

GENERAL ASSEMBLY OF NORTH CAROLINA



Legislative Fiscal Note

BILL NUMBER: House Bill 1779 (Third Edition)

SHORT TITLE: Property Tax Paid With Vehicle Registration.

SPONSOR(S): Representatives Folwell, Insko, Justice, and Walker

FISCAL IMPACT (\$ in millions)					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES:					
Combined Motor Vehicle Registration Account	\$2.0	\$4.2	\$4.3	\$4.4	\$4.5
Local Governments	* \$72 million in estimated additional revenue beginning in FY2010. This amount would be reduced by administrative fees for processing, mailing and collection retained by DOR and DMV *				
EXPENDITURES:					
NC DMV Positions (cumulative)				\$6,957,017 47	\$7,825,093 47
NC DMV IT	* Significant IT expenditures required. See Assumptions and Methodology Section 12 *				
DOT Fiscal Section Positions (cumulative)				\$400,600 8	\$392,110 8
DOT Fiscal IT	DOT estimates up to \$25 million over 5 years for accounting system upgrades.				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, NC Division of Motor Vehicles, NC Department of State Treasurer and Local Governments					
EFFECTIVE DATE: Sections 4 and 8 become effective January 1, 2006. Sections 1, 2, 3, 5, 6, 7, 9, 10, and 11 become effective July 1, 2009 or when the Division of Motor Vehicles and the Department of Revenue certify that the integrated computer system for registration renewal and property tax collection for motor vehicles is in operation, whichever occurs first.					

BILL SUMMARY:

House Bill 1779 would modify the collection system for property taxes and registration fees on motor vehicles in the State by combining the payment of these taxes and fees so that both are due at the time the registration fee is due. The implementation date would be July 1, 2009, or sooner if the integrated computer system is in operation. The bill also would increase the interest rate on unpaid property taxes on motor vehicles from 2% in the first month following the date the taxes were due to 5% beginning January 1, 2006. A portion of the interest collected would be transferred to a special account in the Treasurer's Office for the purpose of developing an integrated computer system in DMV that would allow for the combined system. The bill also directs the Property Tax Division within the Department of Revenue and the DMV within the Department of Transportation jointly study and develop a plan for determining the method of valuation of vehicles and for implementing an integrated computer system needed to combine the registration renewal and property tax collection for motor vehicles in the State. The third edition also requires that the Divisions consult with representatives from the following organizations: the North Carolina Association of County Commissioners, the North Carolina League of Municipalities, the North Carolina Association of Assessing Officers, the North Carolina Automobile Dealer's Association, and the North Carolina Tax Collectors Association.

ASSUMPTIONS AND METHODOLOGY:

HB 1779 requires the payment of vehicle property taxes at the time of vehicle registration renewal. The NC Association of Tax Assessors estimates that HB 1779 would result in collection of approximately \$72 million annually in additional motor vehicle property taxes that currently go uncollected. Counties would also experience savings from the elimination of resources devoted to collection of property taxes on motor vehicles, including staff time and mailings for delinquent notices. An administrative fee equal to the cost of preparing and mailing notices will be retained by the Department of Revenue. A second fee for the cost of collection of taxes and fees will be retained by the Division of Motor Vehicles and tag agents. The bill would require significant changes in DMV operations and significant costs for changing DMV computer systems. The full extent of these changes and costs is not currently known.

The assumptions and methodology for the fiscal impacts of the relevant sections of the Proposed Committee Substitute are described below:

Section 2 (Effective July 1, 2009)

G.S. 105-330.2(b) is amended to direct the Department of Revenue, Property Tax Division to adopt a schedule of values, standards, and rules in setting the valuation of motor vehicles that would ensure equity statewide, include local market conditions, and allow adjustments for mileage and the condition of vehicles. At this time the Property Tax Division does not indicate a cost in establishing a statewide schedule of vehicle valuations.

Additionally, G.S. 105-330.2(c) is amended to broaden the memorandum of understanding between the Department of Revenue, Property Tax Division and Department of Transportation to include a procedure for the administration of the listing, appraisal, and assessment of classified

motor vehicles. There is no cost anticipated in complying with this requirement. However, costs may be incurred in carrying out the revised provisions of the memorandum.

Section 3 (Effective July 1, 2009)

Section 3 changes the date for which property taxes are due for registered vehicles. Under current law, taxes for unregistered vehicles are due on September 1 following the date the vehicle is required to be listed. Taxes for registered vehicles are due on the first day of the fourth month following the date the registration expires. Under HB 1779, the taxes are due at the time the registration is renewed or applied for. There is no fiscal impact for this section.

Section 4 (Effective January 1, 2006)

Section 4 increases the interest rate applied to unpaid taxes on registered motor vehicles from 2% to 5% for the first month after taxes are due, and $\frac{3}{4}\%$ for each month thereafter until the taxes are paid. Based on the amount of delinquent taxes reported in 2004, the amount of revenue that would be generated at a 5% interest rate is \$6.7 million. The Proposed Committee Substitute for HB 1779 requires that 60% of the interest from the delinquent taxes be transferred to a special account within the State Treasurer's Office for the purpose of implementing an integrated computer system within the Division of Motor Vehicles. The total amount of interest generated is projected by applying a growth rate of 2% annually. This amount is multiplied by 60% to determine the amount to be transferred to the State Treasurer's Office. The amount for the first year is adjusted by half to reflect the January 1, 2006 effective date.

Section 5 (Effective July 1, 2009)

Section 5 would collect interest on unpaid vehicle registration fees (in addition to unpaid taxes) starting on July 1, 2009 at the rate of 5% the first month and $\frac{3}{4}\%$ per month thereafter. No estimate is available on the amount of interest that would be collected under the arrangement in this bill.

Section 6 (Effective July 1, 2009)

Through contractual agreement, the current practice of counties and municipalities is to have a vendor mail vehicle property tax notices to motor vehicle owners. As amended, G.S. 105-330.5 (a) requires the Department of Revenue, Property Tax Division to prepare monthly a combined tax and registration notice for each vehicle containing all county or municipal taxes and fees due on the vehicle as computed by the assessor in the county of registration. G.S. 105-330.5 (b) requires either the Department of Revenue, Property Tax Division or a third party contractor to mail a copy of the notice with appropriate instructions to the motor vehicle owner for payment. To meet the responsibility the statute allows the Property Tax Division to receive a fee for each notice generated for a vehicle registered in a county or municipality from the taxes and fees remitted to the respective county or municipality in which the vehicle is registered. The mailing cost of approximately \$1.8 million per year would no longer be incurred by DMV in fiscal year 2009-2010. The Department of Revenue will receive funding deducted from the vehicle tax prior to submission to the counties or municipalities that is equal to the cost of printing and mailing the

notices. The current cost for counties to print and mail notices is between 45 and 50 cents per notice. At 50 cents per notice for 7 million mailings, the cost to counties in retained fees would be approximately \$3.5 million.

For collecting the tax and registration payments, the collecting authority (generally DMV or the contract agent) may collect a fee of at least one-third of the compensation to contract agents for registration renewals. This would come to \$0.48 cents for each transaction. DMV processes approximately 2.4 million transactions per year. The resulting fees at that level of transactions would be approximately \$1.2 million per year. The contract agents would receive approximately \$1.9 million for collecting the property tax payments on 4.1 million transactions at \$0.48 per transaction.

The cost in fees to the counties would be 6,466,508 renewals times \$0.48, or \$3.1 million.

When the combined property tax/vehicle registration system is operational, the Property Tax Division will follow the same procedure as the counties and municipalities, i.e. to employ the services of a third party contractor to print and mail notices. It is anticipated that the expense to the Division would be in line with the current cost of DOT. In terms of expanded workload, the Property Tax Division would not need additional personnel if the two (2) Property Tax Valuation Specialist positions proposed in the Senate version of SB 622 – 2005 Appropriations Act are authorized by the General Assembly as a result of the conference process.

DMV notes a number of operational changes and related cost increases that can be expected with this bill. These include:

- Rewrite of certain computer systems (See Section 12)
- Increased customer service inquiries, complaints, and visits to DMV and contract agents related to tax collection, requiring additional customer service personnel, IT technicians, call center representatives, etc.
- Greater fiscal monitoring of contract agents related to increased collections.
- More intensive training of DMV and contract agent staff.
- New DMV remittance process.
- Greater credit card costs per transaction for online renewals as the dollar value of each transaction increases due to collection of the property taxes.

DMV estimates that an additional 47 employees will be required to implement the program. DMV's estimates show the personnel and other costs beginning in fiscal year 2008. For this fiscal note the costs are shown as beginning in fiscal year 2009 as the program becomes operational on July 1, 2009. The pay grades will range between 63 and 69 and the minimum pay rate between \$25,036 and \$31,582. Salaries and expenses in FY09-10 are expected to be \$1,253,065 plus \$505,552 for a total of \$1,760,617. Also, credit card charges of approximately \$5,000,000 can be expected.

DOT's Fiscal Section estimates the need for an additional 8 employees in various accounting positions for a first year total of salaries and expenses of \$400,600. These are also shown in this note as beginning in fiscal year 2009 although DOT's estimates indicated they would start a year

earlier. The DOT Fiscal Section also estimates that revisions to the DOT accounting system to implement this bill could cost up to \$25 million over the five year period.

Section 8 (Effective January 1, 2006)

Section 8 requires that 60% of the interest collected on unpaid taxes be transferred on a monthly basis to a Combined Motor Vehicle Account at the State Treasurer's Office. The calculation of the estimates for these funds is described in Section 4. The funds will be used at the direction of the NC Association of County Commissioners to develop and implement the computer system at DMV to be used for combined assessment, billing and collection of property taxes on motor vehicles and issuance of registration plates. There is no expected fiscal impact for this section.

Section 9 (Effective July 1, 2009)

The interest on unpaid vehicle registration fees shall be paid to the Highway Fund for technology improvements within the Division of Motor Vehicles. No estimate is available on this amount.

Section 12 (Effective July 1, 2009)

Section 12 requires a study and plan by DOR and DMV, with consultation from interested parties, for an integrated computer system to accomplish the purposes of this bill. Conducting the study and development of the plan have no costs. DMV states that the bill will require significant revisions to the State Titling and Registration System (STARS), which would include the interface with the counties. At some point in the next few years STARS will have reached the point at which it would need to be rewritten, even without the passage of this bill. The cost is expected to be approximately \$100 million. The provisions of this bill could become requirements of the new version. The incremental cost of including the requirements of this bill in the STARS rewrite are not known at this time.

SOURCES OF DATA: NC Department of Revenue, NC Division of Motor Vehicles, NC Association of Tax Assessors, NC Department of State Treasurer, and Local Governments

TECHNICAL CONSIDERATIONS: As noted, a number of operational and technical details remain to be resolved among the entities charged with carrying out this legislation.

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Signed Copy Located in the NCGA Principal Clerk's Offices