

**BILL #** SB 1149

**TITLE:** VLT exemption; seniors; income based

**SPONSOR:** Tibshraeny

**STATUS:** Senate Engrossed

**PREPARED BY:** Tim Everill

## FISCAL ANALYSIS

### Description

This bill would provide an exemption from the state's vehicle license tax (VLT) for a vehicle owned by an Arizona resident over 65 years of age who qualifies for the senior property valuation freeze under the Arizona Constitution. The exemption is limited to one vehicle per eligible resident.

### Estimated Impact

The bill's fiscal impact cannot be determined with certainty due to a lack of data on vehicle owners who qualify for the senior property valuation freeze. Using a set of simplifying assumptions, the bill may be expected to reduce VLT collections by approximately \$(4.5) million beginning in FY 2007, which would result in a loss of \$(1.0) million to the State Highway Fund (SHF), and \$(3.5) million to local jurisdictions. VLT collections are generally distributed as follows: 45% to the Highway User Revenue Fund (HURF), which is further distributed to the SHF and local jurisdictions; 30.3% to counties; and 24.6% to cities and towns. About 77% of total VLT collections is distributed to local governments, while most of the remainder goes to the SHF. This bill would have no state General Fund impact.

### Analysis

The VLT is an ad valorem tax levied on vehicles registered in the state. The tax is levied per \$100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per \$100 of assessed value is \$2.80 for new vehicles, and \$2.89 for renewals. For most classes of vehicles, there is minimum annual VLT of \$10. Based on data from the Arizona Department of Transportation Motor Vehicle Division (MVD), there are approximately 5 million vehicles registered in the state (excluding commercial vehicles, trailers, motorcycles, etc.) The average annual VLT for these 5 million vehicles is approximately \$180.

The Arizona Constitution (Article 9, Section 18) provides that residents are eligible for a property valuation "freeze" on their home if the following requirements are met: 1) the property owner is 65 years of age or older; 2) the home is the property owner's primary residence; 3) the property owner has lived in the home for at least 2 years; and 4) the property owner's gross income does not exceed 400% of the supplemental security income benefit level.

Based on information provided by the Department of Revenue and individual counties, there are approximately 25,000 property owners in the state that are taking advantage of the property tax freeze. Assuming all of these property owners owned vehicles, and that they all applied for the VLT exemption provided by this bill, VLT collections would be reduced by approximately \$(4.5) million (25,000 x \$180). It should be noted that this number could vary up or down based on several factors, including:

- ◆ The total number of eligible property owners – the 25,000 number noted above is an estimate of the total number of property owners actually taking advantage of the property tax valuation freeze based on the latest available information. The provisions of this bill may induce those property owners who are eligible for the freeze but do not currently take advantage of it to do so, which would increase the fiscal impact of the bill.
- ◆ The number of eligible property owners that own vehicles – there is no data available to determine how many eligible property owners own vehicles.

- ◆ The average VLT paid by eligible property owners – data is not available to determine if those that would be eligible for the VLT exemption are currently paying more or less than the overall state-wide average of \$180 per vehicle.

The Arizona Department of Transportation (ADOT) estimates that this bill could result in a loss of VLT collections ranging from \$(0.9) million to \$(5.4) million, with a loss of around \$(3.6) million most likely.

**Local Government Impact**

VLT distributed to cities, towns, and counties in the state would be reduced by \$(3.5) million per year beginning in FY 2007.

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