

SENATE BILL REPORT

SB 6132

As Reported By Senate Committee On:
Natural Resources, Energy & Water, January 21, 2004
Ways & Means, February 23, 2004

Title: An act relating to providing incentives to support the renewable energy industry in Washington state.

Brief Description: Providing tax incentives for solar energy systems.

Sponsors: Senators Morton, Poulsen, Rasmussen, Kline, Mulliken, Winsley, Schmidt, Esser, Roach, Kohl-Welles and Benton.

Brief History:

Committee Activity: Natural Resources, Energy & Water: 1/16/04, 1/21/04 [DPS-WM].
Ways & Means: 2/3/04, 2/23/04 [DPS (NR)].

SENATE COMMITTEE ON NATURAL RESOURCES, ENERGY & WATER

Majority Report: That Substitute Senate Bill No. 6132 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Morton, Chair; Hewitt, Vice Chair; Doumit, Fraser, Hargrove, Honeyford, Oke and Regala.

Staff: Andrea McNamara (786-7483)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6132 as recommended by Committee on Natural Resources, Energy & Water be substituted therefor, and the substitute bill do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Fairley, Fraser, Hale, Honeyford, Johnson, Pflug, Prentice, Rasmussen, Regala, Roach, Sheahan, B. Sheldon and Winsley.

Staff: Catherine Suter (786-7442)

Background: A recent report by the Washington State University Energy Program concluded that while the solar electric industry is rapidly developing in both the domestic and global markets, solar electric corporations are leaving the state. It further concluded that the dramatic growth experienced by Washington's solar electric market cannot be maintained without further incentives that recognize the unique forces and issues involved in the solar industry.

Most manufacturing businesses in the state pay the general manufacturing business and occupation (B&O) tax of 0.484 percent times the value of their product. Special B&O tax classifications and rates have been enacted by the Legislature to address specialized

situations, such as the semiconductor manufacturer classification enacted in 2003 to create incentives for the semiconductor industry.

Many manufacturing businesses are eligible for a sales and use tax exemption that exempts all machinery and equipment used in manufacturing, and installation labor, from the sales and use tax.

Current law also provides additional tax incentives for certain businesses that locate in rural counties with fewer than 100 people per square mile, including the following that apply to manufacturing businesses:

- a sales and use tax exemption on buildings and equipment used in manufacturing;
- a 20 percent B&O tax credit for job training up to \$5,000 per year; and
- a B&O tax credit for new manufacturing, research and development, or computer service jobs: \$2,000 for jobs paying less than \$40,000 per year and \$4,000 for jobs paying at least \$40,000.

Summary of Substitute Bill: The B&O tax for businesses manufacturing solar modules is set at a rate equal to the value of the product multiplied by 0.275 percent. Additionally, if the manufacturer locates in a county with an unemployment rate of greater than 12 percent on the effective date of this act, that business is exempt from the new lower B&O tax rate. These two provisions expire on June 30, 2013.

The following additional tax incentives are provided for solar module manufacturers that locate in counties with greater than 12 percent unemployment, and maintain at least 75 percent full employment at a new building for eight years:

- a sales tax exemption for labor, services, and sales of tangible personal property related to the construction of new buildings used for manufacturing solar modules;
- a B&O tax job credit of \$3,000 for each full-time manufacturing production position that takes place in a new building exempt from sales and use tax under this act; and
- a property tax exemption on the machinery and equipment used in manufacturing solar modules located at a building exempt from sales and use tax under this bill.

No application for any of the tax incentives is necessary, except for the property tax exemption which must be filed with the appropriate county assessor. Businesses claiming exemptions or credits under this program must file annual reports with the Department of Revenue detailing employment, wages, and health and retirement benefits.

Reports must be made by the Joint Legislative Audit and Review Committee to the Legislature in November of 2009 and 2012, on the effectiveness of this measure in accomplishing its goals of keeping the state competitive.

Substitute Bill Compared to Original Bill: The substitute makes a technical correction, adding a missing word.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For (Natural Resources, Energy & Water): This bill will help capture the remaining elements of the solar energy "value chain" in which the state is not currently active. The state's proximity to the markets for inputs and end-use products can provide a competitive edge for manufacturers locating here. The solar energy industry has enormous potential but still needs incentives to reduce the up-front costs and payback time. Ferry County has spent considerable effort to prepare for a PV module manufacturing plant. A site has been located; negotiations are underway for the purchase of the site; and a plant can be operational by the fall if this bill passes. Although 15 new jobs may not sound like a lot, it would have a huge impact on the Ferry Co. economy. Growing the solar electric market in Washington will have many indirect benefits to the state as well.

Testimony Against (Natural Resources, Energy & Water): None.

Testified (Natural Resources, Energy & Water): Gary Shaver (pro); Mike Nelson, Jake Fey, WSU (pro); Jim White, Chelan County PUD (pro); Bruce Carter, Shell Solar (pro); Jeff Collum, Sound Power, Inc. (pro); William Ovitt, Xantrex (pro); Jerry Graser, FWE Schott Solar (pro); Steve Lindstrom, Danielle Dixon, NW Energy Coalition (pro); Janet Lewis, Dick King IBEW Local 46 (pro w/amendment); Ron Bacon, Ferry County (pro); Pam Kelley, PK Consulting (pro); John Friederichs, Ferry County PUD (pro); Milton Chambers, Republic Project Development Authority (pro); Gregg Caudell, Ferry County PUD (pro); Betty Buckley, Republic PDAC (pro); Scott Allison, Solar Washington (pro); Toni Potter, League of Women Voters of WA (pro); Dave Warren, WA PUD Assn. (pro); Chris Herman, Solar WA Assn., Winter Sun Design (pro); Jeremy Smithson, Pamela Burton, Solar Washington, Puget Sound Solar (pro); Solar Richard (pro); Ed Kennell, Clean Energy Products (pro); Eric Youngren, Rainshadow Solar (pro); Brian Ugi, IBEW/NECA (pro); John Molitor, Grant County PUD (pro).

Testimony For (Ways & Means): A particular company manufacturing solar photovoltaic modules is likely to site in Ferry County if this bill passes, providing 15 new jobs immediately. After that first shift of 15 jobs, the production would expand to fill other shifts, creating 45 jobs in all. This is a huge number for the population, and economy, of Ferry County, and this would move the state forward in terms of economic depression and advanced energy technology.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): PRO: Senator Bob Morton, 7th District, prime sponsor; Jeremy Smithson, Puget Sound Solar; Betty Buckley, Republic PDA; Gregg Cawdell, Ferry County PUD; Steve Lindstrom, NW Energy Coalition.