

Proposed Substitute HB 2421

Bill Analysis

January 22, 1998

Brief Description: Prescribing the taxation of municipal electrical utilities.

Bill Sponsors: Representative Morris

Staff: Linda Brooks, 786-7153

Background: Five types of electrical businesses or utilities operate in Washington:

- Investor-owned utilities;
- Power mutuals;
- Rural electric cooperatives;
- Public utility districts; and
- Municipal light and power businesses.

Investor-owned utilities, power mutuals, and rural electric cooperatives pay property taxes. On the other hand, public utility districts (PUDs) and municipal light and power businesses are publicly-owned. The Constitution exempts publicly-owned properties from taxation. In lieu of property taxes, the PUDs pay state privilege taxes.

The state PUD privilege tax actually consists of two parts: a generation tax and a distribution tax. Including surtaxes, the PUD privilege tax rates are as follows:

Generation Tax:* \$0.000214 tax per kWh of electricity generated at facilities owned by a PUD; and

Distribution Tax: 2.14 percent tax on a PUD's gross receipts that are derived from the retail sale of electricity distributed to consumers through the PUD's own power distribution system.

*(*There is a different tax rate for electricity generated at the Hanford nuclear plant.)*

Forty-four percent of the revenues from both the generation and distribution taxes are deposited into the general fund, and most of this general fund money is to be used for public

schools. The remaining 56 percent of the revenues from the generation tax are sent to the county or counties where the generating facilities are *located*. The remaining 56 percent of the revenues from the distribution tax are sent to the county or counties where the electricity was *distributed* to consumers. Counties are required to share revenues from the distribution tax with other taxing districts. If power is distributed within a city or town, then counties must remit an amount equal to, or greater than, 0.75 percent of the gross revenue derived by the PUD from the sale of electricity within the city.

Of the five types of electrical utilities, only municipal light and power businesses pay neither property taxes nor taxes in lieu of property taxes. Municipal light and power businesses do make, however, some voluntary or required payments to counties and to school districts. Tacoma City Light indicates that it pays about \$1 million per year in voluntary or required payments. Seattle City Light indicates that it pays about \$1.3 million per year in voluntary or required payments.

Summary of Bill: Municipal light and power businesses are required to pay the following taxes:

Generation Tax: 2.00 percent tax on the wholesale value of electricity generated at facilities located outside of the corporate limits of the city or town owning the municipal light and power business; and

Distribution Tax: 2.14 percent tax on a municipal light and power business's gross receipts that are derived from the retail sale of electricity distributed to consumers through the municipal light and power business's own power distribution system. This distribution tax only applies if the municipal light and power business:

- (1) Sells electricity at wholesale; or
- (2) Sells electricity to consumers who are served by an electrical distribution system owned by another utility.

A sale at wholesale means a sale to a person who purchases for the purposes of resale, but does not include energy exchanges. Energy exchanges involve one electrical business providing electricity, or the rights thereto, to another electrical business. These exchanges are made in return for equivalent rights or amounts of electricity.

Forty-four percent of the revenues from both the generation and distribution taxes are deposited directly into the state's common school construction fund. The remaining 56 percent of the revenues from the generation tax are sent to the county or counties where the generating facilities are *located*. The remaining 56 percent of the revenues from the distribution tax are sent to the county or counties where the electricity was *distributed* to consumers. Counties are required to share revenues from the distribution tax with other taxing districts in the same manner as they share property taxes.

Because the cities and towns that own the municipal light and power businesses distribute electricity to their own citizens, the owner city and towns share in the distribution tax revenues. If a municipal light and power business provides electricity to neighboring cities or county unincorporated areas, then these neighboring cities and county unincorporated areas also share in the distribution tax revenues.

Substitute Compared to Original: Only municipal light and power businesses that sell electricity at wholesale or to consumers who are served by an electrical distribution system owned by another light and power business must pay the distribution tax.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: July 1, 1998.