

# **Vehicle Registration Task Force**

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

**Draft 2/19/2020**

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

# Table of Contents

<b>I. BACKGROUND .....</b>	<b>3</b>
A. ENABLING LEGISLATION .....	3
B. TASK FORCE MEMBERSHIP .....	3
<b>II. TASK FORCE MEETINGS .....</b>	<b>4</b>
<b>IV. TASK FORCE RECOMMENDATIONS .....</b>	<b>5</b>
<b>V. APPENDICES .....</b>	<b>7</b>

# 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).

### 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