

HOUSE BILL REPORT

HB 3114

As Passed House:
February 10, 2006

Title: An act relating to a sales and use tax exemption for recovered wood waste boiler equipment used in steam production.

Brief Description: Providing a sales and use tax exemption for recovered wood waste boiler equipment.

Sponsors: By Representatives Murray and Dunn.

Brief History:

Committee Activity:

Finance: 1/30/06, 2/1/06 [DP].

Floor Activity:

Passed House: 2/10/06, 96-2.

Brief Summary of Bill

- Provides an exemption from retail sales and use taxes for wood-waste fired boilers and associated equipment for use in generating steam for sale.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Staff: Mark Matteson (786-7145).

Background:

Retail sales and use taxes. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The use tax applies if retail sales tax has not been collected. Both the state and local governments impose sales and use taxes; the state rate is 6.5 percent and the average local rate is about 2 percent statewide. Sales taxes are collected by the seller from the buyer at the time of sale. Use tax is remitted directly to the Department of Revenue. State revenues are deposited to the State General Fund.

Retail sales and use taxes apply to all items of tangible personal property unless specifically exempt. Examples of exemptions for property that is used to generate energy are machinery

and equipment, including installation and labor costs, that are used directly in generating electricity from wind, sun, landfill gas, or fuel cells.

Wood waste boilers. Wood waste, including mill residues, lumber yard scraps, construction site materials, and other discarded wood, is used in such markets as hog fuel, pulp chips, compost and landscaping chips, composite building materials, and architectural wood. Hog fuel, created by processing wood wastes through a hog or grinder to produce coarse wood chips, is the largest market for discarded construction, demolition, or remodeling activity wood in King County, according to a 2004 market assessment of construction and demolition (C&D) waste materials conducted for the King County Solid Waste Division. The fuel is burned in wood waste boilers to create steam and heat. In Washington the fuel is principally utilized by the pulp and paper industry.

At the time that the 2004 King County C&D waste material market assessment was issued, hog fuel was more than twice as economical for heat energy production as was natural gas in standard heat energy production equipment, according to the assessment.

Seattle Steam Company. The Seattle Steam Company operates a commercial steam plant that has been in existence since 1893. The company has operated the plant since 1972 and continues to produce pressurized steam for space heating and other purposes in the downtown Seattle area. The facility operates several boilers which are primarily fired using natural gas, although bunker fuel oil may also be used.

At a November 2005 forum sponsored by the International District Energy Association, a company representative presented the company's plans addressing rising costs in the energy market. Among other strategies, the company plans to acquire a boiler with a steam production capacity of 80,000 pounds per hour that would be fueled principally using wood in order to reduce operating costs.

Natural gas market. While the price of natural gas paid by residential and commercial users held fairly steady through the 1990s, the Energy Information Administration surveys show that prices have doubled in nominal terms from 1999 to 2005.

Summary of Bill:

An exemption from retail sales and use tax is provided for the acquisition of recovered wood waste boiler equipment used primarily in the production of steam for sale. Recovered wood waste is defined to mean discarded wood. The steam must be sold for use in sterilizing personal property, heating water, or heating buildings or personal property. The exemption also applies to repair or replacement parts and to associated labor and services. The types of equipment covered by the exemption include boilers, wood waste storage facilities located at the plant, conveyers to transport the waste from storage to the boilers, and associated emissions control equipment.

Appropriation: None.

Fiscal Note: Requested on January 20, 2006.

Effective Date: The bill takes effect on July 1, 2006.

Testimony For: This is in part about tax fairness. One of the more important functions of the Legislature is to make the tax laws more fair.

Seattle Steam approached the Department of Revenue (Department) to find out whether it qualified as a manufacturer for the machinery and equipment exemption. The answer was no, that the Department said that steam is not tangible property and so the company was not a manufacturer. Then, in 2003, to conform to the Streamlined Sales and Use Tax Agreement, changes were made to the tax code to provide that steam was tangible personal property, but only with respect to retail sales taxes. The Department continued to insist however, that the business be classified as a service and not manufacturing.

Seattle Steam provides steam to three major hospitals and a number of hotels in the area. The idea behind the bill is to lower costs to customers. We maintain 18 miles of pipeline underneath Seattle. We have two state-of-the art production facilities. Our plan is to install a biofuel system that will reduce reliance on natural gas by about 60 percent. We will use discarded wood from land clearing, demolition sites, and others. This should significantly reduce carbon emissions.

Testimony Against: None.

Persons Testifying: Len McComb and Stanley Gent, Seattle Steam; and Rod Kauffman, Building Owners and Managers Association.

Persons Signed In To Testify But Not Testifying: None.