PRELIMINARY REPORT:

2020 TAX PREFERENCE PERFORMANCE REVIEWS

Tribal Lands Used for Economic Development

LEGISLATIVE AUDITOR'S CONCLUSION:

Tribal businesses on exempt properties provide economic benefits, but the preference itself likely had limited impact. The Legislature should continue the preference as amended in 2020, with its new objective to provide equal treatment to tribal and nontribal governments.

Updated September 14, 2020

Property tax exemption for tribal lands used for economic development

Estimated Biennial Beneficiary Savings
$748,000
Tax Types
Property Tax
RCW 84.36.010 (amended effective June 11, 2020)
Applicable Statutes

Tribal governments in Washington manage two types of land: **trust land**, where land is held in trust by the U.S. government and not subject to state and local property taxes; and **fee land**, where the land may be subject to property taxation.

The 2014 Legislature passed a preference to exempt federally recognized Indian tribes from owing property tax on **fee land** that is used for economic development.

To qualify for the preference, a tribe had to acquire the land before March 1, 2014 and apply to the Department of Revenue (DOR) for the exemption.

The 2014 preference was scheduled to expire January 1, 2022.

This review focuses on the 2014 tax preference

The property tax exemption was amended during the 2020 legislative session. This review focuses on the impact of the preference between 2015 and 2019. It does not evaluate the amended preference which took effect in June 2020.

It is unclear what effect the preference had on helping tribes create jobs and improve economic conditions

When this preference was enacted, the Legislature stated its intent was to help create jobs and improve the economic health of tribal communities.

Objective (stated)	Results
Create jobs and improve the economic health of tribal communities.	**Unclear**. All businesses on the exempt properties were operating prior to 2014. While these businesses created jobs and other economic benefits, the preference itself likely had limited impact on the communities.

Recommendation

Legislative Auditor's Recommendation: Continue the preference as amended in 2020

The Legislature should continue the preference as amended in 2020 because the preference is now considered to be part of a broader tax exemption for essential government services. The initial public policy objective from the 2014 legislation is now superseded by the new 2020 objective to treat tribal and nontribal governments the same for property tax purposes.

The Citizen Commission for the Performance Measurement of Tax Preferences should consider whether the preference is critical to the tax structure. If so, it will be excluded from future tax preference reviews.

You can find more information in Recommendations.

Commissioners' Recommendation

Available on Citizen Commission website October 2020.

REVIEW DETAILS

1. Intent of 2014 preference was economic development

This report focuses on the use of the 2014 preference from 2015 through 2019

Federally recognized Indian tribes[1] in Washington do not pay property tax on fee land that is used for essential government services. Starting in 2014, tribes were also exempt from owing property tax on fee land that is used for economic development as long as the land was acquired prior to March 1, 2014. The exemption for economic development property is the subject of this JLARC review.

The intent of the 2014 preference was to create jobs and improve the economic health of tribal communities

The 2014 Legislature stated that it enacted this preference to promote economic development for tribal communities.

The preference defined **economic development** as "commercial activities, including those that facilitate the creation or retention of businesses or jobs, or that improve the standard of living or economic health of tribal communities."

Tribal governments may also operate commercial activities on land that is held in trust by the federal government. However, under federal law, trust lands are already exempt from state and local property taxation.

2014 preference included eligibility requirements, a payment in lieu of taxation (PILT), and an expiration date

To qualify for the property tax exemption, a federally recognized Indian tribe had to:

- Purchase the property prior to March 1, 2014.
- Negotiate annual payments in lieu of taxes (PILT) for certain properties. PILT payments are intended to help offset costs to local governments for services provided at the exempt property. The payments are negotiated between the tribes and counties where the properties are located. PILT is owed on properties that are used for economic development, located outside of the tribe's reservation, not otherwise exempt from taxation under federal law, and where no leasehold excise tax[2] is owed because there is no lease on the property.
- Apply to the Department of Revenue (DOR) by October 1 for an exemption. Tribes had to include copies of any relevant PILT agreements and file for renewals each year. Tribes also had to submit annual accountability reports to DOR.

The 2014 preference was scheduled to expire on January 1, 2022.

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[1]Leasehold excise tax (LET) applies to property owned by a tribe but occupied by a tenant.

[2]The amount of prize money offered for each race.

The Legislature directed JLARC staff to provide an economic impact report

The Legislature directed JLARC staff to provide an economic impact report on exempt tribally owned lands used for economic development. The legislation specified which metrics to assess:

- Number of parcels and uses of land.
- Economic impacts to tribal governments.
- State and local government revenue reductions, increases, and shifts.
- Impacts on public infrastructure and public services.
- Impacts on business investment and business competition.
- Description of the types of business activities affected.
- Impacts on the number of jobs created or lost.

The preference was amended during the 2020 session

The 2020 Legislature passed HB 2230, which made a number of changes to the 2014 tax preference. These changes took effect in June 2020.

- **Added a new public policy objective**. The 2014 public policy objective of creating jobs and improving the economic health of tribal communities no longer applies. The new inferred objective is to treat tribal governments the same as state and local governments for property taxation.
- **Removed purchase date and expiration date**. To qualify for the preference, land no longer has to be purchased prior to March 1, 2014. The amended preference has no expiration date.
- **Removed accountability requirements**. The Legislature also exempted the preference from the requirements that all new or amended tax preferences include performance statements and accountability reporting.

The economic development exemption is part of a broader tax preference for tribally owned land used for essential government services. This essential government services tax preference is part of the Citizen Tax Preference Commission's 2020 expedited review process.

Exhibit 1.1: How the 2014 tax preference compares to the 2020 amended tax preference

Preference Details	ESHB 1287 (2014)	HB 2230 (2020)
RCW	84.36.010 (1)	84.36.010 (1)
Public Policy Objective	Create jobs and improve the economic health of tribal communities.	Treat tribal governments the same as state and local governments.
Tax preference performance statement	Yes	No. RCW 82.32.808, which requires a performance statement, does not apply.
Date by which the tribe must own the property to qualify for the exemption	March 1, 2014	None
Initial application to DOR and annual renewal	Yes	Yes
DOR's accountability reporting required	Yes	No
Expiration date	January 1, 2022	No. RCW 82.32.805, which requires an expiration date, does not apply.
Leasehold excise tax provisions apply	Yes. If the economic development property is occupied by a tenant.	Yes. If the economic development property is occupied by a tenant.
Negotiated PILT	Yes. If the economic development property is located outside of the reservation and occupied by the tribe.	Yes. If the economic development property is located outside of the reservation and occupied by the tribe.
Parties involved in the PILT negotiation	Tribe and county where the property is located.	Tribe and county and, if applicable, city, where the property is located.

Source: JLARC staff analysis of RCW 84.36.010 and HB 2230 (2020).

The remainder of this report will focus on the use of the 2014 preference through 2019, before it was amended.

REVIEW DETAILS

2. Three tribes used 2014 property tax exemption

Three federally recognized tribes used the 2014 property tax exemption

Between 2015 and 2019, three tribes used the 2014 exemption for a total of 10 properties. These properties were classified as fee land when the exemption began. By the end of 2019, three of these properties became trust lands and are not subject to taxation under federal law. A fourth property was sold to another tribe and did not meet the 2014 preference's qualification criteria.

Six economic development properties were exempt as of 2019

One property owned by the Muckleshoot Indian Tribe: Emerald Downs

Emerald Downs is a horse racing track and casino located in Auburn. It is approximately two miles from the Muckleshoot Indian Tribe's reservation. The property currently includes 15 parcels.

The Tribe purchased the land under Emerald Downs (approximately 184 acres) in 2002 and acquired the business operations in 2014. Prior to purchasing the business, the Tribe contributed funds to enhance the amount of award money paid out to top finishers (known as "racing purses"), stating it sought to protect its investment.

The Tribe was granted an exemption beginning in 2015 and initially paid leasehold excise tax (LET). Upon acquiring the business, the Tribe negotiated a PILT payment with King County. According to the King County Assessor, the total assessed value of all parcels that comprise the Emerald Downs property was $57.5 million in 2018.

Two types of land ownership held by tribes:

Fee land (or "**fee simple**"): the most common type of property ownership where the owner's property rights are indefinite, typically unrestricted, and may be transferred at will.

Trust land: land held in trust by the U.S. government, or otherwise reserved for the benefit of tribes or individual tribal members.

- Federal government holds the legal title and the land is governed by the tribe.
- Land is not subject to state laws (property tax) or local laws (zoning regulations), but may be subject to some federal restrictions.

One property owned by the Puyallup Tribe of Indians: Marine View Ventures

Marine View Ventures (MVV) is the economic development arm of the Puyallup Tribe of Indians. It was incorporated by the tribal government in 1989 and its current office building is located inside the tribe's reservation and within the city limits of Fife. The exempt MVV property is located on two adjacent parcels that the tribe purchased and is used for MVV administrative functions.

According to its website, MVV's mission includes enhancing the tribe's economic position through land acquisition, job creation, and asset management. For example, MVV purchased the North Shore Golf Course in northeast Tacoma in 2016. Its business portfolio currently includes gas stations and convenience stores, real estate holdings, and the Chinook Landing Marina in northeast Tacoma. These other properties are not subject to the preference.

The Tribe first applied for the economic development property tax exemption in 2014 and was granted the exemption beginning in 2015. It has renewed the exemption each year since. Because the MVV property is inside the reservation and occupied by the Tribe, a PILT agreement was not required. According to the Pierce County Assessor, the assessed value of the property in 2018 was $2.2 million.

Four properties owned by the Suquamish Tribe: Kiana Lodge and related properties

Port Madison Enterprises (PME), an agency of the Suquamish Tribe, purchased Kiana Lodge in 2004. At the time of the purchase, the Tribe announced plans to maintain the established business operations and keep the facility as a wedding and events destination.

Kiana Lodge and three other nearby properties are inside the Suquamish reservation boundaries and occupied by the Tribe. As a result, no PILT agreement was required.

The Suquamish Indian Tribe first applied for the property tax exemption for Kiana Lodge and the three nearby properties (Beach House, Saltair House, and the Raven's Nest) in 2015 and was granted the exemption beginning in 2016. The Tribe has renewed it for all four properties each year. The aggregate assessed values of the 12 parcels that constitute the four properties was $2.3 million in 2018.

Exhibit 2.1: Six exempt economic development properties had a total assessed value of $61.9 million in 2019

Tribe	County	Property	Assessment Value for 2019 Property Taxes
Muckleshoot	King	Emerald Downs	$57,469,000
Puyallup	Pierce	Marine View Ventures	$2,161,000
Suquamish	Kitsap	Kiana Lodge	$582,000
Suquamish	Kitsap	Beach House	$780,000
Suquamish	Kitsap	Saltair House	$554,000
Suquamish	Kitsap	Raven's Nest	$337,000
		All Properties	$61,883,000

Source: JLARC staff analysis of assessor data from King, Pierce, and Kitsap counties.

Four economic development properties no longer use the preference

Four other properties that were originally exempt under the preference no longer use it. Three of them are now trust lands and not subject to state property taxes. The fourth property was sold to another tribe and did not meet the 2014 preference's qualification criteria.

- The Muckleshoot Indian Tribe **converted two properties from fee land to trust land**: the Market and Deli Gas Station in 2016 and a car wash and parking lot near the Muckleshoot Casino in 2017.
- The Puyallup Tribe of Indians **converted** the formerly exempt Emerald Queen Hotel and Casino parking garage **from fee land to trust land** in 2016.
- The Muckleshoot Indian Tribe **sold** Salish Lodge, **a formerly exempt property**, to the Snoqualmie Indian Tribe in 2019. Because this purchase occurred after March 1, 2014, the land did not qualify for the exemption under its new ownership. It was sold for $125 million and became taxable as of October 31, 2019.

The preference may have served as a stop-gap measure while tribes sought trust land status

The property tax exemption may have served as a stop-gap measure for tribes to save money on property taxes while they wait for a decision from the Bureau of Indian Affairs (BIA) on trust status.

The BIA is currently reviewing both the Emerald Downs and Marine View Ventures properties for trust status.

JLARC staff was not able to determine whether the Suquamish Tribe is currently pursuing trust status for any of their four properties exempt under the 2014 preference.

REVIEW DETAILS

3. Unclear how much 2014 preference promoted economic health of tribes

The exact economic impact of the 2014 tax preference is unclear

While businesses located on the exempt properties have created jobs and other economic benefits for tribal members and the broader local communities, the 2014 preference by itself likely had limited impact on the economic health of tribal communities.

Businesses located on the exempt properties were operating prior to 2014

Businesses located on the exempt properties were established before the preference passed in 2014. Based on press reports and business websites, the primary economic activities on these properties have remained consistent over time.

Specific details about the businesses are not widely available. JLARC staff compiled public data from cities and counties. There is more information available on Emerald Downs than the other properties.

Local authorities collect general information, but do not routinely track impacts of exempt properties

King County and the cities of Auburn and Fife report that they do not track economic and infrastructure-related impacts associated with the exempt properties and the businesses located on them. They provided general information about the tribal properties in their communities.

- **Properties appear to have limited impact on public infrastructure and public services**. In interviews with JLARC staff, local officials did not report significant changes in public infrastructure planning and upkeep or demands on public services due to activities taking place at the exempt properties.
- **Preference unlikely to have impacted business investment and business competition**. Local officials were unable to offer specific insights on business investment activity and possible business competition from the exempt properties.

  It is unlikely that the preference itself significantly impacted investment or competition in the area. The businesses on the exempt properties were established and operating before the preference passed in 2014. Additionally, the tribes report that the revenue they earn from tribal businesses is generally used to provide services to their tribal members.

- **Some businesses on tribal properties are large employers in their communities.** Data from several jurisdictions indicates that tribal properties contribute to the local economy and community. The data available is not specific to the six exempt properties.
  - City of Auburn financial reports show that Muckleshoot Tribal Enterprises and Emerald Downs were the second and seventh largest employers in the city in 2018, with 3,494 and 1,150 employees, respectively. These rankings are identical to the ones these businesses had in 2009.
  - Pierce County's fifth largest public employer was the Puyallup Tribe of Indians and Emerald Queen Casino with 3,312 employees in 2018. The casino is not one of the properties that is exempt under the preference.
  - Kitsap County's second largest private employer, according to the Kitsap Economic Development Alliance, was Port Madison Enterprises owned by the Suquamish Tribe. It had 925 employees in 2018.

There is no public information on how tribal governments spend the savings from the property tax exemption. Without this data, it is not possible to determine whether the tribes invested their savings into the exempt properties and businesses or invested it elsewhere.

The impact of the preference on the operations of Emerald Downs is unclear

Emerald Downs is the largest and only for-profit horse racing track in Washington. There is more public information available about Emerald Downs than the other properties that are exempt under the 2014 preference.

The Muckleshoot Indian Tribe acquired business operations for the track in 2014. Two years later, the *Seattle Times* reported significant growth in wagering, purses[3], and attendance at Emerald Downs. This pattern is counter to national trends showing declining interest in horse racing over the last few decades.

In 2018, the Tribe also opened a new card room, restaurant, and other amenities as part of a partial renovation of the existing grandstand building.

Publicly available data indicates that Emerald Downs was responsible for more than 99% of the parimutuel[4] wagering that occurred at horse racing facilities in Washington between 2013 and 2019. It also hosted approximately 92% of all the state's races over the same time period.

However, in documents the Muckleshoot Indian Tribe filed as part of its application for trust land status, it reported that the operation of Emerald Downs does not generate sufficient income to cover its costs. Washington Horse Racing Commission (WHRC) data also shows a decline in numbers for several activities, including parimutuel wagering, races, and race days at Emerald Downs since 2012. The Horse Racing Commission data is specific to the horse racing season and does not include data on other activities that occur on the Emerald Downs property.

Economic modeling of Emerald Downs suggests limited employment gains related to the property tax exemption

JLARC staff used REMI's Tax-PI model to simulate the employment impact of the 2014 preference for Emerald Downs. JLARC staff chose to model the Emerald Downs property because it accounts for 93% of the assessed value of the exempt properties and is the only remaining property under the 2014 preference that requires a PILT payment. This payment significantly impacts the revenue analysis for both the tribes and local governments.

Estimated gain of 14 jobs statewide

The results of the REMI analysis indicate that both King County and the state may have experienced small positive employment gains related to the property tax exemption for Emerald Downs. King County likely gained 12.5 jobs and all other counties in Washington likely gained an additional 1.5 jobs. This is a total estimated gain of 14 jobs statewide.

[3]Bets are pooled together and payoffs are shared.

These estimates are based on the assumption that the Muckleshoot Indian Tribe reinvested its property tax savings in the gaming industry. If that is not the case, the estimated job numbers would likely be different.

JLARC staff does not have sufficient information to establish causality between the preference and the new jobs. Also, the estimates are not generalizable to other exempt properties. Based on available evidence, it is unlikely that the tax preference had a major impact on job creation or the economic health of tribal communities.

JLARC staff made the following assumptions in the model to account for changes in property taxes and government revenue for the Emerald Downs property tax exemption:

- The exemption (net the amount of the PILT payment) resulted in property tax savings for businesses in the amusement, gambling, and recreation industry. We assumed in the economic impact model that the tax savings were reinvested in the gaming industry.
- The portion of the exemption shifted to other taxpayers is modeled as a property tax increase on all other property. We determined that 88% of the tax savings were shifted to other taxpayers.
- Any revenue changes to local governments resulted in changes to local government expenditures. We determined that 12% of the tax savings resulted in a loss of government revenues. This reduction was more than offset by PILT payments to some local governments.

Acquisition and expiration dates may have narrowed the opportunities for economic development

To qualify for the 2014 exemption, all property had to be acquired prior to March 1, 2014 and the exemption had an expiration date of January 1, 2022. While JLARC staff cannot definitively conclude whether these dates influenced property decisions, these dates may have diminished the influence of the incentive.

The tribes acquired all of the qualifying properties prior to the enactment of the 2014 tax preference. Further, any new property purchases or investments that occurred after March 2014 did not qualify for tax savings and were unlikely to be influenced by the preference.

REVIEW DETAILS

4. Beneficiary savings: $748,000 in 2019

Tribal property tax savings resulted in a mix of gains, losses, and shifts for other taxpayers

To calculate beneficiary savings, JLARC staff compiled the amount of property tax savings that each tribe reported to DOR between 2015 and 2018. The savings for 2019 is an estimate based on county assessor data. JLARC staff did not estimate savings for future years because the 2020 Legislature made changes to the 2014 preference that may impact its use.

Payments in lieu of taxes (PILT) offset some revenue losses in King County

Most of the properties exempt under the 2014 preference are located on tribal reservations and did not require PILT payments. King County is the only local jurisdiction that had PILT agreements with the Muckleshoot Indian Tribe for Emerald Downs and the Salish Lodge, prior to its sale in 2019. The PILT amounts are factored into property tax savings to determine the net beneficiary savings.

Exhibit 4.1: Beneficiary savings from 2015 through 2019

Calendar Year	Property Tax Savings (All qualifying properties combined)	PILT Payments (King County only)	Net Beneficiary Savings
2015	$1,429,000	$103,000	$1,326,000
2016	$1,245,000	$328,000	$917,000
2017	$1,362,000	$358,000	$1,004,000
2018	$1,412,000	$395,000	$1,017,000
2019	$1,171,000	$423,000	$748,000

Source: JLARC staff analysis of DOR's accountability reports 2015-2018, PILT memoranda 2015-2019, and JLARC staff estimate based on 2019 assessor data.

Note: The PILT payments in 2015 were lower than successive years because one property paid leasehold excise tax (LET) that year. When LET is paid, PILT is not required.

Property tax savings were mostly shifted onto other taxpayers but may have resulted in a revenue loss for some levies

The total estimated property tax savings for all exempt properties in 2019 was $1,171,000. Based on JLARC staff's analysis of assessor, levy, and tax district data, the property tax exemption resulted in a mix of revenue losses, levy rate increases, and shifted property tax burden.

For 2019 specifically,

- $1,080,500 (92%) was shifted on to other taxpayers and $90,500 (8%) was lost revenue for some local jurisdictions.
    - Most levies were able to absorb the exemptions by increasing the levy rate, thereby shifting tribal tax savings to other taxpayers.
    - However, some levies were already at their statutory maximum and could not increase to absorb revenue lost due to the exemption. In these cases, the exemption resulted in a revenue loss to the tax district.
- King County received $423,000 in PILT payments from the Muckleshoot Indian Tribe.

REVIEW DETAILS

5. Applicable Statutes

RCW 84.36.010

Exemptions - Tribal Lands Used for Economic Development

RCW 84.36.010

(1) All property belonging exclusively to the United States, the state, or any county or municipal corporation; all property belonging exclusively to any federally recognized Indian tribe, if

(a) the tribe is located in the state, and

(b) the property is used exclusively for essential government services; all state route number 16 corridor transportation systems and facilities constructed under chapter 47.46 RCW; all property under a financing contract pursuant to chapter 39.94 RCW or recorded agreement granting immediate possession and use to the public bodies listed in this section or under an order of immediate possession and use pursuant to RCW 8.04.090; and, for a period of forty years from acquisition, all property of a community center; is exempt from taxation. All property belonging exclusively to a foreign national government is exempt from taxation if that property is used exclusively as an office or residence for a consul or other official representative of the foreign national government, and if the consul or other official representative is a citizen of that foreign nation.

(2) Property owned by a federally recognized Indian tribe, which is used for economic development purposes, may only qualify for the exemption from taxes in this section if the property was owned by the tribe prior to March 1, 2014.

(3) For the purposes of this section the following definitions apply unless the context clearly requires otherwise.

(a) "Community center" means property, including a building or buildings, determined to be surplus to the needs of a district by a local school board, and purchased or acquired by a nonprofit organization for the purposes of converting them into community facilities for the delivery of nonresidential coordinated services for community members. The community center may make space available to businesses, individuals, or other parties through the loan or rental of space in or on the property.

(b) "Essential government services" means services such as tribal administration, public facilities, fire, police, public health, education, sewer, water, environmental and land use, transportation, utility services, and economic development.

(c) "Economic development" means commercial activities, including those that facilitate the creation or retention of businesses or jobs, or that improve the standard of living or economic health of tribal communities.

NOTES:

Tax preference performance statement—2014 c 207 § 5: "This section is the tax preference performance statement for the tax preference contained in section 5 of this act. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The legislature categorizes this tax preference as one intended to create jobs and improve the economic health of tribal communities as indicated in RCW 82.32.808(2) (c) and (f).

(2) It is the legislature's specific public policy objective to create jobs and improve the economic health of tribal communities. It is the legislature's intent to exempt property used by federally

recognized Indian tribes for economic development purposes, in order to achieve these policy objectives.

(3) The joint legislative audit and review committee must perform an economic impact report to the legislature as required in *section 10 of this act to provide the information necessary to measure the effectiveness of this act." [2014 c 207 § 1.]

***Reviser's note:** The reference to section 10 of this act appears to be erroneous. Reference to section 11 of this act (RCW 43.136.090) was apparently intended.

Expiration date—2014 c 207: "This act expires January 1, 2022." [2014 c 207 § 14.]

Application—2014 c 207: "This act applies to taxes levied for collection in 2015 and thereafter." [2014 c 207 § 13.]

Application—2010 c 281: "This act applies to taxes levied for collection in 2011 and thereafter." [2010 c 281 § 4.]

Application—1998 c 179 § 8: "Section 8 of this act is effective for taxes levied for collection in 1999 and thereafter." [1998 c 179 § 9.]

Finding—1998 c 179: See note following RCW 35.21.718.[2014 c 207 § 5; 2010 c 281 § 1; 2004 c 236 § 1; 1998 c 179 § 8; 1990 c 47 § 2; 1971 ex.s. c 260 § 1; 1969 c 34 § 1. Prior: 1967 ex.s. c 149 § 31; 1967 ex.s. c 145 § 35; 1961 c 15 § 84.36.010; prior: 1955 c 196 § 3; prior: 1939 c 206 § 8, part; 1933 ex.s. c 19 § 1, part; 1933 c 115 § 1, part; 1929 c 126 § 1, part; 1925 ex.s. c 130 § 7, part; 1915 c 131 § 1, part; 1903 c 178 § 1, part; 1901 c 176 § 1, part; 1899 c 141 § 2, part; 1897 c 71 §§ 1, 5, part; 1895 c 176 § 2, part; 1893 c 124 §§ 1, 5, part; 1891 c 140 §§ 1, 5, part; 1890 p 532 §§ 1, 5, part; 1886 p 47 § 1, part; Code 1881 § 2829, part; 1871 p 37 § 4, part; 1869 p 176 § 4, part; 1867 p 61 § 2, part; 1854 p 331 § 2, part; RRS § 11111, part. Formerly RCW 84.40.010.]

REVIEW DETAILS

Appendix A: REMI overview

What is REMI?

JLARC staff used Regional Economic Models, Inc.'s (REMI) 70-economic-sector, 39-region version of Tax-PI (version 2.3) to model the economic impacts of the 2014 property tax exemption for tribal lands used for economic development purposes, using Emerald Downs as a case study.

REMI software is used by approximately 30 state governments and dozens of private sector consulting firms, research universities, and international clients.

Model is tailored to Washington and includes government sector

Tax-PI is an economic impact tool used to evaluate the fiscal and economic effects and the demographic impacts of a tax policy change. The software includes various features that make it particularly useful for analyzing the economic and fiscal impacts of tax preferences:

- REMI staff consulted with staff from the Office of Financial Management (OFM) and customized a statewide model to reflect Washington's economy.
- The model contains 70 industry sectors, based on the North American Industry Classification System (NAICS) codes.
- In contrast to other modeling software, Tax-PI includes state and local government as a sector. This permits users to see the trade-offs associated with tax policy changes (e.g., effects on Washington's economy from both increased expenditures by businesses due to a tax preference, along with decreased spending by government due to the associated revenue loss).
- For current revenue and expenditure data, users can input information to reflect their state's economic and fiscal situation. This allows JLARC staff to calibrate a state budget using up-to-date information from the Economic and Revenue Forecast Council (ERFC) and the Legislative Evaluation and Accountability Program (LEAP).
- The model can forecast economic and revenue impacts multiple years into the future.

Model includes economic, demographic, and fiscal variables

The REMI model is a macroeconomic impact model that incorporates aspects of four major economic modeling approaches: input-output, general equilibrium, econometric, and new economic geography. The foundation of the model, the inter-industry matrices found in the input-output models, captures Washington's industry structure and the transactions between industries. Layered on top of this structure is a complex set of mathematical equations used to estimate how private industry, consumers, and state and local governments respond to a policy change over time.

- The supply side of the model includes many economic variables representing labor supply, consumer prices, and capital and energy costs with elasticities for both the consumer and business sectors.

- Regional competitiveness is modeled via imports, exports, and output.
- Demographics are modeled using population dynamics (births, deaths, and economic and retirement migration) and includes cohorts for age, sex, race, and retirement.
- Demographic information informs the model's estimates for economic consumption and labor supply.
- The dynamic aspect comes from the ability to adjust variables over time as forecasted economic conditions change.

While the model is complex and forecasting involves some degree of uncertainty, Tax-PI provides a tool for practitioners to simulate how tax policy and the resulting industry changes affect Washington's economy, population, and fiscal situation.

REVIEW DETAILS

Appendix B: REMI analysis

REMI analysis shows the potential employment impacts of the property tax preference for Emerald Downs

JLARC staff used REMI's Tax-PI software to model a scenario that illustrates potential employment impacts of the property tax exemption for Emerald Downs. This property accounts for 93% of the total exempt assessed value in 2019 for the tax preference. It also is the only remaining property with a negotiated PILT payment.

This technical appendix provides background detail and supporting information for the JLARC staff analysis that led to the results summarized in Section 3.

REMI methodology

User inputs in REMI

REMI's Tax-PI model allows users to model policy changes and analyze the estimated impacts to the Washington economy, both in terms of economic activity and government finances (see Appendix A for an overview of the REMI model).

Prior to running modeling scenarios, users must make a series of choices about how to set up the modeling environment by building a state budget and calibrating the model accordingly. JLARC staff used the November 2019 revenue estimates produced by the Economic and Revenue Forecast Council (ERFC) and budgeted expenditures for fiscal years 2016 through 2018, as reported by the Legislative Evaluation and Accountability Program (LEAP) Committee. This data represents the budget and revenue data in the model and serves as the "jump off" point for Tax-PI's economic and fiscal estimates.

In addition to establishing a budget and inputting expected revenue values, users must specify whether government expenditures are determined by demand or by revenue.

- "By demand" imposes a level of government spending in future years that is necessary to maintain the same level of service as the final year in which budget data is entered.
- "By revenue" ties government expenditures to estimated changes in revenue collections.

JLARC staff ran the scenarios with expenditures set to be determined **by demand**. By setting expenditures to be determined by demand, users avoid making assumptions about how policymakers may alter spending priorities in the future. In addition, users essentially establish the current budget allocation as carry-forward levels for each expenditure category.

Users also may elect to impose a balanced budget restriction (also known as the balanced budget feedback loop) or leave the model unconstrained. The balanced budget restriction forces revenue and expenditures to be equivalent and thus may impose some limitations on economic activity. JLARC staff ran the reported scenarios with the **balanced budget restriction** turned off.

Because Tax-PI is a forecasting tool, JLARC staff was unable to model the economic impact of the 2014 tax preference beginning in 2015, the first year the preference was claimed. Rather, JLARC staff modeled the potential impacts of the property tax exemption as if 2018 was the first year the exemption was claimed.

Data for the REMI model

The REMI model comes with historical economic and demographic data back to 2001. The data comes from federal government agencies, such as the U.S. Census Bureau, U.S. Energy Information Administration, the Bureau of Labor Statistics, and the Bureau of Economic Analysis. This data includes tribal businesses such as the type of business that is the subject of this analysis. As described above, current revenue and expenditure data for Washington comes from ERFC and LEAP, respectively. The data to build the modeling scenario described in section 3 is from various sources.

To develop the policy variables used in this scenario, JLARC staff used its estimate of beneficiary savings net of any PILT payments for the Emerald Downs property. The savings estimate is based on JLARC staff analysis of:

- Department of Revenue data identifying exempt parcels.
- King County assessor data for those exempt parcels.
- The PILT payment based on a memorandum of understanding between King County and the Muckleshoot Indian Tribe.

Scenario modeled to estimate the employment impact of the property tax exemption

Scenario modeled

JLARC staff did not have information on how the Tribe used the property tax savings attributable to this preference. Instead, to illustrate potential impacts of the preference, JLARC staff assumed the Tribe would use the property tax savings to make further capital investments in the industry in which the exempt parcel is used. Three policy variables comprise the REMI analysis, beginning in 2018 through 2030:

- A $466,900 reduction in property taxes for the Amusement, Gambling, and Recreation industry in the amount of beneficiary savings net of any PILT payments for the Emerald Downs property.
- A $620,900 increase in property taxes for all other taxpayers in the amount of the portion of the beneficiary savings estimate that is shifted onto other taxpayers in the county through increases in the levy rate.
- A $154,000 increase in local government spending in the amount of the portion of beneficiary savings estimate that represents lost revenue to local levies plus the PILT payment made by the Tribe to King County local governments.

RECOMMENDATIONS & RESPONSES

Legislative Auditor's Recommendation

Legislative Auditor recommends continuing the preference as amended in 2020

The Legislature should continue the preference as amended in 2020. The preference is considered to be part of a broader tax exemption for essential government services. The initial public policy objective from the 2014 legislation is now superseded by the new 2020 objective to treat tribal and nontribal governments the same for property tax purposes.

The Citizen Commission for the Performance Measurement of Tax Preferences should consider whether the preference is critical to the tax structure. If so, it will be excluded from future tax preference reviews.

Legislation Required: No

Fiscal Impact: None

RECOMMENDATIONS & RESPONSES

Letter from Commission Chair

Available on Citizen Commission website October 2020.

RECOMMENDATIONS & RESPONSES

Commissioners' Recommendation

Available on Citizen Commission website October 2020.

RECOMMENDATIONS & RESPONSES

Agency Response

If applicable, available on Citizen Commission website October 2020.

MORE ABOUT THIS REVIEW

Study Questions

Washington JLARC

PROPOSED STUDY QUESTIONS

Tribal Land Used for Economic Development

State of Washington Joint Legislative Audit and Review Committee December 2019

JLARC to review a property tax exemption for tribally owned land used for economic development

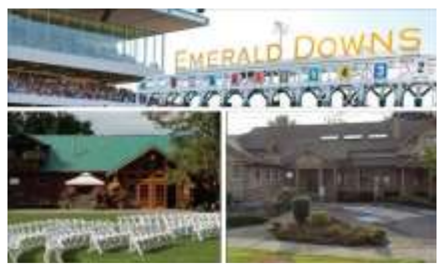
The 2006 Legislature directed JLARC staff to conduct performance audits of tax preferences. This preference is included in the 10-year review schedule set by the Citizen Commission for Performance Measurement of Tax Preferences.

The Legislature established a property tax exemption in 2014 for tribally owned land used exclusively for economic development purposes and directed JLARC staff to review this preference prior to its expiration.

Economic development means commercial activities that facilitate the creation or retention of businesses or jobs, or that improve the standard of living or economic health of tribal communities.

The 2014 Legislature stated its intent to improve the economic well-being of tribal communities

When it established this exemption, the 2014 Legislature stated its objective was to create jobs and improve the economic health of tribal communities. To qualify, properties must be owned by a federally recognized Indian tribe before March 1, 2014. These properties are not held in trust by the U.S. government and may be located inside or outside the reservation. The exemption is set to expire January 1, 2022.



The legislation directed JLARC staff to evaluate and report on the changes associated with the preference, including identifying the following:

- Number of qualifying parcels and uses of land.
- Impacts to tribal governments, local governments, and businesses.
- Revenue reductions, increases, and shifts for all tax sources.
- Descriptions of relevant business activities.
- Jobs created or lost.

The review will address the following questions:

Stated objective	Study questions
Create jobs and improve the economic health of tribal communities.	1) To what extent are federally recognized Indian tribes in Washington using the property tax exemption? 2) What are the economic impacts to tribes and the surrounding communities? 3) What are the other impacts, if any, on local governments, revenues, business competition, investment, and employment?

Study Timeframe

Preliminary Report: July 2020 **Proposed Final Report:** December 2020

JOINT LEGISLATIVE AUDIT & REVIEW COMMITTEE
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PROPOSED STUDY QUESTIONS | Tribal Land Used for Economic Development

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JLARC Study Process

- Study Mandate — Budget, legislation, committee direction
- **Proposed Study Questions**
- Legislative Auditor's Preliminary Report
- **For Tax Preferences:**
  - Citizen Commission meeting
  - Public testimony
  - Commission adopts comments
- Legislative Auditor's Proposed Final Report — Agency response included
- Final Report — Option to append committee comment
  - *Committee votes to distribute completed audit*

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