

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1371 2E S HB	<b>Title:</b> Freight railroad infra.
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## Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(1,930,000)	(1,930,000)	(1,930,000)	(14,730,000)	(14,730,000)	(14,730,000)	(14,750,000)	(14,750,000)	(14,750,000)
<b>Total \$</b>	<b>(1,930,000)</b>	<b>(1,930,000)</b>	<b>(1,930,000)</b>	<b>(14,730,000)</b>	<b>(14,730,000)</b>	<b>(14,730,000)</b>	<b>(14,750,000)</b>	<b>(14,750,000)</b>	<b>(14,750,000)</b>

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(58,411)		(149,489)		(159,391)
Local Gov. Total		(58,411)		(149,489)		(159,391)

## Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	Fiscal note not available											
Department of Revenue	1.7	975,400	975,400	975,400	.9	175,900	175,900	175,900	.6	119,200	119,200	119,200
<b>Total \$</b>	<b>1.7</b>	<b>975,400</b>	<b>975,400</b>	<b>975,400</b>	<b>0.9</b>	<b>175,900</b>	<b>175,900</b>	<b>175,900</b>	<b>0.6</b>	<b>119,200</b>	<b>119,200</b>	<b>119,200</b>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	Fiscal note not available								
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

## Estimated Capital Budget Breakout

This preliminary package is incomplete and may not reflect the total fiscal impact. Other agencies' fiscal notes will be distributed as soon as possible.

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**Date Published:**

Preliminary 2/14/2024

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 1371 2E S HB	<b>Title:</b> Freight railroad infra.	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

**No Fiscal Impact**

### Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		(130,000)	(130,000)	(330,000)	(350,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax		(900,000)	(900,000)	(7,200,000)	(7,200,000)
GF-STATE-State 01 - Taxes 35 - Public Utilities Tax		(900,000)	(900,000)	(7,200,000)	(7,200,000)
<b>Total \$</b>		(1,930,000)	(1,930,000)	(14,730,000)	(14,750,000)

### Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.6	2.8	1.7	0.9	0.6
GF-STATE-State 001-1	219,700	755,700	975,400	175,900	119,200
<b>Total \$</b>	219,700	755,700	975,400	175,900	119,200

### Estimated Capital Budget Impact:

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Kristina King	Phone: 60-786-7190	Date: 02/12/2024
Agency Preparation: Beth Leech	Phone: 60-534-1513	Date: 02/12/2024
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 02/12/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/14/2024

Request # 1371-2-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

Note: This fiscal note reflects House amendment 2E SHB 1371, 2024 Legislative Session.

#### COMPARISON OF THE SECOND ENGROSSED SUBSTITUTE BILL TO THE ENGROSSED SUBSTITUTE BILL:

This version reduces the tax credit amounts for qualified expenditures for new rail development and rail modernization and rehabilitation projects for the business and occupation (B&O) tax and public utility (PU) tax credits for short line railroads from 100% of qualifying expenditures to 50%. The amount of credit earned in a calendar year for railroad maintenance expenditures equals 50% of qualified expenditures not to exceed \$3,500 multiplied by the number of miles of railroad track owned or leased in the state by eligible short line railroads.

It also reduces the cap per taxpayer for railroad maintenance, new rail development, rail modernization, and rehabilitation products expenditures from \$2 million to \$1 million per calendar year for all tax credits.

The total amount of credits for railroad maintenance, new rail development, rail modernization, and rehabilitation products is capped at \$15 million per calendar year for the B&O and PU tax credits in the aggregate.

Qualifying expenditures do not include expenditures used to generate a federal tax credit or expenditures funded by a state or federal grant.

This version also limits the retail sales and use tax exemption to just those materials used in track maintenance projects.

For those sections that provide B&O and PU tax credits to short line railroads, the ability to earn credits for qualifying expenditures expires January 1, 2036. No credit may be claimed on tax returns filed for reporting periods beginning on or after January 1, 2042.

For those sections that provide B&O and PU tax credits to recyclers, the ability to earn credits for qualifying expenditures expires January 1, 2037. No credit may be claimed on tax returns filed for reporting periods beginning on or after January 1, 2042.

#### CURRENT LAW:

Railroads pay PU tax as public service businesses that engage in transportation in lieu of the B&O tax. Railroads also pay retail sales and use tax to purchase materials required for track maintenance.

#### PROPOSAL:

##### BUSINESS AND OCCUPATION TAX CREDIT FOR SHORT LINE RAILROADS (section 2):

This section provides a B&O tax credit to qualified short line railroads for qualified expenditures made by an eligible taxpayer. Credit issued and approved by the department in one calendar year and not claimed in that calendar year may be carried forward for five additional calendar years.

Qualified expenditures may be used to generate a credit for the following amounts:

- Short line railroad maintenance expenditures equivalent to 50% of the expenditures up to \$3,500 multiplied by the number of miles of railroad track owned or leased in Washington at the close of the taxable year.
- New rail development equivalent to 50% of the expenditures.
- Modernization and rehabilitation to upgrade rail, switches, tracks, and bridges, equivalent to 50% of the expenditures.

The credits earned for railroad maintenance, new rail development, rail modernization, and rehabilitation products expenditures under this section and section 6 may not exceed \$1 million for each taxpayer per year combined. The department must disallow any credits earned, or portions thereof, that would cause the total amount of credits claimed under this section and section 6 of this bill to exceed, in the aggregate, \$15 million in any calendar year.

The B&O tax credits may be transferred to any person subject to B&O tax at any time during the calendar year in which the credit is approved and for five calendar years following the year that the credit is approved.

The department must administer the credit. To claim or transfer a credit, the taxpayer must complete an application based on qualified expenditures incurred in the previous calendar year. The department must rule on applications within 60 days of receipt but may extend the time of processing an application upon notice to the taxpayer. Taxpayers must electronically file with the department all returns, forms, or information required.

An eligible taxpayer is any railroad subject to B&O tax and classified by the United States Surface Transportation Board as a class II or class III railroad, any railroad owned by a port, city, or county in the state, or any owner or lessee of rail siding, industrial spur, or industry track located on or adjacent to a class II or class III railroad in the state.

Qualified expenditures do not include those used to generate a federal tax credit or expenditures funded by a state or federal grant.

This credit does not apply to class I railroads or short line railroads owned by a class I railroad or any of its subsidiaries.

The ability to earn credits expires January 1, 2036. No credit may be claimed on tax returns filed for reporting periods beginning on or after January 1, 2042.

#### BUSINESS AND OCCUPATION TAX CREDIT FOR RAILROAD MATERIAL RECYCLERS (section 3):

This section provides a B&O tax credit to any company that recycles railroad materials. The credit is equal to the fair market value of railroad equipment or materials that the recycler transfers to an eligible taxpayer to install on tracks used by the class II or III railroads.

Materials must be given to a qualifying recipient without consideration. The department must provide in a rule a standard for determining the fair market value of donated materials.

The department must administer the credit. Credit earned in one calendar year and not claimed in that calendar year may be carried forward for five additional calendar years.

The B&O tax credits may be transferred to any person subject to B&O tax at any time during the calendar year in which the credit is approved and for five calendar years following the year that the credit is approved.

This credit may not be earned for materials donated to short line railroads owned by a class I railroad or any of its subsidiaries.

The ability to earn credits expires January 1, 2037. No credit may be claimed on tax returns filed for reporting periods

beginning on or after January 1, 2042.

**RETAIL SALES AND USE TAX EXEMPTION (sections 4 and 5):**

These sections exempt from sales and use tax materials required for track maintenance by owners and operators of class II or class III railroads, any railroad or freight rail facility owned by a port, city, or county in the state, or any owner or lessee of rail siding, industrial spur, or industry track located on or adjacent to the railroad.

Sellers making tax-exempt sales must obtain an exemption certificate from the buyer.

Materials required for track maintenance are defined as rails, ties, tie plates, joint bars, fasteners, switches, ballast, subgrade, roadbed, bridges, industrial leads, sidings, signs, safety barriers, crossing signals and gates, and track when used for the purpose of track maintenance.

These sections expire January 1, 2036.

**PUBLIC UTILITY TAX CREDIT FOR SHORT LINE RAILROADS (section 6):**

This section provides a PU tax credit to qualified short line railroads for qualified expenditures made by an eligible taxpayer. Credit issued and approved by the department in one calendar year and not claimed in that calendar year may be carried forward for five additional calendar years.

Qualified expenditures may be used to generate a credit for the following amounts:

- Short line railroad maintenance expenditures equivalent to 50% of the expenditures up to \$3,500 multiplied by the number of miles of railroad track owned or leased in Washington at the close of the taxable year.
- New rail development equivalent to 50% of the expenditures.
- Modernization and rehabilitation to upgrade rail, switches, tracks, and bridges, equivalent to 50% of the expenditures.

The credits earned for railroad maintenance, new rail development, rail modernization, and rehabilitation products expenditures under this section and section 2 may not exceed \$1 million for each taxpayer per year combined. The department must disallow any credits earned, or portions thereof, that would cause the total amount of credits claimed under this section and section 2 of this bill to exceed, in the aggregate, \$15 million in any calendar year.

The PU tax credits may be transferred to any person subject to PU tax at any time during the calendar year in which the credit is approved and for five calendar years following the year that the credit is approved.

The department must administer the credit. To claim or transfer a credit, the taxpayer must complete an application based on qualified expenditures incurred in the previous calendar year. The department must rule on applications within 60 days of receipt but may extend the time of processing an application upon notice to the taxpayer. Taxpayers must electronically file with the department all returns, forms, or information required.

An eligible taxpayer is any railroad subject to PU tax and classified by the United States Surface Transportation Board as a class II or class III railroad, any railroad owned by a port, city, or county in the state, or any owner or lessee of rail siding, industrial spur, or industry track located on or adjacent to a class II or class III railroad in the state.

Qualified expenditures do not include those used to generate a federal tax credit or expenditures funded by a state or federal

grant.

These credits do not apply to class I railroads or short line railroads owned by a class I railroad or any of its subsidiaries.

The ability to earn credits expires January 1, 2036. No credit may be claimed on tax returns filed for reporting periods beginning on or after January 1, 2042.

**PUBLIC UTILITY TAX CREDIT FOR RAILROAD MATERIAL RECYCLERS (section 7):**

This section provides a PU tax credit for an owner of a company who recycles railroad materials. The credit is equal to the fair market value of railroad equipment or materials that the recycler transfers to an eligible taxpayer to be installed on tracks used by the class II or III railroads.

Materials must be given to a qualifying recipient without consideration. The department must provide in a rule a standard for determining the fair market value of donated materials.

The department must administer the credit. Credit earned in one calendar year and not claimed in that calendar year may be carried forward for five additional calendar years.

The PU tax credits may be transferred to any person subject to PU tax at any time during the calendar year in which the credit is approved and for five calendar years following the year that the credit is approved.

This credit may not be earned for materials donated to short line railroads owned by a class I railroad or any of its subsidiaries.

The ability to earn credits expires January 1, 2037. No credit may be claimed on tax returns filed for reporting periods beginning on or after January 1, 2042.

**EFFECTIVE DATE:**

If specific funding is not provided by June 30, 2024, in the omnibus appropriations act, this bill is null and void.

The retail sales and use tax exemptions take effect August 1, 2024.

The B&O and PU tax credits for railroad material recyclers take effect July 1, 2025.

The B&O and PU tax credits for short line railroads take effect January 1, 2025.

**II. B - Cash receipts Impact**

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

**ASSUMPTIONS:**

- There are 25 short line railroads that may qualify for the credits and exemptions in this proposal.
- Washington State Department of Transportation provides legislative grant and loan funding for freight rail investments through a biennial call for projects. Current information on those programs assumes \$8 million in grants and \$5 million in loans will be provided during the 2023-25 Biennium. The loans require a minimum 20% match.
- Short line railroad expenditures in future biennia are similar to planned expenditures in the 2023-2025 biennium.
- Short line railroads have over 1,400 miles of track in Washington.
- For this estimate, it is assumed that materials represent 50% of the total cost of track maintenance.
- For this estimate, it is assumed that track maintenance occurs annually.
- Track maintenance costs, on average, are significantly higher than \$3,500 per mile of track; therefore, this estimate

assumes the B&O and PU tax credits for qualified short line railroad maintenance expenditures will be limited to \$3,500 per mile of track.

- Since no specific B&O tax exemption exists for sales of transferable B&O or PU tax credits, it is assumed that such sales will qualify as taxable events under the B&O tax and will be taxed at the service and other activities tax rate. Given that there is no data available to estimate the transferring or selling of these credits in Washington, the revenue impact to the state general fund from any B&O taxes collected as a result of these sales is unknown.
- The impacts from the B&O and PU tax credits for railroad material recyclers are confidential, as those credits impact fewer than three taxpayers. These tax credits do result in additional negative revenue impacts not shown in this fiscal note.
- Sales tax growth mirrors the growth rate in the ERFC November 2023 forecast.
- The average local sales tax rate is 2.95%.
- The B&O and PU tax credits for short line railroads as estimated assume credit applications will be received on or after January 1, 2025, for qualified expenditures in the previous calendar year. It is assumed the first credits would be approved and used in March 2025, impacting three months of collections in fiscal year 2025.
- The B&O and PU tax credits for railroad material recyclers are effective July 1, 2025, and impact 11 months of collections in fiscal year 2026.
- The sales and use tax exemptions are effective August 1, 2024, and impact 10 months of collections in fiscal year 2025.

**DATA SOURCES:**

- U.S. Surface Transportation Board
- TrainWeb.com
- American Society of Civil Engineers, Infrastructure Report Card
- U.S. Department of Transportation, Federal Railroad Administration
- Department of Transportation, Washington State Rail Plan 2019-2040
- Department of Transportation, Washington 2023-2025 Freight Rail Assistance Program/Freight Rail Investment Bank project lists
- Assessment of State Support for Short Line Rail Infrastructure, Report to the Washington State Joint Transportation Committee, December 2021
- Economic and Revenue Forecast Council, November 2023 forecast
- Department of Revenue, excise tax returns

**REVENUE ESTIMATES:**

This bill decreases state revenues by an estimated \$1.9 million in the 2023-25 Biennium and by \$14.7 million in the 2025-27 Biennium.

This bill also decreases local revenues by an estimated \$59,000 in the 2023-25 Biennium and by \$151,000 in the 2025-27 Biennium.

**TOTAL REVENUE IMPACT:**

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	(\$ 1,930)
FY 2026 -	(\$ 7,360)
FY 2027 -	(\$ 7,370)
FY 2028 -	(\$ 7,370)



FY 2029 - (\$ 7,380)

Local Government, if applicable (cash basis, \$000):

FY 2024 - \$ 0  
FY 2025 - (\$ 59)  
FY 2026 - (\$ 74)  
FY 2027 - (\$ 77)  
FY 2028 - (\$ 79)  
FY 2029 - (\$ 82)

## II. C - Expenditures

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

### ASSUMPTIONS:

- This bill affects approximately 25 taxpayers.
- The annual tax performance report is not required. The tax preference performance statement (section 8) of this bill lists the purpose as a general purpose as indicated in RCW 82.32.808 (2) (f).

### FIRST YEAR COSTS:

The department will incur total costs of \$219,700 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 0.6 FTE.

- Set up, program and test computer systems for multiple new credits. This includes a new credit ID and associated return processing and system indicator codes, a new e-file worksheet, and modifications to reports and data files.
- Gather requirements, attend implementation meetings, document and test system changes due to new credits.
- Create a Special Notice and identify publications and information the department may need to create or update on the department's website.

Object Costs - \$130,000.

- Computer system changes, including contract programming.

### SECOND YEAR COSTS:

The department will incur total costs of \$755,700 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 2.88 FTEs.

- Adopt one new administrative rule.
- Continue computer system testing, monitoring, and maintenance.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Process returns, verify credits taken, and process all associated work items, including issuing assessments for return errors and underpayments.

Object Costs - \$389,900.

- Computer system changes, including contract programming.

### ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$175,900 and include similar activities described in the second-year costs. Time and effort equate to 0.85 FTE.

Request # 1371-2-1

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.6	2.8	1.7	0.9	0.6
A-Salaries and Wages	57,500	232,000	289,500	114,600	77,000
B-Employee Benefits	19,000	76,600	95,600	37,800	25,400
C-Professional Service Contracts	130,000	389,900	519,900		
E-Goods and Other Services	9,000	40,200	49,200	18,200	13,000
J-Capital Outlays	4,200	17,000	21,200	5,300	3,800
<b>Total \$</b>	<b>\$219,700</b>	<b>\$755,700</b>	<b>\$975,400</b>	<b>\$175,900</b>	<b>\$119,200</b>

**III. B - Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	131,684		0.0	0.0		
EMS BAND 5	153,836		0.0	0.0		
EXCISE TAX EX 3	64,092		0.9	0.5	0.8	0.6
IT B A-JOURNEY	91,968	0.2	0.9	0.6	0.1	
IT B A-SR/SPEC	101,376	0.1	0.1	0.1		
IT SYS ADM-JOURNEY	96,552	0.3	0.6	0.5		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120		0.1	0.1		
TAX POLICY SP 3	88,416		0.1	0.1		
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456		0.0	0.0		
WMS BAND 3	111,992		0.0	0.0		
<b>Total FTEs</b>		<b>0.6</b>	<b>2.8</b>	<b>1.7</b>	<b>0.9</b>	<b>0.6</b>

### III. C - Expenditures By Program (optional)

NONE

## Part IV: Capital Budget Impact

### IV. A - Capital Budget Expenditures

NONE

### IV. B - Expenditures by Object Or Purpose

NONE

### IV. C - Capital Budget Breakout

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE

## Part V: New Rule Making Required

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*

Should this legislation become law, the department will use the standard process to adopt WAC 458-20-XXX, a new rule on railroad tax exemptions and credits. Persons affected by this rulemaking would include certain railroads.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

<b>Bill Number:</b> 1371 2E S HB	<b>Title:</b> Freight railroad infra.
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**Part I: Jurisdiction**-Location, type or status of political subdivision defines range of fiscal impacts.

**Legislation Impacts:**

- Cities: Decreased sales tax, and use tax, and public utility tax revenue, decreased expenditures.
- Counties: Decreased sales tax, and use tax, and public utility tax revenue, decreased expenditures.
- Special Districts: Decreased sales tax, and use tax, and public utility tax revenue, decreased expenditures.
- Specific jurisdictions only: Decreased expenditures for cities, ports, and counties that own railroads.
- Variance occurs due to:

**Part II: Estimates**

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time: Current and expected expenditure amounts (of local governments) that will be eligible for tax credits and tax exemptions.

**Estimated revenue impacts to:**

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City		(17,243)	(17,243)	(44,129)	(47,052)
County		(21,974)	(21,974)	(56,238)	(59,963)
Special District		(19,194)	(19,194)	(49,122)	(52,376)
<b>TOTAL \$</b>		(58,411)	(58,411)	(149,489)	(159,391)
<b>GRAND TOTAL \$</b>					(367,291)

**Estimated expenditure impacts to:**

**Non-zero but indeterminate cost and/or savings. Please see discussion.**

**Part III: Preparation and Approval**

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 02/14/2024
Leg. Committee Contact: Kristina King	Phone: 360-786-7190	Date: 02/12/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/14/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/14/2024

## Part IV: Analysis

### A. SUMMARY OF BILL

*Description of the bill with an emphasis on how it impacts local government.*

Section 3 adds a new chapter to RCW 82.04 [B&O tax] to create a B&O tax credit for qualified short line railroad maintenance expenditures and for qualified new rail development expenditures.

Section 4 includes a company that recycles railroad material as eligible for the B&O tax credit.

This section takes effect on July 1, 2024.

Section 5, 6 and 7 adds new chapters to RCW 82.16 RCW [Public Utility tax] and RCW 82.12 [Use tax] to: create a use tax exemption and a Public Utilities tax credit up to a certain amount annually. Both expire January 1, 2036.

Section 5 take effect July 1, 2024.

Section 7 takes effect July 1, 2025.

### B. SUMMARY OF EXPENDITURE IMPACTS

*Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.*

As described in section 3-7, this bill will decrease track maintenance expenditures for certain eligible ports, cities, and counties that own or lease railroads. Information on the current or expected expenses that would be eligible for a retail sales and use tax exemption was not available and cannot be determined.

In addition to eligible ports, cities, and counties, private businesses are expected to benefit from these tax credits and tax exemptions as well.

### C. SUMMARY OF REVENUE IMPACTS

*Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.*

According to the Dept. of Revenue, this bill will decrease local revenues by an estimated \$59,000 in the 10 months of impacted collections in fiscal year 2025, and by \$74,000 in fiscal year 2026, the first full year of impacted collections.

#### LOCAL GOVS

FY 2025 - (\$ 59,000)

FY 2026 - (\$ 74,000)

FY 2027 - (\$ 77,000)

FY 2028 - (\$ 79,000)

FY 2029 - (\$ 82,000)

#### METHODOLOGY

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2022. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. The result is a distribution of 37.62 percent to counties, 29.52 percent to cities, and 32.86 percent to special districts. The one percent DOR administrative fee has also been deducted.

#### COUNTIES

FY 2024 \$0

FY 2025 -\$21,974

FY 2026 -\$27,560

FY 2027 -\$28,678  
FY 2028 -\$29,423  
FY 2029 -\$30,540

CITIES

FY 2024 \$0  
FY 2025 -\$17,243  
FY 2026 -\$21,626  
FY 2027 -\$22,503  
FY 2028 -\$23,088  
FY 2029 -\$23,964

SPECIAL DISTRICTS

FY 2024 \$0  
FY 2025 -\$19,194  
FY 2026 -\$24,073  
FY 2027 -\$25,049  
FY 2028 -\$25,700  
FY 2029 -\$26,676

SOURCES

Department of Revenue Fiscal Note  
Department of Revenue Local Tax Distributions  
Association of Washington Cities  
Washington State Association of Counties