STATE OF WASHINGTON
DEPARTMENT OF COMMERCE
1011 Plum Street SE • PO Box 42525 • Olympia, Washington 98504-2525 • 360-725-4000

www.commerce.wa.gov

September 10, 2024

Via email: eric.thomas@leg.wa.gov

Eric Thomas, Legislative Auditor
Joint Legislative Audit & Review Committee
106 11th Ave SW
PO Box 40910
Olympia, WA 98504-0910

RE: Tax preference review – Alternative fuel vehicles and infrastructure

Dear Mr. Thomas:

Thank you for the opportunity to provide formal comments on the Joint Legislative Audit and Review Committee (JLARC)'s preliminary review of alternative fuel vehicles and infrastructure tax preferences.

Commerce broadly agrees with the following JLARC finding and recommendation included in the invitation to comment on the report:

Preliminary JLARC finding	Alternative fuel vehicles and associated infrastructure increased in Washington. The effect of the preferences is unclear because changes in the market and increased state and federal incentives also influence adoption.
Preliminary JLARC recommendation	The Legislature should determine whether to continue the eight tax preferences, and at what level, before four of them expire in 2025.

Considering the uncertainty found in incentives' effects, the findings of the Transportation Electrification Strategy (TES), and the Office of Financial Management's guidance to state agencies to request maintenance level funding in decision packages, Commerce makes three additional recommendations:

Commerce recommendation #1 | Applies to all tax preferences

- In determining whether to continue the eight tax preferences before four of them expire in 2025, the Legislature should consider shifting limited available revenue away from tax expenditures and toward rebate programs that can have higher levels of awareness and effect on consumer decisions.
- This is especially true for incentives that are duplicative in purpose to programs that have been created by the Legislature since the 2019 Green Transportation legislation. It is difficult for eligible individuals and organizations to navigate the complex web of financial incentives, and

the state should work to centralize programs to improve clarity and administrative efficiency. This is demonstrated by relatively low levels of participation in all but two of the preferences.

Commerce recommendation #2 | Specific to the sales and use tax exemption

- If determining to continue the sales and use tax exemption, the Legislature should:
  - Work with Commerce's Clean Transportation Unit to ensure the exemption acts as a broad-based "standard" rebate that aligns with the targeted income-based rebate in the Washington EV Instant Rebate Program.
  - Limit the exemption to battery-electric vehicles and match purchase price caps set in the federal clean vehicle credit to make it easier for consumers to understand and use.
  - Require dealerships to provide clear disclosure of the exemption to consumers and provide sufficient resources to the Department of Licensing to work with dealerships to ensure they are providing information about EV incentives to consumers,
- This recommendation is included in the TES as Recommendation 3.7 "Extend and expand the state sales and use tax exemptions for BEVs".

Commerce recommendation #3 | Specific to zero-emission bus sales and use tax exemption

- Commerce does not administer programs specific to zero-emission buses and recommends the Legislature work with the Departments of Ecology and Transportation, school districts, and transit agencies to identify which incentive mechanisms would best support faster electric vehicle adoption rates.

<u>Findings relevant to the report</u>

These three recommendations are based on findings by our Clean Transportation Unit through development of the TES and implementation of Commerce funding programs:

1. There have been three core barriers to EV adoption throughout the last decade:

- Higher upfront purchase prices for EVs than similar gasoline-powered vehicles.
- Lack of convenient and reliable charging.
- Unclear information for consumers when making car purchase decisions.

EV incentives should focus on removing one or more of these barriers.

2. EV-gasoline vehicle price parity, for the average personal vehicle, will be achieved in the near future. Both new and used EVs are now approximately $5,000 more to purchase than gasoline alternatives.

3. The $5,000 differential is an approximate average and is much harder to cover for lower income drivers, who are less likely to have an EV according to Transportation Electrification Strategy (TES) data. As of spring 2023, just 30% of EV drivers reported having an annual income of $75,000 or less, even though this income group makes up 48% of the state's driving age population.

4. Incentives lose effect when below $5,000. This finding is based on TES modeling analysis and direct feedback from industry sources, stakeholder survey results, research from California's experience with incentive programs, and community listening sessions.

As a result, targeted incentives above $5,000 can have a larger effect than broad-based incentives of $1,500 even though they may reach fewer consumers. This is due to a concept called "essentiality rate", which measures how essential the incentive is in consumer decision-making. Based on data from other state programs, Commerce has assumed a 75% essentiality rate for the Washington EV Instant Rebates program, which launched Aug. 1, 2024. Program survey data will be available prior to the 2025 legislative session.

5. Incentives that prioritize leases can have more public benefit than those with neutrality toward transaction type. Leases are a key pipeline for used vehicle inventory volume and higher supply drives down prices. This indirect benefit is the most influential financial factor of incentive design.

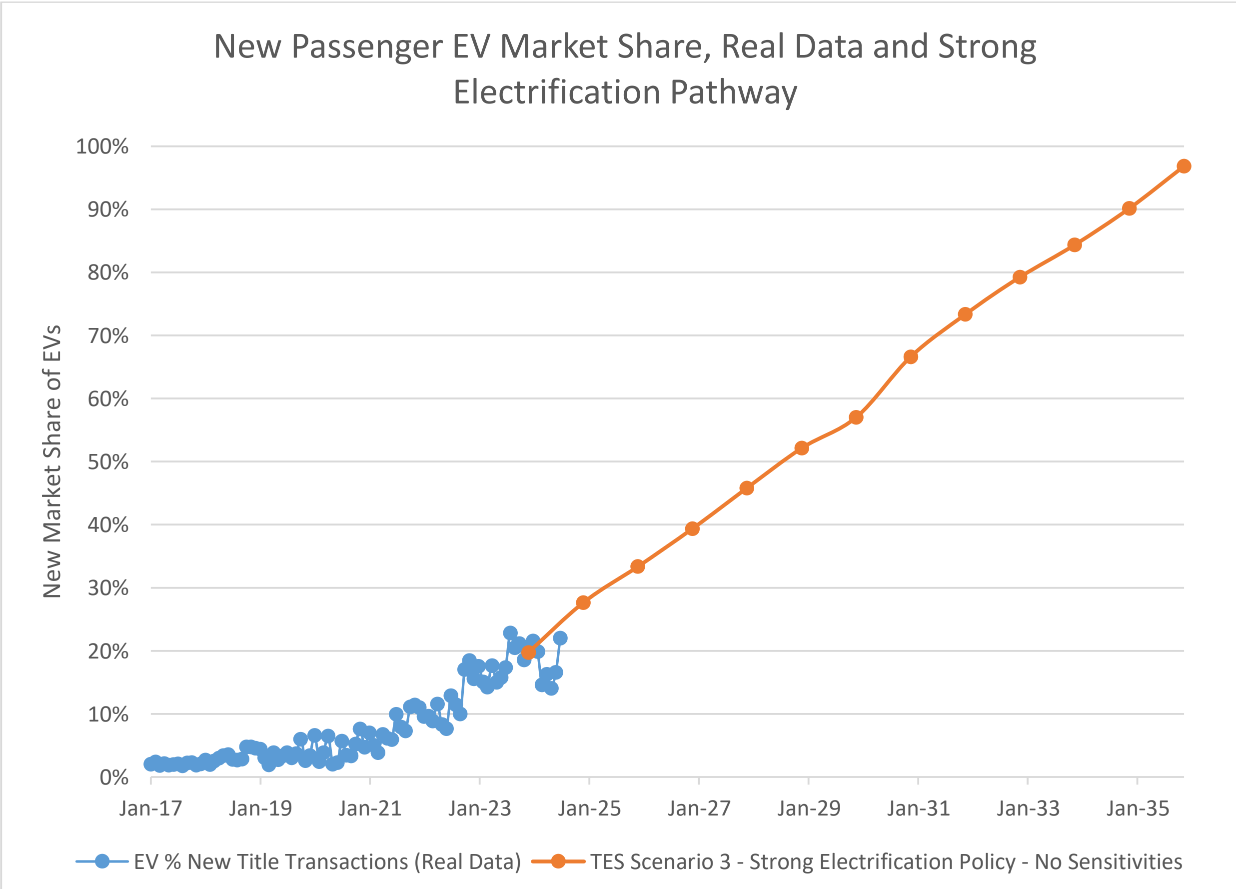
6. Trusted and high-quality consumer information is just as important in helping people access EVs as price incentives. Cox Automotive conducted research of U.S. consumers considering EVs and asked what could motivate them the most to choose an EV. Respondents indicated that education (56%) would be a larger motivator than price reduction (38%).

7. While Commerce has not assessed consumer awareness of the alternative fuel vehicle sales and use tax incentive through a statistically valid survey, anecdotal reports from consumers indicate an inconsistent application of the incentive that may be eroding the value of the exemption for consumers who are either not aware that it exists or do not receive clear disclosures of how the complicated incentive design is calculated. While the Department of Revenue advises that assessing the exemption as a percent of selling price is easier to administer, a flat maximum amount exempted with a purchase price cap (instead of a "selling price" cap) would be much easier for consumers to understand.

8. New EV growth slowed in the first half of 2024. Commerce analysis points to three factors:

- Used EV sales have gone up significantly in 2024 with prices declining faster than new EVs. This may be showing that consumers who previously preferred new EVs are now choosing used EVs because of price.
- Overall new vehicles sales are going up in 2024 because new vehicle prices have stabilized after several years of steep increases. New car consumers who are more price sensitive may be less likely to consider an EV and therefore lowering the EV market share.
- There are also reasons why this slowdown could be reflecting an actual softening of consumer demand for EVs following the accelerated growth in 2022-2023. A 2024 J.D. Power survey shows a decline in EV consideration from 51% in 2022 to 45% nationally. More troubling, of those who intend to purchase an EV in the next 12 months, the percent who are at least 50% certain has dropped from 73% to 48%.

However, we expect a rebound in the second half of 2024. July data came in closer to the trend needed in TES modeling and the Commerce rebates program should have a sizeable effect on August, September, and October data. As a result, current policies and market dynamics may keep the state on track to meet strong adoption rates consistent with the Legislature's adopted motor vehicle emission standards. Such policies would need to continue to prevent falling behind in the next biennium.



9. Commerce estimates that the Washington EV Instant Rebates program likely has greater public benefit return on investment than a sales tax exemption by maximizing the "essentiality rate" and leasing percentages.

10. Through the first 26 days of the Washington EV Instant Rebates program, $11,976,000 has been provided in consumer savings for 1,584 electric vehicle transactions. This equates to an average rebate of $7,556, driven by a 69% lease rate.

We thank you for the opportunity to provide more information based on recent analysis and program implementation and will have more information to provide prior to legislative session 2025. Please let us know if you have questions about these comments or would like additional information.

Sincerely,

Michael Fong

Director