

FINAL BILL REPORT

SHB 2711

C 316 L 98

Synopsis as Enacted

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

Sponsors: By House Committee on Finance (originally sponsored by Representatives Parlette, Chandler, Mulliken and Sump).

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.

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 decreases to 1.50 percent on July 1, 1998.

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

In 1997, the Legislature exempted the following businesses from paying public utility and B&O taxes on amounts received for water services:

- 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.

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. The Department of Health uses data on drinking water connections and the estimated statewide average residential water rate to certify the eligibility of water-sewer districts and water systems for the tax exemptions.

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

Irrigation districts provide water for irrigation, but some irrigation districts also operate drinking water systems. Irrigation districts do not pay public utility or 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: The public utility and B&O tax exemptions for certain small water systems and water-sewer districts are expanded to also include irrigation districts that:

- serve fewer than 1,500 drinking water connections; and
- charge a residential drinking water rate exceeding 125 percent of the average statewide residential water rate.

The Department of Health must estimate a statewide average residential water rate by July 1 of each year, but the Department of Health does not certify which small water systems, water-sewer districts, or irrigation districts are eligible for the exemptions. Instead of certification, each small water system, water-sewer district, or irrigation district is responsible for determining its eligibility for the tax exemptions.

Each small water system or irrigation district claiming the tax exemptions must supply proof to the Department of Revenue that at least 90 percent of the value of the tax exemptions has been used to repair, equip, upgrade, or maintain the system.

The tax exemptions expire on July 1, 2004.

Votes on Final Passage:

House 96 0

Senate 45 3

Effective: July 1, 1998