SENATE BILL REPORT
SB 6080

As Reported by Senate Committee On:
Energy, Environment & Technology, February 1, 2018

Title: An act relating to the electrification of transportation.

Brief Description: Concerning the electrification of transportation.

Sponsors: Senators Palumbo, Carlyle, Mullet, Wellman, Keiser, Billig, Nelson, McCoy, Liias, Van De Wege, Hunt and Kuderer.

Brief History:
Committee Activity: Energy, Environment & Technology: 1/31/18, 2/01/18 [DPS-WM, DNP, w/oRec].

Brief Summary of First Substitute Bill

- Requires the Department of Commerce (Commerce) to report to the Legislature and the Governor on the progress of and recommendations on meeting the fuel usage goal.
- Creates a Clean Energy Account.
- Shifts funding of the electric vehicle (EV) sales and use tax exemption from the Multimodal Transportation Account to the Clean Energy Account under certain conditions.
- Requires Commerce to create the Charge Ahead Washington Program (program).
- Makes the EV sales and use tax exemption permanent.
- Amends EV sales and use tax exemptions.
- Permits the adoption of California vehicle emissions standards for medium-duty trucks and California's zero-emission vehicle (ZEV) requirements.

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TECHNOLOGY

Majority Report: That Substitute Senate Bill No. 6080 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

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.

Signed by Senators Carlyle, Chair; Palumbo, Vice Chair; Hobbs, McCoy, Ranker, Sheldon and Wellman.

Minority Report: Do not pass.
Signed by Senators Ericksen, Ranking Member; Brown.

Minority Report: That it be referred without recommendation.
Signed by Senator Hawkins.

Staff: Angela Kleis (786-7469)

Background: The Legislature exempted certain alternative fuel vehicles, including plug-in EVs, from sales and use taxes in 2005. The exemption was extended in 2011 and 2015, and modified in 2016. Currently, the sales tax exemption applies to up to $32,000 of a vehicle's selling price and expires when the Department of Licensing (DOL) titles 7500 qualifying vehicles. DOL anticipates reaching this cap by March or April of 2018.

In 2015, the Governor established a goal to increase the number of plug-in EVs in Washington State from approximately 8000 in 2013 to 50,000 by 2020. According to the Department of Transportation, there were approximately 25,000 plug-in EVs registered in Washington as of June 2017.

Under the federal Clean Air Act, states have the option to implement either federal motor vehicle emission standards or California motor vehicle emissions standards for passenger cars, light-duty trucks, and medium-duty vehicles. The motor vehicle emissions standards established by California contain both low-emission and ZEV requirements. In 2005, the Legislature authorized the adoption of California motor vehicle emission standards with the following restrictions:

- the Department of Ecology (Ecology) was prohibited from adopting California vehicle emissions standards for medium-duty trucks and California's ZEV regulations; and
- Ecology must convene an advisory group of industry and consumer group representatives during rule development and the advisory group must review and comment on proposed rules or changes to rules prior to rule adoption.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): <u>Part 1: Public Agency Acquisition of Electric and Alternative Fuel Vehicles.</u> Commerce must provide (1) a report to the Legislature and Governor on the progress toward meeting the fuel usage goal of having all state agencies and local governments satisfy 100 percent of their fuel needs for all vessels, vehicles, and construction equipment from electricity or biofuel; and (2) recommendations for administrative, legislative, or budgetary actions to ensure the goals are met by December 1, 2020, 2023, and 2026, and every three years thereafter until the goals are met.

The deadlines by which Commerce must adopt rules to define practicability and clarify how state agencies and local governments will be evaluated on meeting goals is as follows:

- for state agencies it is extended until July 1, 2018; and

- for local governments it is extended until June 1, 2018.

A purchase by a state or local government is practicable under certain circumstances such as a vehicle fueled by gasoline or diesel may be replaced by a vehicle fueled by a biofuel or electricity, and the replacement vehicle meets the agency's or local government's duty standards.

Each state agency and local government must submit a report to Commerce documenting its progress in meeting goals by July 1, 2019, and by July 1 of each year thereafter. Commerce may reduce the frequency of reporting for any agency or local government using less than 50,000 gallons of fuel per year.

The Office of the Superintendent of Public Instruction, in consultation with the regional transportation coordinators of the educational service districts, must establish competitive specifications for each category of school bus. In addition to current requirements, the specifications must incorporate the goals of replacing gasoline and diesel fuel vehicles to meet fuel usage goals.

School districts and educational service districts must be reimbursed from the Clean Energy Account for additional costs beyond the lowest-price competitive bid to replace a diesel or gasoline bus with an alternative fuel bus, when the replacement contributes toward the district's compliance with the goals.

Part 2: Building and Electrical Codes. The Building Code Council must adopt rules for EV infrastructure to include rules that require EV charging capability at commercial developments, multifamily housing developments, and single-family housing developments.

Part 3: Shared Employee Shuttles. Buses owned or operated by any corporation or organization for use as a shared employee shuttle are not considered a local public passenger transportation service subject to the metropolitan municipal corporation.

Part 4: Program. Commerce must establish a program to provide rebates to low-income or moderate-income households that voluntarily retire high-emission passenger motor vehicles over ten years old to a licensed vehicle wrecker and replace them with new or used light-duty zero-emission vehicles. Commerce may (1) specify design features for the program; and (2) establish procedures to prioritize available funds and limit the number of Charge Ahead rebates.

A person must meet several application requirements to be eligible for a Charge Ahead rebate. Some examples are:
- being a member of a low-income or moderate-income household;
- living in a census tract that has been identified by the Department of Health as having elevated concentrations of air contaminants commonly attributable to motor vehicle emissions; and
- retaining registration of the ZEV for a minimum of 24 consecutive months following the date of purchase or lease.

Charge Ahead rebates are funded by the Clean Energy Account. Rebates must be up to $5,000, but not less that $1,250.

Commerce must provide opportunities for public comment and use the input during the program design process. Commerce must periodically audit the program. By September 15 of each even-numbered year, Commerce must provide a report to the Legislature that includes, at a minimum, the amount of money spent on rebates, recommendations on how to improve the program, and results of any audits.

<u>Part 5: Electric and Alternative Vehicle Sales Tax Credits.</u> *Business and Occupation (B&O) Tax and Public Utility Tax (PUT).* The existing commercial vehicle alternative fuel incentive is increased from 50 percent to 75 percent of incremental cost and the maximum annual credit per vehicle class is increased from $2 million to approximately $13 million. Beginning on December 31, 2019, and every four years after, the Department of Revenue must (1) review the credits claimed and incremental costs of alternative fuel vehicles; and (2) provide recommendations to the Legislature on changes to the incentive levels for each vehicle class in order to promote cost-efficient conversions.

A credit against the B&O tax and the PUT is increased from the lesser of $25,000 or 30 percent, to the lesser of $50,000 or 50 percent, of the costs of converting a commercial vehicle to be principally powered by a clean alternative fuel with U.S. Environmental Protection Agency certified conversions.

The total credits may not exceed the lesser of $500,000 or 50 vehicles per person per calendar year, which is an increase from current law that sets the limit to the lesser of $250,000 or 25 vehicles.

The date through which credits may be earned is extended from January 1, 2021, to 2050. The expiration date of the credit is extended from January 1, 2022, to 2051.

Retail Sales and Use Tax. The sales and use tax exemption is made permanent and is extended to include used vehicles as well as medium-duty and heavy-duty trucks that meet certain power requirements.

The exemption is extended to new or used passenger cars, light-duty trucks, and medium-duty passenger vehicles. An exemption is added for new or used medium- and heavy-duty trucks for up to $125,000 of the vehicle's selling price or the total lease payments made plus the selling price of the leased vehicle.

The vehicle base model price at which the sale or lease of a vehicle is not exempt from sales tax is changed from more than $42,500 to:

- more than $50,000 for passenger cars, light-duty trucks, and medium-duty passenger vehicles; or
- more than $150,000 for medium and heavy-duty trucks.

Once DOL titles 7500 vehicles, the funding for the sales and use tax is shifted from the Multimodal Transportation Account to the Clean Energy Account.

Retail sales tax does not apply to the sale of or the charge of labor and services rendered with respect to EV batteries when the EV battery is purchased separately from a vehicle.

Part 6: Clean Energy Account. The Clean Energy Account, subject to appropriation, is created in the State Treasury. Expenditures from the account may only be used for alternative fuel vehicle incentives.

Part 7: Emission Standards. The California Clean Car standards are extended to all medium-duty vehicles. The restriction prohibiting Ecology from adopting California's ZEV regulations is removed. The requirement for Ecology to convene an advisory group for any proposed rulemaking is eliminated.

EFFECT OF CHANGES MADE BY ENERGY, ENVIRONMENT & TECHNOLOGY COMMITTEE (First Substitute):

- Adds an effective date for when DOL must begin providing data to JLARC for the tax preference performance statement.
- Adds an effective date for when DOR must begin reviewing claims claimed.
- Provides a cap on the Multimodal Account backfill amount for the B&O tax and PUT commercial vehicle exemptions. The amount will be limited to the exemptions provided through December 31, 2021, or an aggregate dollar limit of $33 million. The exemptions after this date or over that dollar threshold will come from the Clean Energy Account.
- Extends the year leased vehicles can earn credits to 2050.
- Extends the year new and leased vehicles can earn credits until 2051.
- Adds and amends a PUT credit section which provides a credit for the same activities eligible for the B&O tax credit.
- Provides definitions for heavy duty truck, light duty truck, and used.
- Requires a vehicle retired under the Charge Ahead Washington Program to be delivered to a licensed vehicle wrecker.
- Removes the new eligibility requirement that an EV must predominantly travel within the state of Washington over their usable lifetime.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony on Proposed Substitute: *The committee recommended a different version of the bill than what was heard.* PRO: Changes to the tax exemptions will improve air quality and reduce environmental impacts. Removing the incentives could negatively affect revenue, which is exactly what happened in Georgia. We appreciate the comprehensive approach of the bill. The program will expand the availability of EVs to lower income household. We also appreciate the adjustments to the building code.

It is more cost effective to include the infrastructure during the construction process, rather than trying to retrofit a building.

CON: We support incentivizing EV use and technologies; however, we are concerned about the practicability section. Some of our folks are in the testing phase and are unsure how or if the definition in the bill will be adequate. The provisions in the bill do not provide enough flexibility.

OTHER: We support the bill but have a concern regarding the program. We want to make sure that a traded in vehicle goes to a vehicle recycler that will make sure those vehicles are properly dismantled. We have language to provide to staff. We want to make sure that it is understood that commercial vehicles use different fuels than passenger vehicles.

Persons Testifying: PRO: Senator Guy Palumbo, Prime Sponsor; Joanna Grist, Western Washington Clean Cities Coalition, Puget Sound Clean Air Agency, Forth; Michael Mann, Nissan of North America; Vlad Gutman-Britten, Climate Solutions; Michael Breish, NW Energy Coalition; Meagan Murphy, citizen.

CON: Michael Shaw, Washington State Transit Association.

OTHER: Bill Fazekas, Black Lake Auto Wrecking; Gary Smith, Auto Recyclers of Washington; James King, Independent Business Association; Bruce Agnew, ACES Northwest Network/Cascadia; Mike Ennis, Association of Washington Business.

Persons Signed In To Testify But Not Testifying: No one.