FINAL BILL REPORT
HB 2348

C 2348 L 06

Synopsis as Enacted

Brief Description: Extending tax relief for aluminum smelters.

Sponsors: By Representatives Morris, Ericksen, Condotta, Linville, Conway, Sump, Haler, Orcutt, Wallace, Ericks, B. Sullivan, O'Brien, Dunn and Holmquist.

House Committee on Technology, Energy & Communications
House Committee on Finance
Senate Committee on International Trade & Economic Development
Senate Committee on Ways & Means

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 the 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 (B&O) 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. These tax incentives are scheduled to expire on January 1, 2007.

In the fiscal year ending June 30, 2005, 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:

A number of tax incentives provided to firms in the aluminum smelting industry are extended until January 1, 2012.

The B&O tax rates on the manufacturing, processing for hire, and wholesaling of aluminum are reduced for aluminum smelters to .2904 percent through January 1, 2012. Aluminum smelters may take a credit against B&O tax liability for property taxes paid through January 1, 2012.

Through January 1, 2012, 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 January 1, 2012.

The act includes accountability provisions related to employment goals, reporting requirements, and an evaluation. The goals of the incentives are to (1) 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 to the Legislature evaluating the effectiveness of the incentives, including the effect on job retention. Another report to the Legislature must be conducted by December 1, 2010, and December 1, 2015.

Votes on Final Passage:

House	90	8	
Senate	40	8	(Senate amended)
House	93	4	(House concurred)

Effective: June 7, 2006