

# HOUSE BILL REPORT

## ESSB 5742

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### As Reported by House Committee On:

Transportation  
Ways & Means

**Title:** An act relating to providing funding and cost saving measures for the Washington state ferry system.

**Brief Description:** Providing funding and cost saving measures for the Washington state ferry system.

**Sponsors:** Senate Committee on Transportation (originally sponsored by Senators Haugen, Ranker and Shin).

### Brief History:

#### Committee Activity:

Transportation: 4/13/11, 4/14/11 [DPA];  
Ways & Means: 4/21/11 [DPA(TR/WAYS)].

### Brief Summary of Engrossed Substitute Bill (As Amended by House)

- Exempts fuel purchased by the Washington State Ferries and county-owned ferries from state sales and use tax.
- Creates the Capital Vessel Replacement Account (Replacement Account) in the Transportation Budget.
- Requires the Washington State Transportation Commission to impose a vessel replacement surcharge of 25 cents on each ferry fare.
- Directs revenues collected from the surcharge to be deposited into the Replacement Account to be used for the purchase or construction of ferry vessels and to pay principal and interest on bonds authorized for construction or purchase of ferry vessels.
- Merges the Marine Employees Commission (MEC) with the Public Employment Relations Commission (PERC) and establishes the MEC as an independent division within the PERC.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

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## HOUSE COMMITTEE ON TRANSPORTATION

**Majority Report:** Do pass as amended. Signed by 25 members: Representatives Clibborn, Chair; Liias, Vice Chair; Armstrong, Ranking Minority Member; Angel, Asay, Eddy, Finn, Fitzgibbon, Jinkins, Johnson, Klippert, Kristiansen, Ladenburg, McCune, Moeller, Morris, Moscoso, Reykdal, Rivers, Rodne, Rolfes, Ryu, Takko, Upthegrove and Zeiger.

**Minority Report:** Without recommendation. Signed by 4 members: Representatives Billig, Vice Chair; Hargrove, Assistant Ranking Minority Member; Overstreet and Shea.

**Staff:** Debbie Driver (786-7143).

### **Background:**

The Washington State Department of Transportation Ferries Division (WSF) operates and maintains ferry vessels and terminals, constructs terminals, and acquires vessels. The system serves eight Washington counties and one Canadian province through 22 vessels and 20 terminals.

### Pricing Policies.

The Washington State Transportation Commission (Transportation Commission) adopts the WSF fares and pricing policies by rule.

### Sales and Use Tax and Fuel.

In general, fuel used for purposes other than for the propulsion of a motor vehicle on public highways is not subject to the state motor vehicle fuel tax or special fuel tax. However, such fuel is subject to the state retail sales and use tax. Fuel used for urban passenger transportation systems, and fuel used for passenger-only ferry services are exempt from the state retail sales and use tax. Fuel used for the WSF system and for county-owned ferry systems is not exempt from the state retail sales and use tax.

In 2009-11 the WSF purchased over 34 million gallons of fuel and paid just under \$8 million in sales and use tax.

### Marine Employees' Commission.

The state bargains with ferry employee organizations under the Marine Employees' Collective Bargaining Act (MECBA) over wages, hours, working conditions, and insurance. The MECBA is administered by the Marine Employees' Commission (MEC). The MEC adjudicates complaints, grievances, and disputes between labor and management arising from ferry system operations, provides impasse mediation, determines bargaining units, certifies fair representation organizations, and certifies issues for arbitration when parties remain at impasse.

The Public Employment Relations Commission (PERC) administers and enforces other public sector collective bargaining laws in Washington. The PERC was created in 1975 and originally had the MECBA under its jurisdiction. Prior to 1975 the MEC had administered ferry employee collective bargaining, but it was disbanded in 1975. In 1983 the MEC was

re-established, and ferry employee collective bargaining was removed from the PERC's jurisdiction and transferred to the MEC.

#### Grievance Arbitration Procedures.

Under the MECBA, a collective bargaining agreement may provide procedures for the consideration of ferry employee grievances and of disputes over the interpretation and application of existing agreements. The procedures must provide for the invoking of arbitration only with the approval of the ferry employee organization.

#### Joint Transportation Commission Budget Proviso Study.

A budget proviso in the 2010 Supplemental Transportation Budget directed the Joint Transportation Committee to conduct a comparison of the processing time of labor-related grievances and hearings at the PERC and the MEC, and investigate whether the necessary expertise exists at the PERC to administer the grievances and hearings currently administered by the MEC. The report concluded that:

- the PERC processes unfair labor practice and grievance arbitration decisions faster than the MEC; and
- the PERC has the necessary expertise to administer the grievances and hearings currently administered by the MEC.

#### Apprenticeship Utilization.

State agencies under the Governor's authority must require that apprentices enrolled in state-approved apprenticeship training programs participate in public works projects. This requirement was originally established in an executive order issued in 2000, and later codified in legislation enacted in 2005. Public works by the Washington State Department of Transportation (WSDOT) were exempt from these requirements until legislation enacted in 2006 made them subject to slightly different apprenticeship utilization requirements. For public works by the WSDOT estimated to cost \$2 million or more, at least 15 percent of the labor hours must be performed by apprentices.

#### Puget Sound Ferries Operations Account.

Operating expenditures for the WSF are paid from the Puget Sound Ferries Operations Account (Operations Account). Funds deposited into the Operations Account include ferry fare revenues.

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#### **Summary of Amended Bill:**

The Capital Vessel Replacement Account (Replacement Account) is created. The Transportation Commission must impose a 25-cent surcharge on every ferry fare sold; the proceeds are deposited into the Replacement Account. Expenditures from the Replacement Account must be by appropriation and may only be used for the construction or purchase of ferry vessels and to pay the principal and interest on bonds authorized for the construction or purchase of ferry vessels. Expenditures from the Replacement Account must first be used to support the construction or purchase, including any financing costs, of a ferry vessel capable of carrying at least 144 vehicles.

Effective July 1, 2013, fuel purchased for the WSF vessels and by county-owned ferry systems for use in ferry vessels is exempt from the state retail sales and use tax.

The MEC is merged with the PERC as an independent division within the PERC.

Outdated language regarding usages of the Operations Account is removed, and ferry fares are added as a fund deposited into the Operations Account.

**Amended Bill Compared to Engrossed Substitute Bill:**

Instead of eliminating the MEC and transferring the functions to the PERC, the amended bill moves the MEC into the PERC as an independent division within the PERC. Additionally, the amended bill removes the increased threshold from which public works projects at the WSF must include labor performed by apprentices.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Amended Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This bill includes a ferry fare surcharge which would be used to support the construction or procurement of new ferry vessels. Riders have noted they are comfortable with a surcharge as long as the revenues are earmarked for a specific purpose. The WSF is in need of a new funding source as previous funding sources are no longer available to the WSF. Costs to run the ferry system, the aging ferry fleet, and the need to build new vessels have put a strain on the entire Transportation Budget. Using the revenue from the surcharge to fund the first 144-car class vessel will result in improvements to the ferry system as well as local Washington jobs. Furthermore, the construction of the 144-car class takes advantage of the learning curve and expertise shipyard employees gained in recently building the three 64-car class vessels.

The bill also eliminates the MEC and moves the functions of the MEC to the PERC. A study during the interim found that the PERC has the expertise to handle the MEC issues. Eliminating the MEC will assist in reducing strains on the Operations Account. Finally, the bill includes a recommendation from the Passenger Vessel Association study regarding increasing the threshold for apprenticeship utilization to \$5 million. This provides more flexibility to the WSDOT and increases competition for ferry jobs. The exemption of sales tax applied to fuel purchased by county-owned ferry systems is an important item in the bill. This bill passed the Senate with bipartisan support.

(With concerns) The 25-cent surcharge, Replacement Account, and sales tax exemption on fuel are a few of the good things in the bill. The change regarding apprenticeship utilization

requirements is not necessary given that the Secretary of the WSDOT has the ability to change utilization requirements. Please consider removing this provision of the bill.

(Opposed) The MEC is part of an agreement dating back to the 1980s. The organization provides the best resolution system the state could ask for. The specialized maritime experience of the individuals on the MEC has resulted in fewer cases going to court. The MEC has impacted labor relations and their existence has helped to achieve labor peace for the last 30 years. Retain the MEC or possibly move the MEC to the PERC as a division within the PERC. The apprenticeship utilization requirements are important aspects of having a skilled workforce and should not be changed.

**Persons Testifying:** (In support) Senator Haugen, prime sponsor; Scott Merriman, Washington State Association of Counties; Lovel Pratt, San Juan County Council; Linda Hull, Todd Shipyards; and Michael Shaw, Pierce County.

(With concerns) Terry Tilton, Washington State Building and Construction Trades Council.

(Opposed) Marty Yellam, Puget Sound Metal Trades Council and Plumbers and Pipefitters Union; Alan Cote, Inlandboatmen's Union; and Tim Saffle, Masters, Mates and Pilots.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended by Committee on Transportation as such amendment is amended by Committee on Ways & Means. Signed by 19 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Bailey, Assistant Ranking Minority Member; Carlyle, Cody, Dickerson, Haigh, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Pettigrew, Ross, Seaquist, Springer and Sullivan.

**Minority Report:** Do not pass. Signed by 8 members: Representatives Alexander, Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Chandler, Haler, Parker, Schmick and Wilcox.

**Staff:** Jeffrey Mitchell (786-7139).

### **Summary of Recommendation of Committee On Ways & Means Compared to Recommendation of Committee On Transportation:**

The Ways and Means Committee recommended that the requirement for the Transportation Commission to impose a 50-cent vessel replacement surcharge when the fare is collected in one direction only is changed to a 25-cent vessel replacement surcharge for both one-way and round-trip ferry fares.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Amended Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The bill exempts ferry fuel for county-owned ferries from sales tax. This exemption puts the four county ferry systems on the same level as passenger-only ferries and transit systems with regards to fuel sales tax exemption. Todd Shipyards has the contract to build the 144-car ferries. Passage of this bill along with the Transportation Budget will provide the state with the most cost-effective way to acquire the ferry at the most affordable cost. In addition, building the 144-car vessels provides jobs and economic development for Washington. The bill is a good bill for working families and for the state.

(Opposed) None.

**Persons Testifying:** Scott Merriman, Association of Washington Counties; Linda Hull, Todd Shipyards; and Gordon Baxter, Inland Boatmen's Union, Masters, Mates and Pilots, Marine Engineers Beneficial Association, Puget Sound Metal Trades Council, and Office and Professional Employees International Union Local 8.

**Persons Signed In To Testify But Not Testifying:** None.