

# HOUSE BILL REPORT

## HB 2711

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### As Reported By House Committee On:

Finance

**Title:** An act relating to tax exemptions for small irrigation districts.

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

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

### Brief History:

#### Committee Activity:

Finance: 1/27/98, 2/9/98 [DPS].

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Conway; Kastama; Mason; Morris; Pennington; Schoesler; Thompson and Van Luven.

**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.

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 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 Substitute Bill:** 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:

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

The Department of Health must still 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.

**Substitute Bill Compared to Original Bill:** The Department of Health is no longer responsible for certifying which small water systems or water-sewer districts qualify for the tax exemptions. Instead of certification, each small water system, water-sewer district, or irrigation district is responsible for determining its eligibility for the tax exemptions. A small water system or an irrigation district claiming these 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 drinking water system.

The tax exemptions for small water systems and water-sewer districts are extended another year so that the tax exemptions for small water systems, water-sewer districts, and irrigation districts all expire on the same date: July 1, 2004.

An effective date of July 1, 1998 is added.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on July 1, 1998.

**Testimony For:** This bill creates a 5-year tax exemption for small irrigation districts that provide drinking water. The federal Safe Drinking Water mandate requires these

districts to make improvements, and meeting these federal requirements imposes financial hardships. For example, the Lake Chelan Reclamation District is an irrigation district that must construct a \$7.2 million dollar drinking water facility. The cost of this facility has increased drinking water rates from a monthly \$15 fee to a \$38 fee. Lake Chelan's \$38 residential rate is much higher than the statewide average residential rate. Last year's bill benefitted drinking water systems operated by small water-sewer districts. The water-sewer districts' association supports this year's bill that would extend similar tax exemptions to irrigation districts.

**Testimony Against:** None.

**Testified:** Representative Parlette, sponsor; Paul Cross, Lake Chelan Reclamation District (pro); Mike Schwisow, Washington State Water Resources Association (pro); and Joe Daniels, Washington Association of Sewer and Water Districts (pro).