HOUSE BILL REPORT
ESSB 6012

As Reported by House Committee On:
Finance

Title: An act relating to promoting renewable energy through modifying tax incentives.

Brief Description: Promoting renewable energy through modifying tax incentives.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Hawkins and Palumbo).

Brief History:
Committee Activity:
Finance: 2/25/20, 3/4/20 [DPA].

Brief Summary of Engrossed Substitute Bill
(As Amended by Committee)

- Provides a sales and use tax exemption for machinery and equipment, and labor and services, that will provide additional support for the transition to clean energy through incremental increases in production, capacity, flexibility, or efficiency of operation or performance from the refurbishment or replacement of existing machinery and equipment, or purchase of new machinery and equipment, for an existing hydroelectric generation facility.
- Provides a sales and use tax exemption for machinery and equipment, and labor and services, necessary for an existing hydroelectric generation facility to develop self-lubricating adjustable turbine blade hubs for further evaluation and testing.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 10 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Orwall, Springer, Stokesbary, Vick and Wylie.

Minority Report: Without recommendation. Signed by 2 members: Representatives Frame and Macri.

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: Nick Tucker (786-7383).

Background:

Retail Sales and Use Tax.
Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Tax Preferences.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Amended Bill:

A sales and use tax exemption is provided on:

- machinery and equipment, and labor and services, that will provide additional support for the transition to clean energy through incremental increases in production, capacity, flexibility, or efficiency of operation or performance from the refurbishment or replacement of existing machinery and equipment, or purchase of new machinery and equipment, for an existing hydroelectric generation facility; and
- machinery and equipment, and labor and services, necessary for an existing hydroelectric generation facility to develop self-lubricating adjustable turbine blade hubs for further evaluation and testing.

Machinery and equipment must be received, and labor and services must be rendered, after June 30, 2020, and before July 1, 2031.

The exemption is provided in the form of a remittance and is provided only on the state portion of the sales and use tax.

To be eligible for the remittance, applicants must attest that certain wage and labor standards are met or that the project is developed under a community workforce agreement or project labor agreement.

The total exemption may not exceed $2.5 million in fiscal year 2021 or $5 million for each ensuing biennium. Unclaimed exempted amounts not claimed in a given fiscal year or biennium is carried over to the ensuing biennium.

Each generating utility is eligible for a proportional share of the total tax preference based on the prorated share of total hydropower generator capacity owned by the utility as of December 31, 2019.

The bill includes a tax preference performance statement requiring the JLARC to determine if the preferences support the goals of the Clean Energy Transformation Act (Chapter 288, Laws of 2019).

The exemption expires July 1, 2031.

Amended Bill Compared to Engrossed Substitute Bill:

The amended bill provides that the sales and use tax exemption is provided on the goods and services listed in the summary section of this bill analysis, instead of on:
- oil-free adjustable hubs for hydroelectric turbines;
- labor and services rendered in respect to constructing, installing, repairing, altering, cleaning, or improving such hubs; and
- tangible property that will become a component of such hubs.

The expiration of the exemption is extended to July 1, 2031, instead of July 1, 2030.

The remittance is provided on an annual basis, instead of a quarterly basis.

A biennial limit on the exemption is added as follows:
- $2.5 million in fiscal year 2021; and
- $5 million in each ensuing biennium.

Each generating utility is eligible for a proportional share of the total tax preference based on the prorated share of total hydropower generator capacity owned by the utility as of December 31, 2019.

Applicants must attest, rather than having the Department of Labor and Industries certify, that certain wage and labor standards are met.

The JLARC is directed to examine whether the exemption supports the goals of the Clean Energy Transformation Act (Chapter 288, Laws of 2019), instead of determining if a majority of new or replacement turbines incorporate oil-free adjustable blade hubs and if oil-free systems continue to cost more than traditional systems.

Several modifications to administrative provisions of the exemption are made. Several definitions are added or modified to reflect changes to the bill.

The null and void clause is removed.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on March 4, 2020.

Effective Date of Amended Bill: The bill takes effect July 1, 2020.

Staff Summary of Public Testimony:

(In support) The Clean Energy Transformation Act, which passed last session, extended tax incentives to a variety of renewable energy sources, but not hydropower. Hydropower plays a very important role in supporting non-hydropower renewable energy sources and helping them be successful. This bill acknowledges hydropower's role in the transition to clean energy.

The bill would increase the likelihood that public utility districts in the state make investments in oil-free turbine technology.

The bill has a broad title, so the incentive could be broadened if the committee so chooses.

(Opposed) None.

Persons Testifying: Senator Hawkins, prime sponsor; Tracey Yount, Chelan Public Utilities District; and Shawn Bagsby, International Brotherhood of Electrical Workers Local 77.

Persons Signed In To Testify But Not Testifying: Nicolas Garcia, Washington Public Utilities District Association; and John Rothlin, Avista.