HOUSE BILL REPORT
HB 1786

As Reported by House Committee On:
Labor

Title: An act relating to establishing a statewide wage standard for aerospace employment as a requirement to qualify for certain aerospace-related tax incentives.

Brief Description: Establishing a statewide wage standard for aerospace employment as a requirement to qualify for certain aerospace-related tax incentives.

Sponsors: Representatives Gregerson, Tarleton, Robinson, Sells, Ortiz-Self, McBride, Peterson, Cody, Bergquist, Moscoso, Jinkins, Ormsby, Stanford, Ryu, Pollet and S. Hunt.

Brief History:
Committee Activity:
Labor: 2/9/15, 2/17/15 [DPS].

Brief Summary of Substitute Bill

- Requires wage standards to be met for businesses to be eligible for certain aerospace related business and occupation tax incentives.

HOUSE COMMITTEE ON LABOR

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 4 members: Representatives Sells, Chair; Gregerson, Vice Chair; Moeller and Ormsby.

Minority Report: Do not pass. Signed by 3 members: Representatives Manweller, Ranking Minority Member; G. Hunt, Assistant Ranking Minority Member; McCabe.

Staff: Joan Elgee (786-7106).

Background:

Business and Occupation Tax.
Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any

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deduction for the costs of doing business. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and activities not classified elsewhere. Several lower rates also apply to specific business activities.

Aerospace Tax Incentives.
In 2003 a number of aerospace related tax incentives were adopted. The incentives included a reduction in the B&O tax rate for manufacturers, a B&O tax credit for development expenditures, and several tax exemptions. In 2006 and again in 2008 changes were made to the tax incentives.

In 2013 the expiration date for specific tax incentives was extended from 2024 to 2040. The extension of the incentives was contingent upon the Department of Revenue (DOR) making a determination that a final decision to locate a significant commercial airplane manufacturing program in the state had occurred by June 30, 2017. The DOR made the required determination on February 5, 2014.

The incentives for which the expiration date was extended include a:
- 0.2904 percent preferential B&O tax rate for businesses engaged in the manufacturing, wholesaling, or retailing of commercial airplanes or components;
- 0.2904 percent preferential B&O tax rate for businesses engaged in the manufacturing, wholesaling, or retailing of tooling used in the manufacturing of commercial airplanes and airplane components; and
- 1.5 percent B&O tax credit for certain aerospace product development expenditures.

Businesses that exercise any of these incentives must file an annual report with the DOR. The report must include employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions in the state. However, persons engaged in manufacturing commercial airplanes or components may report the information per job at the manufacturing site for the year that the preference was claimed.

As part of the 2013 legislation, the Joint Legislative Audit and Review Committee (JLARC) was directed to review the tax preferences and report to the Legislature every five years beginning December 1, 2019. The JLARC must specifically assess changes in aerospace industry employment in Washington in comparison with other states and internationally.

Summary of Substitute Bill:

Certain wage standards must be met to claim the preferential B&O tax rate for the manufacturing, wholesaling, or retailing of commercial airplanes or components, or the tooling used in the manufacture. The wage standard must also be met to claim the aerospace product development expenditure B&O tax credit.

The qualifying wage standard is based on the most recent median hourly wage for all Washington occupations as published by the United States Census Bureau, Occupational Employment Statistics Program. For 2013 that wage is $19.67. The DOR, in collaboration with the Employment Security Department (ESD), must calculate the fraction of employees for each business who earned at least the qualifying wage standard for the 12-month period ending on September 30. Only employees for whom wage data was reported to the ESD for at least 36 months are included. To be eligible for the preference, all of the employees must earn at least the wage standard. For taxes due and payable in 2016, the wage standard is 80 percent of the state median wage. For 2017 the wage standard is 90 percent of the state median wage, and in 2018 and later, the wage standard is 100 percent of the state median wage.

The DOR must determine whether a taxpayer is eligible for the preferential rate and credit and notify affected businesses, to the extent possible, by January 1 of each year. Taxpayers disallowed from claiming the preference may claim the preference in subsequent years if the wage standard requirement is met. Wage data is not subject to certain confidentiality provisions.

The wage standard applies beginning with taxes due in calendar year 2016.

The reporting requirement is changed to delete the aerospace specific provision that employment, wage, and benefits information may be reported for the manufacturing site. The report must provide information for employment positions in Washington.

Increases in State General Fund revenue collections resulting from the provisions must be used for state services that aid low-income individuals.

As part of its review, the JLARC must also assess growth in high-wage employment, as defined by an annual or hourly wage equal or greater than the state median wage.

Substitute Bill Compared to Original Bill:

The substitute bill changes the definition of "state median wage" from the median family income for the state for a one-earner family as reported in the Bureau of Labor Statistics American Community Survey to the hourly wage for all occupations in the state as published by the Occupational Employment Statistics Program of the Bureau of Labor Statistics.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed, except for section 2 relating to the business and occupation preferential rate, which takes effect July 1, 2015.

Staff Summary of Public Testimony:

(In support) We need good wage jobs to help restore the middle class and allow families to take care of themselves. Aerospace is very important to our state and the state invests heavily in aerospace, but success is not shared. A company is making a large profit yet 80 percent of the jobs pay less than $15 per hour. Aerospace jobs were meant to bring people into the middle class. Testing inspectors started at $10.90 per hour and now get $13 per hour, which is still not livable. A third of aerospace workers earn $15 per hour or less and the number is growing. If a company is going to receive an incentive, it should provide good wage jobs. Otherwise, taxpayers subsidize the company twice, once with the profits and then with social services for employees. People are having to use the social safety net to survive. Workers had to file for bankruptcy when their children were born. Of the 230 incentive programs in 42 states, 98 impose a wage requirement, including states that compete with Washington for aerospace jobs. Wage standards prevent hidden costs to taxpayers. The family wage definition comes from the Bureau of Labor Statistics and is about $19 per hour. Employees have to work for a company for three years. This bill is a reasonable approach to assure that workers with a few years' experience can make a living wage and support community businesses. It will also attract future talent.

(Opposed) This bill burdens small and medium-sized companies. In a globally competitive industry, companies have to pay a wage that allows them to compete. Companies will not be able to compete if the wages of all employees have to meet the standard. A huge number of people are just starting aerospace careers, need training, and are not ready to make the required wage. The incentive has encouraged building facilities. With this bill, companies would no longer take advantage of the incentive. Payroll at a company would have to be raised by 10 percent. There is already sufficient accountability for companies taking the incentive. This bill is a retroactive restriction on a deal that was made.

Persons Testifying: (In support) Representative Gregerson, prime sponsor; Thomas Cafcas, Good Jobs First; Chelsea Orvella, Society of Professional Engineering Employees in Aerospace; Jon Holden; and Paul Elliot.

(Opposed) Gabe Doleac, Aviation Technical Services; Ben Hempstead, Electroimpact; Nima Seyedali, Greenpoint Technologies; and Mike Brown, Aero-Plastics.

Persons Signed In To Testify But Not Testifying: None.