

HB 2421

Bill Analysis

January 22, 1998

Brief Description: Prescribing the taxation of municipal electrical utilities.

Bill Sponsors: Representatives Morris, Gardner, Linville and Eickmeyer.

Staff: Linda Brooks, 786-7153

Background: Five types of electrical 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 is 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 is sent to the county or counties where the generating facilities are *located*. The remaining 56 percent of the revenues from the distribution tax is 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 businesses 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.

Forty-four percent of the revenues from both the generation and distribution taxes is deposited directly into the state's common school construction fund. The remaining 56 percent of the revenues from the generation tax is sent to the county or counties where the generating facilities are *located*. The remaining 56 percent of the revenues from the distribution tax is 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.

Appropriation: None.

Fiscal Note: Available.

Effective Date: July 1, 1998.