

HB 2711

Bill Analysis

January 27, 1998

Brief Description: Providing tax exemptions for small irrigation districts and systems.

Bill Sponsors: Representatives Parlette, Chandler, Mulliken and Sump.

Staff: Linda Brooks, 786-7153.

Background: According to a 1994 report by the Department of Health, Washington has over 14,000 water systems. About 200 of these systems serve over 85 percent of the state's population. In contrast, 10,000 of the state's water systems serve only 2 percent of the state's population.

All water systems serving at least 25 persons or 15 connections must meet federal Safe Drinking Water Act requirements. The Safe Drinking Water Act requires water testing for more than 100 different types of contaminants. If tests indicate the presence of contaminants, then additional testing, treatment and system upgrades may be required. A water system using surface water as its source must also filter the water. Fulfilling water testing, filtration, and treatment obligations imposes costs on water systems. The cost per customer in meeting these obligations can be high for small systems, since small systems must spread costs over a smaller customer base and cannot realize economies of scale.

In Washington, certain types of businesses are subject to the public utility tax instead of the business and occupation (B&O) tax. Like the B&O tax, the public utility tax is applied to the gross receipts of the business. The principal difference between the B&O tax and the public utility tax is rates. Water distribution businesses pay a public utility tax of 5.029 percent on gross receipts. A 1.75 percent B&O tax rate applies to non-utility services, and this rate lowers to 1.50 percent on July 1, 1998.

A business exempted from the public utility tax automatically becomes subject to the B&O tax. If the intent is to exempt a business from both public utility and B&O taxes, then separate public utility and B&O tax exemptions must be created.

Last session the Legislature exempted the following businesses from paying public utility and B&O taxes on amounts received for water services by:

- Water-sewer districts that:
 - (1) Serve fewer than 1,500 connections; and
 - (2) Charge a residential water rate exceeding 125 percent of the average statewide water rate.

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

A water system claiming these tax exemptions must prove to the Department of Health that at least 90 percent of the value of the tax exemptions has been used to repair, equip, upgrade, or maintain the system.

To determine which water-sewer districts and water systems are eligible for the exemptions, the Department of Health estimates a statewide residential water rate by July 1 of each year using various reports and surveys produced by the Association of Washington Cities and other municipal associations.

These exemptions expire on July 1, 2003. Drinking water systems operated by cities, towns, public utility districts, or irrigation districts do not qualify for the exemptions.

Irrigation districts provide water for irrigation, but some irrigation districts also operate drinking water systems. Irrigation districts do not pay public utility nor B&O taxes on their gross receipts earned from providing irrigation water. Irrigation districts are required, however, to pay public utility tax on the amounts earned from providing drinking water.

Summary of Bill: Public utility and B&O taxes do not apply to gross receipts generated on sales of water services by irrigation districts that:

- (1) Serve fewer than 1,500 connections; and

- (2) Charge a residential water rate exceeding 125 percent of the average statewide water rate.

An irrigation district claiming these tax exemptions must prove to the Department of Health that at least 90 percent of the value of the tax exemptions has been used to repair, equip, upgrade, or maintain the system.

To determine which irrigation districts are eligible for the exemptions, the Department of Health estimates a statewide residential water rate by July 1 of each year using various reports and surveys produced by the Association of Washington Cities and other municipal associations.

These exemptions for irrigation districts expire on July 1, 2004.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.