

SENATE BILL REPORT

HB 2348

As Reported By Senate Committee On:
International Trade & Economic Development, February 21, 2006
Ways & Means, February 27, 2006

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

Brief Description: Extending tax relief for aluminum smelters.

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

Brief History: Passed House: 2/10/06, 90-8.

Committee Activity: International Trade & Economic Development: 2/16/06, 2/21/06 [DPA-WM].

Ways & Means: 2/24/06, 2/27/06 [DPA(ITED)].

SENATE COMMITTEE ON INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Shin, Chair; Sheldon, Vice Chair; Pflug, Ranking Minority Member; Doumit, Eide, Roach and Zarelli.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on International Trade & Economic Development.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller and Schoesler.

Staff: Dean Carlson (786-7305)

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 June of 2005, the industry employment level was 971.

In 2004, the Legislature created the Aluminum Smelter Tax Incentives Program for the aluminum smelting industry which included a number of tax preferences. The measure included the following provisions:

- A reduction in the business and occupation (B&O) tax rates under manufacturing and wholesaling 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;
- 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; and
- Aluminum smelters are exempt from the brokered natural gas use tax through 2006.

The measure also included a requirement that Legislative fiscal committees report by December 1, of 2005, 2006, and 2010 on incentives in the bill

Summary of Amended Bill: The B&O tax incentives for aluminum smelters are continued through 2012. The sales and use tax credit and the natural gas use tax exemption for aluminum smelters are continued through 2012.

The next reports to the Legislature on aluminum smelter incentives are due by December 1, of 2007, 2010, and 2015.

Amended Bill Compared to Original Bill: The amendment added a report requirement in 2010.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For (International Trade & Economic Development): It is critical that we have domestic aluminum capacity. The aluminum companies provide a huge shock absorber to stabilize our electrical grid during electrical shortage crises. This investment by the state will produce huge dividends

Testimony Against (International Trade & Economic Development): None.

Who Testified (International Trade & Economic Development): PRO: Representative Morris, prime sponsor; Ryan Spiller, Alcoa; Pete Kremen, Whatcom Co. Exec.; Vicki Henley, IMAU/Alcoa.

Testimony For (Ways & Means): This has worked in the past, and we are sorry we have to ask for an extension of the bill, but thanks for the support. In 2004, we had an uncertain future. The tax relief worked. We thought we would have a power deal with the federal government, but does not look like it will be until 2011. This has at least let us keep our employment up.

Testimony Against (Ways & Means): None

Who Testified (Ways & Means): PRO: Sandi Swarthout, Alcoa; Mike Rousseau, Alcoa; Vicki Henley, IMAU/Alcoa