

# HOUSE BILL REPORT

## E2SHB 2042

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### As Amended by the Senate

**Title:** An act relating to advancing green transportation adoption.

**Brief Description:** Advancing green transportation adoption.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Fey, Orcutt, Slatter, Doglio, Tharinger and Ramos).

#### **Brief History:**

##### **Committee Activity:**

Transportation: 2/25/19, 3/21/19 [DPS];

Finance: 4/5/19, 4/19/19 [DP2S(w/o sub TRAN)].

##### **Floor Activity:**

Passed House: 4/23/19, 87-9.

Senate Amended.

Passed Senate: 4/28/19, 31-17.

#### **Brief Summary of Engrossed Second Substitute Bill**

- Makes permanent the Electric Vehicle (EV) Charging Infrastructure grant program and expands eligibility to include hydrogen fueling station infrastructure.
- Reinstates the alternative fuel vehicle retail sales and use tax exemption for vehicles priced at \$45,000 or less, with the exemption applying to \$32,000 of the vehicle price in the first two years, \$24,000 in the second two years, and \$16,000 in the third two years, and expands it to include used vehicles priced at \$30,000 or less, with the exemption applying to \$16,000 of the vehicle price for the duration of the exemption qualification period.
- Raises the total registration renewal fee for alternative fuel vehicles from \$150 to \$200 for 10 years and uses \$200 of the fee to fund alternative fuel vehicle sales and use tax incentives and the Alternative Fuel Infrastructure grant program for five years, and uses \$100 of the fee for these purposes after five years.
- Extends, modifies, and expands to alternative fuel vehicle infrastructure the alternative fuel commercial vehicle business and occupation and public utility tax credit program.

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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.*

- Extends the EV battery and infrastructure sales and use tax exemption and expands it to include batteries sold as a component of electric buses and zero-emission buses as well as hydrogen fuel cells, hydrogen fueling stations, and renewable hydrogen production facilities.
- Extends the expiration date of the leasehold excise tax exemption for public land used for the purpose of EV infrastructure, and expands it to include public lands used for hydrogen fueling stations and renewable hydrogen production facilities.
- Establishes a retail sales and use tax exemption for new powertrains for vessels that are powered by certain battery-powered electric propulsion systems and for vessels equipped with these powertrains.
- Establishes a capital grant program to assist transit authorities in fleet electrification.
- Establishes a technical assistance and education program on alternative fuel vehicles for public agencies within Washington State University's Extension Energy Program.
- Amends provisions authorizing investor-owned utilities' incentive rate of return on investments in EV supply equipment.
- Establishes an alternative fuel car sharing pilot grant program to support car sharing for underserved communities and lower income workforce members.
- Authorizes the Department of Commerce to conduct a study on reducing barriers to battery and hydrogen fuel cell EV adoption by lower income residents of the state through the use of financing assistance.

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## HOUSE COMMITTEE ON TRANSPORTATION

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 23 members: Representatives Fey, Chair; Slatter, 2nd Vice Chair; Valdez, 2nd Vice Chair; Wylie, 1st Vice Chair; Barkis, Ranking Minority Member; Chapman, Dent, Doglio, Dufault, Entenman, Eslick, Goehner, Gregerson, Kloba, Lovick, Mead, Orcutt, Ortiz-Self, Paul, Pellicciotti, Ramos, Riccelli and Shewmake.

**Minority Report:** Without recommendation. Signed by 6 members: Representatives Walsh, Assistant Ranking Minority Member; Young, Assistant Ranking Minority Member; Boehnke, Chambers, Irwin and Van Werven.

**Minority Report:** Do not pass. Signed by 2 members: Representatives McCaslin and Shea.

**Staff:** Jennifer Harris (786-7143).

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Transportation. Signed by 13 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary, Vick and Wylie.

**Staff:** Tracey O'Brien (786-7152).

**Background:**

Electric Vehicle Charging Infrastructure Pilot Program.

A 2015 law required the Washington State Department of Transportation's (WSDOT) Innovative Partnerships Office to develop a pilot program to support the deployment of electric vehicle (EV) charging infrastructure also supported by private financing. This program was established based on recommendations from a 2014 to 2015 Joint Transportation Committee (JTC) study report, *Business Models for Financially Sustainable EV Charging Network*. Loans or grants could be awarded (one maximum per project) and were required to be funded from the Electric Vehicle Charging Infrastructure Account.

The WSDOT was required to define corridors along which bidders could propose to install EV charging infrastructure. A bidder was permitted to propose a corridor as well, as long as the WSDOT adopted rules allowing for such a proposal and establishing guidelines for its consideration. The following requirements for proposals were mandated:

1. Bidders were required to have private sector partners contributing to the project who could gain indirect value from it, such as motor vehicle manufacturers, retail stores, or tourism stakeholders.
2. Bidders had to demonstrate that the proposed project would be valuable to EV drivers and would address an existing gap in the state's EV charging station infrastructure.
3. Projects were required to show an expectation of profitability and sustainability for the owner-operator and the private partner.
4. Bidders had to specify how the project would capture the indirect value of charging station deployment to the private partner.

The WSDOT was permitted to conduct preliminary workshops with potential bidders and other potential private sector partners to determine the best method of designing the pilot program and to discuss how to develop the partnerships among private sector partners of the pilot program.

The WSDOT was required to adopt rules to implement the pilot program.

Electric Vehicle Charging Infrastructure Account.

The Electric Vehicle Charging Infrastructure Account is part of the Transportation Infrastructure Account. Expenditures from the Account may only be used for the EV Charging Infrastructure pilot program administered by the WSDOT.

Alternative Fuel Vehicle Retail Sales and Use Tax Exemption.

An alternative fuel vehicle retail sales and use tax exemption was in place between January 2009 and the end of May 2018. It was modified in law several times. The most recent version in place, enacted in 2016, was a retail sales and use tax exemption for new passenger cars, light duty trucks, and medium duty passenger vehicles that: (1) had a base model Manufacturer's Suggested Retail Price (MSRP) of \$42,500 or less; and (2) were either exclusively powered by a clean alternative fuel or used at least one method of propulsion that was capable of being reenergized by an external source of electricity and were capable of traveling at least 30 miles using only battery power. Both purchased and leased vehicles were eligible. Tax exemption eligibility was capped at \$32,000 per eligible vehicle.

"Clean alternative fuel" was defined as natural gas, propane, hydrogen, or electricity, when used in a motor vehicle that met California motor vehicle emission standards and Washington State Department of Ecology (Ecology) rules.

The Department of Licensing (DOL) was required to maintain a list of the models that qualified for this exemption and to determine the lowest MSRP for each model for the purpose of establishing whether the model qualified for the exemption. At the end of each quarter, the State Treasurer was required to transfer from the Multimodal Transportation Account to the State General Fund the amount that would otherwise have been deposited into the State General Fund if not for this tax exemption.

Under the 2016 law, leases for vehicles that qualified for this tax exemption while it was in effect and have not yet ended remain eligible for it through the life of the lease.

#### Alternative Fuel Vehicle Registration Renewal.

Annual alternative fuel vehicle registration renewal fees, which are assessed in addition to more broadly applicable vehicle license fees, apply to vehicles that are designed to travel at a speed of 35 miles per hour (mph) or greater and that either: (1) use at least one method of propulsion that is capable of being reenergized by an external source of electricity; or (2) are capable of traveling at least 30 miles using only battery power.

The first annual registration renewal fee is set at \$100 and is imposed to provide funds to mitigate the impact of vehicles on state roads and highways, and for the purpose of evaluating the feasibility of transitioning from a revenue collection system based on fuel taxes to a road user assessment system. Revenue from the fee must be used for highway purposes and the first \$1 million collected in a calendar year must be deposited in the Motor Vehicle Fund. Additional revenue in a calendar year must be deposited as follows: 70 percent to the Motor Vehicle Fund, 15 percent to the Transportation Improvement Account, and 15 percent to the Rural Arterial Trust Account.

The second annual registration renewal fee is set at \$50. The first \$1 million of revenue collected was required to be deposited in the Multimodal Transportation Account. Any additional revenue, including all revenue at this time, is required to be deposited in the Motor Vehicle Fund.

These registration renewal fees are no longer applicable when a vehicle miles traveled fee or tax is implemented by the state.

### Alternative Fuel Commercial Vehicle Tax Credits.

#### *Definitions and Background.*

"Clean alternative fuel" means electricity, dimethyl ether, hydrogen, methane, natural gas, liquefied natural gas, compressed natural gas, or propane. "Commercial vehicle" is defined as any commercial vehicle that is purchased by a private business and that is used exclusively in the provision of commercial services or the transportation of commodities, merchandise, produce, refuse, freight, animals, or passengers, and that displays a Washington license plate.

All commercial vehicles that provide transportation to passengers must be operated by an auto transportation company. "Auto transportation company" is defined as any corporation or person owning, controlling, operating, or managing any motor-propelled vehicle used in the business of transporting persons for compensation over public highways within the state between fixed points over a regular route.

The business and occupation (B&O) tax is a gross receipts tax that is measured on the value of products, gross proceeds of sale, or gross income of a business. The public utility tax, or PUT, is a tax on the gross income of public service businesses, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water. The PUT is paid in place of a B&O tax.

Tax credits are subtracted from the applicable tax otherwise due.

#### *Tax Credit Qualification.*

A B&O tax and PUT credit is available for the purchase of new, as well as certain used, alternative fuel commercial vehicles for up to 50 percent of the incremental cost of the vehicle purchased above the purchase price of a comparable conventionally fueled vehicle, subject to certain per vehicle maximums:

- Vehicles with a gross vehicle weight of up to 14,000 pounds (lbs.) may receive a credit of up to \$25,000.
- Vehicles with a gross vehicle weight of between 14,001 and 26,500 lbs. may receive a credit of up to \$50,000.
- Vehicles with a gross vehicle weight above 26,500 lbs. may receive a credit of up to \$100,000.

Used commercial vehicles are eligible if they have less than 450,000 miles on their odometers; are less than 10 years past their date of manufacture; were modified after the initial purchase; and are being sold for the first time after modification.

The B&O tax and PUT credits are available for leased vehicles for the credit amount that would be available if the vehicle had been purchased multiplied by the lease reduction factor (that is, for the portion of the vehicle's value other than the residual value remaining at the end of the lease).

The B&O tax and PUT credits are also available for a portion of the costs of converting a commercial vehicle to be principally powered by a clean alternative fuel, the lesser of \$25,000 or 30 percent of the costs of conversion.

*Tax Credit Restrictions and Notification.*

The total credits earned may not exceed the lesser of \$250,000 or 25 vehicles per person per calendar year.

No more than \$6 million in credits is available in any calendar year. Each vehicle weight class is eligible for a maximum of \$2 million in B&O tax and PUT credits per year combined through the end of August of each year, at which time any unused credits from each weight class become usable for a vehicle of any weight.

The Department of Revenue (DOR) is required to provide notification on its website on a monthly basis of the amount of credits that have been applied for, issued, and are remaining. Credit availability is evaluated based on when an application is received by the DOR, which must respond within 15 days of receipt providing information on the availability of the tax credits.

*Program Requirements.*

To claim a tax credit, a person is required to:

1. electronically file with the DOR all returns, forms, and any other information required by the DOR;
2. complete an application for the credit that must include certain specified information (the same application can be used for multiple vehicles);
3. provide notice of intent to claim the credit that is required to include certain specified information within 15 days of receiving notice of tax credit availability by the DOR; and
4. provide final documentation that must include certain specified information within 15 days of receipt of the vehicle.

The anticipated delivery date of the vehicle must be within one year of acceptance of the credit. Within 15 days of receipt of the notice of intent to claim the tax credit, the DOR must notify the applicant of the application's approval, denial, or missing information in their notice.

Credits may be earned from January 1, 2016, through January 1, 2021, except for credits for leased vehicles, which may be earned from July 1, 2016, through January 1, 2021. A credit earned during one calendar year may be carried over to be credited against taxes incurred in the next calendar year. Credits may not be used towards both the B&O tax and the PUT.

On a quarterly basis, the State Treasurer must transfer a sum equal to the amount of tax credits provided from the Multimodal Transportation Account to the State General Fund.

Electric Vehicle Battery and Infrastructure Retail Sales and Use Tax Exemption.

"Electric vehicle infrastructure" is defined as structures, machinery, and equipment necessary and integral to support an EV, including battery charging stations, rapid charging stations, and battery exchange stations.

A retail sales and use tax exemption for EV batteries and infrastructure has been in place since July 2009. The tax exemption may be used for:

- the sale of batteries for an EV;
- the sale of or charge made for labor and services rendered for the installation, repair, alteration, or improvement of EV batteries;
- the sale of or charge made for labor and services rendered for the installation, repair, alteration, or improvement of EV infrastructure; and
- the sale of tangible personal property that will become a component of EV infrastructure.

The buyer is required to provide the seller with an exemption certification as specified by the DOR, and the seller must retain a copy of the certificate.

The EV battery and infrastructure tax exemption expires January 1, 2020.

#### Leasehold Excise Tax Exemption for Electric Vehicle Infrastructure.

A leasehold tax is a tax on the use of public property by a private party. This tax is paid in place of a property tax.

An exemption on leasehold excise taxes is available for leases to tenants of public lands that are used for the purposes of EV infrastructure installation, maintenance, and operations. This exemption expires January 1, 2020.

#### Public Transit.

There are 32 public transit agencies throughout the state, the majority of which are operated as public transportation benefit areas (PTBAs) or other special purpose districts; several are operated by cities and counties. Through the administration of a variety of federal and state grant programs, the WSDOT assists local and regional transportation providers in purchasing vehicles and equipment, expanding and sustaining service, and funding facilities and infrastructure.

#### Washington State University Extension Energy Program.

The Washington State University (WSU) Extension Energy Program (Program) provides information, technical assistance, and consultation on physical plant operations, maintenance, and construction issues to state and local governments, tribal governments, and nonprofit organizations. The Program is funded with voluntary subscription charges, service fees, and other funding secured or provided to the WSU for this purpose.

#### Privately-Owned Utility Providers and Electric Vehicle Charging Infrastructure.

In establishing rates for privately owned gas and electrical companies, the Utilities and Transportation Commission (UTC) must consider policies to improve access to, and promote fair competition in the provision of, electric vehicle supply equipment (EVSE) build-out.

An investor-owned utility may submit to the UTC an electrification of transportation plan that deploys EVSE or provides other electric transportation programs, services, or incentives to support electrification of transportation, provided that such EVSE programs or services do not increase costs to customers in excess of 0.25 percent above the benefits of electric transportation to all customers over a period consistent with the utility's planning horizon under its most recent integrated resource plan.

In reviewing an electrification of transportation plan by an investor-owned utility, the UTC may consider the following:

- the applicability of multiple options for electrification of transportation across all customer classes;
- the impact of electrification on the utility's load, and whether demand response or other load management opportunities are operationally appropriate;
- system reliability and distribution system efficiencies;
- interoperability concerns, including the interoperability of hardware and software systems in electrification of transportation proposals;
- the benefits and costs of the planned actions; and
- overall customer experiences.

The UTC must issue an acknowledgment of an electrification of transportation plan within six months of submittal of the plan. The UTC may establish by rule the requirements for preparation and submission of an electrification of transportation plan. An electric utility may submit an electrification of transportation plan before or during rulemaking proceedings.

The UTC may allow an incentive rate of return on investment through December 31, 2030, on capital expenditures for EVSE that is deployed for the benefit of ratepayers, provided that the capital expenditures do not increase costs to ratepayers in excess of 0.25 percent. The incentive rate of return on investment applies to any EVSE project that is installed after July 1, 2015.

#### Low-Income Utilization of Electric Vehicles Study.

In the 2018 Supplemental Transportation Budget, *Engrossed Substitute Senate Bill 6106*, a budget proviso for the WSDOT's Innovative Partnership Office provided funding for a study to be conducted by the Puget Sound Clean Air Agency to identify and evaluate opportunities to facilitate low-income utilization of EVs, including an EV car-sharing program for low-income housing sites designed to maximize the use of EVs by residents of these sites. The study was also required to consider any infrastructure needs that would need to be met to support the use of EVs at low-income housing sites. A report detailing the findings of the study was due to the transportation committees of the Legislature by December 1, 2018.

The report issued by the Puget Sound Clean Air Agency, *Facilitating Low-Income Utilization of Electric Vehicles*, included a number of recommendations, including a recommendation for a pilot program to be conducted at low-income housing sites.



Washington State Department of Commerce.

The Washington State Department of Commerce (Commerce) is responsible for promoting community and economic development in the state by assisting the state's communities in increasing their quality of life and economic vitality, and by assisting the state's businesses in maintaining and increasing their economic competitiveness, while maintaining a healthy environment.

Community and economic development efforts that Commerce is tasked with include: efforts to increase economic opportunity; local planning to manage growth; the promotion and provision of affordable housing and housing-related services; providing public infrastructure; business and trade development; assisting firms and industrial sectors in increasing their competitiveness; fostering the development of minority- and women-owned businesses; facilitating technology development, transfer, and diffusion; community services and advocacy for low-income people; and public safety efforts.

**Summary of Engrossed Second Substitute Bill:**

Clean Alternative Fuel Charging and Refueling Infrastructure Program.

The EV Charging Infrastructure pilot program is made permanent, subject to the availability of amounts appropriated for this specific purpose. It is expanded to include the opportunity for bidders to propose hydrogen fueling station infrastructure that can address an existing gap in the state's low-carbon transportation infrastructure and meet the other program evaluation criteria, and is referred to as the Clean Alternative Fuel Charging and Refueling Infrastructure Program.

Alternative Fuel Vehicle Retail Sales and Use Tax Exemption.

The alternative fuel vehicle retail sales and use tax exemption is reinstated using the same vehicle qualification criteria in place between July 1, 2016, and May 31, 2018, except that the qualification requirement related to price for new vehicles is changed to only permit vehicles with a sales price (including any trade-in value) or fair market value of \$45,000 or less, and used vehicles with a sales price (including any trade in value) or fair market value of \$30,000 or less are now made eligible. For new vehicles purchased or leased between August 1, 2019, and July 31, 2021, the maximum amount eligible for the tax exemption is \$32,000; for vehicles purchased or leased between August 1, 2021, and July 31, 2023, the maximum amount eligible for the tax exemption is \$24,000; and for vehicles purchased or leased between August 1, 2023, and July 31, 2025, the maximum amount eligible for the tax exemption is \$16,000. For used vehicles, the maximum amount eligible for the tax exemption is \$16,000 from August 1, 2019, to July 31, 2025.

The seller must keep records necessary for the DOR to verify eligibility, and a person claiming the exemption must also submit certain specified information to the DOR.

The DOL is required to maintain and publish a list of all vehicle models that meet the qualifying criteria, other than the price or fair market value qualification requirement. A

seller is not responsible for repayment of the tax exemption as long as the seller relies on the DOL's list to verify a vehicle's eligibility on the date of sale or lease, even if a retroactive change is later made, provided that the vehicle meets the price or fair market value qualification requirement for the exemption. The DOR is required to determine whether a vehicle meets the sales price or fair market value qualification requirement.

At the end of each quarter, the State Treasurer is required to transfer from the Electric Vehicle Account to the State General Fund the amount that would otherwise have been deposited in the State General Fund if not for this tax exemption. The DOR must provide a report to the Legislature by the last day of October 2019, and every six months thereafter, providing certain specified information related to the use of this tax exemption.

The qualification period for this tax exemption ends July 31, 2025. Leases for vehicles that qualify for this tax exemption may maintain eligibility through July 31, 2028.

#### Alternative Fuel Vehicle Registration Renewal.

One of the two annual alternative fuel vehicle registration renewal fees is raised from \$50 to \$100 until August 1, 2029, bringing the total in annual alternative fuel vehicle registration renewal fees to \$200. All revenue raised by this registration renewal fee must be deposited in the Electric Vehicle Account.

In addition, \$100 of the registration renewal fee for alternative fuel vehicles is redirected from the Motor Vehicle Fund, Transportation Improvement Account, and the Rural Arterial Trust Account to the Electric Vehicle Account from August 1, 2019, until August 1, 2024.

#### Electric Vehicle Account.

The Electric Vehicle Account is created in the Transportation Infrastructure Account and replaces the Electric Vehicle Charging Infrastructure Account. Expenditures from this Account may only be used for the Clean Alternative Fuel Charging and Refueling Infrastructure Program and to reimburse the State General Fund for the revenues that would otherwise be collected if not for the alternative fuel vehicle retail sales and use tax exemption.

#### Alternative Fuel Commercial Vehicle and Infrastructure Tax Credits.

The definition of "auto transportation company" is updated to include private, nonprofit transportation providers; charter party carriers; and paratransit service providers who primarily provide special needs transportation to individuals with disabilities and the elderly.

The B&O tax and PUT credit for the purchase of new and certain used alternative fuel commercial vehicles is made available for up to 75 percent of the incremental cost of the vehicle purchased above the purchase price of a comparable conventionally fueled vehicle and remains subject to certain vehicle maximums. Each vehicle weight class remains eligible for a maximum of \$2 million in B&O taxes and PUT credits per year combined through the end of August of each year.

A new B&O tax and PUT credit is established for up to 50 percent of the cost to purchase alternative fuel vehicle infrastructure, tangible personal property that will become a component of alternative fuel vehicle infrastructure, and the installation and construction of alternative fuel vehicle infrastructure. The cost of property acquisition and site improvement related to the installation of alternative fuel vehicle infrastructure is excluded from eligibility for this tax credit. Qualifying infrastructure and infrastructure-related purchases are eligible for a maximum of \$2 million in B&O tax and PUT credits per year combined through the end of August of each year, at which time any unused credits in the program become available to all qualifying vehicles and infrastructure.

The maximum annual credit for both vehicle and vehicle infrastructure credits is \$6 million. A maximum total credit amount of \$32.5 million is available for these credits, with credits issued since July 15, 2015, to be counted towards this total.

A separate application is required for infrastructure-related items, but all infrastructure-related items at a single location may be included in a single application. The anticipated delivery date of the infrastructure or infrastructure component must be within one year of acceptance of the credit. The anticipated construction or installation completion date of the infrastructure must be within two years of acceptance of the credit.

Final documentation required to claim a tax credit must be submitted within 30 days of receipt of the vehicle, infrastructure, infrastructure components, or completion of construction or installation of the infrastructure.

The DOR must conduct outreach to interested parties to obtain input on how best to streamline the application process required for the credit, and must incorporate the findings from this effort into the rules and practices it adopts to implement and administer the credit.

The tax credits may be earned until \$32.5 million in these credits have been used since July 15, 2015.

#### Electric Vehicle Battery and Hydrogen Fuel Cell, Infrastructure, and Zero-Emission Bus Retail Sales and Use Tax Exemption.

The EV battery and infrastructure retail sales and use tax exemption is extended to apply to batteries sold as a component of an electric bus at the time of the vehicle's sale and to the sale of zero-emission buses. It is also extended to apply to hydrogen fuel cells, hydrogen fueling stations, and renewable hydrogen production facilities.

At the end of each quarter, the State Treasurer is required to transfer from the Multimodal Transportation Account to the State General Fund the amount that would otherwise have been deposited in the State General Fund if not for this tax exemption.

The EV battery and infrastructure retail sales and use tax exemption expiration date is extended to July 31, 2029.

#### Leasehold Excise Tax Exemption for Electric Vehicle Infrastructure, Hydrogen Fueling Stations, and Renewable Hydrogen Production Facilities.

The leasehold excise tax exemption for EV infrastructure is expanded to include public lands used for hydrogen fueling stations and renewable hydrogen production facilities, and the expiration date is extended to July 31, 2029.

#### Vessel Electric Propulsion System Retail Sales and Use Tax Exemption.

A retail sales and use tax exemption is established through August 1, 2029, for new powertrains for vessels that are powered by battery-powered electric marine propulsion systems with continuous power greater than 15 kilowatts and for new vessels equipped with a battery-powered electric marine propulsion system with continuous power greater than 15 kilowatts.

A "battery-powered electric marine propulsion system" is a fully electric outboard or inboard motor used by vessels, the sole source of propulsive power of which is the energy stored in the battery packs, including required accessories.

Sellers can make tax exempt sales only if the buyer provides the seller with an exemption certification as prescribed by the DOR.

At the end of each quarter, the State Treasurer is required to transfer from the Multimodal Transportation Account to the State General Fund the amount that would otherwise have been deposited in the State General Fund if not for this tax exemption.

The tax exemption for vessel electric propulsion systems expires August 1, 2029.

#### Tax Preference Performance Statement.

The Legislature's public policy objective for establishing and extending the tax incentive programs described above is to increase the use of clean alternative fuel vehicles and vessels in Washington. The Joint Legislative Audit and Review Committee (JLARC) is directed to measure the effectiveness of these tax incentive programs by evaluating the number of clean alternative fuel vehicles and vessels titled in the state. The DOL and the DOR are required to provide the JLARC with information needed for this analysis to be conducted.

#### Green Transportation Capital Grant Program for Public Agencies.

The WSDOT's Public Transportation Division is required to establish a green transportation capital grant program to aid transit authorities in funding cost-effective capital projects such as:

- the electrification of fleets for both battery and fuel cell EVs;
- modification or replacement of capital facilities to facilitate both fleet electrification and hydrogen refueling;
- necessary upgrades to electrical transmission and distribution systems; and
- construction of charging and fueling stations.

To receive grant program funds for a project, a transit authority must provide matching funding that is at least equal to 20 percent of the total cost of the project.

The WSDOT's Public Transportation Division must establish an advisory committee to assist in identifying projects, which must include representatives from Ecology, Commerce, the UTC, and at least one transit authority. The WSDOT's Public Transportation Division must select projects based on a competitive process, and in selecting projects, must consider the cost effectiveness of the reductions in carbon emissions to be produced and the benefits to the state of a lower carbon intensity transportation system.

The WSDOT's Public Transportation Division must submit a prioritized list of selected projects to the Legislature by December 1 of each even-numbered year in a request for funding, and must report annually to the transportation committees of the Legislature on the status of funded grant projects.

#### Alternative Fuel Vehicle Technical Assistance and Education Program.

Subject to the availability of amounts appropriated for this specific purpose, the WSU Extension Energy program must establish and administer a technical assistance and education program focused on the use of alternative fuel vehicles. Education and assistance may be provided to public agencies, including local governments and other state political subdivisions.

#### Privately-Owned Utility Providers and Electric Vehicle Charging Infrastructure.

The requirement that an investor-owned utility's electric vehicle supply equipment, programs, or services may not increase costs to customers in excess of 0.25 percent above the benefits of electric transportation to all customers over a period consistent with the utility's planning horizon under its most recent integrated resource plan is replaced. The new requirement put in place mandates that the capital expenditures associated with the utility's electrification of transportation plan may not increase the annual retail revenue requirement of the utility in excess of 0.25 percent after accounting for the benefits of transportation electrification in each year of the plan.

Overall customer experience is no longer a factor the UTC may consider in reviewing an electrification of transportation plan of an investor-owned utility. An investor-owned utility's electrification of transportation plan should align to a period consistent with either the utility's planning horizon under its most recent integrated resource plan or the time frame of the actions contemplated in the plan.

The legislative intent stated for electrification of transportation programs is modified to include as an aim allowing all utilities to support transportation electrification to further the state's policy goals.

#### Clean Alternative Fuel Car Sharing Pilot Program.

Subject to the availability of amounts appropriated for this specific purpose, the WSDOT Innovative Partnership Office is required to develop a grant pilot program to support clean alternative fuel car sharing programs that provide alternative fuel vehicle use opportunities to underserved communities and low- to moderate-income members of the workforce not

readily served by transit or located in transportation corridors with emissions that exceed federal or state emissions standards. Nonprofit organizations or local governments, including housing authorities, with a demonstrated history of managing or implementing low-income transportation electric and shared mobility pilot programs are eligible to participate in the pilot program.

The WSDOT must determine specific eligibility criteria based on specified evaluation and scoring requirements, the Puget Sound Clean Air Agency's report on low-income utilization of EVs, and other factors relevant to increasing clean alternative fuel vehicle use in underserved and low- to moderate-income communities. The WSDOT may conduct preliminary workshops to determine the best method of designing the pilot program.

Grants may be awarded to successful proposals. The total grant amount available for a project may range from \$50,000 to \$200,000. Grants may be awarded to fund vehicles, charging or refueling station infrastructure, staff time, and any other expenses required to implement the project. No more than 10 percent of grant funds may be used for administrative expenses.

Property acquired through grant funding awarded for the clean alternative fuel car sharing pilot program is prohibited from being used for nonprogram purposes. If the property is sold, the proceeds of the sale must be used for program purposes or the state must be reimbursed for the fair market value of property still owned by nongovernmental program participants at the termination of the program.

#### Lower Income Electric Vehicle Financing Study.

Subject to the availability of amounts appropriated for this specific purpose, Commerce must conduct a study to identify opportunities to reduce barriers to battery and hydrogen fuel cell EV adoption by lower income residents of the state through the use of vehicle and infrastructure financing assistance. The study must include an assessment of opportunities to work with nonprofit lenders to facilitate vehicle purchases through the use of loan-loss reserves and rate buy-downs by qualified borrowers purchasing EVs eligible for the alternative fuel vehicle retail sales and use tax exemptions, and may address additional financing assistance opportunities identified. The study must focus on potential borrowers who are at or below 80 percent of the state median household income, and may also address any additional opportunities identified to increase battery and hydrogen fuel cell EV adoption by lower income residents of the state.

Commerce may contract with a consultant on all or a portion of this study, and must provide a report detailing the findings of this study to the transportation committees of the Legislature by June 30, 2020.

#### Intent Section.

The Legislature intends to help reduce harmful air pollution in the state from exhaust emissions, including greenhouse gas emissions, by encouraging the adoption of electric and other clean alternative fuel vehicles and an increased reliance on greener transit.

## **EFFECT OF SENATE AMENDMENT(S):**

### The Senate amendment:

1. replaces the registration renewal fee modifications for certain electric and alternative fuel vehicles with a new \$75 transportation electrification fee for certain electric and alternative fuel vehicles and a new \$75 annual vehicle fee for hybrid and alternative fuel vehicles that are not subject to the new transportation electrification fee or existing alternative fuel vehicle renewal registration fees;
2. directs that all revenue raised by the electrification fee and the hybrid vehicle transportation electric fee be deposited in the Electric Vehicle (EV) Account until July 1, 2025, and that this revenue be deposited in the Motor Vehicle Fund after this date;
3. broadens permitted uses of the EV Account to include the support of additional transportation electrification and alternative fuel related purposes;
4. makes the sales and use tax exemptions for passenger vehicles contingent on enactment of the new transportation electrification fees;
5. reduces the vehicle sales price or fair market value amounts the alternative fuel vehicle retail sales and use tax exemption applies to \$25,000 in the first two years, \$20,000 in the second two years, and \$15,000 in the third two years;
6. moves up the expiration dates of the sales and use tax exemption for EV batteries and infrastructure, the leasehold excise tax exemption for public land used for EV infrastructure, and the sales and use tax exemption for vessels with battery-powered electric propulsion systems to June 30, 2025; and
7. specifies that the clean alternative fuel infrastructure program, the capital grant program for transit authorities, the Washington State University technical assistance program for public agencies, and the clean alternative fuel car sharing pilot program are subject to appropriations for these specific purposes through the 2023-2025 biennium.

**Appropriation:** None.

**Fiscal Note:** Available. A new fiscal note requested on April 22, 2019.

**Effective Date:** This bill takes effect August 1, 2019, except for sections 9 and 14 of this bill, relating to the alternative fuel commercial vehicle and infrastructure tax credit, which take effect January 1, 2020.

### **Staff Summary of Public Testimony (Transportation):**

(In support) This bill contains a number of elements to bring about carbon reduction. The focus is on incentives and tax breaks, some of which are expiring, to move toward transformational change. The bill includes constructive suggestions and additions. The bill includes a technical assistance opportunity for local governments to find out how to change the types of vehicles they are using and support for transit agencies to make the switch in vehicle types more feasible. The bill is a work in progress.

The bill works to encourage people to move away from carbon-intensive fuels by incentivizing, rather than mandating, it. The retail sales and use tax exemption for alternative fuel vehicles was in place before, and was established in 2009, but it expired last year after

an unsuccessful attempt to extend it. Incentives help encourage people to drive EVs, which are more expensive than gas-powered vehicles. Several years ago, a study was conducted that found that more EVs are needed on the road before the private sector could profit from offering EV charging. The funding being provided for EV charging stations, as well as the alternative fuel vehicle tax incentive, is being generated from a portion of the alternative fuel vehicle renewal registration fee.

Washington is second in the nation in EV adoption rates. Electric vehicle use needs to increase to 10 times the current use by 2035, which requires an annual increase of 15 percent. The expiration of the tax incentive for alternative fuel vehicles is threatening the state's ability to achieve these levels of adoption. Projections indicate that, by around 2020, EVs will have a roughly equivalent driving range to a standard vehicle's range, and the price of EVs should also be equivalent to a gas-powered vehicle's price. The EV tax incentive is structured in the bill to be ramped down over time.

This bill includes content that will ensure a level playing field for public and private utilities for their support of transportation electrification. Private utilities have established electrification programs, but utility planning authority needs to be updated to keep up with technology.

This bill would benefit from an amendment that establishes a tax incentive for electric boats and outboard motors for boats. Carbon reduction for the marine sector should be a goal of the bill. Toxic emissions would also be reduced in marine waters. This amendment would incentivize the use of electric ferries for a new passenger ferry service on Lake Union, which can relieve surface street congestion in the area. This policy would help local shipyards to become the first builders of electric ferries.

This bill should be fuel neutral, so that it can include renewable hydrogen technology. An amendment on this should be considered.

(Opposed) None.

(Other) The bill works to create an atmosphere of incentives rather than mandates, which is appreciated. The authorization for electric utilities to do more in the area of EV infrastructure is supported, as is the sales tax exemptions for electric batteries and zero-emission buses and the content related to promoting EV usage by individuals with low incomes.

It is good that the proposed substitute bill does not use multimodal funds. However, the alternative fuel vehicle tax incentive should be capped at a vehicle sales price of \$40,000 and a used vehicle incentive should also be included to assist individuals with low incomes. This effort should be equitable and all modes of green transportation should work together. The the bill could do more for low-income communities.

It is important that sufficient funds are provided in the Electric Vehicle Account to support these programs. Funding for bicycle and pedestrian projects, including the Safe Routes to School program, and for transit needs to be maintained. Financial incentives are a critical



component to put people in EVs in the state. Fees for EV registration renewal should be proportionate and fair.

The bill should include a robust range of alternative fuels to obtain economic and environmental benefits and should be neutral on the types of fuels incentivized. Hydrogen fuel options should be included. Since the technology for trucks is not yet advanced enough to know what power source will work best for them, it is important to be fuel agnostic. The weight class caps for the B&O tax and PUT credit for commercial vehicles should be retained.

Cleaner options for marine operations are also important. The deployment of shore power for docked vessels would enable ships to turn off their engines and plug in to local power.

The green transit program created in the bill requires a 50/50 match by transit agencies. This should be changed to an 80/20 match, where transit agencies are only required to provide 20 percent of the funding, to be consistent with federal programs. This transit program should be administered by the WSDOT's Public Transportation Division. A study that focuses on transit would be beneficial as well.

**Staff Summary of Public Testimony (Finance):**

(In support) There were two triggers that led to this legislation: the need to extend the sales and use tax exemption for batteries and the desire to renew the leasehold excise tax. Most of the tax changes in this bill are funded in the 2019-21 Transportation Budget.

The bill attempts to equalize the prices for electric vehicles and regular vehicles in order to allow middle and low-income persons to afford an alternate fuel vehicle. The bill provides the needed incentives for the private sector to invest in the necessary electric vehicle infrastructure.

The legislation really applies to alternate fuel vehicles, not just electric vehicles. It really is technology-neutral to allow for new advances in technology, such as hydrogen fuel cells.

This legislation is the product of the collaboration of a huge number of stakeholders in an attempt to make the incentives as fair as possible.

(Opposed) None.

**Persons Testifying (Transportation):** (In support) Representative Fey, prime sponsor; Representative Orcutt; Michael Mann, Nissan/Forth; Alexander Oki, Pure Watercraft; David Stroble, Lake Union Ferry Company; Dave Warren, Douglas Public Utility District and Renewable Hydrogen Association; and Laura Wilkeson, Puget Sound Energy.

(Other) Leah Missik, Climate Solutions; Annabel Drayton, Northwest Energy Coalition; Bryce Yadon, Futurewise and Transportation Choices Coalition; Cliff Traisman, Washington Environmental Council and Washington Conservation Voters; Sean Eagan, The Northwest Seaport Alliance; Jeff DeVere, Washington Trucking Associations; John Bush, Blue Star Gas; Mike Ennis, Association of Washington Business; Michael Breish, Washington Department

of Commerce; Michael Transue, Association of Global Automakers; Justin Leighton, Washington State Transit Association; and Alex Alston, Washington Bikes and Safe Routes to School National Partnership, and Childhood Obesity Prevention Coalition.

**Persons Testifying (Finance):** Representative Fey, prime sponsor; Representative Orcutt; Jeanette Shaw, Forth Public Affairs and Policy; Michael Mann, Nissan of North America; Alexander Oki, Pure Watercraft; Michael Transue, Association of Global Automakers; Leah Missik, Climate Solutions; Annabel Drayton, Northwest Energy Coalition; and Dave Warren, Renewable Hydrogen Alliance and Douglas County Public Utility District.

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

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