

SENATE BILL REPORT

SB 6440

As Reported by Senate Committee On:
Transportation, February 6, 2014

Title: An act relating to imposing motor vehicle fuel taxes on compressed natural gas and liquefied natural gas used for transportation purposes.

Brief Description: Imposing motor vehicle fuel taxes on compressed natural and liquefied natural gas used for transportation purposes.

Sponsors: Senators King, Eide and Kline.

Brief History:

Committee Activity: Transportation: 2/04/14, 2/06/14 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON TRANSPORTATION

Majority Report: That Substitute Senate Bill No. 6440 be substituted therefor, and the substitute bill do pass.

Signed by Senators Eide, Co-Chair; King, Co-Chair; Hobbs, Vice Co-Chair; Fain, Budget Leadership Cabinet; Cleveland, Ericksen, Liias, Litzow, Mullet, O'Ban and Sheldon.

Minority Report: Do not pass.
Signed by Senator Dansel.

Minority Report: That it be referred without recommendation.
Signed by Senators Angel, Brown and Rolfes.

Staff: Amanda Cecil (786-7429)

Background: Transportation Taxes and Fees. Under current law there is a motor vehicle fuel tax of \$0.375 per gallon imposed on motor vehicle fuel and special fuel. In order to encourage the use of nonpolluting fuels, there is an annual license fee in lieu of the motor vehicle fuel tax on vehicles powered by natural gas and propane. The annual license fee in lieu of motor vehicle fuel tax is based on the weight of the vehicle and the current motor fuel tax rate, which is currently between \$140.00 and \$781.25 plus a \$5 handling fee.

Public Utility Tax (PUT). Income from utility operations is taxed under the PUT and is in lieu of the business and occupation (B&O) tax. Different rates apply depending upon the

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specific utility activity. The current rate, including permanent surtaxes, for the distribution of natural gas is 3.852 percent.

Summary of Bill (Recommended Substitute): Transportation Taxes and Fees. The annual license fee in lieu of motor vehicle fuel tax is clarified to include vehicles that are powered by liquefied natural gas and compressed natural gas. Additionally, vehicles that are registered as part of the international registration plan would be subject to a prorated share of the annual license fee in lieu of motor vehicle fuel tax and the requirement to pay for and display a decal are removed.

The Department of Licensing must convene a stakeholder workgroup of industry stakeholders and other stakeholders as deemed necessary to:

- evaluate the existing annual license fee in lieu of fuel tax to determine a fee that more closely represents the average consumption of vehicles by weight and to make recommendations to the transportation committees of the Legislature by December 1, 2014, on an updated fee schedule; and
- develop a transition plan to move vehicles powered by liquefied natural gas, compressed natural gas, and propane from the annual license fee in lieu of fuel tax to the fuel tax. The transition plan must incorporate stakeholder feedback and must include draft legislation and cost and revenue estimates. The transition plan must be submitted to the transportation committees of the Legislature by December 1, 2015.

Vehicles powered by liquefied natural gas are added to the list of vehicles that are exempt from motor vehicle emission control inspections.

PUT and B&O Taxes. Liquefied natural gas and compressed natural gas that are sold or used as transportation fuel are exempt from state and local PUTs, and the state and local use tax if they are subject to fuel taxes. Liquefied natural gas and compressed natural gas that are exempt from PUT are subject to the state B&O tax at the manufacturing rate of 0.484 percent of the gross receipts of the business activity. Local B&O taxes on liquefied natural gas and compressed natural gas that are sold or used as transportation fuel are limited to the rate that is in place for the sale of tangible personal property, or 0.2 percent if the jurisdiction does not impose a B&O tax on the sale of tangible personal property. Transportation fuels include fuels used in motor vehicles, vessels, locomotives, and railroad cars.

The provisions in this bill are permanent and not subject to the ten-year expiration date or a tax preference performance statement.

EFFECT OF CHANGES MADE BY TRANSPORTATION COMMITTEE (Recommended Substitute): Liquefied natural gas, compressed natural gas, and the associated energy equivalencies are removed from the motor vehicle fuel tax.

The current law requirement to display a decal on a vehicle that is powered by liquefied natural gas, compressed natural gas, or propane and the associated fee of \$5 are removed.

The Department of Licensing is directed to convene a stakeholder workgroup of industry stakeholders and other stakeholders deemed necessary to:

- evaluate the existing annual license fee in lieu of fuel tax to determine a fee that more closely represents the average consumption of vehicles by weight and to make recommendations to the transportation committees of the Legislature by December 1, 2014, on an updated fee schedule; and
- develop a transition plan to move vehicles powered by liquefied natural gas, compressed natural gas, and propane from the annual license fee in lieu of fuel tax to the fuel tax. The transition plan must incorporate stakeholder feedback and must include draft legislation and cost and revenue estimates. The transition plan must be submitted to the transportation committees of the Legislature by December 1, 2015.

The title is modified to capture the changes.

Technical corrections are made.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2015.

Staff Summary of Public Testimony on Original Bill: PRO: Large trucking fleets are looking at converting to LNG and this helps the environment by encouraging the use of cleaner fuels. It also allows the state transportation system to capture the use from all the vehicles using the system. There are a lot of economic development opportunities since liquefied and compressed natural gas as a transportation fuel is an expanding market. The investment that Puget Sound Energy plans to make will create at least 500 direct and indirect jobs. Currently natural gas that is supplied by a utility company is taxed at the utility rates and this bill would make it so that it is treated the same way for everyone. The decal system that is used for vehicles that are powered by natural gas does not account for the use of the system so there needs to be a pathway to imposing the actual fuel tax.

Persons Testifying: PRO: Larry Pursley, WA Trucking Assns.; Nancy Atwood, Clay Riding, Puget South Energy.