

HOUSE BILL REPORT

SSJM 8007

As Reported by House Committee On:
Technology & Economic Development

Brief Description: Requesting that congress pass legislation reforming the harbor maintenance tax.

Sponsors: Senate Committee on Trade & Economic Development (originally sponsored by Senators Shin, Conway, Harper, Nelson, Kline, Becker, Hobbs, King, Eide, McAuliffe, Bailey, Hasegawa, Honeyford, Chase and Kohl-Welles).

Brief History:

Committee Activity:

Technology & Economic Development: 3/19/13, 4/2/13 [DP], 2/21/14, 2/26/14 [DP].

Brief Summary of Substitute Bill

- Requests that Congress pass and the President sign legislation reforming the Harbor Maintenance Tax.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: Do pass. Signed by 18 members: Representatives Morris, Chair; Habib, Vice Chair; Smith, Ranking Minority Member; Short, Assistant Ranking Minority Member; Dahlquist, DeBolt, Fey, Freeman, Hudgins, Kochmar, Magendanz, Ryu, Stonier, Tarleton, Vick, Walsh, Wylie and Zeiger.

Staff: Kelly Leonard (786-7147).

Background:

The Harbor Maintenance Tax (HMT) was created by Congress in the Water Resource Act of 1986. The HMT is intended to require those who benefit from the maintenance of United States ports and harbors to share the cost of the maintenance. The HMT is collected on imports, domestic shipments, Foreign-Trade Zone (FTZ) admissions, and passengers, and is imposed at a rate of 0.125 percent of the value of the commercial cargo shipped through identified ports. The HMT does not apply to exports or air cargo.

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.

Revenues from the HMT are deposited into the Harbor Maintenance Trust Fund (HMT Fund), which provides funding primarily to the U.S. Army Corps of Engineers to dredge federally maintained harbors to their authorized depths and widths. The HMT Fund collections have exceeded funds appropriated for harbor maintenance, resulting in a growing surplus. The current balance exceeds \$7 billion.

Summary of Bill:

The joint memorial contains a series of findings, including:

- the HMT is not collected on trans-pacific cargo shipped to the U.S. via rail or roads, which provides an incentive to divert cargo away from U.S. ports;
- up to half of U.S. bound containers traveling to Canada's west coast ports could revert to using U.S. west coast ports if U.S. importers were relieved from paying the HMT;
- current law does not require HMT revenues to be fully spent on harbor maintenance;
- the location of HMT expenditures does not correlate with the states where harbor maintenance revenues are generated; and
- the balance of the HMT Fund has grown to over \$7 billion.

The Legislature requests that Congress pass and the President sign legislation reforming the HMT. The reforms should provide for full use of HMT revenues, ensure U.S. tax policy does not disadvantage U.S. ports and maritime cargo, and provide greater equity for HMT donor ports through limited expanded use of HMT revenues.

Appropriation: None.

Fiscal Note: Not requested.

Staff Summary of Public Testimony:

(In support) Stakeholders have been focused on reforming the HMT for several years. The HMT adds cost to the price of each container imported via harbors, making it cheaper to import goods via a land border where the HMT is not imposed. For example, two-thirds of the containers going through Prince Rupert in British Columbia are shipped to the U.S. Therefore, the HMT creates an unfair competitive advantage to Canada and Mexico. Current data demonstrates that 500,000 containers are being diverted away from the Ports of Seattle and Tacoma due to the HMT.

There are many flaws with the HMT. First, Congress routinely diverts and under-appropriates monies from the HMT fund, leaving several ports without necessary maintenance. The joint memorial attempts to address this by asking Congress to fully use the monies. Second, the dredging needs of ports vary across the country. Washington ports only receive 1 cent for maintenance out of each dollar collected for the HMT. Since Washington ports do not require as much maintenance, it effectively subsidizes the maintenance of ports

elsewhere in the country. Hence, the use of the fund should be expanded for donor ports in order to invest in other infrastructure needs. Lastly, the HMT results in preferential treatment of foreign ports in relation to U.S. ports.

While this is a federal issue, the support of the state Legislature will send a bipartisan message recognizing the need for reform. The joint resolution asks Congress and the President to re-examine this policy in order to create a level playing field.

(In support with concerns) The maintenance of harbors and the underutilization of funds is a significant problem, and the HMT should be reformed in order to allow Washington ports to use HMT funds for non-dredging issues. However, a new fee on cargo crossing land borders is not necessarily the right answer and could interfere with North American Free Trade Agreement and the World Trade Organization policies. Lowering or eliminating the HMT is a better solution.

(Opposed) None.

Persons Testifying: (In support) Senator Chase; Sean Eagan, Port of Tacoma; Clare Gallagher, Port of Seattle; and Steve Sewell, Washington State Department of Commerce.

(In support with concerns) Mark Johnson, Washington Retail Association.

Persons Signed In To Testify But Not Testifying: None.