

SENATE BILL REPORT

SB 6460

As Reported By Senate Committee On:
Ecology & Parks, January 30, 1996

Title: An act relating to public utility tax credits for water conservation activities.

Brief Description: Allowing public utility tax credits for water conservation activities.

Sponsors: Senators Fraser, Swecker, Haugen, Rasmussen and Winsley; by request of Governor Lowry.

Brief History:

Committee Activity: Ecology & Parks: 1/22/96, 1/26/96, 1/30/96 [DPS-WM].

SENATE COMMITTEE ON ECOLOGY & PARKS

Majority Report: That Substitute Senate Bill No. 6460 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Fraser, Chair; Fairley, Vice Chair; Hochstatter, McAuliffe, Spanel and Swecker.

Staff: Gary Wilburn (786-7453)

Background: It is estimated that municipal uses account for about 23 percent of the water consumed in Washington State, and, with growth in population and the economy, the demand for such uses is expected to increase greatly. Like the experience in the energy field, water conservation measures may provide a cost-effective source of "new" supplies to meet this increased demand. Such measures may include low-volume plumbing fixtures, metering, leak detection and repair programs, ditch lining, and other measures. Most large water systems have conservation programs, but many smaller systems lack metering of water and lack financial resources for the initial investment in conservation measures.

The public utility tax is paid by several types of businesses which are generally exempt from the business and income tax. Water distribution businesses, whether publicly or privately owned, are subject to the public utility tax. The tax is imposed upon the gross income of the business at the rate of 5.09 percent. Several deductions are allowable that may be relevant to water distribution businesses, including amounts derived through an irrigation system for irrigation purposes, and amounts spent for capital improvements by a nonprofit water association. About 630 water businesses pay the tax, generating about \$20 million in public utility tax revenues, 80 percent of which are deposited to the state general fund. The majority of these revenues are from the 30 or so largest systems.

Summary of Substitute Bill: Water distribution businesses are allowed a credit against their public utility tax liability for two categories of water conservation activities: (1) capital construction other than consumer-related activities; and (2) rebates and expenditures to customers for consumer-related activities (installing meters; retrofitting water fixtures). The

first category is available only to businesses with gross income of \$3 million or less. The second is available to all water distribution businesses.

The maximum credit allowed is \$150,000 per year per credit category. Credits in the first category (consumer activities) may be carried forward for up to three years, and those in the capital construction category may be carried forward for up to ten years. All applications for the credits must be made by June 30, 1999.

The Departments of Revenue and Health must jointly administer a preapproval process. A credit certificate is to be completed by each business substantially in the form specified in the legislation. The departments must review and decide upon the request within 60 days of receipt, and provide for administrative review of denials.

The total credits for the consumer-related conservation credit is capped as follows: \$4 million for FY 1997; \$3 million for FY 1998; and \$3 million for FY 1999. The total credits for the capital investment category are capped as follows: \$9 million for FY 1997; \$7 million for FY 1998; \$7 million for FY 1999; and \$9 million per year for FY 2000-2006. The departments are required to track the availability of credits and, if the caps are reached, credits may be approved for carryover to future years within the limitations specified.

Substitute Bill Compared to Original Bill: An annual cap of \$9 million for total credits in the capital investment category for years 2000-2006 is provided. The consumer activities category includes other expenditures and is not limited to rebates to customers. The duties of the Health and Revenue departments in the preapproval procedures are defined. Various tax administration subjects such as due dates and the form of reporting the credits are specified.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1996.

Testimony For: Tax incentives are an effective means of encouraging water systems to make conservation investments, and can serve as a useful complement to other devices such as conservation-oriented rates.

Testimony Against: None.

Testified: Doug Levy, City of Everett (pro); Dave Clark, DOH (pro); RaChel LeMieux, DOR (pro); Bob Sump, citizen (pro); Kim Drury, Seattle Water Dept. (pro); Pete Butkus, Sno-King Water Dist. Coalition (pro); David Monthie, Dept. of Health (pro); John Kounts, WA PUD Assn. (pro); Don Montford, Birch Bay W/S District (pro).