

# SENATE BILL REPORT

## SB 6515

---

---

As of January 31, 2008

**Title:** An act relating to the taxation of energy savings performance contracts.

**Brief Description:** Modifying the tax treatment of energy savings performance contracts.

**Sponsors:** Senators Pridemore, Murray, Kohl-Welles, Kastama, Kilmer, Rasmussen, Kline and Tom.

**Brief History:**

**Committee Activity:** Ways & Means: 1/28/08.

---

### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dean Carlson (786-7305)

**Background:** Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location.

Under current law, municipalities may enter into performance based contracts to procure energy equipment and services. A performance based contract is a contract between a municipality and another person in which the payment obligation, including installation, is either: (1) set as a percentage of the annual energy cost savings attributable under contract to the energy equipment and services, or (2) guaranteed by the other person to be less than the annual energy cost saving attributable under the contract to the energy equipment and services.

Energy management systems are programs, energy efficient equipment, technology or other measures that allow:

- 1) energy consumers to obtain information about their energy usage and the cost of energy in connection with their usage;
- 2) interactive communication between energy consumers and their energy suppliers;
- 3) energy consumers to respond to energy price signals and to manage their purchase and use of energy; or
- 4) for other kinds of dynamic, demand-side energy management.

**Summary of Bill:** A sales and use tax exemption is provided to public entities for performance based contracted energy equipment and services and energy management systems.

---

*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.*

**Appropriation:** None.

**Fiscal Note:** Requested on January 17, 2008.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill takes effect on July 1, 2008.

**Staff Summary of Public Testimony:** PRO: Prior to 2002 the portion of an energy service contract that was for professional services was not subject to sales tax. This will make it more affordable to public entities to utilize these contracts. The tax savings of this bill will be very significant and will be good overall for the school districts. In the Federal School District, our utility costs are about \$4 million a year. We have the lowest cost model in our area. We have saved 25-30 percent using this model. Our payback for performance contracting is about seven to ten years. This process makes sense and provides a guarantee based on performance.

**Persons Testifying:** PRO: Kim Drury, Northwest Energy Coalition; Ash Anad, McKinstry; Rod Leland, Federal Way School District; Charlie Brown, Puget Sound School Coalition.