

# SENATE BILL REPORT

## EHB 2709

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As Reported By Senate Committee On:  
Ways & Means, February 25, 1998  
Energy & Utilities, February 26, 1998

**Title:** An act relating to elimination of double taxation of municipal utility taxes.

**Brief Description:** Eliminating double taxation of municipal utility taxes.

**Sponsors:** Representatives B. Thomas, Pennington, Butler, Cole, Kastama, Crouse, D. Sommers, Carrell, Cooke, O'Brien and Thompson.

**Brief History:**

**Committee Activity:** Ways & Means: 2/19/98, 2/25/98 [DPA-EU].  
Energy & Utilities: 2/26/98 [DPA, DNPA].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended and be referred to Committee on Energy & Utilities.  
Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Hochstatter, Long, McDonald, Rossi, Schow, Swecker, Winsley and Zarelli.

**Staff:** David Schumacher (786-7474)

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### SENATE COMMITTEE ON ENERGY & UTILITIES

**Majority Report:** Do pass as amended.  
Signed by Senators Finkbeiner, Chair; Hochstatter, Vice Chair; Rossi, T. Sheldon and Strannigan.

**Minority Report:** Do not pass as amended.  
Signed by Senators Brown and Jacobsen.

**Staff:** Andrea McNamara (786-7483)

**Background:** Cities and towns may impose a gross receipts tax on a light and power business. A city's tax rate cannot exceed 6 percent of gross receipts without voter approval. Typically, cities tax light and power businesses on their gross receipts earned from consumers within their cities.

Municipal light and power businesses are an exception. There are 19 municipal light and power businesses. These cities generally tax the full gross receipts of their light and power businesses, including the gross receipts earned by selling electricity to out-of-city consumers. The two largest municipal light and power businesses, Seattle City Light and Tacoma City Light, sell electricity to consumers located in other cities.

**Summary of Energy & Utilities Amended Bill:** A city or town is prohibited from taxing the portion of gross receipts of its municipal light and power business that are earned by delivering electricity or electrical distribution services in other cities or towns. Such cities and towns are also prohibited from compensating for the inability to impose the tax by raising rates charged for electricity delivered in other cities or towns. Electricity is delivered at the situs of the meter measuring the amount of electricity used by the consumer.

**Summary of Ways & Means Amended Bill:** A city with population greater than 400,000 cannot levy a tax on its municipal light and power business's gross receipts that are earned by delivering electricity or electrical distribution services in other cities or towns.

In addition, such cities with a municipal light and power business cannot compensate for the inability to impose a tax by raising rates charged for electricity delivered in other cities or towns.

**Energy & Utilities Amended Bill Compared to Ways & Means Amended Bill:** The amendment restores the effect of the bill to all cities and towns, not just cities with populations greater than 400,000.

**Ways & Means Amended Bill Compared to Original Bill:** The effect of the bill is limited to cities with population greater than 400,000.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 1999.

**Testimony For (Ways & Means):** None.

**Testimony Against (Ways & Means):** None.

**Testified (Ways & Means):** No one.

**Testimony For (Energy & Utilities):** This bill will put an end to taxation without representation in the area of municipal electricity taxes. The municipal tax imposed by Seattle on the residents of the suburban areas served by Seattle City Light is unfair because the benefits of the tax dollars accrue only to Seattle. While negotiations have been on-going, they are not completed. This bill provides the fairest solution to the problem because it gives citizens the right to decide for themselves, through their municipal governments, whether to impose the tax on themselves.

**Testimony Against (as amended in W&M) (Energy & Utilities):** The bill should apply equally to all cities, not just Seattle.

**Testimony Against (Energy & Utilities):** These taxes have been collected for more than 50 years, and the only difference now is that customers are now living in newly incorporated cities. The better solution for all parties to the problem is a negotiated solution, which Tacoma has been successful in accomplishing and Seattle will be too, given the opportunity.

Even if this bill were to pass, the newly incorporated cities currently served by Seattle and Tacoma will have a legally and politically difficult time imposing the tax themselves. The rebate option offered through the franchise process will give them much easier access to the revenues. The city providing service bears a level of risk that is not currently recovered in the rates, and the tax revenue is an appropriate avenue for compensating the city for that risk. If necessary, differential rates could be imposed in lieu of the taxes, to reflect the risks borne by the municipality providing electric service.

**Testified:** PRO: Representative Brian Thomas, prime sponsor; Senator Darlene Fairley (D-32nd Dist) Joyce Nichols, City of Shoreline; CON: Margaret Pageles, Seattle City Council; Gary Zarker, Seattle City Light; Bob Mack, Cities of Tacoma/Spokane; Randy Lewis, City of Tacoma; Jim Justin, Association of Washington Cities (defer).