

SENATE BILL REPORT

SB 5154

As Reported by Senate Committee On:
Energy, Environment & Telecommunications, February 5, 2013

Title: An act relating to exempting from business and occupation tax certain amounts received by cooperative finance organizations.

Brief Description: Exempting from business and occupation tax certain amounts received by cooperative finance organizations.

Sponsors: Senators Becker, Ranker, Schoesler, Carrell and Conway.

Brief History:

Committee Activity: Energy, Environment & Telecommunications: 1/31/13, 2/05/13 [DP-WM, DNP].

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Ericksen, Chair; Sheldon, Vice Chair; Brown, Chase, Cleveland, Honeyford, Litzow and Ranker, Ranking Member.

Minority Report: Do not pass.

Signed by Senator Billig.

Staff: William Bridges (786-7416)

Background: Business and Occupation Tax (B&O). The B&O tax is imposed on the gross receipts, income, or sales of a business operating in Washington. The tax rate varies depending on the classification of the business activity.

Rural Electric Cooperatives and Mutual Electric Utilities. Rural electric cooperatives and mutual electric utilities are nonprofit, member-owned electric utilities that provide retail electric service to their members. Electric cooperatives and mutuals in Washington are entitled to the same federal preference power as municipal utilities and public utility districts.

National Rural Utilities Cooperative Finance Corporation (CFC). The CFC was incorporated in 1969 as a member-owned, nonprofit, cooperative financing organization. It raises and loans funds to supplement the loan programs for electric cooperatives and mutuals offered by

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the federal Rural Utilities Service. According to the CFC, its outstanding loans and guarantees totaled \$20.2 billion as of May 31, 2012, for all cooperatives nationwide. And according to the Washington Rural Electric Cooperative Association, electric cooperatives in Washington have approximately \$160 million in outstanding loans with the CFC as of May 31, 2012.

Summary of Bill: Creating a B&O Exemption for Cooperative Finance Organizations. The B&O tax does not apply to amounts received by a cooperative finance organization where the amounts are derived from loans to rural electric cooperatives or other nonprofit or governmental providers of utility services organized under the laws of Washington.

Definitions. Cooperative finance organization means a nonprofit organization with the primary purpose of providing, securing, or otherwise arranging financing for rural electric cooperatives. Rural electric cooperative means a nonprofit, customer-owned organization that provides utility services to rural areas.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: Rural electric utilities provide an essential service in rural areas, and they need the affordable access to capital provided by the CFC. CFC is a nonprofit exempt from federal taxation, but Washington is one of three states that does not recognize the federally exempt status. CFC financed the emergency \$9 million replacement of a new submarine cable to Anderson Island. Because of the debt, Tanner Electric Cooperative members are paying some of the highest electricity rates in the state. The debt would be even higher if it were not for the CFC. The tax exemption does not benefit CFC; it benefits its member-owners who need the relief.

Persons Testifying: PRO: Senator Becker, prime sponsor; Grant Nelson, WA Rural Electric Cooperative Assn.; Steve Walter, Tanner Electric Cooperative.