

Multiple Agency Fiscal Note Summary

Bill Number: 5855 SB	Title: Small water system services
-----------------------------	---

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(614,000)	(724,000)	(614,000)	(724,000)	(614,000)	(724,000)
Total \$	(614,000)	(724,000)	(614,000)	(724,000)	(614,000)	(724,000)

Local Gov. Courts *						
Local Gov. Other **		614,000		614,000		614,000
Local Gov. Total		614,000		614,000		614,000

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.4	55,000	55,000	.2	28,600	28,600	.2	28,600	28,600
Total	0.4	\$55,000	\$55,000	0.2	\$28,600	\$28,600	0.2	\$28,600	\$28,600

Local Gov. Courts *									
Local Gov. Other **	Non-zero but indeterminate cost. Please see discussion.								
Local Gov. Total									

--

Prepared by: Ryan Black, OFM	Phone: 360-902-0417	Date Published: Final
-------------------------------------	-------------------------------	---------------------------------

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

Department of Revenue Fiscal Note

Bill Number: 5855 SB	Title: Small water system services	Agency: 140-Department of Revenue
-----------------------------	---	--

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2010	FY 2011	2009-11	2011-13	2013-15
GF-State-State 01 - Taxes 05 - Bus and Occup Tax	(67,000)	(67,000)	(134,000)	(134,000)	(134,000)
GF-State-State 01 - Taxes 35 - Public Utilities Tax	(240,000)	(240,000)	(480,000)	(480,000)	(480,000)
Publ Works Assist-State 01 - Taxes 35 - Public Utilities Tax	(55,000)	(55,000)	(110,000)	(110,000)	(110,000)
Total \$	(362,000)	(362,000)	(724,000)	(724,000)	(724,000)

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.5	0.2	0.4	0.2	0.2
Fund					
GF-STATE-State 001-1	40,200	14,800	55,000	28,600	28,600
Total \$	40,200	14,800	55,000	28,600	28,600

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: Karen Epps	Phone: 360-786-7424	Date: 02/07/2009
Agency Preparation: Ray Philen	Phone: 360-570-6078	Date: 02/15/2009
Agency Approval: Don Gutmann	Phone: 360-570-6073	Date: 02/15/2009
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 02/16/2009

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Note: This fiscal note reflects a revision to the bill description, and supersedes fiscal note number 5855-1.

Establishes a business and occupation and public utility tax exemption for amounts received for water services supplied by a public utility district, a water-sewer district, or an irrigation district. To qualify for the exemption the district must have less than 1,500 connections and charge a residential water rate exceeding 125 percent of the statewide average rate.

The business and occupation and public utility tax also does not apply to water services supplied by a system that is operated or owned by a qualified satellite management agency under RCW 70.116.134 that has less than 200 connections and that charges a residential water rate exceeding 125 percent of the statewide average.

To receive an exemption under this section, the water system or irrigation district shall provide to the Department of Revenue (Department) proof that at least 90 percent or more of the exemption amount is expended to repair, equip, maintain, and upgrade the system. The Department of Health may use rate information provided by the Association of Washington Cities, an association of elected officials, or other municipal association to estimate a statewide residential water rate.

Section 3 requires that a person who receives an exemption under section 1 or 2 make an annual report to the Department detailing the specific capital improvements made to their systems utilizing the money made available by the exemption. The report is due by March 31 following the year for which an exemption was claimed or used. This information is not subject to the confidentiality provisions of RCW 82.32.330. If a person fails to submit an annual report, the Department shall declare the amount of taxes exempted for that year to be immediately due and payable with interest, but not penalties. By December 1, 2013, the House and Senate fiscal committees, with the Department, shall report to the Legislature on the effectiveness of the exemptions under sections 1 and 2.

Section 4 sets an immediate effective date.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

Data source: Department combined excise tax returns.

Industry supplied information.

REVENUE ESTIMATES

Most of the public utility tax goes to the state general fund. However, certain receipts are earmarked for the public works assistance account which provides financial assistance to local government for maintenance of public works facilities.

Twenty percent of the basic 4.7 percent tax on water distribution and 60 percent of the basic 3.6 percent tax on sewerage collection (both excluding the 7 percent surtax) go to the public works assistance account. It is anticipated that this legislation will result in a loss of approximately \$55,000 in Fiscal Year 2010 from the public works assistance account.

This legislation restores and expands exemptions that expired July 1, 2004. Added to the past exemption are water systems operated by public utility districts (PUDs). The effect of adding PUDs is a loss in general fund revenue of approximately

\$64,000 in Fiscal Year 2010.

The effect of establishing a business and occupation tax exemption for water-sewer districts, public utility districts, and irrigation districts is a loss in general fund revenue of \$67,000 in Fiscal Year 2010.

This bill results in a total revenue loss to the state of \$362,000 in Fiscal Year 2010.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2010 - \$ (362)
FY 2011 - \$ (362)
FY 2012 - \$ (362)
FY 2013 - \$ (362)
FY 2014 - \$ (362)
FY 2015 - \$ (362)

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing

To implement this legislation, the Department will incur costs of approximately \$40,200 in Fiscal Year 2010. These costs are for processing annual reports required for the exemption, mailing notifications to potentially eligible water systems, and issuing assessments for corrections and ineligibility. Costs also include adoption of two amended rules. Time and effort equates to .47 FTE in Fiscal Year 2010. Costs for printing and mailing notifications are \$1,400.

The Department will incur costs of approximately \$14,800 in Fiscal Year 2011. These costs are for processing annual reports, mailing notifications, and issuing assessments for corrections. Time and effort equates to .23 FTE in Fiscal Year 2011.

The Department will incur costs of approximately \$28,600 in each of the 2011-13 and 2013-15 Biennia. These costs are for processing annual reports, mailing notifications, and issuing assessments. Time and effort equates to .23 FTE in each of the Fiscal Years 2011 through 2015.

Due to the effective date of this legislation, the Department will incur costs in Fiscal Year 2009 of approximately \$61,750. This represents one time costs for developing a new report form, establishing processing procedures, and analyzing, developing, and testing computer system changes related to the exemption expenditure claims. These costs are not reflected in the fiscal note.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.5	0.2	0.4	0.2	0.2
A-Salaries and Wages	22,600	7,900	30,500	15,800	15,800
B-Employee Benefits	5,600	2,000	7,600	4,000	4,000
E-Goods and Services	9,000	4,300	13,300	8,400	8,400
J-Capital Outlays	3,000	600	3,600	400	400
Total \$	\$40,200	\$14,800	\$55,000	\$28,600	\$28,600

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2010	FY 2011	2009-11	2011-13	2013-15
EXCISE TAX EX 3	50,563	0.2		0.1		
HEARINGS SCHEDULER	32,688	0.0		0.0		
TAX POLICY SP 3	69,756	0.1		0.0		
TAX SERV REP 2	34,260	0.2	0.2	0.2	0.2	0.2
WMS BAND 3	88,546	0.0		0.0		
Total FTE's		0.5	0.2	0.4	0.2	0.2

Part IV: Capital Budget Impact

NONE.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department would use the expedited process to amend WAC 458-20-179, "Public utility tax" and 458-20-267, "Annual reports for certain tax adjustments." Persons affected by this rule-making are small water systems operated by utility, water-sewer, and irrigation districts and owned or operated by qualified satellite system management agencies.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 5855 SB	Title: Small water system services
-----------------------------	---

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☒ Cities: Small reduction in Public Works Trust Fund receipts available for loans and grants
- ☒ Counties: As above
- ☒ Special Districts: Reduces state taxes paid for qualifying small water and sewer districts, irrigation districts and public utility districts
- ☒ Specific jurisdictions only: Small water systems must meet size, proof/reporting and rate tests in order to qualify for tax exemptions
- ☐ Variance occurs due to:

Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☒ Legislation provides local option: Utilities must apply for and maintain tax exemptions
- ☐ Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2010	FY 2011	2009-11	2011-13	2013-15
City					
County					
Special District	307,000	307,000	614,000	614,000	614,000
TOTAL \$	307,000	307,000	614,000	614,000	614,000
GRAND TOTAL \$	1,842,000				

Estimated expenditure impacts to:

Indeterminate Impact

Part III: Preparation and Approval

Fiscal Note Analyst: Cezanne Murphy-Levesque	Phone: 360/725-5036	Date: 02/16/2009
Leg. Committee Contact: Karen Epps	Phone: 360-786-7424	Date: 02/07/2009
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 02/16/2009
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 02/16/2009

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This bill establishes exemptions for certain smaller water systems (not owned by cities) from paying state public utility taxes and business and occupation (B&O) taxes on their sales. Ninety percent of these savings must be re-invested in the system through repair, equipping, maintaining and upgrading. Annual reporting is required in order to maintain the tax exemptions.

Section 1 states that the business and occupation tax does not apply to amounts received for water services supplied by a public utility district, a water-sewer district, or an irrigation district. To qualify for the exemption the district must have less than 1,500 connections and charge a residential water rate exceeding 125 percent of the statewide average rate.

The B&O tax also does not apply to water services supplied by a system that is operated or owned by a qualified satellite management agency under RCW 70.116.134 that has less than 200 connections and that charges a residential water rate exceeding 125 percent of the statewide average.

To receive an exemption under this section, the water system or irrigation district shall provide to the Department of Revenue (DOR) proof that at least 90 percent or more of the exemption amount is expended to repair, equip, maintain, and upgrade the system. The Department of Health may use rate information provided by the Association of Washington Cities, an association of elected officials, or other municipal association to estimate a statewide residential water rate.

Section 2 states that the public utility tax does not apply to amounts received for water services supplied by a public utility district, a water-sewer district, or an irrigation district. To qualify for the exemption the district must have less than 1,500 connections and charge a residential water rate exceeding 125 percent of the statewide average rate.

Public utility tax also does not apply to water services supplied by a system that is operated or owned by a qualified satellite management agency under RCW 70.116.134 that has less than 200 connections and that charges a residential water rate exceeding 125 percent of the statewide average.

Reporting requirements and the average water rate estimate are the same as under Section 1.

Section 3 states that a person who receives an exemption under sections 1 or 2 of this act shall make an annual report to DOR detailing the specific capital improvements made to their respective systems utilizing the money made available by the exemption. The report is due by March 31 following the year for which an exemption was claimed or used. This information is not subject to the confidentiality provisions of RCW 82.32.330. If a person fails to submit an annual report, DOR shall declare the amount of taxes exempted for that year to be immediately due and payable with interest, but not penalties.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

SUMMARY

This bill would have a moderate (greater than \$50,000 per year) although indeterminate impact on special purpose district (small water system) expenditures. The bill would require additional special district reporting and earmarked expenditures for infrastructure improvement or maintenance. The bill would also reduce funds available for Public Works Trust Fund loans or grants to cities, counties and special districts.

IMPACT ON SPECIAL DISTRICT EXPENDITURES

Section 2(2) and Section 1(2) require that the public utility provide proof that at least 90 percent of value of the tax exemptions "shall be expended to repair, equip, maintain, AND upgrade the water system." Section 3(2a) requires an annual report from each entity receiving an exemption by March "detailing the specific capital improvements that were made to their respective systems by utilizing the money made available by these exemptions."

The first provision seems to require that a small water system prove that they will expend a portion of the exemption each year on all four categories of expenditures -- repair, equip, maintain AND upgrade. The amount of revenue received from the exemption per year is likely very small since the water systems themselves have a limited number of customers. For example, if water rates for a small system were \$15 per month and the customer base was 500 customers then the total revenue per year would be approximately \$90,000 and the exemptions would generate approximately \$5,580 (\$90,000 x .062). If a portion of the \$5,580 has to be spent in each of the four categories then a smaller amount would be available to combine with other funds or by itself for capital improvements. There are frequently no staff or very limited operating

staff for the small water systems to provide required paperwork. If this requirement can be met by submitting a copy of the water system's budget then the cost would be minimal; if a more detailed submission is required then it may be more costly for the water system to comply with this requirement.

The annual report in Section 3 "detailing the specific capital improvements that were made by utilizing the money made available..." appears to be isolated to just the capital improvements made with the exemption related funds (rather than the other categories of expenditures referred to in sections 1 and 2). If this requirement can be met by submitting a copy of the water system's budget or other existing report then the cost would be minimal; if a more detailed submission is required then it may be more costly for the water system to comply with this requirement.

While capital improvements are often needed to comply with federal and state water-quality requirements, there are sometimes maintenance or operating procedures that are needed in order to comply. If the exemption funds have to be spent in the year they are accumulated in order to meet reporting requirements, then the water system may not have time to accumulate needed funds from the exemptions (or combine with other accumulated funds) to meet their capital needs. For example, if new chlorination equipment needs to be installed or a water distribution line made of older leaching material needs to be replaced to improve water quality and the project will cost \$25,000, the water system may have to save money over three years and combine with other accumulated funds in order to make the improvement. If exemption funds have to be spent in the year received then a lower priority, less costly improvement would have to be made. In addition, if the major water-quality issue for the system is not capital (e.g., regular maintenance of the chlorination system) then it is unclear whether all of exemption funds can be used to meet that need or a portion must be spent on capital improvement.

IMPACT ON PUBLIC WORKS TRUST FUND LOANS AND GRANTS

Lost revenue to the Public Works Trust Fund is estimated to be \$55,000 per year. The Trust Fund made a total of \$278 million in loans to cities, counties and special districts in the 2007 to 2009 biennium. The most frequent funded projects include water system improvement projects, sewer system improvement projects, and road improvement projects. Roughly \$200,000 per year would fund one smaller project.

SOURCES:

Office of Financial Management Infrastructure Assistance Programs Review & Implementation Plan

Department of Revenue fiscal note

LGFN 2007 fiscal note SB 5235

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

This bill would have a moderate impact per year (between \$50,000 and \$1M) on local government (small water utilities) revenue or revenue authority. The total annual savings for small water systems is estimated to be \$362,000 per year, offset by \$55,000 less in Public Works Trust Fund loans. The bill would increase revenue available by \$307,000 per year for maintaining and improving water systems by exempting certain public water utilities from state public utility and B&O taxes. (\$362,000 savings - \$55,000 less trust fund money = \$307,000 increased revenue annually)

DISCUSSION

This legislation restores and expands exemptions that expired July 1, 2004; added to the past exemption are water systems operated by PUDs. According to the Department of Revenue (DOR) fiscal note, the PUDs that qualify for this exemption are estimated to save \$64,000 in Fiscal Year 2010.

The Public Works Trust Fund, which provides grants and loans to local governments, would receive \$55,000 less in revenue per year as a result of the tax exemptions. The Public Works Trust Fund receives 20 percent of all public utility tax revenue. See expenditure section for more detail.

SOURCES

Department of Revenue fiscal note

LGFN 2007 fiscal note SB 5235