

# HOUSE BILL REPORT

## HB 2224

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to county utility taxes.

**Brief Description:** Authorizing county utility taxes.

**Sponsors:** Representative Sommers.

**Brief History:**

**Committee Activity:**

Finance: 3/3/05, 3/7/05 [DP].

<p style="text-align: center;"><b>Brief Summary of Bill</b></p> <ul style="list-style-type: none"><li>• Authorizes counties to impose a tax of up to 2 percent on utility businesses for the purposes of providing criminal justice revenues.</li></ul>
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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 5 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Hasegawa and Santos.

**Minority Report:** Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern and Ericksen.

**Staff:** Mark Matteson (786-7145).

**Background:**

*Local business taxation in general.* Cities are granted broad power to license business activities and to charge amounts for such licenses. This has been interpreted by the court to mean that cities have the authority to not only impose fees and taxes for the purposes of regulation but for the purposes of raising revenue, as well. Counties' powers are much more limited than that of cities. The counties' powers do not include the ability to license business activities and to impose fees or taxes for the purpose of regulation or raising revenue. Counties' authority to impose taxes derives from express authorization by the Legislature to do so for a specific tax.

*Local Utility Service Taxation.* Cities have traditionally taxed utilities in a manner similar to other businesses, based on gross receipts, but at rates which were typically higher than for other businesses. In 1982, the Legislature limited the rate at which cities could tax electric,

gas, steam, and telephone businesses, including cellular telephone and paging businesses, to 6 percent. Cities may also tax water, sewer, solid waste, stormwater and cable television utilities, but there are no restrictions with respect to rates for these utilities; rates range from 2 percent to 24 percent.

According to the 2002 Tax and User Fee Survey conducted by the Association of Washington Cities, the following number of cities imposed utility taxes:

<u>Utility</u>	<u>No. Cities w/ Tax</u>
Natural Gas	148
Electricity	188
Telephone	182
Cellular phone	146
Water	146
Sewer	136
Solid Waste	131
Cable TV	119

Counties are not provided the same authority that cities have to tax utilities in general. However, under the statutes governing county sewerage, water, and drainage systems, counties have the authority to impose a tax at a rate of up to 8 percent on the gross revenues of a sewerage or water system operated by a county.

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**Summary of Bill:**

Counties may impose a tax of up to 2 percent on the gross receipts of a utility business. Utility businesses include telephone, water, sewer, or solid waste businesses, as defined for the purpose of state taxation under the public utility or business and occupation taxes, and cable service businesses, as defined by the Federal Telecommunications Act of 1996.

If imposed, the tax must apply countywide. The utility must add it to the base charges it makes for services and must show the tax separately on billing statements.

Revenues are dedicated to criminal justice purposes.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2006.

**Testimony For:** King County supports this. Counties are faced with serious financial problems. We have been hit by just about any initiative. This will begin to bring a balance with state-driven criminal justice costs and the need for revenues.

A nationwide telecommunications survey was conducted to obtain cross-state comparisons. Washington ranks 10th highest in telecommunication taxation. At the national level, there was a closed door meeting to reform telecommunications taxation. We believe that lower taxes are necessary, and this is going in the wrong direction.

Rural taxes are not necessarily a pass-through. Only about 80 percent is passed through, and the other 20 percent affects our competitiveness.

(Neutral) We appreciate the concern for counties. Our membership has not developed a position but is always interested in proposals that would give us more flexibility, especially with criminal justice demands. Most counties spend 60 to 80 percent of their general funds on criminal justice requirements. While this would provide most counties with an opportunity, we don't want to get into a disagreement with our city friends.

**Testimony Against:** The Association of Washington Business opposes this. We are concerned about the imposition of additional costs. The economy is fragile and this will slow the recovery. This hits utilities specifically. It hurts administration, and ultimately impacts consumption of product. Businesses are customers of these utilities, but don't have a vote.

Cable companies are subject in many cases not only to a city utility tax, but to a franchise fee as well. In Seattle, the average tax amount is 13.5 percent; in Tacoma, 13 percent; in Renton, 11 percent. The burden is difficult. Our competitors, satellite services, are not subject to the same tax and so there is inequity.

**Persons Testifying:** (In support) Paul Parker, Washington State Association of Counties; and Chuck Williams, King County.

(Opposed) Tom McBride, Association of Washington Businesses; Ron Main, Washington Cable Association; Terrance Stapleton, Washington Independent Telephone Association; and Steve Hanson, Tenino and Kalama telephone companies.

**Persons Signed In To Testify But Not Testifying:** None.