

# FINAL BILL REPORT

## 2ESSB 5987

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Synopsis as Enacted

**Brief Description:** Concerning transportation revenue.

**Sponsors:** Senate Committee on Transportation (originally sponsored by Senators King, Hobbs, Fain, Liias and Litzow).

**Senate Committee on Transportation**  
**House Committee on Transportation**

**Background:** 18th Amendment. The 18th Amendment to the Washington State Constitution requires that the state's motor vehicle fuel taxes, currently \$0.375 per gallon; vehicle licensing fees; and all other state revenue intended to be used for highway purposes be deposited into the Motor Vehicle Fund. Monies in that fund may only be spent for highway purposes, which are defined to include expenditures on construction, preservation, maintenance, operation, and administration of highways and ferries.

Handling Loss Deduction. Licensed fuel suppliers, distributors, and importers are allowed a handling loss deduction on motor vehicle fuel as follows: for a motor vehicle fuel supplier acting as a distributor, 0.25 percent; and for all other licensees, 0.30 percent. Originally this was to account for losses the distributors sustained through evaporation and handling and was reduced in 1951 from 1 percent to the current rate. In 2008 the Joint Legislative Audit and Review Committee (JLARC) reviewed this exemption – JLARC Report 09-4: 2008 Expedited Tax Preference Performance Reviews – and recommended that the Legislature terminate the motor fuel handling loss deduction. Their recommendation was based on current Department of Ecology regulations concerning the methods and equipment used in the distribution of fuel, which allow for little or no handling losses.

Transfers to Non-Highway Accounts. Transfers are made from the Motor Vehicle Fund to the ORV and Non-highway Vehicle Account, the Marine Fuel Tax Refund Account, and the Snowmobile Account for motor vehicle fuel taxes paid by non-highway users. Each of these transfers is made based on a calculation that is based on a rate of fuel tax of \$0.23 per gallon.

Weight Fees. Generally all motor vehicles used on public highways must be registered with the Department of Licensing (DOL) annually. Most vehicles, such as passenger cars, motorcycles, vans, and cabs, are subject to a \$30 license tab fee; a weight fee of \$10, \$20, or \$30 based on the scale weight of the vehicle; and other fees totaling \$3.75. The proceeds from vehicle weight fees are deposited to the Multimodal Transportation Account. Funds in

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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.*

the Multimodal Transportation Account are used for transportation purposes, which is broader than highway purposes and can include public transportation and rail.

License Fee by Weight. In lieu of the vehicle license fee and weight fees, trucks, buses, and for-hire vehicles are subject to a license fee based on gross vehicle weight (GVW). The license fee by weight ranges from \$38 for a 4000 pound vehicle to \$3,400 for a 105,500 pound vehicle, in addition to a \$3 filing fee. Proceeds from the license fee by weight are deposited into various accounts within the Motor Vehicle Fund.

Electric Vehicle Fee. In addition to any other fees due at annual vehicle registration, vehicles that are powered by electricity are subject to a licensing fee of \$100 which is deposited into the Motor Vehicle Fund. If in any year proceeds from the electric vehicle fee are more than \$1 million, 15 percent of the total funds must be deposited to the Transportation Improvement Account and 15 percent must be deposited to the Rural Arterial Trust Account.

Commercial Driver's Licenses. Any driver over 18 years of age with a valid driver's license can apply for a commercial driver instruction permit. To receive a commercial driver instruction permit, the person must pass a knowledge test. There is a \$10 application fee. Prior to being issued a commercial driver's license (CDL) an applicant must have successfully completed a course of instruction in the operation of a commercial motor vehicle or have been certified by an employer as having the skills and training necessary to operate a commercial motor vehicle safely, and have passed a knowledge and skills test. An applicant must pay a fee of no more than \$10 for each knowledge examination and a fee of no more than \$100 for the skills examination; however, if the applicant's primary use of a CDL is for public benefit not-for-profit corporations that are federally supported head start programs, or public not-for-profit corporations that support early childhood education and assistance programs, then the applicant must pay a fee of no more than \$75 for the skills examination. A person who has been disqualified from operating a commercial motor vehicle may apply for a reinstatement of a CDL with a payment of \$20 after the appropriate disqualification time period has expired.

Enhanced Driver's Licenses and Indentcards. The enhanced driver license (EDL) or enhanced ID card (EID) may be issued to a Washington resident that is also a United States citizen if they have confirmed their identity and citizenship. A person applying for an EDL must be at least 18 years old, and any age for a enhanced ID card and costs \$15 in addition to any other fees due for a driver's license or ID card.

Studded Tires. Studded tires may only be used from November 1 until March 31 of each year or during other times of the year if the Washington State Department of Transportation (WSDOT) deem it acceptable. The use of studded tires during any other time of the year is a traffic infraction.

Report of Sale/Transitional Ownership. The owner of a vehicle must notify DOL, the county, or a subagent when they sell or otherwise dispose of a vehicle. In order for a report of sale to be considered properly filed, it must include the date of the sale; the name and address of the seller and the buyer; the vehicle identification number and license plate number; the required fees, \$3.75 if it is submitted to the county, or \$5 if it is submitted to a subagent; and a date

stamp by DOL showing that it was received on or before the fifth business day after the date of transfer.

Transportation Benefit District (TBD). A TBD is a quasi-municipal corporation and independent taxing authority that may be established by a county or city for the purpose of acquiring, constructing, improving, providing, and funding transportation improvements within the TBD. A TBD is governed by the legislative authority of the jurisdiction proposing to create it, or by a governance structure prescribed in an interlocal agreement among multiple jurisdictions. A TBD has independent taxing authority to implement the various revenue measures with voter approval. Additionally a TBD may impose a vehicle fee of up to \$20 annually with a majority vote of the governing body if the TBD includes all the territory within the boundaries of the jurisdiction establishing the TBD.

Public Transportation Benefit Area (PTBA). A PTBA is a special-purpose district authorized to provide public transportation service within all or a portion of a county or counties. Cities must be wholly included or excluded. The PTBA is the most common type of district providing public transportation service in the state, with 21 currently in existence. A PTBA located on Puget Sound may also provide passenger-only ferry (POF) service after developing an investment plan. A PTBA may collect fares for service and, with approval of the majority of the voters within the area, impose up to a 0.9 percent sales and use tax within the area.

High Capacity Transportation (HCT) Systems. An HCT system is a system of public transportation services within an urbanized region operating principally on exclusive rights-of-way, and the supporting services and facilities necessary to implement the system, including interim express services and high occupancy vehicle lanes, which, taken as a whole, provides a substantially higher level of passenger capacity, speed, and service frequency than traditional public transportation systems operating principally in general purpose roadways. In the central Puget Sound region, HCT systems may be established and financed by a regional transit authority or a regional transportation investment district. There is currently one regional transit authority that has financed an HCT system, which is Sound Transit. Outside the central Puget Sound region, HCT systems may be established by transit agencies in counties containing an interstate highway that have a population greater than 175,000, which are Benton, Clark, Spokane, Thurston, Whatcom, and Yakima counties. Transit agencies authorized to provide HCT service may seek to finance the system and service with the following voter-approved revenue measures:

- an employer tax of up to \$2 per month per employee;
- rental car sales and use tax not to exceed 2.172 percent; and
- sales and use tax not to exceed 0.9 percent.

Sound Transit. A Regional Transit Authority (RTA) is authorized to use its tax revenues to develop and operate an HCT system. There is currently one RTA, Sound Transit, which operates light rail, commuter rail service, and express bus service in the central Puget Sound. After the approval of the most recent system expansion plan in 2008, Sound Transit imposes a sales and use tax of 0.9 percent, a motor vehicle excise tax of 0.3 percent, and a rental car sales and use tax of 0.8 percent within the boundaries of the Sound Transit district.

Motor Vehicle Excise Tax (MVET). An MVET is a tax paid on the value of a motor vehicle. For the purpose of determining any locally imposed MVET, the value of a vehicle other than a truck or trailer is 85 percent of the manufacturer's base suggested retail price of the vehicle when first offered for sale as a new vehicle, excluding any optional equipment, applicable federal excise taxes, state and local sales or use taxes, transportation or shipping costs, or preparatory or delivery costs, multiplied by the applicable percentage listed in the depreciation schedules. For the purpose of determining any locally imposed MVET, the value of a truck or trailer is the latest purchase price of the vehicle, excluding applicable federal excise taxes, state and local sales or use taxes, transportation or shipping costs, or preparatory or delivery costs, multiplied by the applicable percentage listed in the depreciation schedules based on the year of service of the vehicle since its last sale. The latest purchase year is considered the first year of service.

Property Tax Levy. The state Constitution limits regular property tax levies to a maximum of 1 percent of the property's value – \$10 per \$1,000 of assessed value. The Legislature established individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example, the state levy rate is limited to \$3.60 per \$1,000 of assessed value, county general levies are limited to \$1.80 per \$1,000 of assessed value, county road levies are limited to \$2.25 per \$1,000 of assessed value, and city levies are limited to \$3.375 per \$1,000 of assessed value. These districts are known as senior districts. Junior districts such as fire, library, hospital, and metropolitan park districts each have specific rate limits as well. The tax rates for most of these senior and junior districts must fit within an overall rate limit of \$5.90 per \$1,000 of assessed value. State statutes contain schedules specifying the preferential order in which the various junior taxing district levies will be prorated in the event that the \$5.90 limit is exceeded. Under this prorating system, senior districts are given preference over junior districts.

Property Tax Gap. A few regular property tax levies are not placed into the \$5.90 aggregate rate limit: emergency medical services, conservation futures, affordable housing, certain metropolitan park districts, county ferry districts, criminal justice, fire districts, and county transit. However, these districts are subject to reduction if the rates for these districts, the state property tax, and the districts subject to the \$5.90 limit together exceed the constitutional limit of \$10 per \$1,000 of assessed value. These districts are in what has been called the gap, the \$0.50 remaining after subtracting the \$3.60 state levy and the \$5.90 in local regular levies from the statutory \$10 limit.

**Summary:** Fuel Taxes and Transfers. The motor vehicle fuel tax is increased by \$0.119 per gallon as follows:

- \$0.07 per gallon effective August 1, 2015; and
- \$0.049 per gallon effective July 1, 2016.

Revenue from the \$0.119 per gallon is distributed into the newly created Connecting Washington Account in the Motor Vehicle Fund.

The rate used to calculate transfers from the Motor Vehicle Fund to the ORV and Non-highway Vehicle Account, the Marine Fuel Tax Refund Account, and the Snowmobile Account for motor vehicle fuel taxes paid by non-highway users is increased with each

increase in motor vehicle fuel taxes to a total of \$0.349 per gallon until July 1, 2031, when the rate will be based on the motor vehicle fuel tax rate in effect at that time.

The handling loss deduction from the motor vehicle fuel tax is repealed.

Weight Fees. Beginning July 1, 2016, weight fees are increased with a scale weigh of up to 14,000 pounds as shown in the table below. Beginning July 1, 2022, an additional \$10 weight fee is added, which is deposited into the Multimodal Transportation Fund unless prior to July 1, 2023, a clean fuel standard policy is initiated or adopted by rule, in which case it is deposited into the Connecting Washington Account.

<i>Scale Weight</i>	<i>Current Fee</i>	<i>FY 2017 Increase</i>	<i>FY 2017–FY 2021 Fee</i>	<i>FY 2022 Increase</i>	<i>FY 2022 Fee</i>
4000	\$10	\$15	\$25	\$10	\$35
6000	\$20	\$25	\$45	\$10	\$55
8000	\$30	\$35	\$65	\$10	\$75
10,000	\$32	\$33	\$65	\$10	\$75
12,000	\$49	\$16	\$65	\$10	\$75
14,000	\$60	\$5	\$65	\$10	\$75
>16,000	\$72+	\$0–	\$72	\$10	\$82

FY = Fiscal Year, July 1 through June 30 of each year.

Under the current law, weight fees increase commensurate with the license fee by weight but under this this act, the vehicles with a scale weight above fee is capped at \$72 until 2022, and then \$82. As a result the weight fee for vehicles 16,000 and above would decrease.

License Fee by Weight. Beginning July 1, 2016, the license fee by weight that is imposed on vehicles with a GVW of 10,000 and less is increased by \$15 to \$35. Beginning July 1, 2022, an additional \$10 fee is added on vehicles with a GVW of less than or equal to 12,000, which is distributed to various accounts within the Motor Vehicle Fund, consistent with the distributing of other license fees by weight.

<i>GVW</i>	<i>Current Fee</i>	<i>FY 2017 Increase</i>	<i>FY 2017–FY 2021 Fee</i>	<i>FY 2022 Increase</i>	<i>FY 2022 Fee</i>
4000	\$38	\$15	\$53	\$10	\$63
6000	\$48	\$25	\$73	\$10	\$83
8000	\$58	\$35	\$93	\$10	\$103
10,000	\$60	\$33	\$93	\$10	\$103

Beginning July 1, 2016, a freight project fee of 15 percent of the license fee by weight is added on vehicles subject to a gross weight that have a GVW of more than 10,000 pounds. Proceeds from the fee are deposited in the Connecting Washington Account.

Driver-Related Fees. The following fee increases are effective July 1, 2016:

<b>Document or Service</b>	<b>Current Fee</b>	<b>Proposed Fee</b>
CDL Requalification	\$20	\$35
CDL Instruction Permit	\$10	\$40
CDL Knowledge Exam	\$10	\$35
CDL Classified Skills Exam – reduced	\$75	\$225
CDL Classified Skills Exam	\$100	\$250
Enhanced Driver's Licenses and Identicons	\$15	\$54

The skills exam increases do not impact applicants that intend to drive a school bus. Payment of the CDL knowledge exam fee and the CDL classified skills exam fee entitles the individual to take the test up to two times.

If an enhanced driver's license or identicon is issued for a period other than six years, the fee is \$9 per year.

Proceeds from the driver-related fees are deposited into the Highway Safety Fund unless prior to July 1, 2023, a clean fuel standard policy is initiated or adopted by rule, in which case the additional revenue raised from the driver-related fee increases in this act are deposited into the Connecting Washington Account.

Administrative and Service Fees on Title and Registration Transactions. Beginning July 1, 2016, the services fees that are due on vehicle related registration and title transactions is expanded to include vessel related transactions. Beginning July 1, 2017, service fees, filing fees, license plate technology fees, and license service fees that are imposed on other titling and registration transactions are also applied to report of sale and transitional ownership transactions for a total cost of \$8.75 as shown in the table below. The bolded numbers represent fees that are not currently imposed by location.

	Subagent	Auditor	DOL
License Plate Technology Fee	<b>\$0.25</b>	\$0.25	<b>\$0.25</b>
License Service Fee	<b>\$0.50</b>	\$0.50	<b>\$0.50</b>
Filing Fee	<b>\$3.00</b>	\$3.00	<b>\$3.00</b>
Subagent Service Fee	\$5.00	<b>\$5.00</b>	<b>\$5.00</b>
<b>Current Total Administrative Fees</b>	\$5.00	\$3.75	\$0.00
<b>New Total Administrative Fees</b>	<b>\$8.75</b>	<b>\$8.75</b>	<b>\$8.75</b>

A report of sale that is received by DOL, the county auditor or other agent, or subagent after 21 days becomes effective on the day it is received by DOL, the county auditor or other agent, or subagent.

Studded Tire Fee. Beginning July 1, 2016, a fee of \$5 is added to the sale of each new studded tire, of which the seller retains 10 percent and the remainder is deposited to the Motor Vehicle Fund.

Electric Vehicles. Beginning July 1, 2016, the existing \$100 electric vehicle fee is expanded to include plug-in electric hybrids vehicles and an additional \$50 fee is added. Proceeds from the fees are first used to reimburse the Multimodal Transportation Account \$1 million and the remainder is deposited to the Motor Vehicle Fund. An electric vehicle infrastructure bank is created. The purpose of the bank is to provide financial assistance for the installation of publicly accessible electric vehicle charging stations in Washington.

Transportation Benefit Districts. A city or county with overlapping boundaries of a TBD may eliminate the separate entity status and assume the rights, powers, functions, and obligations of the TBD. A TBD may impose a vehicle fee of up to \$40 upon a majority vote of the governing body if a \$20 fee has been in effect for at least 24 months and may increase that fee to \$50 upon a majority vote of the governing body if a \$40 fee has been in effect for at least 24 months. Any increase above \$40 is subject to a referendum. The median income threshold that a TBD may provide a rebate of a vehicle fee is increased from 45 percent to 75 percent and a TBD must follow a material change process if they change a TBD rebate.

Community Transit Sales and Use Tax. A PTBA in a county with a population of 700,000 or more, that also contains a city with a population of 75,000 or more that operates a municipal transit system, may impose an additional sales and use tax of up to 0.3 percent with approval of the voters within the area. Based on the current population and existing public transportation governing structures, the act would only apply to Community Transit in Snohomish County.

Kitsap Transit POF District. The governing body of a PTBA only bordering western Puget Sound with a population of more than 200,000 – currently only Kitsap Transit, may establish one or more POF districts (Districts) within the boundaries of the PTBA. The boundaries of a District may include all or a portion of a city or town if the portion to be included is within the PTBA's boundaries. A District is considered an independent taxing authority, and is governed by the existing governing body of the PTBA that creates the District. A District is authorized to establish, finance, and provide POF service. The District also has specific authority to enter into contracts for POF service, public-private partnerships, design-build or general contractor/construction management, and other alternative procurement processes. A District may also issue certain general obligation and revenue bonds.

Prior to implementing POF service, a District must develop a POF investment plan that contains specific elements. In order to provide POF service, a majority of the voters in the District must approve the POF investment plan and the proposed taxes as part of a single vote.

A District may collect the following revenues for the purpose of implementing the POF investment plan:

- up to a 0.3 percent sales and use tax;
- a commercial parking tax for counties with a population of less than 1 million;
- tolls for passengers, packages, and parking; and
- charges or licensing fees for advertising, leasing space for services to POF passengers, and other revenue-generating facilities.

Sound Transit. The following taxes may be imposed by and within the boundary of an RTA in a county with a population of 1.5 million or more if approved by a majority of the voters within the boundary of the RTA:

- An MVET of up to 0.8 percent of the value of the vehicle may be imposed, except trucks with a GVW of more than 6000 pounds, farm vehicles, and commercial trailers. The depreciation schedule remains the same as the MVET schedule in effect for the existing MVET until the bonds are repaid and then the schedule switches to the schedule that is in effect at the time the MVET is approved by the voters. The rental car sales and use tax that can be imposed is limited to the same ratio as the MVET that is imposed bears to the amount of the MVET that is allowed;
- The maximum sales and use tax rate is increased by 0.5 percent to a maximum rate of 1.4 percent; and
- A property tax levy of up to \$0.25 per \$1,000 of assessed value may be imposed.

If an RTA imposes any of the taxes authorized above they are prohibited from receiving state grant funding except for transit coordination grants

Distributions to Cities and Counties. A quarterly transfer of funds from the Multimodal Transportation Account and the Motor Vehicle Fund that is distributed evenly to cities and counties is established.

Tax Preferences.

Alternative Fuel Commercial Vehicle Tax Credits (HB 1396). A credit is created against business and occupation tax and public utility tax for the portion of the purchase price of an alternative fuel commercial vehicle. Credits are limited to \$6 million annually and may be earned through January 1, 2021. A quarterly transfer is established from the Multimodal Transportation Account to the General Fund in amounts equal to the credits taken. These sections are known as the clean fuel vehicle incentives act.

Alternative Fuel Vehicle Sales and Use Tax Exemptions (HB 2087). The sales and use tax exemption on alternative fuel passenger vehicles are extended until July 1, 2019; expanded to include plug in hybrid vehicles; and limited to apply only to vehicles with a selling price of \$35,000 or less. A quarterly transfer is established from the Multimodal Transportation Account to the General Fund in amounts equal to the credits taken.

Commute Trip Reduction Tax Credit Program (HB 1822). The commute trip reduction tax credits and corresponding quarterly transfers from the Multimodal Transportation Account to the General Fund are extended until June 30, 2024, at \$2,750,000 per year.

Other Provisions. A quarterly transfer from the General Fund to the Connecting Washington Account over the 12-year period between fiscal year 2020 and fiscal year 2031 that totals \$518 million is established.

A sales and use tax offset fee that a regional transportation authority must pay until a total of \$518 million has been paid is created.



Garbage and refuse companies may consider the cost of any taxes or fees that are imposed or increased as part of this act normal operating expenses and are not required to apply to the Utilities and Transportation Commission for pass-through rates.

The sales tax deferral on the Tacoma Narrows Bridge project is extended from December 31, 2018, to December 31, 2031.

The definition of "low-income" that a transportation benefit district uses to determine eligibility for rebates of taxes, fees, and tolls is changed from at or below 45 percent of the median household income to 75 percent of the median household income. A rebate program may not be changed to reduce the amount of the rebate of the income threshold without voter approval.

Funds in the Connecting Washington Account may not be used for the state route 99 Alaskan Way viaduct replacement project.

The Complete Streets grant program is moved from the Department of Transportation to the Transportation Improvement Board and is expanded to included projects on county roads as well as city streets.

**Votes on Final Passage:**

Senate 27 22

Third Special Session

Senate 39 9

House 54 44 (House amended)

Senate 37 7

**Effective:** July 15, 2015  
July 1, 2016 (Sections 103, 105, 110)  
January 1, 2018 (Sections 323, 325)  
Section 108 is contingent.