

HOUSE BILL REPORT

HB 1497

As Reported by House Committee On:
Technology & Economic Development

Title: An act relating to providing sales and use tax exemptions, in the form of a remittance of tax paid, to encourage coal-fired electric generation plants to convert to natural gas-fired plants or biomass energy facilities.

Brief Description: Providing sales and use tax exemptions, in the form of a remittance of tax paid, to encourage coal-fired electric generation plants to convert to natural gas-fired plants or biomass energy facilities.

Sponsors: Representatives J. Walsh, Blake, Orcutt, Griffey, Young, Haler and Muri.

Brief History:

Committee Activity:

Technology & Economic Development: 2/2/17, 3/9/17 [DP].

Brief Summary of Bill

- Exempts all charges for construction related to the conversion of a coal-fired electric generation facility into a natural gas-fired electric generation facility or biomass energy facility from state and local sales and use taxes.
- Requires repayment of sales and use taxes if employment at the facility decreases by 25 percent from the previous year's employment level at any point beginning one year after the facility is operationally complete and ending January 1, 2031.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: Do pass. Signed by 15 members: Representatives Morris, Chair; Kloba, Vice Chair; Tarleton, Vice Chair; Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Fey, Harmsworth, Manweller, McDonald, Nealey, Santos, Slatter, Steele, Wylie and Young.

Minority Report: Do not pass. Signed by 2 members: Representatives Doglio and Hudgins.

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.

Staff: Nikkole Hughes (786-7156).

Background:

Sales and Use Taxes.

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of some services and most articles of tangible personal property and digital products. A retail sale is a sale to the final consumer or end user of the service, property, or digital product. If retail sales taxes were not collected when the services, property, or digital products were acquired by the user, then use taxes apply to the value of some services and most tangible personal property and digital products when used in the state. The state sales and use tax rate is 6.5 percent. Local tax rates vary depending on location.

Coal-Fired Electric Generation Facility.

The only coal-fired electric generation facility located in the state is the TransAlta coal plant in Centralia, Washington. In 2011 the state entered into a memorandum of agreement with TransAlta to transition the coal-fired units away from coal, with one unit shutting down in 2020 and the second unit in 2025.

Tax Preference Performance Statements.

All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. In addition, an automatic 10-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary of Bill:

Sales and Use Tax Exemption.

The construction of new structures or renovation of existing structures, for the purpose of converting a coal-fired electric generation facility into a natural gas-fired electric generation facility or biomass energy facility, is exempt from state and local sales and use tax. The exemption includes the labor and services to construct the facility and the machinery and equipment required for the conversion. The tax exemption is in the form of a remittance.

A purchaser may apply to the Department of Revenue (DOR) for the remittance after the conversion of the facility is operationally complete, but not earlier than April 1, 2020. The DOR may not accept any applications after July 1, 2020, or one year from the date the conversion of the facility is operationally complete, whichever is later. No remittance may be paid earlier than July 1, 2020. The exemption expires July 1, 2026.

Performance Metrics and Required Repayment.

A tax preference performance statement characterizes the tax preference as one intended to create jobs. Because the tax preference is intended to expire, it is exempt from review by the Joint Legislative Audit and Review Committee.

The remitted sales and use taxes must be repaid if the number of employment positions at the natural gas-fired plant or biomass energy facility decreases by 25 percent from the previous year's employment level at any point beginning one year after the facility is operationally complete and ending January 1, 2031.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The jobs at the TransAlta coal plant must be preserved for the long term; if these jobs were lost, the community would be unable to replace them. Electricity from the coal plant is a significant part of the electric generation portfolio for the region. By converting to natural gas, the plant can continue to provide affordable baseload power. Converting the facility will also reduce the carbon footprint of the plant. The closure of the plant affects the community's fire department by decreasing the assessed tax base. The tax exemption established under this bill would not be available unless the conversion actually occurs.

(Opposed) This bill undermines the Energy Independence Act by providing for conversion of the facility and not replacing the power with renewable energy resources. In 2016 almost all of Washington's new electric capacity came from wind and solar resources. The state's tax policy should align with its renewable energy policy.

Persons Testifying: (In support) Representative Walsh, prime sponsor; Matt Matayoshi, Lewis Economic Development Council; Geoff Simpson, Washington State Council of Fire Fighters; Al Aldrich, TransAlta and Strategies 360; Paul Hoebing, TransAlta; Edna Fund, Lewis County Board of County Commissioners; and Bob Guenther, International Brotherhood of Electrical Workers.

(Opposed) Elyette Weinstein, Washington League of Women Voters.

Persons Signed In To Testify But Not Testifying: None.