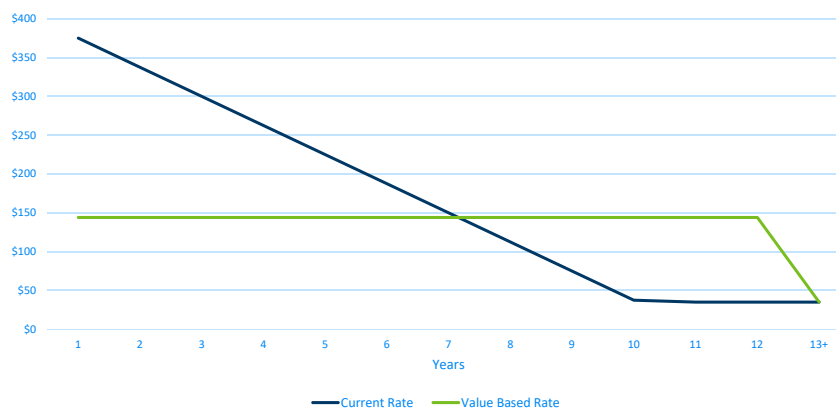
## Value Based Comparison

Years	Current Camry	Value Rate Camry	\$ Change	% Change	Current F 150	Value Rate F 150	\$ Change	% Change
1	325	125	(200)	-62%	525	202	(323)	-62%
2	293	125	(168)	-57%	473	202	(271)	-57%
3	260	125	(135)	-52%	420	202	(218)	-52%
4	228	125	(103)	-45%	368	202	(166)	-45%
5	195	125	(70)	-36%	315	202	(113)	-36%
6	163	125	(38)	-23%	263	202	(61)	-23%
7	130	125	(5)	-4%	210	202	(8)	-4%
8	98	125	27	28%	158	202	44	28%
9	65	125	60	92%	105	202	97	92%
10	35	125	92	284%	53	202	149	284%
11	35	125	90	257%	35	202	167	476%
12	35	125	90	257%	35	202	167	476%
13+	35	125	-	0%	35	35	-	0%
Total	1,893	1,533	(360)	19%	2,993	2,454	(538)	18%

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## Value Based Rate Comparison Yearly Rate

Value Based Rate vs. Current Rate  
\$30,000 Vehicle



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## Weight Based Rate

- Alternative VIN decoder data is available to provide additional vehicle weight data
- DPS submitted request to vendor for the data
- Weight data will likely be available in mid-December

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## Feasibility Analysis

		Feasibility		
Scenarios		Certain	Possible	Difficult Based on current data
	Flat Rate	X		
	Value Based		X	
	Age Based	X		
	Weight Based			X
	Minimum Tax	X		
	Alternatives (e.g. fees/surcharges, combustion type, etc.)		X	

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## VTRS – Statute Gaps

- Recommended Statute Changes for VTRS Project

- 168.013 Vehicle Registration Taxes
  - Calculation of base value requires MSRP and the destination charge
- 168.013(subd. 1a)(j)
  - Vehicle registration cannot exceed the smallest total amount previously paid or due on a vehicle
- 168.12 (subd. 5)
  - Statute is silent on the cost of a duplicate / replacement dealer plate
- 168.002 (subd. 21)(b)
  - Clarification of the definition of a one-ton pickup truck



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## VTRS – Statute Gaps cont.

- Recommended Statute Changes for VTRS Project

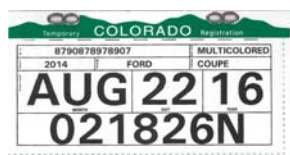
- Gap in Statutory Authority
  - Titling of Tiny Homes
    - DVS currently titles tiny homes as either a recreational trailer or commercial trailer
  - Authority for DVS to update incorrect base value



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## VTRS – Statute Opportunities

- Recommended Statute Changes for VTRS Project
  - Statutory Changes to Benefit Minnesotans
    - Temporary Permit
      - New temporary permit design and change the location where the permit is required to be placed



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## Questions

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# **Appendix F**

## **Vehicle Registration Funding Overview**

**Josh Knatterud-Hubinger, Minnesota Department of Transportation**

**Tony Anderson, Department of Public Safety**



# Vehicle Registration Funding

Josh Knatterud-Hubinger (MnDOT)

Tony Anderson (DPS)

February 6, 2020



## Agenda

- Current Motor Vehicle Registration Tax
  - Other Registration Taxes
  - Passenger Vehicle Fleet
- Items to Resolve
- Scenarios
  - Weight Based Rate
  - Hybrid Scenarios
    - Value
    - Age
  - Grandfathering of Registration Tax
- Summary from December 2, 2019 Task Force Meeting

## Current Motor Vehicle Registration Tax

Minn. Stat. 168.013

- Passenger vehicles using the public streets or highways in the state shall be taxed each calendar year on the following basis:
  - \$10 tax, plus:
  - 1.25% of vehicle's base value, depreciated over 10 years (10% increments/year)
  - After 10<sup>th</sup> year the additional tax is \$25 (\$35 total)
- Any changes recommended by the task force would require changes in law
  - Previously indicated legislation would need enacted by March 1, 2020 to not impact the rollout of VTRS on November 16, 2020
    - Enactment would need a seven to eight month runway
      - Example – Enacted May, 2020 – released January 1, 2021

3

## Other Registration Taxes Not Passenger Vehicles or Pickups



- “Other” vehicles generate approximately 20% of revenues
- Other Vehicles (28 formal classifications):
  - Motorcycles: \$10
  - Trucks and tractors: based on gross weight - ranges from minimum \$120, up to \$1,760 for 80,000 pounds

4

## Current Passenger Vehicle Fleet

November 2019

- Approximately 4.9 million passenger vehicles and pickup trucks in Minnesota
- Average age of cars and light trucks in U.S. rose to 11.8 years in 2019 (IHS Markit)
- Of the 4.9 million vehicles, approximately 44% are 11+ years
- ~11,000 electric vehicles



5

## Items to Resolve

- Each item below would require changes to current law:
  - **Hold Harmless** - eliminating this provision necessary to maintain neutral revenues
  - **Destination Charge** - simplify value calculation by removing charge
  - **Vehicle Value** - base value vs. MSRP



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## Scenarios

- All scenarios are implemented in a revenue neutral manner over FYs 2020-23
  - Weight Based Rate
  - Hybrid Scenarios
    - Modified Value Based
    - Tiered Age Based
    - Hybrid Age Based

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## Weight Based Rate

- Vehicles would pay a standard rate based on weight:
  - **\$65** for vehicles 0-2,599 lbs. (~100K Vehicles)
  - **\$130** for vehicles 2,600-3,799 lbs. (~2.3M Vehicles)
  - **\$160** for vehicles 3,800-5,899 lbs. (~2.4M Vehicles)
  - **\$190** for vehicles over 5,900 lbs. (~100K Vehicles)
- A typical vehicle could pay between \$1,690-2,080 over 13 years
- Ship weight:
  - Toyota Camry: 3,300 lbs.
  - Ford F-150: 4,100 lbs.

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## Weight Based Comparison

Years	Current Camry	Weight Based Camry	\$ Change	% Change	Current F 150	Weight Based F 150	\$ Change	% Change
1	325	130	(195)	-60%	525	160	(365)	-70%
2	293	130	(163)	-56%	473	160	(313)	-66%
3	260	130	(130)	-50%	420	160	(260)	-62%
4	228	130	(98)	-43%	368	160	(208)	-56%
5	195	130	(65)	-33%	315	160	(155)	-49%
6	163	130	(33)	-20%	263	160	(103)	-39%
7	130	130	-	0%	210	160	(50)	-24%
8	98	130	33	33%	158	160	3	2%
9	65	130	65	100%	105	160	55	52%
10	35	130	98	300%	53	160	108	205%
11	35	130	95	271%	35	160	125	357%
12	35	130	95	271%	35	160	125	357%
13+	35	130	95	271%	35	160	125	357%
<b>Total</b>	<b>1,893</b>	<b>1,690</b>	<b>(203)</b>	<b>-11%</b>	<b>2,993</b>	<b>2,080</b>	<b>(913)</b>	<b>-30%</b>

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## Hybrid Scenarios

- Scenarios assume the average life of a vehicle is 12 years
- Estimates are largely revenue neutral
- All scenarios would require some changes in law
- Illustrative scenarios include:
  - Modified value based vehicle registration tax
  - Age based vehicle registration tax
  - Age based vehicle registration tax, with weight surcharge
- Complex hybrid models may create challenges for VTRS programming

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## Scenario #1 Modified Value Based

### Value Based:

- 1.05% of vehicles base value
- Vehicle value depreciates by approximately 8% each year over 12 year
- Minimum tax applies to all vehicles 13+ years
- Minimum tax increases from \$35 to \$65



## Scenario #1 Modified Value Based

Years	Current Camry	Scenario #1 Camry	\$ Change	% Change	Current F 150	Scenario #1 F 150	\$ Change	% Change
1	325	273	(52)	-16%	525	441	(84)	-16%
2	293	251	(41)	-14%	473	406	(67)	-14%
3	260	229	(31)	-12%	420	370	(50)	-12%
4	228	207	(20)	-9%	368	335	(32)	-9%
5	195	186	(9)	-5%	315	300	(15)	-5%
6	163	164	1	1%	263	265	2	1%
7	130	142	12	9%	210	229	19	9%
8	98	120	23	23%	158	194	37	23%
9	65	98	33	51%	105	159	54	51%
10	35	76	41	118%	53	123	88	253%
11	35	65	30	86%	35	88	53	152%
12	35	65	30	86%	35	65	30	86%
13+	35	65	30	86%	35	65	30	86%
Total	1,893	1,942	5	2%	2,993	3,041	66	2%

## Scenario #2 Age Based

### Age Based



- Flat rate based on age:
  - \$250 vehicles 1-4 years
  - \$180 vehicles 5-8 years
  - \$120 vehicles 9-12 years
  - \$65 vehicles 13+ years
- Tax would need to be indexed in future years to account for inflation

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## Scenario #2 Age Based

Years	Current Camry	Scenario #2 Camry	\$ Change	% Change	Current F 150	Scenario #2 F 150	\$ Change	% Change
1	325	250	(75)	-23%	525	250	(275)	-52%
2	293	250	(43)	-15%	473	250	(223)	-47%
3	260	250	(10)	-4%	420	250	(170)	-40%
4	228	250	23	10%	368	250	(118)	-32%
5	195	180	(15)	-8%	315	180	(135)	-43%
6	163	180	18	11%	263	180	(83)	-31%
7	130	180	50	38%	210	180	(30)	-14%
8	98	180	83	85%	158	180	23	14%
9	65	120	55	85%	105	120	15	14%
10	35	120	88	269%	53	120	68	129%
11	35	120	85	243%	35	120	85	243%
12	35	120	85	243%	35	120	85	243%
13+	35	65	30	86%	35	65	30	86%
<b>Total</b>	<b>1,893</b>	<b>2,265</b>	<b>373</b>	<b>20%</b>	<b>2,993</b>	<b>2,265</b>	<b>(728)</b>	<b>-24%</b>

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## Scenario #3 Hybrid Age Based

### Age Based

Flat rate based on age:

- \$210 vehicles 1-4 years
- \$140 vehicles 5-8 years
- \$78 vehicles 9-12 years
- \$25 vehicles 13+ years
- Tax would need to be indexed in future years to account for inflation
- Surcharge on vehicle weight:
  - \$40 for vehicles 0-5,899 lbs.
  - \$80 for vehicles 5,900+ lbs.



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## Scenario #3 Hybrid Age Based

Years	Current Camry	Scenario #3 Camry	\$ Change	% Change	Current F 150	Scenario #3 F 150	\$ Change	% Change
1	325	250	(75)	-23%	525	250	(275)	-52%
2	293	250	(43)	-15%	473	250	(223)	-47%
3	260	250	(10)	-4%	420	250	(170)	-40%
4	228	250	23	10%	368	250	(118)	-32%
5	195	180	(15)	-8%	315	180	(135)	-43%
6	163	180	18	11%	263	180	(83)	-31%
7	130	180	50	38%	210	180	(30)	-14%
8	98	180	83	85%	158	180	23	14%
9	65	118	53	82%	105	118	13	14%
10	35	118	86	263%	53	118	66	125%
11	35	118	83	237%	35	118	83	237%
12	35	118	83	237%	35	118	83	237%
13+	35	65	30	86%	35	65	30	86%
<b>Total</b>	<b>1,893</b>	<b>2,257</b>	<b>365</b>	<b>19%</b>	<b>2,993</b>	<b>2,257</b>	<b>(736)</b>	<b>-25%</b>

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## Inflation

- Under current structure, tax revenues increase from both:
  - Vehicle sales
  - Price increases
- If scenario is not based on value, would need to index to maintain revenue neutrality
- Options:
  - Consumer Price Index
  - National Highway Construction Cost Index (NHCCI from FHWA)

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## Inflation

Item	Annual Growth Rate (2014-19)
Unit Sales of New Vehicles	1.4%
Passenger Vehicle/PU \$	4.4%
"Other" Registration Tax \$	3.5%
Total Registration Tax \$	4.2%
CPI	1.5%
NHCCI	3.1%
MnDOT CCI	5.0%

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## Grandfathering of Registration Tax

- FAST can program VTRS to support the calculation of registration tax for grandfathered vehicles as well as a new registration tax structure for new models or at the change of ownership

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## Summary of Scenarios from December 2, 2019 Hearing

- Methods reviewed at December Task Force Meeting:
  - Flat Rate
    - \$138 flat tax each year
  - Age Based Rate
    - \$315 tax in first year
    - Decrease on average by approximately 10% per year (varies by year)
  - Value Based Rate
    - Vehicles are taxed 0.48% of the vehicle's base value

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