Multiple Agency Fiscal Note Summary

Bill Number: 1768 S HB	**Title:** Green businesses/utility tax

Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(40,000)	(40,000)	(40,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Total $	**(40,000)**	**(40,000)**	**(40,000)**	**(200,000)**	**(200,000)**	**(200,000)**	**(200,000)**	**(200,000)**	**(200,000)**

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.6	218,000	218,000	218,000	.2	46,900	46,900	46,900	.1	27,000	27,000	27,000
Utilities and Transportation Commission	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total $	**0.6**	**218,000**	**218,000**	**218,000**	**0.2**	**46,900**	**46,900**	**46,900**	**0.1**	**27,000**	**27,000**	**27,000**

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Utilities and Transportation Commission	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

Prepared by: Amy Hatfield, OFM	**Phone:** (360) 280-7584	**Date Published:** Final 2/21/2024

FNPID 71045

Department of Revenue Fiscal Note

Bill Number: 1768 S HB	**Title:** Green businesses/utility tax	**Agency:** 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 35 - Public Utilities Tax		(40,000)	(40,000)	(200,000)	(200,000)
Total $		(40,000)	(40,000)	(200,000)	(200,000)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		1.2	0.6	0.2	0.1
Account					
GF-STATE-State 001-1		218,000	218,000	46,900	27,000
Total $		218,000	218,000	46,900	27,000

Estimated Capital Budget Impact:

NONE

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:	Tracey Taylor	Phone: 360-786-7152	Date: 02/14/2024
Agency Preparation:	Alex Merk-Dyes	Phone: 360-534-1601	Date: 02/16/2024
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 02/16/2024
OFM Review:	Amy Hatfield	Phone: (360) 280-7584	Date: 02/20/2024

Part II: Narrative Explanation

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

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

Note: This fiscal note reflects language in SHB 1768, 2024 Legislative Session.

COMPARISON OF SUBSTITUTE BILL WITH ORIGINAL BILL:
The substitute bill:
- Removes 10-year limit of claiming the public utility (PU) tax exemption.
- Changes the expiration date from January 1, 2045, to January 1, 2034.
- Restricts the maximum annual exemption amount to $100,000 per qualifying business.
- Restricts the maximum annual price reduction for electricity to $100,000.
- Adds definitions, including 'qualifying projects.'
- Adds a requirement for a qualifying business to show at least 60% of the produced hydrogen is used in qualifying projects
- Adds a requirement for a qualifying business to submit an annual certification that qualifying projects met requirements.
- Adds a requirement to keep documentation for the exemption for five years.

CURRENT LAW:
The law does not provide PU tax preferences or exemptions for selling electricity to businesses manufacturing or compressing hydrogen.

PROPOSAL:
Beginning October 1, 2023, this bill proposes a new PU tax exemption for light and power businesses that sell electricity to businesses using electricity to produce green electrolytic hydrogen or renewable hydrogen (qualifying businesses). This includes the compression, liquefaction, storage, or dispensing of green electrolytic hydrogen or renewable hydrogen (qualifying activities).

The maximum annual exemption amount is $100,000 per qualifying business.

Green electrolytic hydrogen does not include hydrogen manufactured using steam reforming or produced from a fossil fuel feedstock. Renewable hydrogen manufacturing uses renewable resources and energy generated from renewable resources in the production process.

A qualifying business must:
- Start the qualifying activity no later than July 1, 2033.
- Meter this electricity separately from the electricity used for general business operations.
- Receive a reduced price for the electricity equal to the exemption amount available to the light and power business, up to a maximum of$100,000 annually.
- Not remarket or resell the exempted electricity.
- Provide the light and power business with an exemption certificate.
- Use electricity in qualifying activities where at least 60% of hydrogen is used in one or more qualifying projects.

A qualifying project must include one or more of the following prioritized uses:
- High heat industrial processes using hydrogen as fuel, and industrial processes using hydrogen as feedstock, including refining and fertilizer production.
- Fuel for commercial motor vehicles, aviation, maritime transportation, drayage, mass transit, rail, or off-road agricultural or industrial equipment.
- Electricity generation using a hydrogen fuel cell or a combustion turbine operating no more than 500 hours per year.

- Production of a green hydrogen carrier if it is used in one or more of the above listed prioritized uses.

A taxpayer benefitting from this new tax preference must file an annual tax performance report and certification that qualifying projects met requirements.

Documentation showing substantiation for the exemption must be kept for five years.

The exemption expires January 1, 2034.

EFFECTIVE DATE:
The bill takes effect October 1, 2023.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:
- This bill will be amended to take effect and the exemption will begin on October 1, 2024, and impact eight months of collections in fiscal year 2025.
- Douglas County Public Utility District (PUD) broke ground on the only known green hydrogen production facility in Washington in March 2021. Additional facilities will increase the impact of this exemption.
- Douglas County PUD anticipates green hydrogen production beginning in June 2024.

DATA SOURCES:
- Douglas County PUD
- Taylor, J., (2023, February 16). "Douglas PUD Takes Another Stride Towards Hydrogen Plant."
- Thornton, E., (2024, February 12). "Douglas County PUD to get 4 of 8 Toyota hydrogen cars from $220,000 grant."

REVENUE ESTIMATES:
This bill decreases state revenues by an estimated $40,000 in the eight months of impacted collections in fiscal year 2025, and by $100,000 in fiscal year 2026, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2024 -	$ 0
FY 2025 -	($ 40)
FY 2026 -	($ 100)
FY 2027 -	($ 100)
FY 2028 -	($ 100)
FY 2029 -	($ 100)

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

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:
This bill affects 50 taxpayers selling electricity.

FIRST YEAR COSTS:
The department will not incur any costs in fiscal year 2024.

SECOND YEAR COSTS:
The department will incur total costs of $218,000 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 1.24 FTEs.
- Set up, program, and test computer systems.
- Create a special notice and update relevant information on the department's website.
- Implementation meetings and create and deliver training to staff.
- Process returns, examine accounts, review reported deductions, and make corrections as necessary.
- Develop and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.
- Amend one administrative rule.

Object Costs - $50,900.
- Computer system changes, including contract programming.
- New software license.
- Training and travel.

THIRD YEAR COSTS:
The department will incur total costs of $33,400 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 0.3 FTE.
- Process returns, examine accounts, review reported deductions, and make corrections as necessary.
- Update and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.

Object Costs - $500.
- Software license renewal.
- Training and travel.

FOURTH YEAR COSTS:
The department will incur total costs of $13,500 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 0.1 FTE.
- Process returns, examine accounts, review reported deductions, and make corrections as necessary.
- Update and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.

Object Costs - $500.
- Software license renewal.
- Training and travel.

ONGOING COSTS:
Ongoing costs for the 2027-29 biennium equal $27,000 and include similar activities described in the fourth-year costs. Time and effort equate to 0.1 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		1.2	0.6	0.2	0.1
A-Salaries and Wages		105,000	105,000	30,400	17,600
B-Employee Benefits		34,700	34,700	10,000	5,800
C-Professional Service Contracts		49,700	49,700		
E-Goods and Other Services		19,800	19,800	4,900	2,600
G-Travel		300	300	400	400
J-Capital Outlays		8,500	8,500	1,200	600
Total $		$218,000	$218,000	$46,900	$27,000

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	131,684		0.0	0.0		
EXCISE TAX EX 3	64,092		0.2	0.1	0.1	
IT B A-JOURNEY	91,968		0.5	0.3		
IT SYS ADM-JOURNEY	96,552		0.2	0.1		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120		0.1	0.0		
TAX POLICY SP 3	88,416		0.2	0.1	0.1	0.1
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456		0.0	0.0		
WMS BAND 3	111,992		0.0	0.0		
Total FTEs			1.2	0.7	0.2	0.1

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited process to amend WAC 458-20-179, titled: "Public utility tax." Persons affected by this rulemaking would include light and power businesses and green electrolytic facilities.

Individual State Agency Fiscal Note

Bill Number: 1768 S HB	Title: Green businesses/utility tax	Agency: 215-Utilities and Transportation Commission

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

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:	Tracey Taylor	Phone: 360-786-7152	Date: 02/14/2024
Agency Preparation:	Kim Anderson	Phone: 360-664-1153	Date: 02/19/2024
Agency Approval:	Kim Anderson	Phone: 360-664-1153	Date: 02/19/2024
OFM Review:	Tiffany West	Phone: (360) 890-2653	Date: 02/21/2024

Part II: Narrative Explanation

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

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

The UTC assumes no fiscal impact. The bill is related to DOR exempting certain sales of electricity to qualifying green businesses from the public utilities tax. The bill outlines when the public utility tax does not apply to sales of electricity and new definitions. It adds a section related to the tax preference performance statement and the intent to use the performance statement in the evaluation of the tax preference.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

None.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

The UTC assumes no fiscal impact. The bill is related to DOR exempting certain sales of electricity to qualifying green businesses from the public utilities tax. The bill outlines when the public utility tax does not apply to sales of electricity and new definitions. It adds a section related to the tax preference performance statement and the intent to use the performance statement in the evaluation of the tax preference. There is no impact to existing UTC regulatory authority.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

None.