HOUSE BILL REPORT
HB 2348

As Reported by House Committee On:
Technology, Energy & Communications

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

Brief Description: Extending tax relief for aluminum smelters.

Sponsors: Representatives Morris and Ericksen.

Brief History:

Committee Activity:

Technology, Energy & Communications: 1/10/06 [DP].

Brief Summary of Bill

- Extends a number of tax incentives for aluminum smelters through 2011.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: Do pass. Signed by Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hankins, Hudgins, P. Sullivan, Sump and Takko.

Minority Report: Do not pass. Signed by Representative Nixon.

Staff: Kara Durbin (786-7133).

Background:

In Washington, the aluminum smelting industry 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. The 2001 energy crisis, and spiking wholesale power prices, resulted in most of the state's smelters shutting down at least temporarily, and most have not resumed normal operations. In the state 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 Bonneville Power Administration (BPA) at preferential rates and, in exchange, provided a portion of the BPA reserve requirements through interruptibility provisions in their electricity service contracts.

However, since 1996 the BPA has increasingly reduced the energy allocated to the industry, requiring aluminum smelters to rely more on the wholesale market.

In 2004, the Legislature created the Aluminum Smelter Tax Incentives Program (program) for the aluminum smelting industry. The program includes a number of tax preferences that result in lower liability under the business and occupation tax and under the sales and use taxes, and indirect savings related to certain utility tax credits. The program also includes goals related to meeting certain employment levels and assisting the viability of the industry through 2006.

In the fiscal year ending June 30, 2005, smelter incentive program participants had claimed $2.1 million worth of incentives. While employment and wages in the industry have declined since the incentives took effect, the program goal of maintaining 75 percent of the employment level as of January 1, 2004, as adjusted for previously announced reductions, has been met as of June 30, 2005. In addition, the target employment level under the incentive program is 449 persons; as of June 30, 2005, the industry employment level was 971 persons.

Summary of Bill:

A number of tax incentives provided to firms in the aluminum smelting industry are extended until 2012. Under current law, these tax incentives are scheduled to expire on January 1, 2007.

The business and occupation (B&O) tax rates on the manufacturing, processing for hire, and wholesaling of aluminum are reduced for aluminum smelters to .2904 percent through 2012. Aluminum smelters may take a credit against B&O tax liability for property taxes paid through 2011.

Through 2011, aluminum smelters may receive a credit against retail sales and use tax liability for the amount of the state portion of sales and use taxes paid with respect to property used at a smelter or to labor and services rendered with respect to the property. Aluminum smelters are exempt from the brokered natural gas use tax through 2011.

The bill includes accountability provisions related to employment goals, reporting requirements, and an evaluation. The goals of the incentives are (1) to maintain aluminum production at a level that will preserve at least 75 percent of the jobs that were on the payroll as of January 1, 2004, adjusted for any reductions announced prior to December 2003, and (2) allow the aluminum smelting industry to continue operations in the state through 2012 when energy costs are anticipated to drop.

By December 1, 2007, the fiscal committees of the House and Senate, in consultation with the Department of Revenue, must issue a report evaluating the effectiveness of the incentives, including the effect on job retention. Another report must be conducted by 2015 on the effectiveness of the B&O tax and the public utility tax credits for sales of electricity to smelters.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This is an important issue for the community. We need to support our aluminum industry in the state. The BPA has lowered our rates, but the mechanism for lowering them has actually resulted in the cost going up. Looking long-term, we are not looking for tax breaks; we would rather have lower electricity costs. The aluminum plant in Ferndale has not been profitable for the last couple of years, but we have managed to continue operating. Two years of tax breaks seemed like enough to keep things going. If Whatcom County loses the local aluminum plant, it will lose not just the employees at the plant, but up to 1,800 related jobs in the county will be effected. The loss of revenue to Whatcom County would be significant. The Ferndale plant used to be a key source of employment for college graduates. We are not able to create similar jobs now.

Testimony Against: None.

Persons Testifying: Representative Morris, Prime Sponsor; Representative Ericksen; Sandi Swarthout and Mike Rousseau, ALCOA; Vikki Henley, International Association of Machinists & Aerospace Workers/ALCOA; Gerald Pumphrey, Bellingham Technical College; and Pete Kremen, Whatcom County Executive.

Persons Signed In To Testify But Not Testifying: None.