



Citizen Commission for Performance Measurement of Tax Preferences

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November 10, 2016

The Honorable Representative Kristine Lytton
The Honorable Representative Timm Ormsby
The Honorable Senator John Braun

The Honorable Representative Terry Nealey
The Honorable Representative Bruce Chandler
The Honorable Senator Jim Hargrove

Re: 2016 Tax Preference Reviews

I am pleased to forward to you the comments that the Citizen Commission for Performance Measurement of Tax Preferences (Commission) adopted for this year's review of tax preferences.

The Commission was created by the Legislature in 2006 and includes five voting Commissioners, appointed by the four legislative caucuses and the Governor. We have unanimously adopted the same position as the Legislative Auditor for 14 of the 15 recommendations he issued. We did not endorse one recommendation by the Legislative Auditor to modify a preference for rural electric cooperative financing, and instead we recommend continuing that preference. The full text of our comments, as well as summaries of the JLARC staff's analysis and recommendations, are attached and linked [here](#).

With this year's report, there are now ten years of tax preference evaluations available to the Legislature, comprising 259 individual reviews. Each preference has undergone rigorous analysis by the non-partisan staff of the Joint Legislative Audit and Review Committee (JLARC), pursuant to legislatively mandated criteria and government auditing standards, and have also been the subject of public testimony.

This volume of tax preference evaluation work done in Washington is unprecedented compared to other states. Tax preference reviews provide valuable information as the Legislature considers whether specific preferences are meeting the Legislature's policy objectives. The work provides a key tool to assist the Legislature as it seeks to balance many policy and fiscal needs of the state and its citizens. I urge you to consider this year's and previous years' recommendations and comments on tax preference statutes in the upcoming legislative session.

In 2016, JLARC staff conducted a full review of 15 packages of preferences (some preferences were grouped for industries when provided for a common purpose). After reviewing JLARC staff's report and receiving public testimony, the Commission has recommended the Legislature should continue six preferences, and it should review or clarify the purpose of seven preferences. In addition, we recommend repealing one preference (in conjunction with also repealing a related tax), and allowing one preference to expire (and consider whether different incentives would instead be more effective).

The Commission also considers information each year on a list of "expedited" preferences, which do not receive a JLARC staff evaluation. Many of these expedited preferences have limited fiscal impacts

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and may not benefit from a JLARC staff evaluation. In 2016, the Commission scheduled 44 preferences for “expedited” review. The Commission explicitly solicited public testimony on these expedited preferences as well those that received a JLARC staff evaluation.

While these “expedited” preferences are sometimes smaller and did not receive the benefit of a JLARC evaluation, the Commission believes they still merit attention by the Legislature. The Commission unanimously adopted a comment to continue one of these expedited preferences. Further, one Commissioner submitted a minority report comment for three expedited preferences. These comments have been included in the attachment.

Finally, the Commission used this year’s ten-year anniversary of tax preference reviews as an opportunity to reflect on the overall review process. We held additional Commission meetings this spring to discuss the evaluation questions and approach to selecting which preferences to review. The Commission affirmed the overall process, and we do not recommend legislative changes to the approach. Notably, we also identified 132 tax preferences that are critical to the tax structure, and therefore do not merit a JLARC staff evaluation. We adopted a new ten- year schedule that will omit these 132 preferences from the review process, unless warranted by future changes in statutes or economic circumstances.

As Chair of the Citizen Commission, I would be pleased to discuss the Commission’s position and comments with you and any interested legislators. I can be contacted via email at grant.forsyth@leg.wa.gov. If you have questions about JLARC staff’s performance audits, please feel free to contact the Legislative Auditor, Keenan Konopaski, at 360-786-5187 or keenan.konopaski@leg.wa.gov.

Additional information on all ten years of tax preference reviews can be found at: www.citizentaxpref.wa.gov/reports.htm.

A recording of this year’s public testimony is posted [here](#), and written testimony we received is posted [here](#) (please select the 9/9/16 meeting to see written testimony).

Sincerely,



Grant D. Forsyth, Chair

Citizen Commission for Performance Measurement of Tax Preferences

cc: All Legislators
Keenan Konopaski, Legislative Auditor
David Schumacher, Director, Office of Financial Management
Vikki Smith, Director, Department of Revenue