

# HOUSE BILL REPORT

## HB 1466

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**As Reported by House Committee On:**  
Technology & Economic Development

**Title:** An act relating to extending the expiration date of the public utility tax exemption for certain electrolytic processing businesses.

**Brief Description:** Extending the expiration date of the public utility tax exemption for certain electrolytic processing businesses.

**Sponsors:** Representatives Blake, J. Walsh, Morris, Dent and Manweller.

**Brief History:**

**Committee Activity:**

Technology & Economic Development: 2/2/17, 3/9/17 [DPS].

**Brief Summary of Substitute Bill**

- Extends the expiration date of the public utility tax exemption for certain electrolytic processing businesses from June 30, 2019, to July 1, 2029.

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### HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 17 members: Representatives Morris, Chair; Kloba, Vice Chair; Tarleton, Vice Chair; Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Doglio, Fey, Harmsworth, Hudgins, Manweller, McDonald, Nealey, Santos, Slatter, Steele, Wylie and Young.

**Staff:** Kirsten Lee (786-7133).

**Background:**

Public Utility Tax.

The public utility tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of electricity, natural gas, and water. The tax is paid on gross income derived from the operation of public and privately

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owned utilities in lieu of the business and occupation tax. For electric utilities, the applicable tax rate is 3.873 percent. Most of the tax revenue is deposited in the State General Fund. The remaining revenue provides financial assistance to local governments for maintenance of public works facilities.

The PUT does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are several deductions and credits for specific types of business activities, including sales of electricity to direct service industrial businesses.

#### Public Utility Tax Exemption for Certain Electrolytic Processes.

Income from the sales of electricity by a utility to a chlor-alkali electrolytic or a sodium chlorate electrolytic processing business is exempt from the PUT if the sales contract between the utility and the chemical business contains the following terms:

1. The electricity used in the chemical processing is separately metered from the electricity used in the general operation of the business.
2. The price charged for the electricity used in the electrolytic process must be reduced by an amount equal to the tax exemption available to the light and power business.
3. If the tax exemption is disallowed, the chlor-alkali electrolytic or sodium chlorate electrolytic processing business must pay the amount of the disallowed exemption to the utility.

The exemption does not apply to amounts received from the remarketing or resale of electricity originally obtained by contract for the electrolytic process.

To claim an exemption, the chlor-alkali electrolytic or sodium chlorate electrolytic processing business must provide the utility with an exemption certificate in a form and manner prescribed by the Department of Revenue (DOR). Businesses that claim the PUT exemption must report annually to the DOR details of employment, wages, and benefits per job (excluding individual employee identification). The report must also include the quantity of product produced. The first report must include employment, wage, and benefit information covering the calendar year preceding the effective date of the incentives. The report content is not subject to statutory confidentiality requirements. During any year, if a business fails to submit a report, tax savings attributable to the incentives for the year are due.

#### Expiration of the Public Utility Tax Preference for Certain Electrolytic Processes.

The PUT exemption expires on July 1, 2019. The PUT exemption does not apply to the sales of electricity by a utility to chlor-alkali electrolytic or a sodium chlorate electrolytic processing business after December 31, 2018.

#### Tax Preference Performance Statement.

All new tax preference legislation must include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference,

and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

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### **Summary of Substitute Bill:**

#### Expiration of the Public Utility Tax Preference for Certain Electrolytic Processes.

The expiration date for the existing PUT exemption for chlor-alkali electrolytic and sodium chlorate electrolytic processing businesses is extended from July 1, 2019, to July 1, 2029. The extended PUT exemption does not apply to the sales of electricity by a utility to a chlor-alkali electrolytic or sodium chlorate electrolytic processing business made after December 31, 2028, instead of December 31, 2018.

#### Tax Preference Performance Statement.

A tax preference performance statement provides that the goals of the tax incentive are to maintain industry competitiveness for electrolytic processing businesses that rely on electricity as a primary manufacturing input and to retain family-wage jobs in Washington. To measure the effectiveness of the tax preference, the JLARC must evaluate the impact of the tax preference on electricity costs, determine whether electrolytic processing businesses in the state receive tax treatment similar to the treatment of competing firms in other states, and analyze the number of employees in family-wage jobs employed in electrolytic processing in Washington. The JLARC may refer to data available from the Department of Revenue and Employment Security Department to perform the review. The Legislature intends to extend the expiration date of the tax exemption if electricity costs are reduced and the electrolytic processing businesses receive similar tax treatment as provided in other states, or if the number of electrolytic processing jobs in Washington has been preserved at certain levels.

### **Substitute Bill Compared to Original Bill:**

The substitute makes changes and updates to the tax preference performance statement, including:

- separating metrics for measuring industry competitiveness and family-wage jobs;
- updating the measure of family-wage jobs;
- changing the Legislature's intent to extend the tax preference if either competitiveness or preservation of current family-wage jobs levels occur; and
- defining "family-wage jobs."

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This tax preference is a good tax preference. It has benefited electrolytic processing businesses in the state by keeping electrolytic processing facilities open and competitive, and helping to retain and create jobs. Given that this tax preference was one of the first to include performance metrics, there is data to show that the tax preference has accomplished the intended goals. There are two electrolytic processing facilities in Washington, AkzoNobel in Moses Lake and Axiall Longview in Longview. Both businesses use electricity as a raw material during the electrolytic process, which costs at least one business approximately 50 percent of its operating budget. The businesses have competitors in the United States and internationally that receive tax preferences. This tax preference allows the electrolytic businesses in this state to remain competitive by reducing their electricity costs and enabling them to continue to retain and create jobs. AkzoNobel has consistently employed 35 to 40 employees since 1990, paying on average three times the average pay in its county, with little turnover. Axiall Longview provides 62 family-wage jobs.

(Opposed) None.

**Persons Testifying:** Representative Walsh; Tim Boyd, AkzoNobel and Axiall Longview; Pat Ealy, AkzoNobel; and Tim Root, Axiall Longview.

**Persons Signed In To Testify But Not Testifying:** None.