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Deceptive hazardous substance tax is more dangerous than it looks

Washington lawmakers are debating a wide array of tax proposals this week, searching for a way to bridge the \$2.8 billion budget gap without downsizing state government. Virtually all the proposals are transparent attempts to increase the flow of tax revenue into the general fund. One glaring exception is the proposed near tripling of the hazardous substance tax paid by Washington's refineries. This proposal is not so straightforward or benign as its packaging would indicate.

House Bill 3181 and its companion Senate Bill 6851 are deceptively appealing at first blush. The legislation would increase the refinery tax dedicated to stormwater cleanup and other local environmental programs from 0.7 percent to 2 percent. Proponents note that this hazardous substance tax hasn't been raised in the two decades it has been in place. They suggest that cities and counties need the additional revenue the higher tax would generate for stormwater cleanup, and imply that refineries can well afford to pay it.

A closer look at the legislation reveals a far less appealing truth. This tax hike, in fact, does not originate from a need to direct more money to local stormwater cleanup projects. Neither will its impact be limited to refineries in the state. And make no mistake, refinery jobs could be put at risk by the higher tax.

The legislation's primary purpose is to help close the budget gap, not replenish the fund that pays for stormwater cleanup and related environmental projects. For at least the next three years, a sizeable chunk of this revenue would be diverted to the general fund - 69 percent the first year, 40 percent the second and 10 percent the third year.

The amounts of this revenue going into the general fund could be more, if legislators feel the need to grab it. Last year, the Legislature took \$180 million from the stormwater fund to help balance the budget. Gov. Chris Gregoire is proposing to divert \$80 million more to the general fund this year. In truth, there would be more than enough money to pay for local environmental projects if lawmakers would allow this tax revenue to be used as intended.

One unintended consequence of nearly tripling this tax could be to put refineries located in Washington at a much greater competitive disadvantage. As an editorial last week in The Seattle Times pointed out, the hazardous substance tax is applied only to petroleum products sold or manufactured in Washington. Washington refineries typically sell a good portion of the fuel they "manufacture" here out of state. Certainly, there is a point at which this tax could become enough of a burden to cause refineries to think about going elsewhere.

Finally, the higher refinery tax could be expected to trickle down Washington motorists in the form of a higher gas tax. The state Department of Revenue has estimated that the proposed hazardous substance tax increase would add about 3 cents to the cost of a gallon of gas at the pump. That could push Washington's already highest-in-the-Northwest gas tax to 40.5 cents per gallon.

Sharply increasing a tax that takes money out of the pockets of consumers and may put family-wage jobs at risk is no way to help balance a budget during these hard economic times.