

DRAFT REPORT

Joint Transportation Committee Study

Options Related to

the Requirement to Present an
Unexpired Washington State Driver's License
When Registering a Motor Vehicle

November 19, 2013

Study Work Group:
August 15, 2013 Meeting Attendees
See page 15

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Executive Summary

The 2013-15 Transportation Budget (ESSB 5024, Sec 204(2)) directed the JTC to coordinate a Work Group “to identify possible issues relating to the administration of, compliance with, and enforcement of the statutory requirement for a person to provide an unexpired (Washington) driver’s license when registering a (motor) vehicle”.

A principal concern is whether the law is being enforced, and in fact, whether it can be enforced. Many of the approximately 6.3 million motor vehicle registrations processed annually are done without an unexpired Washington State driver’s license (WSDL) being provided. In addition, for many of the registrations where a WSDL number is presented, there is no effective means to identify the validity of the license. Legislation was introduced during the 2013 Legislative Session which would have repealed the WSDL requirement (HB 1521/SB5427).

As directed by the study proviso, a Work Group was formed consisting of representatives from the Department of Licensing, Department of Revenue, County Auditors or other Agents, and Vehicle License Subagents (Subagents). The Work Group was charged with making recommendations on modifications to the law to address identified issues.

The Work Group met on August 15, 2013, and provides the following observations and policy options for the Legislature. The principal options are ranked by order of preference of those Work Group members expressing a preference. Some of the eight additional options can stand alone; however, many were discussed in the context of a multi-faceted approach to address the challenges of reducing tax fraud.

Observations:

- The 2005 law requiring presentation of an unexpired Washington State driver’s license (WSDL) was enacted to address sales tax evasion. It was meant to ensure that new state residents paid sales tax and did not continue to use out-of-state licenses to claim a nonresident sales tax exemption.
- Most vehicle registrations are processed regardless of whether an unexpired WSDL is presented. Often the law is not enforced because of the nature of the transactions or exemptions, or a desire by the County Auditor or Subagent to avoid transaction delays.
- For many transactions, technological inadequacies do not permit verification of WSDL information.
- It is difficult to assess to what extent the law has reduced sales tax evasion.

Principal Options

1. Repeal the current requirement to present an unexpired WSDL when registering a motor vehicle.
2. Amend the law to apply only to original vehicle registrations
3. Amend the law to apply to original vehicle registrations and to vehicle ownership changes.

Options 1 through 3 were preferred by the Auditor and Subagent members of the Work Group. Option 4 is provided by the Work Group if the Legislature chooses to retain the current requirement.

4. Maintain the current requirement, but only with other changes to the law and investments in the licensing system.

Additional Options:

The Work Group also identified eight additional options to help achieve the objectives of the 2005 law. Implementation of options 5 through 12 are intended to complement one, two, three, or four of the four principal options.

5. Accept a driver's license from another state having a sales tax of 3% or greater when registering a motor vehicle.
6. Increase enforcement efforts
7. Increase education efforts
8. Reduce the fine for failure to register a motor vehicle to encourage enforcement
9. Work with retailers to limit nonresident sales tax fraud
10. Require tax exemption certificates
11. Require an application for a refund of sales tax on purchases by out-of-state residents
12. Extend the 30-day vehicle registration requirement for new residents to 60 days.

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Joint Transportation Committee

Vehicle Registration Requirement Study

The 2013-15 Transportation Budget (ESSB 5024, Sec 204(2)) directed the Joint Transportation Committee to coordinate a Work Group “to identify possible issues relating to the administration of, compliance with, and enforcement of the statutory requirement for a person to provide an unexpired (Washington) driver’s license when registering a (motor) vehicle”.

A principal concern with the law is that it is not being enforced; there are valid concerns whether it can be enforced for certain transactions. With over 6 million motor vehicle registrations being processed annually, many registrations are completed without complying with the requirement to provide an unexpired Washington State driver’s license (WSDL). In addition, for many of the registrations, especially mail-ins, there appears to be no effective means to identify whether the WSDL being presented is unexpired. Legislation was introduced during the 2013 Legislative Session which would have repealed the WSDL requirement (HB 1521/SB5427).

As directed by the budget proviso, the Work Group is comprised of representatives from the Department of Licensing, Department of Revenue, County Auditors or other Agents, and Vehicle License Subagents (Subagents). The Work Group is to make recommendations on any needed modifications in administration and enforcement to address identified issues, including potential statutory changes. The final report of the study is due by December 31, 2013.

The Work Group met on August 15, 2013 to discuss issues surrounding the current requirement and objectives of the original legislation, and to identify policy options for the Legislature.

Reflecting staff analysis and Work Group discussions, the following observations and policy options are presented to the House and Senate Transportation Committees for their consideration.

Principal Observations

- A. In 2005, the Legislature enacted a requirement that an unexpired Washington State driver’s license (WSDL) be presented when registering a motor vehicle. The law was passed to address sales tax evasion. Its objectives were twofold: to primarily ensure that new Washington residents not retain out-of-state driver’s licenses, especially Oregon licenses, which can be used to claim a nonresident sales tax exemption; and secondly, to ensure that new residents register their motor vehicles and pay sales tax on those vehicles.
- B. The current requirement that an unexpired WSDL be presented when registering a motor vehicle appears to be partially enforced. The law is difficult to enforce due

to the volume of 6.3 million annual registrations in 2012, and the way in which they are transacted, including mail-ins, over-the-counter, and via the Internet.

- C. The Department of Licensing reports that to fully enforce the law, its driver's licensing database would need to communicate with its vehicle licensing database. This would require a multi-million dollar investment, which has not been made.
- D. County Auditors and Subagents report they are reluctant to enforce the requirement because there is no systematic way to verify WSDL information. In addition, enforcement would lead to significant cost and vehicle processing delay, which may include turning away customers from over-the-counter transactions or returning mail-in registrations due to inadequate information.
- E. The Department of Revenue was not able to initially document the impact on sales tax collections as a result of the 2005 law. (The Department later in the study process used an alternative method to estimate the revenue derived by the WSDL requirement, and it ranged annually at \$2-\$3 million for the state \$1 million for local government. See page 10 of the report.)
- F. Most motor vehicle registrations are processed regardless of whether an unexpired WSDL is presented. Anecdotal evidence suggests a significant number of registrations may not include the WSDL information. This is due to persons not including WSDL information with mail-in registrations, persons registering their vehicle at the counter not having driver's license information for each registered motor vehicle owner, or persons claiming an exemption from the requirement. Examples of exemptions include military personnel holding residency in other states and disabled Washington residents who own but do not operate a vehicle. Exemptions are identified in Appendix C of this report.
- G. Claims for exemptions from the requirement to present a current WSDL generally are not verified.
- H. Except for on-line registrations, where a WSDL is checked electronically, the validity of the WSDL license is not verified.
- I. The law requires presentation of an unexpired WSDL information for motor vehicle registrations. Roughly 20 percent of those registrations involve an original registration of the vehicle or a transfer of ownership, while the remaining 80 percent involve the same motor vehicle owner submitting the same WSDL information each year.
- J. New residents may try to register a vehicle before they have acquired a new WSDL, due to both actions being required within 30 days of becoming a resident.

The Vehicle Licensing Process

New Registrations and Renewal

Vehicle registration activities take two basic forms, new registrations and renewals. New registrations are issued as a result of an original transaction or when a vehicle is transferred to a new owner. “Original” transactions occur when a new vehicle is being titled and registered for the first time (often through a dealer transaction) or the vehicle is coming into Washington from another state or jurisdiction and there is not a prior record of the vehicle in Washington’s database. A “transfer” means there is an existing record of the vehicle in the database, and the vehicle is being titled and registered in a different person’s name (could be a result of dealer transactions, private party sale, gifting, etc). A “renewal” is when the fees are paid and license tabs have been purchased for the current registration year.

Who Processes Vehicle Licensing in Washington State?

State law allows County Auditors or their appointed Agents to conduct vehicle licensing operations (titing and registrations) on behalf of the State. Vehicle Licensing Subagents are private businesses who contract with County Auditors to conduct licensing operations at various locations. All 39 counties have County Auditors or Agents, (in 38 counties it is the County Auditor, and in King County, which has no County Auditor, a county employee serves as the Agent of the county and performs the licensing function). There are 141 Subagents in the state located in 31 of the State’s 39 counties. *County Auditors or their Agents will subsequently be referred to as County Auditor.*

There are several ways to register a motor vehicle in Washington:

- In-person at the County Auditor’s office
- Mail-in to the County Auditor’s office
- In-person at a vehicle licensing Subagent’s business
- Mail-in to a vehicle licensing Subagent’s business
- On-line, through the Department of Licensing website (renewals only)

Nearly two-thirds of all vehicle licensing transactions are handled by Subagents. There were over 6.3 million licensing transactions in 2012:

- 4.1 million were handled by Subagents (63%) and
- 2.2 million were handled by County Auditors (37%)

Figure A
2012 Motor Vehicle Registration Transactions
County Auditors and Subagents

Licensing Entities	Registrations by Type		Total Registrations
	Over-the-counter: Walk-in and Mail	Internet	
County Auditors	1.4 million	0.8 million	2.2 million
Subagents	3.5 million	0.6 million	4.1 million
Department of Licensing	5, 500 Total		
Total			6.3 million

In addition to these 6.3 million motor vehicle registration transactions, Auditors and Subagents also conduct vehicle titling, plate transactions, permit issuance and registrations for other vehicles such as trailers. State law requires that an unexpired driver’s license be presented for motor vehicle registrations, both originals and renewals.

Vehicle licensing transactions occur in one of two ways, either over the counter, or on the Internet. The majority of transactions are over-the-counter, which includes both walk-ins and mail-ins. For Subagents, 85 percent of transactions are over-the-counter, and for Auditors, they are 64 percent. The proportion of over-the-counter transactions that are walk-ins versus mail-ins varies dramatically by county, and also by the type of transaction. For some County Auditors, the percentage of vehicle license renewals by mail can be 90 percent or higher. For new registrations, the percentage by mail may be slightly lower, in the 80 to 90 percent range. In contrast, the vast majority of over-the-counter transactions for Subagents are walk-ins, ranging in the high 90th percentile.

Internet renewal transactions are a growing percentage of transactions, rising from almost 15 percent in 2008 to nearly 26 percent in 2012. Internet transactions are growing more rapidly for Subagents; however, Internet transactions represent a much higher percentage of transactions for Auditors. In 2012, County Auditors processed nearly 820,000 Internet transactions, compared with 630,000 for Subagents. Internet transactions represented 39 percent of Auditor renewals and 20 percent of Subagent renewals.

Vehicle licensing patterns vary across the state. Border counties have a higher percentage of original transactions involving out-of-state vehicle sales. In 2012, original vehicle transactions totaled 583,000, with about 8 percent of those sales related to out-of-state dealer and private sales. For counties bordering Oregon, about 25 percent of those original transactions involved out-of-state dealer and private sales. Clark County had 54,000 original transactions, with out-of-state dealer and private sales representing 29 percent of the total.

Current Licensing Requirements

State law requires new Washington residents to license their vehicles within thirty days of moving to Washington (RCW 46.16A.140), and to obtain a WSDL within that same thirty days (RCW 46.20.021).

State law also requires people licensing their motor vehicles in Washington (or renewing the motor vehicle license) to show an unexpired WSDL. The law provides exceptions for Washington residents, including those who do not drive on public roads and for individuals who are otherwise exempt from the requirement to obtain a WSDL, as identified in RCW 46.16A.050. (These exemptions are identified in Appendix C) The person claiming the exemption certifies under penalty of perjury that one or more registered owners meet one of the exemptions or that they have an unexpired Washington driver's license.

RCW 46.16A.050 also requires the Department of Licensing (DOL) to set up procedures to verify all owners meet the law's requirements; makes falsifying residency a gross misdemeanor punishable by a fine of \$529; and authorizes DOL to adopt rules on exemptions from this requirement. With court and other fees added, the total fine is \$1,122.

Engrossed House Bill 1241, Enacted in 2005

The requirement to show an unexpired driver's license became law in 2005, with the enactment of Engrossed House Bill 1241. This legislation was in response to evidence that some people were becoming residents of Washington but failing to register their vehicles in Washington, in order to avoid paying sales and use tax on the vehicle. In addition, some people were keeping their out-of-state driver's license (in most instances Oregon licenses), in order to avoid paying Washington sales and use taxes on other purchases. Presently, Oregon driver's licenses are valid for eight years.

RCW 82.08.0273 exempts non-residents from states with no sales tax or a sales tax of less than three percent from paying Washington's sales and use tax on qualifying purchases. This means Oregon residents do not have to pay sales and use taxes on items purchased in Washington that will be used only outside of the state. The exemption does not apply to services or items substantially consumed in Washington, such as lodging, repair services, prepared food, amusement and recreation, and others.

The fiscal note for Engrossed House Bill 1241 estimated that the legislation would generate additional sales and use tax revenue, which would be distributed primarily to the State General Fund, as well as amounts to local governments imposing local sales taxes, and revenue to transportation funds derived from vehicle registration fees and the 0.3% sales tax on motor vehicles. Revenue estimates were approximately \$3 million in the 2005-07 biennium and \$2 million in the 2007-09 and 2009-11 biennia.

During the study process, the Department of Revenue further assessed additional revenues since 2005 occurring as a result of the WSDL requirement. These estimates are developed utilizing data from 2005 onward and a measurement of fraud developed by the Coalition Against Insurance Fraud, which identifies a 10% fraud rate. That measurement is applied to Washington to identify the revenue impact of the WSDL requirement.

Figure B

Revenue Impact--Requirement to Present WSDL for Vehicle Registration

Fiscal Year	State Revenues (\$ in 1,000s)	Local Revenues (\$ in 1,000s)	Total Revenues (\$ in 1,000s)
2006	356	111	467
2007	1,710	544	2,254
2008	2,288	839	3,127
2009	2,804	1,032	3,116
2010	2,792	1,038	3,830
2011	2,936	1,090	4,026
2012	3,298	1,208	4,506
2013	3,435	1,297	4,732

Prospectively, using the same methodology, the Department of Revenue estimated the loss of revenue associated with the elimination of the WSDL requirement, effective August 2014. State revenues are estimated to decrease by \$1.7 M in Fiscal Year 2016 and \$4.3 M in Fiscal Year 2019. Similarly, local revenues are estimated to decline by \$0.7 M in FY 2016 and \$1.6 M in FY 2019.

Legislation was introduced in the 2013 Legislative Session to repeal the requirement that an unexpired WSDL be presented in order to register a motor vehicle. The legislation (HB 1521 / SB 5427) also repealed the gross misdemeanor fine of \$529 for a person falsifying residency when registering a vehicle. Subagents supported the bill, maintaining the requirement was not an effective tax fraud deterrent because its enforcement was not consistent, and in many cases not enforced, nor enforceable. They also maintained that it was using motor vehicle registration processes to enforce what was principally a retail sales tax evasion problem. The Department of Revenue fiscal note on that legislation identified no impact.

Implementation of the requirement to present an unexpired Washington driver's license

Following enactment of the statute in 2005, DOL determined that the new law should be implemented in phases, since it required a significant change in the way transactions were completed.

Phase I—Public Awareness. The first phase was intended to educate the public of the new requirements, by requesting presentation of an unexpired WSDL but not turning away customers who could not provide one. In Phase I, DOL did not require the offices to reject mailed-in renewals if the unexpired driver's license information was not included. Rather, an education approach was chosen.

Phase II—Pilot Project. The second phase of implementation began in August of 2007, and was limited to a three-month pilot project with the Clark County Auditor and Subagents. For three months, the Auditor and Subagents were required to keep track of the number of transactions that would have been rejected because an unexpired driver license (or exemption) was not provided. That information was provided to DOL for analysis.

During Phase II, DOL then studied what was required to allow DOL's driver licensing and vehicle licensing databases to communicate with each other. This cross-communication would be necessary to verify the accuracy of the WSDL information drivers were asked to provide on their vehicle licensing forms.

DOL continued to educate Auditors and Subagents about the law's implementation at various user group and licensing association conferences.

Phase III – Full Implementation. Full implementation of the law was to take effect in 2009. This would compel all Auditors and Subagents to require the unexpired WSDL information in order to process a vehicle licensing transaction.

At a 2009 user group meeting, the DOL Director advised stakeholders that DOL was not able to secure funding to bridge the driver and vehicle databases. This meant there was no way to verify the accuracy of the WSDL information provided on vehicle registration forms.

Despite that shortcoming, the DOL director stated her expectation that Auditors and Subagents fully implement the law, and require customers to present an unexpired driver license. At the same time, the DOL Director acknowledged the impact to the customer and the Auditor's or Subagent's office if the customer failed to provide that information on the mail-in renewal notices. Subsequently, DOL told Auditors and Subagents to follow the law.

Since 2009, County Auditors and Subagents have continued to process mail-in transactions which do not include the unexpired WSDL information. They have said they do so because they don't have the staff or time to return the registration in order to obtain the unexpired WSDL information.

Compliance with the Statute Requiring Presentation of an Unexpired Washington State Driver's License

The following observations regarding compliance with each of the registration methods are based largely on conversations study staff conducted with a group of Subagents, with a group of County Auditors and County Auditor's vehicle licensing personnel, and with staff from the Department of Licensing and the Department of Revenue. The

observations were substantiated during the August 15, 2013, Work Group discussions and subsequent evaluation by staff.

Compliance with the unexpired WSDL requirement is likely for on-line renewal vehicle registrations. This high compliance rate is principally because the vehicle registration website prompts users to populate the driver's license information, and the site assesses the driver's license data for a valid WSDL. The application is rejected if no number is filled in, if the number is inconsistent with a valid WSDL number, or if the expiration date of the WSDL is earlier than the transaction date. The application will proceed however, if the applicant marks that they are exempt from the WSDL requirement.

Lesser compliance is experienced with over-the-counter registrations. This includes both walk-in and mail-in registrations. Certain counties, such as Clark and Cowlitz, require an unexpired driver's license or an exemption statement when a customer walks in to register a vehicle. Clark County estimates that 10 to 15 percent of the time applicants do not have an unexpired WSDL. If the customer has a WSDL and has not filled in the WSDL field on the registration form, county personnel will do so. Other counties may do this depending on work demands in the office. Snohomish County indicates staff will ask for a WSDL, but will accept another ID to transact the registration. King County also accepts valid identification in lieu of an unexpired WSDL.

Auditors indicate their staff use the vehicle registration process as an opportunity to remind customers of the 30 day WSDL and vehicle registration requirement.

Discussions indicate that Subagents experience additional difficulty in carrying out this requirement due in large part to the volume of walk-in customers. Subagents cite processing delays (volume of walk-in customers, long waiting lines and complications with drive-through operations), customer relations, and competition with other licensing options as contributing factors to the added difficulty in enforcement. Subagents generally will check for the same last name between vehicle registration and WSDL or payment check. A Clark County Subagent keeps forms provided by DOL when customers claim an exemption from the requirement to present an unexpired WSDL.

Compliance appears lowest for mail-in renewal of registrations. Although DOL's mail-in renewal form contains instructions and space for listing WSDL information, mail-in renewals may or may not contain that information. County Auditors and Subagents reported that they do not reject mail-in renewals that do not include a WSDL number or exemption, due to workload constraints and the cost of return postage, as well as delays in the licensing process for the public. Rejecting the renewal would involve returning it to the applicant.

Mail-in titling registrations to County Auditors and Subagents also come from auto dealers. While many dealers' titling registrations contain the full WSDL information, packets of multiple registrations may not all be complete. Work Group members commented that titling registration applications from dealers of new vehicles tend to be the more thorough, and that out-of-state dealers vary in compliance with the requirement.

The Study Process and the Work Group

The Study Work Plan was approved by the JTC at its July meeting. The Plan called for a staff work group, made up of Transportation Committee and OFM staff, to evaluate the requirement that an unexpired driver's license be presented when licensing a motor vehicle and present a report to the House and Senate Transportation Committees by December 31, 2013.

The study proviso called for a Work Group to advise the study. A Work Group was appointed, consisting of County Auditors and their staff, Subagents, and staff from the Departments of Licensing and Revenue. Initially, study staff interviewed each of these groups of members to better understand the licensing process and to ascertain each group's perspective and concerns. In addition to those persons, the study staff also interviewed the Washington State Patrol Licensing Investigative Unit headquartered in Clark County and spoke with the Cowlitz County Auditor's Office.

The Work Group met in Olympia on August 15, 2013, to review study materials and discuss issues related to administering the Law, including compliance and enforcement. The group identified options to strengthen, modify or repeal the Law.

Summary of Work Group Issues and Concerns:

Interviews with the study participants, together with discussions of the Work Group identified the following issues and concerns:

1. **Compliance with the statute varies considerably among the methods of license renewal and among and between the different licensing entities.** For walk-ins at County Auditor's offices or Subagent sites, there is varying enforcement of the requirement due to time pressures, customer preparation, and agent enforcement. For mail-ins, many renewals are processed whether a WSDL is included on the renewal application. For on-line renewals, unless an exemption from the requirement is claimed, a WSDL must be provided and it is electronically validated.
2. **There is no way to determine the validity of the driver's license number on a mail-in renewal form.** Except for on-line renewals and presentation of an unexpired WSDL, the vehicle licensing system in the offices does not check whether a person is submitting an unexpired driver's license number, when licensing their vehicle. The Department of Licensing does not have the automated capability to cross-check driver's license information with vehicle registration information.

Development of a computer system to provide a driver license and vehicle license interface was envisioned in the mid-1990s but the project was terminated before completion. DOL is currently in the first phases of a technology and business modernization project that will expand the data reporting and interface capability,

and enhance the functionality of the vehicle field system and drivers field system—the systems that perform customer transactions and feeds databases. Current estimates for the scope of this project are five to seven years, at a cost of approximately \$60 million.

3. **Lack of enforcement capability.** DOL driver's and vehicle data bases are not compatible and DOL does not have the staff resources to verify that a registered owner has an unexpired WSDL. The Department does not have the technical or staff capability to verify that submitted WSDL information is appropriate for the vehicle being registered.
4. **Exemption claims cannot be verified.** There are numerous exemptions to the unexpired driver's license requirement and there is no process to verify those exemption claims.
5. **New residents may obtain a vehicle license before a driver's license.** The law requires that a new resident both get a Washington driver's license and register their vehicles within 30 days of becoming a resident. Since a new resident may be registering their vehicle before getting a WSDL, both Auditors and Subagents experience additional difficulty in complying with the requirements of this provision. Enforcement of the unexpired WSDL requirement results in customers being turned away when they attempt to register their vehicle.
6. **Processing delays for walk-in customers.** For walk-in customers, enforcement causes processing delays at customer counters, driving away customers, and adding to expense. This is generally more of an issue for Subagents, but can also affect Auditor's Offices.
7. **No WSDL on mail-in renewal registrations.** Especially in Auditor Offices with high volumes of mail-in renewals, officials usually process mail-in renewals even if they do not have the driver's license number. They maintain that returning incomplete renewals affect staffing levels, customer wait times, and delays in vehicle licensing for customers.
8. **Incomplete WSDL information.** Individuals seeking to license their vehicle are not always prepared to present unexpired driver's license information for all vehicle owners, as the law requires.
 - a. When there is more than one person on the vehicle registration, the person registering the vehicle may not have the other owner's driver's license number.
 - b. A parent may be registering a vehicle for a child living out-of-state (e.g. a college student) and does not have the child's driver's license number.
9. **Validity of WSDL not evaluated.** There is no system in place to assess whether a WSDL license number provided is valid, except in the case of on-line registration. Also, there is no protocol for retaining the WSDL information, which might permit the WSDL number to be checked at some point in the future.

10. **Reluctance to enforce.** Because there is no way to check the validity of the WSDL submitted on motor vehicle registration forms, and because of the exemption allowances, Auditors and Subagents are often reluctant to enforce the requirement.
11. **Other licensing issues.** In addition to requirements for licensing vehicles in Washington, proper addresses for vehicle registration also concern licensing agents. County Auditors and Subagents have also expressed concerns about their ability to verify addresses when licensing vehicles. This is especially an issue in counties with special taxing districts in portions of the county such as a Transportation Benefit Districts and public transportation districts. It appears that people sometimes submit false address to avoid paying taxes imposed by the special taxing districts.

Figure C below identifies those participating in the August 15, 2013 Work Group meeting.

Figure C

Affiliation	Name	Position
County Auditors	*Thad Duvall	Douglas County Auditor
	*Carolyn Weikel	Snohomish County Auditor
	*Jodie Trueblood by phone	Licensing Manager, King County
	Vicki Meyer Charlene Huffman	Subagent Liaison, Clark County Vehicle Licensing Office, Clark County
	Ellen Marsh by phone	Spokane County Auto Licensing Manager
Subagents	Charlene Winzler	WAVS President, Office Manager, Moses Lake
	Jan Novak	Office Manager, Federal Way Auto Licensing
	Cindi Corl	C and L Auto Licensing, Longview
	Elisha Wilhelm	Vancouver Auto Licensing Service 0604
	Mark Gjurasic	Lobbyist-WAVS
	Chester Baldwin	Lobbyist-WAVS
Department of Licensing	Tony Sermonti	Legislative Liaison
	BG Sandahl	Customer Relations Division
	Sheila Hadden	Subagent Liaison
Department of Revenue	Beau Perschbacher	Tax Policy Specialist
Legislative and OFM Staff	Gene Baxstrom	JTC Project Lead
	Mary Fleckenstein	JTC Back-up
	Jerry Long	House Transportation Committee
	Jim Albert	Office of Financial Management
Caucus Staff	Dana Quam by phone	House Republican Caucus
	Jackson Maynard	Senate Republican Caucus

*Members of Washington Association of County Auditors Licensing Subcommittee

Policy Options

The Work Group identified four principal options with regard to the policy requiring presentation of an unexpired Washington State driver's license (WSDL) to register a motor vehicle. Several other options either modify those four principal alternatives and/or strengthen the legislative goal of reducing tax fraud.

Certain options can stand alone. However, many were discussed in the context of a multi-faceted approach, both to address challenges of administering the current license requirement, and to take into account the legislative policy that new residents obtain Washington driver's licenses and that vehicles of residents are properly registered and that taxes are paid on those vehicles.

The four principal options are:

1. Repeal the current requirement to present an unexpired Washington state driver's license (WSDL) when registering a motor vehicle.
2. Amend the law to apply only to original vehicle registrations.
3. Amend the law to apply both to original vehicle registrations and to vehicle ownership changes.

Options 1 through 3 were preferred in ranked order by the Auditor and Subagent members of the Work Group commenting on a report draft. Option 4 is provided by the Work Group if the Legislature chooses to retain the current requirement.

4. Maintain the current requirement, but only with other changes to the law and investments in the licensing system.

The Work Group also identified 8 additional options to help achieve the objectives of the 2005 law. Implementation of options 5 through 12 are intended to complement one or more of the four principal options.

5. Accept a driver's license from another state having a sales tax of 3% or greater when registering a motor vehicle.
6. Increase enforcement efforts
7. Increase education efforts
8. Reduce the fine for failure to register a motor vehicle to encourage enforcement
9. Work with retailers to identify ways to limit nonresident sales tax fraud
10. Require tax exemption certificates
11. Require an application for a refund of sales tax on purchases by out-of-state residents
12. Extend the 30-day vehicle registration requirement for new residents to 60 days.

Detail on the Principal Options

- 1. Repeal the Current Requirement.** Because the 2005 law cannot be effectively enforced, due to the difficulty in verifying WSDL information and the volume and deadlines of registrations, repeal the existing requirement for a resident to present an unexpired Washington State driver's license for an original or renewal registration.
 - Advantages
 - a. Reduces the time for the County Auditor, other Agent or Subagent to process an original or renewal registration.
 - b. Improves customer service and improves the customers experience with the State of Washington vehicle registration process.
 - Disadvantages
 - a. Removes a deterrent for people that would like to keep and continue to use their out of state driver license to purchase goods tax free in the State of Washington
 - b. Enables individuals coming from out-of-state to more easily register their vehicles in Washington whether they obtain a WSDL.
 - Related issues
 - a. Adoption of other options including additional enforcement, education, and alternative treatment of sales tax exemptions could help mitigate the “loss of deterrent” that repeal of this requirement could cause.

- 2. Amend the law to it apply only to original vehicle registrations.** Limits the requirement to show an unexpired WSDL for original transaction for a motor vehicle in Washington, to better focus enforcement efforts.
 - Advantages
 - a. Focuses resources and efforts on the target population, vehicles registered for the first time in Washington. Addresses those persons from states where retention of the out-of-state enables sales tax avoidance.
 - b. Significantly reduces the number of persons required to present an unexpired WSDL when first registering a vehicle in Washington State.
 - c. Saves the public time when renewing registrations for vehicles previously registered in Washington State, thereby improving customer service and satisfaction.
 - d. Increases the efficiency of Auditor, Agent and Subagent operations, while focusing resources on the target population.
 - e. Will increase the percentage of County Auditors, other Agents and Subagents complying with the law, focusing on the out-of-state titles and registrations coming into Washington.

- Disadvantages
 - a. Does not address an individual with an out-of-state driver's license purchasing a vehicle previously licensed in Washington.
 - b. As with existing law, does not address current issue of one spouse being registered on a vehicle, while their spouse retains an out-of-state driver's license.
- Related issues
 - a. Original registrations for Calendar Year 2012 total 458,000 and would be subject to the requirement to present the unexpired WSDL, or slightly over 7 percent of vehicle registrations currently subject to the WSDL requirement.
 - b. Oregon dealers selling cars to be registered in Washington do not necessarily include the driver's license of the purchaser.

3. Amend the law to apply both to original vehicle registrations and to vehicle ownership changes. Like option 2, this requires that an unexpired WSDL be presented for an original registration (first time in Washington); in addition, it also requires the presentation of a WSDL for a transfer (change in owner).

- Advantages
 - a. Focuses resources and efforts on the target population, original registrations and transfer registrations. Addresses those persons from states where retention of the out-of-state driver's license enables sales tax avoidance.
 - b. Significantly reduces the number of persons required to present an unexpired driver's license when registering a vehicle in Washington State.
 - c. Saves the public time when renewals of registrations, thereby improving customer service and satisfaction.
 - d. Increases the efficiency of Auditor, Agent and Subagent operations, while focusing resources on the target population.
 - e. Will increase the percentage of County Auditors, other Agents and Subagents complying with the law, focusing on vehicles with original registrations, and on transfers.
- Disadvantages
 - a. As with existing law, does not address current issue of one person being registered on a vehicle, while their spouse or relation retains an out-of-state driver's license.
- Related issues
 - a. Original registrations for Calendar Year 2012 total 458,000 and transfer registrations totaled 680,000. A total of 1,140,000 registrations would be subject to the requirement to present an unexpired WSDL, or about 18

percent of the current 6.3 million registrations now subject to the WSDL requirement.

- b. Requires auto dealers to check for WSDL when a vehicle is sold and they process vehicle ownership change.

Options 1 through 3 were preferred by the Auditor and Subagent members of the Work Group. Option 4 is provided by the Work Group if the Legislature chooses to retain the current requirement.

4. Maintain the current requirement, but only with other changes to the law and investments in the licensing system.

- Advantages
 - a. Maintains the existing level of deterrence to someone keeping an out-of-state driver's license when registering a motor vehicle in Washington.
 - b. With changes, could increase present deterrence levels.
- Disadvantages
 - a. The existing process cannot be fully enforced due to resources not being available to verify driver license information.
 - b. Does not address the current deficiencies related to the customer experience or satisfaction with the current Washington State vehicle registration process.
 - c. Does not improve the existing prosecution of violators or law enforcement fines.
- Related issues
 - a. Compliance with the law varies considerably due to methods of registration and differences among licensing entities. Additionally, WSDL's are generally not verified and exemptions are not checked.
 - b. To be more effective, additional education efforts are needed to inform the public on the need to obtain a WSDL and vehicle registration with 30 days after establishing residency.
 - c. Additional law enforcement efforts are needed and penalties need to be adjusted to encourage enforcement.
 - d. The current process is not working well, but could work more effectively with integration of driver license and vehicle license databases. However, the Department of Licensing reports that development of this system is only in the first phases and it is a five to seven year project costing an estimated \$60 million.

Detail on the Additional Options

The following eight options are intended to complement the four principal options. In certain cases, the following option(s) enhance state processes to better carry out the objectives of the 2005 law, or they mitigate certain effects of the current law, including proposed modifications to that law.

5. Accept a driver's license from another state having a sales tax of 3% or greater when registering a motor vehicle. If Option 2, 3, or 4 are selected, consider extending those driver's licenses acceptable for licensing a vehicle in Washington, to include licenses from states which impose a sales tax of 3% or greater. Residents of those states are not eligible for the nonresident retail sales tax exemption.

- Advantages
 - a. Consistent with current objective of minimizing retention of out-of-state drivers licenses from states that have minimal or no sales taxes.
 - b. Provides more latitude for agents processing vehicle registrations involving new residents from certain states.
 - c. Consistent with current state policy of persons from states having a 3% or greater sales tax are not eligible for the nonresident sales tax exemption.
- Disadvantages
 - a. Continues the existing approach which cannot be fully enforced due to resources not being available to verify the driver license information being presented.
 - b. Does not address the current deficiencies related to the customer experience or satisfaction with the current Washington State vehicle registration process.
 - c. Does not increase education to inform the public on the requirement and process for obtaining a Washington State driver license and vehicle registrations within 30 days after establishing residency.
 - d. Does not improve the existing prosecution of violators or law enforcement fines.
- Related issues
 - a. The current process could work more effectively with integration of driver license and vehicle license databases. However, the Department of Licensing reports that development of this system will take 5 to 7 years and is estimated to cost approximately \$60 million.

6. Increase enforcement efforts. Improve education and enforcement of 30-day WSDL and vehicle licensing law by state and local law enforcement.

- Advantages
 - a. Could act as a deterrent for persons considering retaining their out-of-state driver's license in order to purchase goods tax free in Washington.

- b. May speed up collection of driver license and vehicle registration revenues due to earlier compliance.
 - c. Increases sale tax collections due to a reduction of persons able to claim the sales tax exemption.
 - d. Could provide indirect education through enforcement efforts.
 - e. Shifts enforcement responsibility to the more appropriate entity – law enforcement – rather than County Auditors and Subagents.
 - f. Re-focuses emphasis on sales and use tax collections which is the end strategy to reduce tax evasion.
- Disadvantages
 - a. May require additional law enforcement resources, or a shift in existing law enforcement resources from other areas.
 - b. Law enforcement may be issuing more fines instead of verbal warnings, and the traffic stop will take longer due to completing the written citation.
 - Related issues
 - a. Law enforcement may utilize media to communicate to the public that there will be emphasis in enforcing this issue.
 - b. A description of the history, activities, and funding of the Licensing Investigative Unit in Clark County is Appendix A of this report.

7. Increase education efforts. County Auditors and Subagents, and the Departments of Licensing and Revenue should improve efforts to educate new residents about the requirement to register their vehicle and obtain a Washington State Driver’s License within 30 days of becoming a resident.

- Advantages
 - a. Helps people comply with the law, which most people typically want to do.
 - b. All of the groups working together can better provide a consistent and repetitive message regarding licensing requirements.
 - c. Could help generate revenue from sales and use tax and vehicle fees earlier, due to new resident’s better understanding the 30 day requirement.
- Related issues
 - a. May require the Department of Licensing and the Department of Revenue to enhance educational material, which may have a budget impact.
 - b. Other new resident points of contact, such as professional licensing, voter registrations, school registrations, address changes, and other state services, may be available to share “new resident” information.

8. Reduce the fine for failure to register a vehicle to encourage enforcement. Since the Courts seem reluctant to impose a \$1,022 fine for non-compliance, consider lowering the fine to encourage the Court to impose it more frequently. Consider a graduated fine for subsequent offenses.

- Advantages

- a. If made a traffic citation with a lower fine, law enforcement may be inclined to issue more citations and courts may allow the traffic citation to be handled as any other traffic citation.
- b. People may pay the reduced fine and collections may increase.
- Disadvantages
 - a. The lower fines may not provide the same degree of deterrence as the larger fines do – if that higher fine were to be imposed by the Court.
- Related issues
 - a. Using graduated fines for failure to obtain a WSDL could provide balance between a lower initial fine and larger fines for repeat offenders.
 - b. A description of the history, activities, and funding of the Licensing Investigative Unit in Clark County is Appendix A of this report.

9. Work with retailers to identify ways to limit nonresident sales tax fraud. Since consumers are aware that retaining a qualified out-of-state driver's license allows them to purchase goods in Washington tax free, the Department of Revenue should work with retailers to help limit nonresident sales tax fraud.

- Advantages
 - a. May improve retailer enforcement of current law and discourage individuals from trying to abuse the exemption.
 - b. Improves communication between Department of Revenue and the retail communities.
- Disadvantages
 - a. May require additional resources for the Department of Revenue
- Related issues
 - a. Does not address the issue of Washington residents retaining an out-of-state driver's license to evade sales tax and therefore will only have a limited impact in addressing the fraud.
 - b. Further evaluation may be necessary to determine if there is more of a problem in counties.
 - c. Audits for high dollar transactions may prove useful.

10. Require tax exemption certificate. To claim the non-resident sales tax exemption, the out-of-state purchaser could be required to complete a buyer's retail sales tax exemption certificate. This is currently required to receive many other sales tax exemptions, and includes the buyer's legal name, residence address, driver's license number, and a signed statement that the person qualifies for the exemption. The requirement could be for all nonresident sales, or limited to nonresident sales over a specified amount.

- Advantages
 - a. Establishes a more formal process for a person to declare exemption from the sales and use tax, and places the shopper on notice that they are certifying that they are entitled to the exemption.

- b. May act as a deterrent for persons that are not eligible for the exemption to purchase goods tax free.
- c. Re-focuses emphasis on sales and use tax collections which is the end strategy to reduce evasion.
- Disadvantages
 - a. Will require additional retailer time to have the person fill out the affidavit.
- Related issues
 - a. The DOR currently has a “buyer-retailer” sales tax exemption certificate in place that could be used for this purpose.

11. Require an application for a refund for sales tax on purchases by out-of-state residents. Change the Washington non-resident sales and use tax exemption to a refund process for purchases. (This approach was included in HB 2036 and SB 5871 in the 2013 legislative session, however neither bill was enacted.)

- Advantages
 - a. May increase sales and use tax collections.
 - b. Reduces the amount of law enforcement time focused on this area by removing the incentive to illegally retain an out-of-state driver license for purchasing goods tax free.
 - c. Re-focuses emphasis on sales and use tax collections which is the end strategy to reduce evasion.
- Disadvantages
 - a. Some have argued that this will hurt retail business, and that out-of-state customers may not want to shop in Washington because their ability to purchase goods tax-free is more difficult than the existing process.
 - b. Increases the Department of Revenue’s workload to issue refunds.
- Related issues
 - a. This addresses retail sales tax evasion, but does not necessarily address vehicle registration or associated sales and use tax fraud.

12. Extend the 30-day vehicle registration requirement for new residents to 60 days. Increase the deadline from 30 days to 60 days for new residents to register vehicles, and maintain the requirement of 30 days to obtain a WSDL.

- Advantages
 - a. Will give a person additional time to register vehicles in the State of Washington due to the cost and time involved in completing the transactions for both a WSDL and vehicle registration.
 - b. Eases the financial burden for new residents, allowing them to spread the cost of getting a WSDL and vehicle registrations over two months rather than one.

- c. With education, this will give a person time to get a Washington State driver's license, and then register their vehicles.
- Disadvantages
 - a. May slow down the collection of vehicle taxes for 30 days since people may use the additional 30 days before registering their vehicles.
 - b. Complicates requirements for new residents; 30 days for a driver's license and 60 days for vehicle registration.

Certain options can stand alone. However, many were discussed in the context of a multi-faceted approach, both to address challenges of administering the current license requirement, and to take into account the legislative policy that new residents obtain Washington driver's licenses and that vehicles of residents are properly registered and that taxes are paid on those vehicles.

Appendix A

Licensing Investigative Unit in Clark County

The Washington State Patrol (WSP) has established a Licensing Investigative Unit (LIU) in Clark County to deal with issues related to enforcement of motor vehicle licensing issues in Southwest Washington. This area includes Clark, Skamania, Klickitat, Cowlitz, and Lewis counties. While the existence of the LIU is not directly related to this study, its functions are related to the objectives of passing EHB 1241 -- enforcement of vehicle registration laws.

First established in 1999, the LIU consists of two Washington State Patrol officers and two volunteers. Its objective is to increase vehicle licensing compliance through education and enforcement. It monitors vehicles in Clark and other counties having out-of-state licenses, and records repeated sightings of those vehicles. It may then remind owners of those vehicles of Washington vehicle licensing laws, by post card or by vehicle windshield postings. The LIU also reviews those vehicle license addresses and registered owners and compares them with Washington driver and vehicle license information.

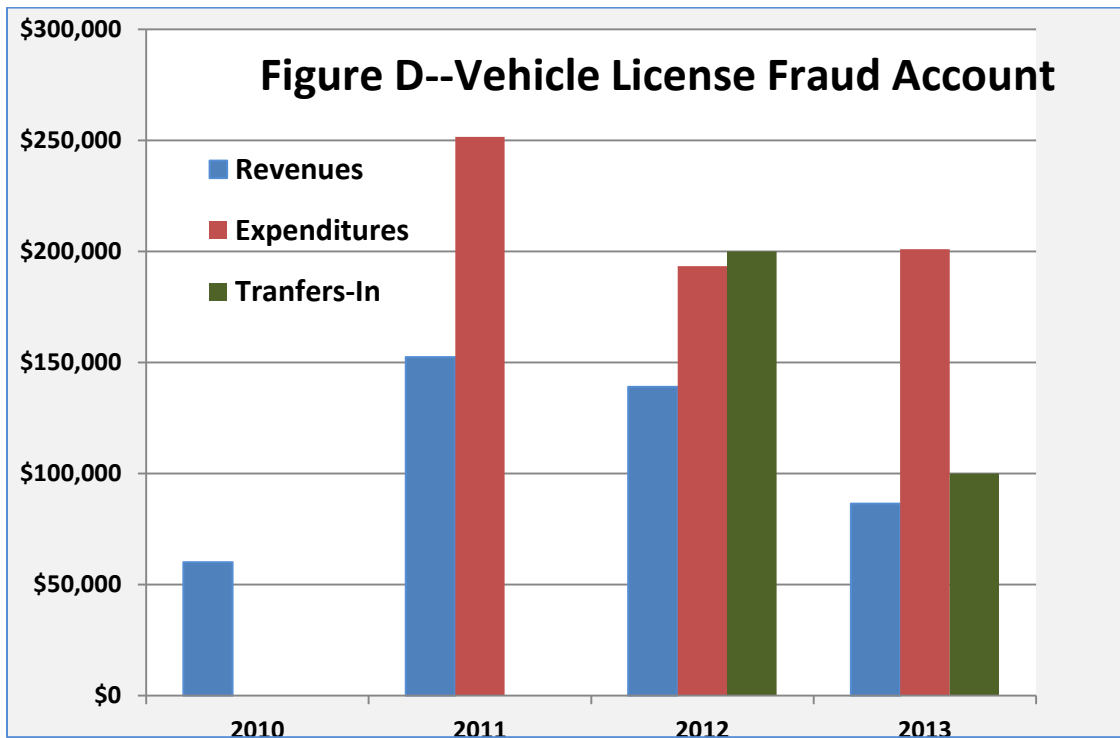
Since 2004, the LIU has varied in size. In 2004, it was utilizing one trooper and two volunteers to address citizen complaints of Washington residents operating vehicles licensed out of state. In 2005, the Legislature provided funding to add more staff and technology. One trooper was added, an office outfitted, and up to 12 volunteers were brought on board. The program was funded by the General Fund. The program was eliminated in the 2009-11 budget. In the 2010 Supplemental Budget, the Legislature reinstated the program with an appropriation from the Vehicle License Fraud Account.

The Vehicle License Account is funded by certain fines. Fines for persons not complying with vehicle licensing laws can be cited with a traffic infraction of \$1,122 for violating the Washington State vehicle registration requirement to register a vehicle within 30 days of becoming a Washington State resident. Legislation enacted in 2010 (2SHB 2436) required that \$529 of the fine to be deposited in the Vehicle License Fraud Account, which is used for vehicle license fraud enforcement by the State Patrol and the Department of Revenue. The 2010 legislation also significantly increased penalties for a state citizen to license a vehicle in another state to avoid tax or license fees. It provided that the existing fine, and an additional \$1,000 fine could not be suspended or deferred, and that the \$529 existing fine and the \$1,000 fine be deposited in the Vehicle License Fraud Account. Other delinquent taxes and fees were to be deposited where those monies should have been paid.

The revenue from the fines has not been as much as anticipated to cover the cost of the program. The revenues from fines did not fully fund program costs in fiscal years 2011, 2012, and 2013. \$200,000 was appropriated from the General Fund and \$100,000 was appropriated from the State Patrol Highway Account to address the revenue shortfall. The WSP has proposed a 2014 supplemental decision package for \$220,000 from the

Appendix A continued

General Fund citing that fines have been subject to mitigating factors imposed by commissioners, judges and other presiding authorities. The revenue is also collected slowly since several of the fines are challenged and the ones not challenged are sometimes not paid timely.



In 2012, the LIU had over 800 vehicle-licensing enforcement contacts, and issued 120 citations, 185 written warnings, and 510 verbal warnings. These are in addition to over 1,600 postcard notifications to vehicle owners. The contacts were up by 60 percent since program inception in 2006, with verbal warnings growing the fastest. Postcard warnings have declined by over 60 percent from the firsts of the program. The number of citations issued in 2013 have increased, particularly since May and throughout the summer.

Appendix B

Glossary of Terms

Term	Definition
Affidavit	A written declaration made under oath in the presence of an official, as a notary public, or certified by a license clerk or the authorized agent for a dealership when the vehicle is in their inventory for resale.
Agent	A county auditor or other individual or business entity other than a subagent appointed to carry out vehicle licensing & titling function on behalf of DOL.
Exemption	As applied to an exemption to the requirement to show a WSDL when registering a motor vehicle, exemptions include: does not drive a vehicle (disabled); driving privilege has been withdrawn; co-owner not available; divorced but showing divorce decree; military personnel from another state; and non-resident with valid license from another state (student for example).
Motor Vehicle	A self-propelled vehicle including vehicles propelled by electric power obtained from overhead trolley wires but not operated on rails.
Non-resident	Any person whose residence is outside this state and who is temporarily sojourning with Washington.
On-line Transaction	License is renewed on the DOL website and is generally processed by the County Auditor.
Original (Transaction)	The first time a vehicle is licensed in Washington. This can include new vehicles first delivered in Washington, or vehicles purchased out-of-state and brought into Washington, where no record of the vehicle previously exists in Washington. Also termed “original vehicle transactions”.
Over-the-Counter	Transactions involving walk-ins (to a licensing office) or by mail.
Registration	The registration certificate or license plates issued by Washington pertaining to registration of vehicles. Involves new transactions and renewals.
Registration Year	Effective period for a vehicle license issued by the DOL.
Registered Owner	The person(s) who’s lawful right to possession of a vehicle has most recently been recorded with the DOL, whether or not the vehicle is subject to a security interest.
Renewal	Payment of yearly fees for authorization to operate a vehicle on public roads and highways of Washington. Does not include original transactions.
Resident	A person who resides in Washington more than six months in any continuous 12 month period; becomes a registered Washington voter; receives benefits under one of the Washington public assistance programs; or declares himself/herself to be a resident for the purposes of obtaining a state license or tuition fees at resident rates.
Subagent	An individual(s), business, organization, or political entity appointed by the DOL Director to provide vehicle and vessel licensing and titling services under contract with the agent. There are 141 Subagents in 31 counties.
Transaction	Reference to registering a vehicle, new (original or transfer) or renewal.
Transfer (Transaction)	When a record of vehicle exists but registrations and title are changed to another person.
Used Vehicle	A vehicle that has been sold, bargained, exchanged, given away, or title transferred from the person who first took title to it from the manufacturer or first agent or dealer of the manufacturer.
Vehicle	A device capable of being moved on a public highway and in, upon or by which any persons or property may be transported or drawn on a public highway. (Includes motor vehicles, campers, trailers and bicycles.)

Appendix C

DOL Driver License Terms and Exemptions

To present an Unexpired Driver's License:

- In person: to bring or display the actual license
- For Internet Transactions: To enter the license number and expiration date
- By mail: To provide in writing the license number and expiration date

If the license has a hole punch for reasons such as being suspended, it could still be "unexpired"

For Issuing a Registration:

- Present an unexpired Washington driver's license OR
- Certify on a Certificate of Fact that he or she is a Washington resident who does not operate a vehicle on public roads, OR
- Certify on a Certificate of Fact that he or she is exempt from obtaining a Washington driver's license as one of the following:
 - A member of the military or National Guard licensed to operate a motor vehicle
 - A nonresident with a valid driver's license or instruction permit from his or her home state who will register a vehicle within thirty days of becoming a resident, OR
- Certify on a Certificate of Fact that he or she is exempt from meeting the above requirements because of a valid and compelling reason approved by DOL:
 - The driving privilege of a registered owner has been withdrawn by DOL or by a court.
 - A co-owner is not available. Circumstances include but are not limited to being incarcerated or out of state for work or personal need.
 - A co-owner is deceased, and a change of ownership is not immediately possible.
 - A divorced person awarded a vehicle presents a divorce decree showing the vehicle was awarded to him or her, and a change of ownership is not immediately possible.
 - Military personnel who are at least 16 years of age, including spouses and dependents, have in their immediate possession a valid driver's license issued by their home state of record.
 - Other reasons determined by DOL to be valid and compelling.