

HOUSE BILL REPORT

HB 1645

As Reported by House Committee On:
Technology, Energy & Communications

Title: An act relating to incentives for the use of clean-burning alternative fuels and equipment in student transportation programs.

Brief Description: Providing incentives for the use of clean-burning alternative fuels and equipment used in student transportation programs.

Sponsors: Representatives B. Sullivan, Holmquist, Upthegrove, Dickerson, Blake, Kristiansen, Linville, Lantz, Morris, Orcutt, Lovick, Campbell, Chase, Nixon, Williams, Wood, Schual-Berke, Ormsby, Rodne, Sells, Hinkle, Simpson, Kagi, Schindler, Morrell, Kenney, P. Sullivan, Clibborn, Tom, Cody, O'Brien and Kilmer.

Brief History:

Committee Activity:

Technology, Energy & Communications: 2/15/05, 2/22/05 [DPS].

Brief Summary of Substitute Bill

- Provides tax incentives to encourage the use of alternative fuel vehicles as part of a student transportation program.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

Staff: Sarah Dylag (786-7109).

Background:

Biodiesel

Biodiesel is a non-petroleum diesel fuel produced from renewable resources such as vegetable oils, animal fats, and recycled cooking oils. It can be blended at any percentage with petroleum diesel or used as a pure product (neat diesel). Like petroleum diesel, biodiesel operates in compression-ignition engines.

According to the United States Department of Energy, biodiesel blends of up to 20 percent biodiesel can be used in nearly all diesel equipment with little or no engine modifications. Higher blends can also be used in many engines built since 1994 with little or no engine modification.

The state's special fuel tax on biodiesel is 28 cents a gallon.

Natural Gas and Liquefied Petroleum Gas

Motor vehicles may also use natural gas or liquefied petroleum gas. The state's special fuel tax on natural gas and liquefied petroleum gas is 28 cents for each 100 cubic feet of compressed natural gas, measured at standard pressure and temperature. Under current law, an annual license fee in lieu of the 28 cents a gallon shall be imposed on the use of natural gas or propane. The annual fee is \$45 to \$250, depending on the vehicles gross weight.

Retail Sales and Use Taxes

The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

Summary of Substitute Bill:

Fuel Tax

Every student transportation program, whether operated by a school district or a commercial chartered bus service, is exempt from payment of the state's special fuel taxes on the biodiesel fuel portion of a biodiesel blend, if using at least 20 percent blended biodiesel, natural gas or liquefied petroleum gas. If biodiesel fuel is used, it must meet the testing and material specification D 6751 set by the American Society of Testing and Materials.

Sales and Use Tax Exemptions

The sales and use taxes do not apply to sales of new vehicles originally designed and equipped to operate on natural gas or liquefied petroleum gas to be used primarily in student transportation programs, whether operated by a school district or a commercial chartered bus service.

The sales and use taxes do not apply to sales and use of tangible personal property, or for labor and services rendered to install, repair, clean, alter, or improve property that is used to

convert vehicles to operate on natural gas or liquefied petroleum gas. To qualify for the exemption, the conversion must be performed on a vehicle or engine for which a United States Environmental Protection Agency certificate of conformity or a certification from the California Air Resources Board has been issued and the vehicle must be used as part of a student transportation program, whether operated by a school district or a commercial chartered bus service.

The sales and use taxes do not apply to sales and use of emissions control equipment, or labor and services rendered to install, repair, clean, alter, or improve equipment used to retrofit diesel vehicles that are used as part of a student transportation program.

Emissions control equipment means a device with an oxidation catalyst, particulate filter, crankcase ventilation filter, or other means of reducing emissions from diesel vehicles, and that has been verified under the federal Environmental Protection Agency's voluntary diesel retrofit program.

Expiration

The exemptions expire the earlier of July 1, 2015 or July 1 of the year following the year in which the Department of Licensing estimates that the aggregate volume of alternative fuels sold at retail for vehicular purposes represents 20 percent of the aggregate volume of all fuels sold at retail for vehicular purposes.

Substitute Bill Compared to Original Bill:

Makes technical changes to maintain consistency with current tax provisions.

Clarifies that the sales and use tax exemptions apply when alternative fuel vehicles are used "primarily" instead of "as a part of" in a student transportation program. Vehicles used "primarily" in a student transportation program are vehicles with at least 50 percent of total use in a student transportation program.

Appropriation: None.

Fiscal Note: Requested on February 18, 2005.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: This bill provides tax incentives for the use of biodiesel in school buses. All public transit agencies in the State of Washington have exemptions from the special fuel tax except for school districts. The State of Washington has approximately 9,000 buses in its fleet. Fumes from the diesel engines constantly leak into these buses and injure the health of children. The bill helps clean up the air, promote new industry, and help children's health. There are two pilot projects in school districts and those projects are successful.

Using biodiesel in buses would be a positive example of sustainability for students and for other states. It would also be an economic benefit for farmers in the state.

This bill is part of a collection of incentives for alternative fuels and vehicles. This bill provides the fuel tax exemption only for the portion of the fuel that is biodiesel. The incentives for converting to alternative fuels are aimed at cleaning up toxic emissions from buses.

Diesel exhaust is a known carcinogen and contains particulate matter. Children spend anywhere from 30 minutes to an hour every day riding the bus, which results in a lot of exposure to these carcinogens. Children sometimes feel ill after riding the bus. Alternative fuels will help eliminate this problem and have a positive effect on students, drivers, and teachers.

Biodiesel is less polluting, burns more efficiently, reduces global warming, and would clean up buses. Biodiesel could be used immediately in buses without retrofitting. Incentives like this one will allow school districts to use biodiesel.

Testimony Against: Granting special incentives to alternative fuels is a point of concern. All fuels should compete on a level playing field. If the purpose of the bill is to clean up the environment, a performance specification for emissions should be established and all fuels should be allowed to compete. Diesel will be changing in June of 2006 and ultra-low sulfur diesel will be required. Ultra-low sulfur diesel will help alleviate any possible effects for children on school buses.

Persons Testifying: (In support) Representative B. Sullivan, prime sponsor; Linda Graham, Puget Sound Clean Cities Coalition; Jim Armstrong, Spokane County Conservation District; Lyle Rudensey, University of Washington; Adrienne Perry; Brianna Sarver; Antonio Cerna; Reed Hutchins; Noam Gundle; Mike Pelly, Olympia Green Fuels; Steve Lough, Seattle Electric Vehicle Association; John Plaza, Seattle Biodiesel; Dan Clarkson, Promethius Energy Company; and Charles Carlson.

(Opposed) Bill Kidd, Washington State Petroleum Association.

Persons Signed In To Testify But Not Testifying: None.