

# SENATE BILL REPORT

## SB 6369

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As Reported By Senate Committee On:  
Ways & Means, January 30, 2006

**Title:** An act relating to excise tax exemptions for water services provided by small water systems.

**Brief Description:** Providing excise tax exemptions for water services provided by small water systems.

**Sponsors:** Senators Haugen, Mulliken and Rasmussen.

**Brief History:**

**Committee Activity:** Ways & Means: 1/25/06, 1/30/06 [DPS].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6369 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair, Operating Budget; Brandland, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

**Staff:** Dean Carlson (786-7305)

**Background:** Public and privately-owned utilities, including water distribution businesses, are subject to the state public utility tax (PUT). The PUT is applied to the gross receipts of the business. For water distribution businesses, the applicable tax rate is 5.029 percent. Water distribution revenues are deposited as follows: 81.3 percent to the general fund and 18.7 percent to the public works assistance account.

The business and occupation (B&O) tax is Washington State's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Firms that provide services are generally taxed at a rate of 1.5 percent.

Neither the PUT nor the B&O tax permits deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, a number of exemptions, credits, deductions, and other preferences have been enacted for specific types of business activities under the PUT and B&O tax statutes. For example, an exemption exists for public utilities for which the gross income is \$2,000 per month or less. Many small water systems qualify for this exemption.

In 1997, the Legislature enacted legislation that exempted certain businesses from paying public utility and B&O taxes on amounts received for water services. The legislation, which was further amended in 1998, applied to:

- 1) Water-sewer districts and irrigation districts that:
  - a. Serve fewer than 1,500 connections, and
  - b. Charge a residential water rate exceeding 125 percent of the average statewide water rate; and
- 2) Water systems owned or operated by a satellite system management agency that:
  - a. Serve fewer than 200 connections, and
  - b. Charge a residential water rate exceeding 125 percent of the average statewide water rate.

A water system or irrigation district claiming one of these tax exemptions was required to supply proof to the Department of Revenue (DOR) that at least 90 percent of the value of the tax exemptions would be used to repair, equip, upgrade, or maintain the system. The tax exemptions expired on July 1, 2004.

**Summary of Substitute Bill:** A public utility tax and B&O tax exemption is provided for:

- 1) Water-sewer districts, public utility districts, and irrigation districts that:
  - a. Serve fewer than 1,500 connections, and
  - b. Charge a residential water rate exceeding 125 percent of the average statewide water rate; and
- 2) Water systems owned or operated by a satellite system management agency that:
  - a. Serve fewer than 200 connections, and
  - b. Charge a residential water rate exceeding 125 percent of the average statewide water rate.

A water system or irrigation district claiming one of these tax exemptions was required to supply proof to the Department of Revenue (DOR) that at least 90 percent of the value of the tax exemptions would be used to repair, equip, upgrade, or maintain the system.

Goals are provided for the exemption program: To provide assistance to small public water systems that are most in need in order to make necessary repairs, and to allow these systems to comply with state and federal mandates associated with clean drinking water.

Water services providers that participate in the exemption program are required to submit a report to the DOR annually. The report must detail the specific capital improvements that were made using the tax savings attributable to the exemptions. The report content is not subject to confidentiality requirements and may be disclosed to the public. During any year, if a business fails to submit a report, all tax savings attributable to the exemptions for the year are due.

The fiscal committees of the Legislature are required to report to the Legislature on the effectiveness of the exemptions by December 2010.

**Substitute Bill Compared to Original Bill:** Technical corrections were made to make the bill clearer.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** If we don't have to pay the state the B&O and Public Utility Tax we can pump the money back in the systems. Our district has six separate small systems in which we have done over \$500,000 in capital improvements and we are now required to put in water quality treatments for arsenic. We were benefactors of the previous exemption and we used it. This bill is carefully crafted and makes sure you have to have high water rates. The project in our district that was most noticed and appreciated by ratepayers came as a result of the previous exemption. Keeping up with the codes are expensive and for some are economically impossible.

**Testimony Against:** None.

**Who Testified:** PRO: Joe Daniels, Washington Association of Sewer and Water Districts; Mike Helland, Clinton Water District; Maury Hood, Clinton Water District Commissioner; Betty Vance, Valley Water District; Dean Thiem, Penn Cover Water and Sewer District; Bill Stauffacher, Washington Public Utilities Districts.