# SENATE BILL REPORT
# SB 5450

As of February 16, 2011

**Title**: An act relating to creating a local mineral severance tax.

**Brief Description**: Creating a local mineral severance tax.

**Sponsors**: Senator Hargrove.

**Brief History:**
**Committee Activity**: Ways & Means: 2/10/11.

## SENATE COMMITTEE ON WAYS & MEANS

**Staff**: Dianne Criswell (786-7433)

**Background**: Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the state General Fund. The main rates are 0.471 percent for retailing; 1.8 percent for professional and personal services, and activities not classified elsewhere until June 30, 2013 (0.3 percent rate surcharge expires and the B&O rate for service and other category is 1.5 percent thereafter); and 0.484 percent for manufacturing, wholesaling, and extracting.

The sales tax is imposed by the state, counties, and cities on retail sales of most items of tangible personal property, digital products, and some services including construction and repair services. If retail sales taxes were not collected when the property, digital products, or services were acquired by the user, then use taxes apply to the value of most tangible personal property and digital products and some services when used in this state. Use tax rates are the same as retail sales tax rates. The state sales rate is 6.5 percent and the local rates vary by location. The state sales and use tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 3.0 percent, depending on the location. The combined state/local rate is between 7 and 9.5 percent, depending on location. Sales and use taxes are applied to materials installed during construction projects.

Currently, there are no state or local severance taxes for the extraction of mineral resources.

**Summary of Bill**: The bill as referred to committee not considered.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Summary of Bill (Proposed Substitute)**: The legislative body of any county, by ordinance, may impose an excise tax upon the severance of minerals from the land or waters within the county. Producers are responsible for paying the tax and it is imposed upon the entire production in the county regardless of the place of sale or that delivery may be made outside the county or state. This new tax is imposed at a rate of 5 percent.

Exemptions are provided for the following: minerals severed and incorporated into a construction project located on the site where the minerals were severed; the value of minerals regulated as a metal mining and surface mining operation; or the value of minerals exempt from tax by reason of federal law or a compact negotiated by the state with a tribal government.

Counties may contract with the Department of Revenue (DOR) to collect the tax. If DOR collects the tax for a county, it may deduct up to 1 percent of collections for the cost of administration. The remainder tax collected by DOR must be deposited in a new account in the state treasury called the county severance taxation account. The county severance taxation account retains its interest earnings. The State Treasurer will distribute monies in the county severance taxation account to the county or counties imposing the tax by depositing 50 percent into the county general fund and 50 percent into the county road fund.

**Appropriation**: None.

**Fiscal Note**: Requested on January 27, 2011.

**Committee/Commission/Task Force Created**: No.

**Effective Date**: Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony**: PRO: Many counties have large deposits of sand, gravel, and hardrock which are mined for substantial private gain, but for which there is little gain to the local community. Jefferson County has three major mining operations, of which most of these resources are transported to Kitsap County and other counties. Gravel pits bring few jobs or other permanent financial benefit to the community. These projects have a deleterious effect on county roads and hurt the local environment. The county will be held responsible, whatever the long-term effects. These are tough financial times for governments, including counties which have the I-747 property tax lid and other revenue limitations. Counties need an option for a mineral severance fee similar to the severance fee placed on timber in 1972. This is a fairness issue, so that counties can get a severance fee similar to the timber severance fee. This diversifies the revenue portfolio for counties. We would be glad to clarify that the severance fee would not apply to materials used on state trust lands. The revenues would be split and monies for county roads used to restore habitat and similar benefits. Some proponents would like all revenues collected on their behalf by the state to be deposited only into the county general fund, rather than half, so that the county can make a local determination of how to apply the revenues.

CON: The county permitting process takes seven to ten years at a cost of $750,000 to $1,000,000 per year. This proposal will affect the cost of public works. The impact on the cost of the finished product renders this a sales tax. Counties without resources will impose this fee and that will hurt surrounding jurisdictions. Small businesses are trying to get our jobs approved through the permitting process. Washington has a market, the expertise, and the ability to furnish these materials locally. This tax will make the use of local materials less competitive. The impacts are paid for through the State Environmental Policy Act and permitting processes. Profits are down and this proposal would create a competitive disadvantage to materials garnered from Canada and tribal lands. Jefferson County needs more economic development, rather than this proposal. These activities will increase family wage jobs and economic activity in the Jefferson County community. This bill will lead to a patchwork of fees throughout the state and could shift production away from urban areas where demand is greatest. We are taxed at the time of sale. We pay the B&O tax. The implementation of this fee would unfairly disadvantage concrete, over other building materials. A 5 percent premium can knock a product out of the market. Changes to environmental laws have already affected our operations (Forest and Fish laws). These also include requirements to improve roads on timber land to protect fish habitat. This is a forest and fish tax.

OTHER: We would like to suggest an exemption for any rock used on state trust lands.

**Persons Testifying**: PRO: Senator Hargrove, prime sponsor; Phil Johnson, Jefferson County Commissioner; Bill Miller, Teri Nomura, Jefferson County; Scott Merriman, Washington Association of Counties.

CON: Bruce Chattin, Washington Aggregate Association; Jim Burnett, Iron Mountain Quarry; Mike Shaw, Puget Sound Surfacers; Steve Gano, Bob Short, Cal Portland Cement; Phil Bonnell, Basalite Corporation; Tonia Neal, Washington State Mason Construction; Scott Hazelgrove, Cadman; Bill Staffacher, Rayonier.

OTHER: Jed Herman, Department of Natural Resources.