

SENATE BILL REPORT

HB 1018

As Passed Senate, April 19, 2023

Title: An act relating to changing the expiration date for the sales and use tax exemption of hog fuel to comply with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

Brief Description: Changing the expiration date for the sales and use tax exemption of hog fuel to comply with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

Sponsors: Representatives Tharinger, Chapman, Orcutt, Abbarno, Fey, Ryu and Wylie.

Brief History: Passed House: 3/16/23, 96-0.

Committee Activity: Ways & Means: 3/23/23, 4/04/23 [DP, w/oRec].

Floor Activity: Passed Senate: 4/19/23, 37-12.

Brief Summary of Bill

- Extends the sales and use tax exemption for hog fuel from June 30, 2024, to June 30, 2034.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Robinson, Vice Chair, Operating & Revenue; Mullet, Vice Chair, Capital; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Rivers, Assistant Ranking Member, Capital; Warnick, Assistant Ranking Member, Capital; Billig, Boehnke, Braun, Conway, Hunt, Keiser, Muzzall, Saldaña, Torres, Van De Wege and Wagoner.

Minority Report: That it be referred without recommendation.

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

Signed by Senators Schoesler, Ranking Member, Capital; Dhingra, Hasegawa, Nguyen, Pedersen and Wellman.

Staff: Jeffrey Mitchell (786-7438)

Background: 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 4 percent, depending on the location.

Hog Fuel Tax Exemption. Hog fuel used to produce electricity, steam, heat, or biofuel is exempt from sales and use tax. Taxpayers claiming the exemption must complete an annual tax performance report for each facility owned or operated in the state providing information regarding employment, wage, and taxpayer savings. If a taxpayer claiming the exemption closes a facility in the state, resulting in a loss of jobs, the amount of the tax exempted for the previous two calendar years is due immediately. The hog fuel sales and use tax exemption expires June 30, 2024.

Hog fuel is defined as wood waste and other wood residuals, including forest derived biomass and excluding firewood or wood pellets.

Biofuel means a liquid or gaseous fuel derived from organic matter intended for use as a transportation fuel including, biodiesel, renewable diesel, ethanol, renewable natural gas, and renewable propane.

Tax Preference Performance Statement. 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. 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 can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill: The sales and use tax exemption for hog fuel, including the requirement to continue completing an annual tax performance report for each facility owned or operated in the state, is extended to June 30, 2034.

A tax preference performance statement is included, stating the Legislature's intent to

increase the ability of taxpayers claiming the sales and use tax exemption to provide at least 75 percent of their employees with medical and dental insurance and retirement plans.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: When considering the fiscal impacts of this bill, legislators should also consider the impacts on local family-wage, union-backed jobs and the economic impacts on the their local communities. This bill will help our employers continue in to fund investments addressing climate change. The review by JLARC concluded that the policy objectives were being met. This bill has helped the industry grow and maintain jobs in rural communities. Hog fuel is a renewable energy source like solar and wind. We use hog fuel in the mills to reduce our reliance on fossil fuels. There is corporate accountability through a claw back provision.

CON: The companies claiming the tax exemptions have contributed to about 6 percent of the state's greenhouse gas emissions. These facilities are not covered by the climate commitment act. This bill provides tax exemptions to some of the worst emitters in the state. There is data indicating that burning wood biomass is worse than burning fossil fuels. Health care and retirement benefits are a result of labor agreements, not tax exemptions. This bill goes against every part of the governor's climate policy and goes against all the bills the Legislature has passed to address climate change. This bill should be amended to work for the public good. This bill requires nothing of the companies that use this tax exemption. It only encourages certain outcomes but reduces state revenues by over \$2 million per year.

Persons Testifying: PRO: Bill Stauffacher, Northwest Pulp & Paper Association; Joshua Estes, Association of Western Pulp and Paper Workers Union (AWPPW).

CON: Sherri Dysart, League of Women Voters of Washington; John Roskelley.

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