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## Finance Committee

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### HB 1371

**Brief Description:** Providing incentives to improve freight railroad infrastructure.

**Sponsors:** Representatives Barkis, Leavitt, Orcutt, Fey, Barnard, Chapman, Low, Connors, Goehner, Chambers, Chandler, Couture, Griffey, Hutchins, Robertson, Volz, Walsh, Christian, Doglio, Schmick and Gregerson.

Brief Summary of Bill
<ul style="list-style-type: none"><li>Creates various business and occupation, retail sales and use, and public utility tax exemptions and credits for class I, II, and III railroads and other eligible taxpayers for donated materials, maintenance, modernization, and new construction on short line railroad track.</li></ul>



**Hearing Date:** 1/31/23

**Staff:** Kristina King (786-7190).

#### Background:

##### Railroad Classifications.

There are more than 560 freight railroads in three classification levels that operate nationwide. The United States Department of Transportation's Surface Transportation Board classifies types of railroads by carrier operating revenue, annually adjusted for inflation. Most railroad lines are owned and managed by holding companies, however, some are stand-alone railroads, leased lines, or publicly owned by a state, public port, or local jurisdiction.

##### Class I

- Annual operating revenue is more than \$943.9 million.
- Large operators that cover significant portions of the country.

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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 part of the legislation nor does it constitute a statement of legislative intent.*

- Railroads of this class operating in Washington: BNSF (1,400 miles, 44 percent of the rail system) and Union Pacific (500 miles, 16 percent).

#### Class II

- Between \$42.4 and 943.9 million in annual operating revenue.
- Midsize carriers, typically regional.
- There is one Class II railroad operating in Washington at the Spokane interchange.

#### Class III (short line)

- Annual operating revenue is less than \$42.4 million.
- Small and regional and typically move agricultural products.
- There are 27 short line railroads operating in Washington with over 1,400 miles of track (nearly 40 percent of the rail system).
- Short lines average from 1-150 miles in length.
- Some railroads of this class operating in Washington are: Port of Chehalis Rail (1 mile), Kettle Falls International Railway (36 miles), and Palouse River and Coulee City Rail System (300 miles).

#### Washington State Short Line Rail Inventory and Needs Assessment.

In 2015 the Legislature directed the Washington Department of Transportation to create an inventory and needs assessment on short line rail in the state. The report found that much of the existing short line rail system did not meet the state's current or future capacity and velocity needs for efficient operation. It was updated in 2021, with similar findings.

#### Federal and State Funding for Short Lines.

- The United States Department of Transportation offers several grant programs and one business tax credit worth over \$176 billion, available to railroads, including short lines.
- The Legislature appropriated \$19.54 million in the 21-23 biennium for four freight rail improvement preservation projects that benefit short lines.
- The Department of Transportation provides two programs to improve rail systems in the state.
  - The Freight Rail Investment Bank provides loans for building new or improving existing rail infrastructure for the public sector only. A total of \$5.08 million is available for loans in 21-23 biennium.
  - The Freight Rail Assistance Program provides grants to private and public sector railroads, rail shippers or receivers, and port districts for rehabilitation, infrastructure preservation, and economic development. For the 21-23 biennium, a total of \$7.04 million is available for grants.
  - Requests for grants and loans for both programs in the 21-23 biennium have exceeded available monies.

#### Business and Occupation Tax.

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General

Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Current law authorizes multiple exemptions, deductions, and credits to reduce the B&O tax liability for specific taxpayers and business industries.

#### Retail Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. Some other local government entities and special purpose districts also impose sales and use taxes for specific purposes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

#### Public Utility Tax (PUT).

The public utilities tax is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water. The tax is in lieu of the B&O tax. There are different rates, depending on the specific utility activity. Railroads, railroad car companies, motor transportation and all other public service businesses are taxed at .01926 percent. Most of the funds are distributed into the state general fund. A portion provides financial assistance to local governments for maintenance of public works facilities.

#### Tax Preferences.

All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. In addition, an automatic 10-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

### **Summary of Bill:**

#### B&O Tax.

- An exemption is created for class I railroads for the value of products or gross receipts of sales of materials required for track maintenance.
- Non-refundable credits are created for class II and III railroads or other eligible taxpayers.
  - Up to 50 percent of short line railroad maintenance and may not exceed an amount equal to \$5,000 multiplied by the number of miles of railroad track owned or leased in the state at the end of the year.
  - Up to 100 percent for new rail development and may not exceed \$2 million for each new rail development.
  - Up to 100 percent for modernization and rehabilitation expenditures.

- The credits may be carried forward for up to five years.
- Other eligible taxpayers include railroads owned by a port, city, or county or an owner or lessee of rail siding, industrial spur, or industry track located on or adjacent to a class II or III railroad.
- A credit is created for class I railroads for the fair market value of donated materials transferred to a class II or III railroad or other eligible taxpayers.

#### Sales and Use Tax.

An exemption is created for materials required for track maintenance for class II or III railroads or other eligible taxpayers.

#### Public Utilities Tax.

- Non-refundable credits are created for class II and III railroads or other eligible taxpayers.
  - Up to 50 percent of short line railroad maintenance and may not exceed an amount equal to \$5,000 multiplied by the number of miles of railroad track owned or leased in the state at the end of the year.
  - Up to 100 percent for new rail development and may not exceed \$2 million for each new rail development.
  - Up to 100 percent for modernization and rehabilitation expenditures.
  - The credits may be carried forward for up to five years.
- A credit is created for class I railroads for the fair market value of donated materials transferred to a class II or III railroad or other eligible taxpayers.

A tax preference performance statement is included.

**Appropriation:** None.

**Fiscal Note:** Requested on January 20, 2023.

**Effective Date:** The bill takes effect on January 1, 2024.