

FINAL BILL REPORT

SHB 1592

C 407 L 97

Synopsis as Enacted

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

Sponsors: By House Committee on Finance (originally sponsored by Representatives Bush, Kastama, Mulliken, Regala, K. Schmidt, McDonald, Lantz, Robertson, Chandler, Poulsen, Talcott, Backlund, McMorris, Thompson, O'Brien, Linville, Dunn and Sheldon).

House Committee on Finance
Senate Committee on Ways & Means

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. Most small water systems are privately owned.

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, the Department of Health enforces federal and state safe drinking water standards. In 1993, the department formed a "Drinking Water 2000" task force to review the state's drinking water program. In response to the task force's report, legislation was enacted in 1995 that, among other provisions, established a water supply advisory committee and a new drinking water assistance account and requires certified operators for some water systems and the use of a satellite system management agency whenever possible.

The Department of Health is responsible for certifying a satellite management agency (SMA) as qualified to assume operation and/or ownership of an existing or proposed water system. To obtain certification, a SMA must demonstrate financial integrity and operational competence. Satellite system management agencies may operate one

or more systems. The Department of Health has set a goal of having at least one SMA in each county but that goal has not been attained.

To finance capital improvements to water systems, local governments have been able to borrow from the state's Public Works Trust Fund. The Legislature also created a drinking water assistance account in 1995 to receive federal funds made available for safe drinking water. Congress has recently appropriated money for a new state revolving loan fund program to finance water system improvements, and an appendix to a 1996 report on drinking water by the Department of Health indicates that privately-owned water systems should be eligible to receive funding of financial assistance through the new revolving loan program for the benefit of consumers. The appendix also indicates, however, a need to explore how state assistance could be provided to private systems in a manner consistent with the state's laws.

In Washington, public and privately owned utilities, and certain other 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 1.50 percent B&O tax rate applies to non-utility services.

A public utility business exempted from public utility tax becomes subject to the B&O tax.

Summary: Until July 1, 2003, public utility tax and B&O tax do not apply to gross receipts generated on sales of water services for the following businesses:

- 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 will estimate a statewide average residential water rate by July 1 of each year. The Department of Health may use rate

information provided in surveys and reports produced by the Association of Washington Cities, an association of elected officials, or other municipal associations to estimate a statewide average residential rate.

Votes on Final Passage:

House 93 0

Senate 47 0 (Senate amended)

House 97 0 (House concurred)

Effective: July 27, 1997