

HOUSE BILL REPORT

HB 3116

As Reported by House Committee On:
Finance

Title: An act relating to extending the sales and use tax exemptions related to machinery and equipment used in generating electricity to machinery and equipment used to produce electricity using certain organic materials and byproducts of pulping or wood manufacturing processes.

Brief Description: Extending the sales and use tax exemptions to machinery and equipment used to produce electricity using certain organic materials and byproducts of pulping or wood manufacturing processes.

Sponsors: Representatives Kessler, Orcutt, Ericks, Linville, Newhouse, Armstrong, Grant, VanDeWege, Williams, Pearson and Ormsby.

Brief History:

Committee Activity:

Finance: 2/5/08, 2/12/08 [DPS].

Brief Summary of Substitute Bill

- Provides a sales and use tax exemption for machinery and equipment used to generate electricity using biomass.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

Staff: Jeff Mitchell (786-7139).

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

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services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

A retail sales and use tax exemption applies to the sale or use of machinery and equipment (M&E) used directly in generating electricity from renewable sources. (The renewable energy M&E sales and use tax exemption.) The qualifying sources are fuel cells, wind, sunlight, and landfill gas. The exemption also applies to labor and services rendered in respect to the installation of eligible machinery and equipment. The generating facility must be capable of generating at least 200 watts of electricity. The exemption expires June 30, 2009.

Biomass is organic material made from plants and animals. Biomass is a renewable energy source. Some examples of biomass fuels are wood, crops, manure, and some garbage. When burned, the chemical energy in biomass is released as heat. This heat can be used to produce steam for making electricity, or to provide heat to industries and homes. Many manufacturing plants in the wood and paper products industry use wood waste to produce their own steam and electricity.

Summary of Substitute Bill:

Machinery and equipment used to generate electricity using biomass is exempt from sales and use tax. (This exemption is added as a new category in the existing renewable energy M&E sales and use tax exemption.) Biomass is defined as animal waste; food waste; solid organic fuels from wood, forest, or field residues; and byproducts of pulping or wood manufacturing processes such as bark, wood chips, and sawdust. The definition of biomass specifically excludes wood from harvesting old growth forests.

Substitute Bill Compared to Original Bill:

The 2009 expiration date in current law is restored.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2008.

Staff Summary of Public Testimony:

(In support) The tax treatment for machinery and equipment used to produce electricity using biomass should be treated uniformly with other forms of renewable energy that are currently exempt. This bill will help the environment because it takes debris and uses it to create

electricity. Many businesses that use biomass to generate electricity support high wage jobs. The electricity can be used locally. This bill is supported by the environmental community. This bill would encourage investment in generating electricity using biomass. The Bighorn Wind Energy project in Klickitat County created about 200 high paying construction jobs during the year of construction. The county will be getting more than \$800,000 in property tax revenue in its first year of operation. It takes many years to build wind projects; therefore, extending the expiration date for the exemption is important. This exemption has been highly successful at stimulating renewable energy development in the state. Wind power has already been very successful, but there is significant potential for biomass power generation. The fiscal note does not consider job creation, capital investment, increased property taxes, and rent payments to landowners with wind power facilities. A \$100 million investment in a biomass project is being contemplated in Tacoma. The construction activities will generate considerable revenue for the state and local governments. There is a sales tax exemption for machinery and equipment used in manufacturing goods and for machinery and equipment used to generate electricity using renewable energy sources, other than biomass. Other forms of renewable energy have significant government subsidies. This bill will help promote fossil fuel independence. Capital purchases can be prohibitive – this bill would help alleviate that.

(Opposed) None.

Persons Testifying: Representative Kessler, prime sponsor; Clifford Traisman, Renewable Northwest Project; Kevin Lynch, PPM Energy; Carrie Dolwick, Northwest Energy Coalition; Dave McEntee, Simpson Investment; Bill Stauffacher, Northwest Pulp and Paper Association; Ken Johnson, Puget Sound Energy; Marian Wineman, League of Women Voters of Washington; and Mark Martinez, Pierce County Building Trades.

Persons Signed In To Testify But Not Testifying: None.