

# SENATE BILL REPORT

## SB 6115

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As of January 21, 2016

**Title:** An act relating to limiting tax imposed by a city or town on a water distribution business, a sewerage system business, or water and sewerage system business.

**Brief Description:** Limiting tax imposed by a city or town on a water distribution business, a sewerage system business, or water and sewerage system business.

**Sponsors:** Senator Chase.

**Brief History:**

**Committee Activity:** Government Operations & Security: 1/18/16.

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### SENATE COMMITTEE ON GOVERNMENT OPERATIONS & SECURITY

**Staff:** Karen Epps (786-7424)

**Background:** Water-sewer districts provide water and sewer services to incorporated and unincorporated areas. Districts are established through a petition, public hearing, and voter approval process and are each managed by a board of elected commissioners. District powers include the authority to purchase, construct, maintain, and supply waterworks to furnish water to inhabitants, and to develop and operate systems of sewers and drainage.

Cities and towns may provide for the sewerage, drainage, and water supply of the city or town. They may also establish, construct, and maintain water supply systems and systems of sewers and drains both within and outside their corporate limits.

Washington imposes a business and occupation (B&O) tax on the gross receipts of all business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the state general fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted.

The public utility tax (PUT) applies to the gross income derived from the operation of public and privately owned utilities. The tax is in lieu of the B&O tax and applies to the general categories of transportation and the supply of energy and water. PUT rates vary by the service provided between 0.642 percent and 5.029 percent of the service provided.

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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.*

Cities are authorized to impose B&O and utility taxes. These taxes are mutually exclusive in the sense that a particular business activity will not be subject to both taxes. The maximum city B&O rate is 0.2 percent and the maximum city utility tax rate on a gas distribution business is 6 percent.

**Summary of Bill:** The maximum city utility tax rate on a water distribution business, a water sewerage business, or a water and sewerage system business (water utilities) is 6 percent. If a city utility tax rate is higher than 6 percent on the effective date of this act, the city utility rate on water utilities must be decreased to 6 percent by reducing the rate - by ordinance each year - by an amount equal to one tenth of the difference between the current tax rate and 6 percent. A city is not prohibited from reducing its rate by an amount greater than one tenth of the difference between the current tax rate and 6 percent. Voter-approved rate increases are not included in the maximum city utility tax rate on water utilities of 6 percent.

**Appropriation:** None.

**Fiscal Note:** Requested on January 11, 2016.

**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: This bill deals with two main issues: there is no cap on what a city can assess the rate payers for the commodities and there is also the ability for a city to borrow the rate payers money for general purpose government that has nothing to do with the utility itself. The utility tax is capped at 6 percent for all of the other utilities. This bill addresses a question of justice and fairness. Municipalities are in a revenue crisis, but the concern is that when the water and sewer rates are increased, this becomes another instance of regressive tax. This tax is a tax on basic necessities. Some jurisdictions are charging 30 to 35 percent. Washington State is an example of one of the most regressive tax structure in the United States.

CON: Cities derive revenue from three main sources: property tax, sales tax, and business and utility taxes. These three main revenue sources have some restrictions, property taxes have a 1 percent cap, sales taxes are volatile, and most cities only impose utility taxes. It is important for cities to retain flexibility with utility taxes. A number of things have affected city revenues over the past 15 years. Initiatives were passed in 2000, 2001, and 2003 that impacted revenue that used to come into city coffers. The recession impacted real estate excise tax and sales tax revenue. Liquor taxes and the public works trust fund have been impacted by actions from the Legislature. For some cities this will be a substantial hit to revenue, so it is important to consider where replacement revenue could come from.

**Persons Testifying:** PRO: Senator Chase, prime sponsor.

CON: Victoria Lincoln, Association of WA Cities.

Persons Signed In To Testify But Not Testifying: No one.