

FISCAL SECTION MEMORANDUM

Date: October 2, 1997

From: Mark Nicolini *MN*

To: Judiciary & Legislation Committee

Re: Item 10, File 970822

File 970822 contains an ordinance relating to a municipal vehicle registration fee.

Background

1. The City Budget allocates considerable resources to motor vehicle related expenditures such as traffic enforcement, street maintenance, street reconstruction and resurfacing, street lighting, and storm sewer construction. After accounting for the portion of these costs which are directly funded through state transportation aids, and allocating a proportionate amount of other non-property tax revenue sources, about \$22 million (14.7%) of the 1997 City property tax levy can be attributed to these costs.
2. Current state law allows municipalities and counties to impose (through ordinance) a flat, annual registration fee (MVR fee) on automobiles and trucks of not more than 8,000 pounds which are customarily kept within the jurisdiction. Antique, collector, dual purpose farm, human service, driver education, state and municipal-owned vehicles, and registrations to the first Ex-POW plates issued to an individual, are exempt. No other exemptions are permitted.

There is no limit on the amount of the fee, which can be used for any purpose. The State DOT collects the fee at the same time the annual state registration fee is paid, and retains 10 cents per registration for administrative costs. Two cities (Beloit and Sheboygan) currently impose a local MVR fee of \$10. Both communities earmark the revenue for street and bridge-related expenditures.
3. From a national perspective, many cities impose some form of local user-related charge on motor vehicle use. In part, this reflects their relative overall revenue diversification compared to Milwaukee. Data from 1990-1991 indicate that Milwaukee raised 51% of its "own source" revenue from the property tax, compared to 33.6% for all cities with populations between 500,000 and one million.
4. The City's single largest revenue source is State intergovernmental (IG) aids. The rate of growth in IG aids for Milwaukee began to diminish in 1996. IG aids are projected to grow 2% for 1998, compared to 3.6% and 3.9% in 1994 and 1995, respectively. This reduction in the growth rate equates to about \$4.5 million a year. IG aids for Milwaukee would be about \$14 million higher in 1998 if they had continued at their 1994 growth rate.

City operating expenditures have been increasing at less than the rate of inflation. However, the slow rate of growth in state aid is creating significant challenges for the City's Budget process.

This ordinance creates a municipal vehicle registration (MVR) fee of \$10 for vehicles registered in Wisconsin and customarily kept in Milwaukee, effective April 1, 1998. The ordinance specifies that these revenues be used to reduce the property tax revenues which would otherwise be required for street paving and other City transportation infrastructure costs.

Discussion

Policy Considerations:

1. Potential advantages resulting from the local MVR fee are:

- * The MVR fee is a relatively stable and predictable funding source, although it may gradually decrease if the trend toward declining motor vehicle registrations in Milwaukee continues.
- * The MVR fee introduces a measure of reasonable diversification to the City's revenue base, which would help the City adjust to state aid growth of less than 2% a year.
- * The MVR fee shifts some transportation related costs from property tax funding to users of local streets, thereby reducing the property tax portion of funding these costs.
- * State administration/collection is inexpensive and requires no effort on the City's part.
- * An MVR fee is considered an "aidable revenue" and thus would not reduce Milwaukee's share of Shared Revenue.
- * The impact on most households is relatively small. According to 1990 census data, 25% of Milwaukee households report owning no vehicle, and 40% report only one. Therefore, 65% of all households would pay \$10 or \$0 as a result of the MVR. Only 8% of the city's households reported owning more than two vehicles. Owners of homes valued at \$45,500 or more and owning one motor vehicle would experience a net reduction in their cost of City government.
- * An MVR fee of limited magnitude does not introduce distortions which would affect household or business location decisions.

2. Potential disadvantages of an MVR fee include:

- * A flat rate structure is regressive with respect to income. This is partially offset by lower auto-ownership among lower-income households.
- * The MVR "exports" only a small amount of local street costs to non-residents who use the City's streets, and the fee will be concentrated in the household sector.

* Since an MVR fee does not vary with vehicle type, weight, or usage, it is a user fee in only a limited sense.

* As with any user charge, there is the possibility that renters to whom the fee is applicable will experience the charge without benefiting from the property tax reduction accruing to the property owner.

* Combined with the \$5 increase to the state registration fee, Milwaukee vehicle owners would experience a \$15 total registration fee increase if this MVR is enacted.

Other Considerations

1. There is political risk involved in sponsoring any new revenue source. Discussions with finance officials in Beloit and Sheboygan suggest that community concerns have been alleviated by earmarking the revenue for street and bridge-related costs.
2. The Proposed Budget includes three new user charges. The most significant is the sewer user fee, which tends to increase costs marginally to lower-income households. If the Council wishes to extend the user fee concept to motor vehicle-related costs, an MVR fee offers an approach which will tend to have less impact on lower-income households.
3. An estimated 32% of Milwaukee tax filers use itemized deductions for income tax reporting purposes. To the extent an MVR fee replaces property tax levies, these taxpayers will incur a very small decrease to eligible deductions.

Fiscal Impact

1. The Comptroller is responsible for estimating all non-property tax revenues. Based on an informational memo prepared by that Office, enactment of this ordinance could be expected to generate \$2,195,600 in 1998, and \$3,268,700 in 1999 when it is effective for an entire year.
2. Any substitution of a non-property tax revenue for property taxes will affect State Expenditure Restraint (ER) Aid. These impacts are estimated to be \$-340,300 beginning in 1999.
3. Enactment of the ordinance could be expected to reduce the tax rate estimated in the Proposed 1998 Executive Budget by 15 cents, with an ongoing impact of 22 cents based on current assessed valuation (20 cents after adjusting for ER Aid impacts.)

cc: Laura Engan, Budget Director
W. Martin Morics, City Comptroller

JL970822.DOC