

## HIGH STAKES FOR WASHINGTON IN COMPETITION FOR 777X

### LEGISLATURE ACTS SWIFTLY; MACHINISTS REJECT OFFER

#### BRIEFLY

*There is strong demand for the Boeing 777X. Washington will have to compete with other states to win the opportunity to build the plane here.*

The weekend announcement of record-setting orders for the Boeing 777X (Batrawy 2013) at the Dubai Airshow makes it clear: There's strong demand for the new plane. That demand will be matched by intense competition to be the place where the plane is built.

A few weeks ago, Washington could have secured the work for generations. The *Wall Street Journal* reported November 5 that Boeing had

reached tentative deals with state officials and its largest union that should win the aerospace giant new tax breaks and eight more years of labor peace in exchange for building its planned 777X jetliner in Washington state. (Ostrower 2013)

Lawmakers acted swiftly. In 2013's third special session on November 9, the Legislature passed two bills the governor and legislative leaders said were necessary to assure that the 777X and its carbon fiber wing would be manufactured in Washington. Then, within days, Boeing Machinists overwhelmingly rejected the proposed contract.

Governors and economic development agencies from other states ramped up efforts to land the new plane. And the company has begun its competitive process. Gov. Inslee says the Washington remains in the game. While there's no doubt the Machinists' rejection represents a major setback, it's important to consider what legislators did in the special session to improve Washington's competitive position.

#### Legislative Action

The Legislature passed bills extending certain reduced tax rates (ESSB 5952) and appropriating funds for aerospace industry training and permitting activities (EHB 2088).

Over the last decade, several tax preferences were enacted that reduced business and occupation (B&O) tax rates for businesses manufacturing or selling commercial airplanes or components, or tooling for use in manufacture; certain repair facilities; and those performing aerospace product development for others. Credits against the B&O tax were also provided for aerospace manufacturers' product development expenditures and property and leasehold excise taxes on certain aerospace land and buildings. Lastly, sales and use tax exemptions were provided for computers used in development, design and engineering of aerospace products, and construction of superefficient airplane manufacturing buildings. These preferences were scheduled to expire after fiscal year (FY) 2024.

ESSB 5952 extends them through FY 2040. It also expands the sales and use tax exemption to include construction of commercial airplane manufacturing buildings or fuselages or wings of commercial airplanes.

ESSB 5952 is "contingent upon the siting of a significant commercial airplane manufacturing program in the state of Washington" by June 30, 2017. "Significant commercial airplane manufacturing program" is defined as "(i) The new model, or any version or variant of

an existing model, of a commercial airplane; and (ii) Fuselages and wings of a new model, or any version or variant of an existing model, of a commercial airplane.” That is, if Boeing builds the 777X elsewhere, ESSB 5952’s tax breaks do not go into effect.

The second bill, EHB 2088, appropriates

- \$8.0 million to increase aerospace enrollments by 1,000 students in school year 2014–15;
- \$500,000 for “developing a fabrication composite wing incumbent worker training program” at the Washington Aerospace Training and Research Center;
- \$2.0 million for grants “to assist a county or city in paying for the cost of preparing an environmental analysis that advances environmental permitting activities in and around current and future large manufacturing sites for aerospace and other key economic growth centers;”
- \$5.0 million in additional funding for construction of the Renton Aerospace Training Center; and
- \$3.0 million for “building modifications and acquisition of specialized equipment” for the worker training program at the Washington Aerospace Training and Research Center.

These bills passed by overwhelming majorities. Rep. Reuven Carlyle, chair of the House Finance Committee, [said](#),

We are committing to a long-term, genuine, and authentic marriage between aerospace, the people of Washington, the tens of thousands of families that work in the aerospace industry. The return on investment for the public is unquestioned. This is sound fiscal policy. (Washington House Democrats 2013)

### Labor Action

On November 13, the Machinists union voted against the [proposal](#) (Machinists 2013) for amending and extending its contract through Sept. 12, 2024, by [67](#)

[percent](#) (Salerno 2013).

Following the vote, Boeing [said](#),

The company has started to actively pursue its options, including those within Boeing and interest we have received from outside. We chose to engage in Puget Sound first, but with the contract rejection by the union, we will now open up the process competitively and review all options for locating the 777X work. (Boeing 2013)

### What’s the Big Deal?

Boeing is the largest private employer in Washington. In a 2009 [report](#) for the Washington Alliance for a Competitive Economy, we looked at what would happen to Washington’s economy should Boeing decide to leave the state (WashACE 2009). Among our findings:

- The company’s departure would mean a permanent reduction of 285,000 jobs.
- Without the draw of aerospace employment, housing prices would fall by as much as 6.5 percent by 2030.
- Statewide personal income would decline by nearly 9 percent.

More recently, in October 2013, the Washington Aerospace Partnership released a [study](#) showing that between 2004 and 2012, the aerospace industry in Washington directly paid more than \$1.2 billion in state taxes. Including indirect and induced effects, “the total fiscal impact of aerospace over the period was nearly \$4.1 billion” (CAI 2013). The study estimates that, based on Boeing Commercial airplane orders and employment forecasts, Washington “will receive between \$450 million and \$500 million in fiscal revenues per year, through 2040, for a total of \$12.5 billion to \$14.3 billion cumulatively during this period.”

### Comment

Given Boeing’s contributions to Washington’s economy, other states are undoubtedly eager to win 777X production. The tax package enacted by our

Legislature will help to make the case for Washington.

On Nov. 14, the *Seattle Times* wrote that Sen. Rodney Tom “said lawmakers should continue work on a transportation package and take steps to help other businesses in Washington with tax and regulatory issues the way it has for Boeing” (Brunner 2013). As we wrote in the 2009 report, “Location is a choice. Our policymakers must act now to assure that Washington is the right choice for our major employers.”

## References

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