

# SENATE BILL REPORT

## SB 5210

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As Reported By Senate Committee On:  
Agriculture & Environment, February 13, 1997  
Ways & Means, March 27, 1997

**Title:** An act relating to the taxation of coal-fired thermal electric generating facilities placed in operation before July 1, 1975.

**Brief Description:** Providing tax exemptions and credits for coal-fired thermal electric generating facilities placed in operation before July 1, 1975.

**Sponsors:** Senators Swecker, Fraser, Newhouse, Goings, Rasmussen, Snyder, Morton, Hochstatter, Zarelli, Oke and McAuliffe.

**Brief History:**

**Committee Activity:** Agriculture & Environment: 1/29/97, 2/13/97 [DPS-WM].  
Ways & Means: 3/4/97, 3/27/97 [DP2S].

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### SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT

**Majority Report:** That Substitute Senate Bill No. 5210 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Morton, Chair; Swecker, Vice Chair; Fraser, McAuliffe, Newhouse, Oke and Rasmussen.

**Staff:** Kari Guy (786-7437)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 5210 be substituted therefor, and the second substitute bill do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Fraser, Hochstatter, Kohl, Roach, Rossi, Sheldon, Snyder, Spanel, Swecker, Thibaudeau and Zarelli.

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

**Background:** State and Local Taxes: Sales tax is imposed on most items of tangible personal property. The state sales tax rate is 6.5 percent and is applied to the selling price of the article. In addition, local sales taxes are applied to all sales subject to the state sales tax.

Sales tax applies when items are purchased at retail in the state. Use tax is imposed on the use of an item in this state when the item's acquisition was not subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out

of state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used.

Public and privately-owned utilities, such as power and light, natural gas, and water distribution companies, pay a public utility tax on gross receipts, instead of the business and occupation tax. The tax rate for light and power business is 3.873 percent.

Air Pollution Control Requirements: The Centralia plant is a coal-fired electric power plant with an adjacent coal mine near Centralia, Washington. The plant has operated in compliance with air quality standards since it was constructed. Under 1991 revisions to the state Clean Air Act, existing industrial sources were required to meet a stricter air emission standard of reasonably available control technologies.–

In 1995 the Southwest Washington Air Pollution Control Authority issued an order to the Centralia plant requiring 50 percent sulfur dioxide reductions by the year 2002. When the order was issued, the National Park Service and the U.S. Forest Service argued that greater emission reductions were needed. The Centralia plant owners then began meeting with the National Park Service, U.S. Forest Service, U.S. Environmental Protection Agency, state Department of Ecology, Southwest Washington Air Pollution Control Agency, and the Puget Sound Air Pollution Control Agency to develop a recommendation on further emission reductions.

The final recommendation of this collaborative decision-making group is to require the Centralia plant to construct two scrubbers at the plant. The first scrubber will be in operation by December 31, 2001, and the second in operation by December 31, 2002. This will result in a 90 percent reduction in allowable sulfur dioxide emissions.

The two scrubbers are expected to cost approximately \$250 million. Annual operation and maintenance costs for the scrubbers are estimated at \$5 to \$6 million.

Implementation of this voluntary agreement is contingent on exemptions from certain tax requirements for the Centralia plant.

**Summary of Second Substitute Bill:** Sales and use taxes do not apply to sales of property for the construction or installation of air pollution control facilities at thermal electric generation facilities first placed in operation after December 31, 1969 and before July 1, 1975. The air pollution control facilities are also exempt from property taxation. The air pollution control facilities must be constructed to meet the regulatory requirements of the Washington Clean Air Act.

A tax credit against the public utility tax is granted to thermal electric generating facilities first placed in operation after December 31, 1969 and before July 1, 1975. The tax credit is equal to the amount of sales and use taxes paid on coal used by the facility. To qualify for the tax credit, a business must demonstrate that it is making reasonable progress towards installation of air pollution control facilities to meet requirements of the Washington Clean Air Act. If a business fails to make a demonstration of reasonable progress, the business must return any revenues previously credited against the public utility tax. The tax credit is discontinued if the amount of sales and use tax paid on coal used at the facility falls below \$4 million.

The tax exemptions and credits become effective only if an order is issued by the local air pollution control authority requiring emission controls consistent with the provisions agreed to by the collaborative decision-making group.

The Department of Revenue may adopt rules to implement this act.

**Second Substitute Compared to Substitute Bill:** The effective date is changed.

**Appropriation:** None.

**Fiscal Note:** Requested on January 20, 1997.

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

**Testimony For:** This bill represents a win-win solution for the environment, for business, and for labor. The target solution for emission reductions for the Centralia plant was developed through a cooperative process that fostered a creative approach to a difficult problem. The primary and secondary economic impacts of a shut-down of the Centralia plant and mine would be devastating to Lewis County. This solution includes greater emission reductions than could have been achieved by the usual regulatory process.

**Testimony Against:** The government and the public should not be responsible for providing subsidies to bail out old, inefficient, and polluting technologies. The bill does not guarantee emission reductions, or include provisions for the workers in the event the plant or mine does close. The plant could achieve similar emission reductions at a lower cost by using coal from Montana.

**Testified:** Tom Davidson, Lewis County Fire Dist. 12 (pro); Bill Lotto, Lewis County Development Council (pro); Rose Brown, Lewis County Treasurer (pro); Clinton Kurtz, Pozzolanica, (pro); Gordy Howins, 100 E Local 612 (pro); Eugene Rosolie, NW Environmental Advocates (con); Greg Bowers, Coalition for Clean Air in WA (con); Jerry Bartlett, Burlington Northern Santa Fe (con); Joe Williams, Dept. of Ecology (pro); Mark Miller, Southwest Pollution Control (pro); Collins Sprague, Washington Water Power Co. (pro); Molly Bork, Puget Power (pro); Ron Shultz, National Audubon Society (pro).