

SENATE BILL REPORT

SB 6012

As Reported by Senate Committee On:
Ways & Means, April 18, 2019

Title: An act relating to promoting renewable energy through modifying tax incentives.

Brief Description: Promoting renewable energy through modifying tax incentives.

Sponsors: Senators Hawkins and Palumbo.

Brief History:

Committee Activity: Ways & Means: 4/18/19 [DPS, w/oRec].

Brief Summary of First Substitute Bill

- Adds water as a qualifying renewable energy source for purposes of the renewable energy sales and use tax exemption.
- Extends the expiration date for the program from 2020 to 2030.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6012 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Bailey, Becker, Billig, Carlyle, Darneille, Hunt, Palumbo, Pedersen, Rivers, Schoesler, Van De Wege, Wagoner, Warnick and Wilson, L..

Minority Report: That it be referred without recommendation.

Signed by Senators Conway, Hasegawa and Keiser.

Staff: Jeffrey Mitchell (786-7438)

Background: Sales and Use Taxes. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or

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services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

A renewable energy sales and use tax exemption is provided for machinery and equipment (M&E) used directly in generating electricity using fuel cells, wind, sun, biomass energy, tidal or wave energy, geothermal resources, or technology that converts otherwise lost energy from exhaust. The exemption also applies to labor and services to install the M&E. To qualify, the M&E must be capable of producing at least 1000 watts of electricity. The sales and use tax exemption is administered in the form of a remittance where the buyer initially pays sales and use tax and then applies to the Department of Revenue for a remittance of the taxes.

The remittance amount is 75 percent of the state and local sales and use taxes paid on M&E and qualifying labor and services.

The sales and use tax exemption program expires on January 1, 2020.

Tax Preferences. State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a tax preference performance statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill (First Substitute): Water is added as an eligible renewable energy source for purposes of the sales and use tax exemption. M&E and qualifying labor and services, purchased for the purpose of generating electricity using water, would qualify for the sales and use tax exemption.

The January 1, 2020, expiration date is extended to January 1, 2030.

JLARC is not required to conduct a tax preference review.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Allows the sales and use tax exemption for replacement parts for hydroelectric facilities only if the replacement parts increase the electricity output of the facility.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: This is a bill about a fundamental issue of fairness and equal tax treatment. Our state prides itself in being a leader in clean energy and we extend tax preferences to everything but hydro power. This bill enhances the reliability of the system and creates a significant amount of jobs. It puts a lot of people to work and a lot of food on the table and creates a lot of economic benefits. Washington State's successful transition to 100 percent clean energy will require continued investments in hydro-power assets to ensure our electricity portfolio can build on its hydro power foundation and continue to depend upon the special attributes of hydro power that are needed to balance intermittent renewable resources and store energy. To maintain these assets, the utility must make renewed investments in necessary machinery and equipment. The tax relief that this bill would provide will ease the financial burden for many of our customers. Furthermore, these investments support family wage jobs. As an example, our plant recently invested about \$28 million dollars in an efficiency upgrade at the Cushman project located in Mason County. A total of 257 workers were employed from a wide spectrum of trades, including electricians, iron workers, plumbers, general laborers, pipefitters, and carpenters. Hydropower is a legacy renewable resource that supports many high paying careers across the state. Those careers, in turn, support the local economy. These facilities are in desperate need of constant maintenance, repair, and upgrades in order to continue to provide this low cost, carbon free power. This bill is about tax parity. I am frequently asked why hydropower is not considered a renewable resource under our state tax policy. Our state's low carbon goals are going to be achieved with significant help from hydropower. Hydropower is the premier generating source for reliability. This tax exemption can help the rural economies of the state.

Persons Testifying: PRO: Sean Bagsby, International Brotherhood of Electrical Workers Local 77; Clay Norris, Tacoma Public Utilities, Tacoma Power; George Caan, Washington PUD Association; Steve Wright, General Manager, Chelan PUD; John Rothlin, Avista; Gary Huhta, Cowlitz PUD.

Persons Signed In To Testify But Not Testifying: No one.