

HOUSE BILL REPORT

HB 2675

As Reported by House Committee On:
Technology, Telecommunications & Energy
Finance

Title: An act relating to electric utility tax credits.

Brief Description: Modifying electric utility tax credit provisions.

Sponsors: Representatives McMorris, Morris, Bush and Crouse.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 1/23/04, 2/4/04 [DPS];
Finance: 2/9/04, 2/10/04 [DPS(TTE)].

Brief Summary of Substitute Bill

- Extends expiration date of tax credit from December 31, 2005, to June 30, 2011.
- Changes period over which contributions are measured for purposes of determining the amount of tax credit allowed from a calendar year to any fiscal year.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 17 members: Representatives Morris, Chair; Ruderman, Vice Chair; Sullivan, Vice Chair; Crouse, Ranking Minority Member; Nixon, Assistant Ranking Minority Member; Anderson, Blake, Bush, Delvin, Hudgins, Kirby, McMahan, McMorris, Romero, Tom, Wallace and Wood.

Staff: Kiki Keizer (786-7109).

Background:

In 1999, the Legislature passed a law creating a number of tax incentives in rural counties. One of the incentives created a tax credit for light and power businesses that contribute to an electric utility rural economic development revolving fund.

In order to receive the tax credit, a light and power business must set up an electric utility rural economic development revolving fund that is devoted exclusively to funding projects, in qualifying rural areas, that are designed to achieve job creation or business retention; to add or

upgrade nonelectrical infrastructure, health and safety facilities, or emergency services; or to make energy and water use efficiency improvements, including renewable energy development. An electric utility rural economic development revolving fund must be governed by a board that meets certain statutory requirements.

Under current law, a qualifying rural area is defined as either: (1) a rural county, which is a county with a population density of less than 100 persons per square mile (as determined by the office of financial management and published each year for the period July 1 to June 30); or (2) any geographic area in the state that receives electricity from a light and power business with 12,000 or fewer customers and with fewer than 26 meters per mile of distribution line (as determined and published by the Department of Revenue (Department) effective July 1 of each year). The Department shall use current data provided by the electricity industry.

The Legislature stated that its intent in creating this tax credit was to complement rural economic development efforts by creating a public utility tax offset program to help establish locally based electric utility revolving fund programs to be used for economic development and job creation.

Under the law, the tax credit is equal to 50 percent of the contribution and is limited to \$25,000 per business annually. Total tax credits under the law are limited to \$350,000 annually. The ability to earn the tax credit expires December 31, 2005.

Summary of Substitute Bill:

The expiration date of a tax credit for contributions to an electric utility rural economic development revolving fund is extended from December 31, 2005, to June 30, 2011. The period over which contributions are measured for purposes of determining the amount of tax credit allowed from a calendar year to any fiscal year. A benchmark for measuring whether the tax credit has been effective in encouraging rural economic development is established at \$4.75 million in capital investment over a five year period.

Substitute Bill Compared to Original Bill:

A benchmark for measuring whether the tax credit has been effective in encouraging rural economic development is established at \$4.75 million in capital investment over a five year period. The provision pertaining to the transition period created by changing from a calendar year to a fiscal year basis is modified.

Appropriation: None.

Fiscal Note: Requested on February 5, 2004.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2004.

Testimony For: The tax credit is an important source of funding for economic development, rural infrastructure, and job creation in rural areas. Changing the measuring period over which contributions are made to a fiscal year simplifies the Department of Revenue's administration of the law.

Testimony Against: None.

Persons Testifying: Representative McMorris, prime sponsor; Anne Solwick, Washington State Department of Revenue; Tony Usibelli, CTED; Dave Clinton, WRECA; Dave Warren, Washington PUD Association; Victoria Lincoln, Association of Washington Cities; and Brian Shay, City of McCleary.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Technology, Telecommunications & Energy be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

Staff: Mark Matteson (786-7145).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology, Telecommunications & Energy:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available. Requested for substitute on February 5, 2004.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2004.

Testimony For: (In support) This started out as a simple request to extend the program beyond its current termination date in 2005. As we started working on this, we found a number of changes that would help streamline things. We are really proud of this program. The benefit does not go to the utilities, but rather to the people of this state. The utilities are required to provide a match to the portion of the contribution that earns a credit. Accountability standards have been added, which we think are reasonable. This is a grass roots program that encourages rural investment.

(Neutral) The utilities that take advantage of this have suggested streamlining the administrative requirements. There has been confusion over the individual taxpayer limitations, which are on a calendar year basis, and the statewide limitation, which is on a fiscal year basis. We have recommended language that puts the entire basis for this on a fiscal year basis.

Testimony Against: None.

Persons Testifying: (In support) Dave Clinton, Washington Rural Electric Cooperative Association.

(Neutral) Jim Thomas, Department of Revenue.

Persons Signed In To Testify But Not Testifying: Dave Warren, Washington Public Utility Districts Association.