

# HOUSE BILL REPORT

## HB 1966

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to exempting transit agencies that manufacture liquid natural gas or compressed natural gas for the purposes of providing public transportation from the definition of manufacturing in respect to business and occupation tax.

**Brief Description:** Exempting transit agencies that manufacture liquid natural gas or compressed natural gas for the purposes of providing public transportation from the definition of manufacturing in respect to business and occupation tax.

**Sponsors:** Representatives Fey, Zeiger, Farrell, Fitzgibbon, Nealey, Walsh and Moscoso.

**Brief History:**

**Committee Activity:**

Finance: 2/10/15, 2/25/15 [DPS].

**Brief Summary of Substitute Bill**

- Exempts the production of compressed natural gas or liquefied natural gas from business and occupation tax if the gas was manufactured by a municipality for use as a fuel in vehicles operated by the municipality.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Fitzgibbon, Manweller, Pollet, Reykdal, Robinson, Ryu, Springer, Stokesbary, Vick, Wilcox and Wylie.

**Staff:** Dominique Meyers (786-7150).

**Background:**

Business and Occupation Tax.

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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.*

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. A B&O tax is imposed on manufacturing businesses equal to 0.484 percent of the gross income of the business. A manufacturer is one who undertakes activities of a commercial or industrial nature applying labor or skill to materials so that a different or useful substance or article of personal property is produced for sale or use.

### Public Transportation System.

Several types of transit agencies have been created under different authorizing laws depending on the desired service area to be covered, governance structure, and taxing authority. There are currently 31 local public transit agencies in Washington: 20 are Public Transportation Benefit Areas; five are City Authorities; two are County Transportation Authorities; two are Unincorporated Transportation Benefit Areas; one is a county-assumed Metropolitan Municipal Corporation, King County Metro; and one, Sound Transit, is a Regional Transit Authority. In general, transit agencies are authorized to, and do, impose a sales and use tax of up to 0.9 percent with voter approval, for the purpose of funding public transportation services. A proposal for implementing a sales and use tax increase must be put before all the voters within the boundary of a transit agency.

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### **Summary of Substitute Bill:**

The production of compressed natural gas (CNG) or liquefied natural gas (LNG) is exempt from the B&O tax if the CNG or LNG was manufactured by a municipality for use as fuel in vehicles operated by the municipality.

### **Substitute Bill Compared to Original Bill:**

The substitute bill clarifies that the exemption only applies for the production of CNG or LNG by a municipality for use in vehicles operated by the municipality.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute 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) Legislation was passed last year, and the intent of that legislation was not to tax public transit agencies. Pierce Transit has been working with the Department of Revenue to address the unintended consequence of last year's legislation. Transit agencies are not

normally producers of gas, but two agencies do currently produce their own gas by compressing it on site for their fleet, not for resale. The legislation last year was not meant to apply to transit agencies that use their own gas; it was meant to apply to manufacturers of compressed natural gas for resale. The two transit agencies that this bill would help are nationally recognized for using natural gas as a clean fuel for their fleet. Both Pierce Transit and Valley Transit in Walla Walla will benefit from the B&O tax exemption but were never meant to pay it in the first place.

(Opposed) None.

**Persons Testifying:** Representative Fey, prime sponsor; and Alex Soldano, Pierce Transit.

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