

# HOUSE BILL REPORT

## 2SHB 1663

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**As Passed House:**  
March 6, 2013

**Title:** An act relating to extending the sales and use tax exemption for hog fuel used to produce electricity, steam, heat, or biofuel.

**Brief Description:** Extending the sales and use tax exemption for hog fuel used to produce electricity, steam, heat, or biofuel.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Tharinger, Nealey, Van De Wege, Johnson, Takko, Blake, Haigh, Kretz, Fey, Hayes, Short, Crouse and Ryu).

**Brief History:**

**Committee Activity:**

Technology & Economic Development: 2/12/13, 2/19/13 [DPS];  
Finance: 2/26/13 [DP2S(w/o sub TED)].

**Floor Activity:**

Passed House: 3/6/13, 97-0.

**Brief Summary of Second Substitute Bill**

- Extends the existing sales and use tax exemption for hog fuel beyond its current expiration date of June 30, 2013, to June 30, 2024.
- Requires taxpayers claiming the exemption to file a complete annual survey with the Department of Revenue (Department).
- Establishes performance metrics to assist review of the tax preference's performance by the Joint Legislative Audit and Review Committee.
- Requires the Department to declare any exemption claimed in the previous two calendar years to be due, if a taxpayer closes a facility in Washington, resulting in a loss of jobs.

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### HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Morris, Chair; Habib, Vice Chair; Smith, Ranking

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Minority Member; Crouse, Assistant Ranking Minority Member; Freeman, Hudgins, Kochmar, Magendanz, Maxwell, Morrell, Stonier, Tarleton, Vick, Walsh, Wylie and Zeiger.

**Staff:** Jasmine Vasavada (786-7301).

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Technology & Economic Development. Signed by 13 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Fitzgibbon, Hansen, Lytton, Pollet, Reykdal, Springer, Vick and Wilcox.

**Staff:** Dominique Meyers (786-7150).

### **Background:**

In 2009 the Legislature enacted a sales and use tax exemption for hog fuel used to produce electricity, steam, heat, or biofuel. The exemption expires on June 30, 2013. Hog fuel is a waste product of wood that has been ground (hogged) for use as a commercial energy source. As such, it is a kind of biofuel. Hog fuel is typically used as a fuel supply for boilers and electric power generation at mills that produce the material as a manufacturing byproduct. It is also purchased for use at a fuel source at these mills. Hog fuel is more fibrous and less uniform in size than clean wood chips.

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most goods and some services. If retail sales taxes are not collected when the goods or services are first acquired, then use taxes are often applied, at the same rate as the retail sales tax, when the goods or services are used. The state sales tax rate is 6.5 percent. State sales and use taxes are deposited in the State General Fund.

### **Summary of Second Substitute Bill:**

The expiration date for the existing sales and use tax exemption is delayed by 11 years, from June 30, 2013, until June 30, 2024. The Department of Revenue (Department) must declare any hog fuel sales tax exemption claimed within the previous two calendar years to be immediately due and payable, if a taxpayer who claimed the exemption closes a facility resulting in the loss of jobs in Washington.

Taxpayers claiming the hog fuel exemption are required to file a complete annual survey with the Department. The survey includes the amount of tax preference claimed and employment, wage, and benefit information for each of the facilities in Washington at which the exemption is claimed. The Department must provide annual survey information to the Joint Legislative Audit and Review Committee (Committee). The Employment Security Department and other agencies, upon request, must cooperate with the Committee by providing information about the average wage of employment in counties where the exemption is claimed. The Committee must review the performance of the tax preference with respect to its impact on jobs, wages, benefits, and the goal of retention of 75 percent of employment at the facilities

at which the exemption has been claimed. The Committee must report its findings to the Legislature by December 31, 2019.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2013.

**Staff Summary of Public Testimony (Technology & Economic Development):**

(In support) In some areas of the state, and particularly the Olympic Peninsula, pulp and paper mills are major employers. An individual mill may represent 20 percent of the employment of a given town. This exemption can help retain high wage jobs, many of which are union jobs with good benefits, in areas of the state that depend on these mills. Minimizing costs helps mills compete in a global market.

Hog fuel is biomass that would be wasted, but the exemption promotes slash gathering of limbs and branches left at the site where trees are cut, eliminating the need for open pile burning and reducing particulate emissions. Hog fuel is a renewable energy source that can help meet the state's greenhouse gas reduction targets. If hog fuel were not being used as a fuel source, it would be replaced with petroleum-based fuel oil. Extending the tax preference is important since, due to the recession, demand for power has leveled off, making it more difficult to quickly capture a return on investment in renewable energy technologies.

(In support with concerns) There is no guarantee that any corporation will stay here, so this tax preference would be a better policy if it included a "clawback" provision, establishing that if a company shuts its doors and leaves, it will pay back to the state the tax preference that it received.

(Opposed) None.

**Staff Summary of Public Testimony (Finance):**

(In support) This bill is a jobs bill and a renewable energy bill. This legislation is vital to keep mills going. At the mill, it is said, "No wood no work, no chips no check." This bill is a good bill and is fair to workers, companies, and taxpayers in Washington. Washington has lost four pulp-mills over the past decade; this bill will keep jobs in Washington. Hog fuel is a renewable energy and Washington is trying to reduce forest residuals and greenhouse gases. This is an industry worth preserving and protecting.

(Opposed) None.

**Persons Testifying (Technology & Economic Development):** (In support) Representative Tharinger, prime sponsor; Bill Stauffacher and Chris McCabe, Northwest Pulp & Paper Association; Roger Loney, Port Townsend Paper; Paul Perlwitz, Nippon; and Debora Munguia, Washington Forest Protection Association.

(In support with concerns) Sean L. O'Sullivan, Association of Western Pulp & Paper Workers.

**Persons Testifying** (Finance): Representative Tharinger, prime sponsor; Sean O'Sullivan, Association of Western Pulp and Paper Workers Union; Bill Stauffacher, Northwest Pulp and Paper Association; and Debora Mangiua, Washington Forest Protection Industry.

**Persons Signed In To Testify But Not Testifying** (Technology & Economic Development): None.

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