

ANALYSIS OF HB 2189

House Agriculture & Ecology Committee
22, 1999

February

- Tax incentives are provided to encourage the use of reclaimed water. Income received from supplying reclaimed water is exempt from the public utility tax. The retail sales tax does not apply to machinery, equipment, and labor used for the construction of systems for distribution, transmission, or storage of reclaimed water.

BACKGROUND:

A report issued by the Department of Health and the Department of Ecology during the 1998 interim recognized that there is significant potential to develop large sources of reclaimed water in the state. This water may be substituted for potable water in many situations. The report noted that significant amounts of reclaimed water could be generated within the Puget Sound area but there is a lack of transmission and distribution systems to provide reused water.

Some of the recommendations contained within the report include providing a credit against the state utility tax for water sales of reclaimed water, and exempting the construction of reclaimed water facilities from the retail sales tax.

The term *beneficial use*— is defined more narrowly for purposes of using reclaimed water than how the term is used in other aspects of water law.

SUMMARY:

Income received for supplying reclaimed water is exempt from the public utility tax when the water is provided by an entity with a permit to generate reclaimed water.

The retail sales tax does not apply to the sales of machinery and equipment directly used in transmitting, distributing, or storing reclaimed water. The retail sales tax also does not apply to sales or charges made for labor and services rendered to install the machinery or equipment. *Machinery and equipment*— means pipelines, outfalls, conduits, pumping stations, instrumentation and monitoring equipment, structures, machinery, equipment, accessories, and all other construction, devices, appurtenances, and facilities used for the primary purpose of conducting reclaimed water from a wastewater treatment system for a beneficial use, including

streamflow augmentation for fish.

The term beneficial use– is modified to beneficial reuse–. Beneficial reuse is defined as the use of reclaimed water for a beneficial purpose, including but not limited to land application, replenishment of ground water, wetland enhancement, and streamflow augmentation providing increased instream flows for fish.