

SENATE BILL REPORT

2SSB 6304

As Passed Senate, March 2, 2004

Title: An act relating to tax relief for aluminum smelters.

Brief Description: Providing tax relief for aluminum smelters.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Brandland, Parlette, Spanel, Morton, Doumit, T. Sheldon and Rasmussen).

Brief History:

Committee Activity: Economic Development: 1/28/04, 1/30/04 [DPS-WM].

Ways & Means: 2/4/04, 2/23/04 [DP2S].

Passed Senate: 3/2/04, 46-1.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 6304 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators T. Sheldon, Chair; Zarelli, Vice Chair; Benton, Hale, Kohl-Welles, Murray, Schmidt, B. Sheldon and Shin.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 6304 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Fairley, Fraser, Hale, Honeyford, Johnson, Pflug, Prentice, Rasmussen, Regala, Roach, Sheahan, B. Sheldon and Winsley.

Staff: Terry Wilson (786-7433)

Background: The aluminum smelting industry in the state has contracted in recent years as a result of declining aluminum prices in the global aluminum commodities market and local increases in the price of electricity, a major cost driver in aluminum prices. In 1998, the industry in the state employed over 5,300 people and had taxable income of \$2.4 billion. In fiscal year 2002, taxable income for the industry was down to \$700 million and only 2,200 persons were employed.

Prior to 1996, the industry received most of its electricity from the Bonneville Power Administration (BPA) at preferential rates. Since 1996, the BPA has reduced the energy allocated to the industry to less than half of the smelter electricity demand, requiring smelters to rely more on the wholesale market. The price of electricity is expected to drop after 2006.

Summary of Bill: The business and occupation (B&O) tax rates under manufacturing and wholesaling are reduced for aluminum smelters to 0.2904 percent through 2006. Aluminum smelters may take a credit against B&O tax liability for property taxes paid through 2006.

Businesses that sell electricity or natural or manufactured gas to aluminum smelters may receive a credit against tax liability under either the public utility tax or the B&O tax, if the price of the electricity or gas is reduced by the tax savings.

Through 2006, aluminum smelters may take a credit against retail sales and use tax liability for the amount of the state portion of sales and use taxes paid on property and labor and services associated with the property. Aluminum smelters are exempt from the brokered natural gas use tax through 2006.

Aluminum smelters that claim any of the incentives under the act must submit a report to the Department of Revenue providing wage, employment, and benefits information. Information regarding taxes or disclosed in a report is subject to statutory confidentiality provisions. Failure to submit a required report results in a voiding of the tax benefits.

By December 1, 2006, the Department of Revenue must report to the Legislature on the effectiveness of the smelter tax incentives.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 2004.

Testimony For (Economic Development): Aluminum smelter jobs have a large economic multiplier effect. BPA's rates have doubled since 1998. With this bill, aluminum productivity and employment will increase. The bill has sunset and accountability provisions. The impact in the budget will be less than the catastrophic impacts if the bill does not pass. The aluminum industries' electrical use allows flexibility in management of the electric grid.

Concerns: Sellers of energy taking a credit would have to report on wages, etc., at the aluminum plant. It should only be smelters reporting about their plants.

Testimony Against (Economic Development): None.

Testified (Economic Development): PRO: Senator Brandland, Senator Spanel, sponsors; Rep. Morris; Rep. Linville; Rep. Erickson; Sandi Swarthout, Mike Tanchuk, Bob Wilt, Vicki Henley, Tim Deshazo, Alcoa; Dianne Cornell, United Way Chelan and Douglas Counties; Brian Flores, Wenatchee Public Schools; Gerald Pumphrey, Bellingham Technical College; Pete Kremen, Whatcom County Executive; Concerns: Collins Sprague, Avista Corp.

Testimony For (Ways & Means): The increase in energy prices has had a severe impact on the aluminum industry. There are only two plants left in the state. This bill is a bridge to 2006 when BPA is scheduled to do a rate adjustment. Employment at the Itarco plant dropped from 1200 to 400. That has had a devastating impact on the county. This is about families. It is so the plant will not have to close. This is needed for the Wenatchee plant to restart. This is an example of bipartisan support with the community working with business. These jobs cannot be made up if we lose them. The utility tax incentive is permanent because it is a long-term

issue. It only affects the Wenatchee plant. There are significant benefits to keeping this industry alive in Washington.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): PRO: Senator Brandland, prime sponsor; Representative Linville; Sandi Swarthout, Mike Tanchuk, Alcoa; Bob Wilt, Alcoa Wenatchee; Jo Keyser, Wenatchee Aluminum Trades Council; Vicki Henley, IAMAW; Jerry Landcastle, Mayor, Ferndale; Judy McNickle, WWU; Dianne Cornell, Wenatchee United Way; Briane Flores; Wenatchee School District.

House Amendment(s): The House amendment provides that the B&O tax and PUT credits do not apply to income received from resale of electricity that was originally sold under contract for the purposes of smelting.

The amendment also changes reporting requirements: (1) It requires reports by legislative fiscal committees by December 1, of 2005, 2006, and 2010 on incentives in the bill; (2) requires smelters to make an annual report if receiving any incentive in the bill; (3) requires the report to contain detailed employment information and information on the quantity of aluminum smelted; (4) requires that the report information, and the amount of taxes that are due if a report is not filed, be disclosed to the public upon request.