

HOUSE BILL REPORT

HB 1018

As Passed Legislature

Title: An act relating to changing the expiration date for the sales and use tax exemption of hog fuel to comply with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

Brief Description: Changing the expiration date for the sales and use tax exemption of hog fuel to comply with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

Sponsors: Representatives Tharinger, Chapman, Orcutt, Abbarno, Fey, Ryu and Wylie.

Brief History:

Committee Activity:

Finance: 1/10/23, 1/19/23 [DP].

Floor Activity:

Passed House: 3/16/23, 96-0.

Passed Senate: 4/19/23, 37-12.

Passed Legislature.

Brief Summary of Bill

- Extends the sales and use tax exemption for hog fuel from June 30, 2024, to June 30, 2034.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 13 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Thai, Walen and Wylie.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Kristina King (786-7190).

Background:

Sales and Use Tax.

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 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 4.0 percent, depending on the location.

Hog Fuel Tax Exemption.

Hog fuel used to produce electricity, steam, heat, or biofuel is exempt from sales and use tax. Taxpayers claiming the exemption must complete an annual tax performance report for each facility owned or operated in the state providing information regarding employment, wage, and taxpayer savings. If a taxpayer claiming the exemption closes a facility in the state, resulting in a loss of jobs, the amount of the tax exempted for the previous two calendar years is due immediately. The hog fuel sales and use tax exemption expires June 30, 2024.

"Hog fuel" is defined as wood waste and other wood residuals, including forest derived biomass and excluding firewood or wood pellets.

"Biofuel" means a liquid or gaseous fuel derived from organic matter intended for use as a transportation fuel including, biodiesel, renewable diesel, ethanol, renewable natural gas, and renewable propane.

Tax Preference Performance Statement.

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 can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

The sales and use tax exemption for hog fuel, including the requirement to continue completing an annual tax performance report for each facility owned or operated in the

state, is extended to June 30, 2034.

A tax preference performance statement is included, stating the Legislature's intent to increase the ability of taxpayers claiming the sales and use tax exemption to provide at least 75 percent of their employees with medical and dental insurance and retirement plans.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The hog fuel sales and use tax exemption is extremely important to districts with mills that now use hog fuel to generate clean energy. Hog fuel powers mills and provides over 6,000 Washington workers with mainly union jobs that provide a living wage as well as benefits. These mills employ people mainly from rural and economically depressed communities. This is a crucial benefit for mills who are navigating a struggling economy, ongoing supply chain issues, and increasing regulatory costs. Biomass generators are a key piece of a diverse energy portfolio for energy companies. They help provide grid reliability, a reliable energy source, and affordable rates for consumers.

Hog fuel is renewable and produced sustainably. In the past hog fuel was burned or landfilled which introduced methane and other gases into the air. By using it in the modern style burners it produces very little particulate matter and relatively clean carbon-neutral power. The hog fuel exemption decreases transportation costs for producers and encourages hog fuel's use for clean energy.

(Opposed) The Legislature cannot mandate wages and benefits for union jobs. The corporations that receive this exemption are large producers of carbon emissions and have high net profits and should not be benefitting from taxpayer funds.

(Other) The definition of biomass is too broad, and the bill does not stipulate that whole trees cannot be used. There is science that would indicate some logging operations are not sustainable. The Legislature should take this into consideration when renewing tax exemptions like these. The characterization of fossil fuel free does not mean the same thing as carbon neutral, as fossil fuels are used to burn the hog fuel. Many of these trees are being shipped overseas and are not being used in the United States.

Persons Testifying: (In support) Jackie White, Northwest Pulp and Paper Association; John Ehrenreich, Washington Forest Protection Association; Christine Brewer, The Avista Corporation; and Representative Mike Chapman.

(Opposed) John Roskelley.

(Other) Sherri Dysart, League of Women Voters of Washington; and Ed Chadd.

Persons Signed In To Testify But Not Testifying: None.