



Proposed Final Report

2019 Tax Preference Performance Reviews

Citizen Commission endorsed or partly endorsed all Legislative Auditor recommendations and added comments.

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December 2019



Today's focus: Citizen Commission Comments

July

Presented preliminary report to JLARC

August

Presented preliminary report to the Citizen Commission

September

Citizen Commission heard public testimony

October

Citizen Commission commented on the report

December

Present proposed final report to JLARC

Commission endorsed eight Legislative Auditor recommendations, partly endorsed one

Preference	Citizen Commission endorsed	Significant Commission comments
Commuter Air Carrier Airplanes (Property Tax)	✓	✓
Financial Institutions' Income from Certain Airplane Loans	In part	✓
Hog Fuel to Produce Energy	✓	✓
Property Tax Exemption – Multifamily Housing in Urban Areas	✓	✓
Aerospace Tax Preferences	✓	✓
Aircraft Part Prototypes	✓	
Commercial Airplanes Parts: Place of Sale	✓	
Commuter Air Carrier Airplanes (Sales and Use Tax)	✓	
Modifying Large Private Airplanes Owned by Nonresidents	✓	



Property tax

Commuter Air Carrier Airplanes

Enacted: 2013/ No expiration date

2021-23 estimated beneficiary savings: \$186,000 - \$254,000

Legislative Auditor's Conclusion: The preference streamlines tax reporting for one of three commuter air carriers in WA. However, the qualifying carrier is paying an estimated 50% to 63% less in excise tax than it would have paid in property tax.



Legislative Auditor's Recommendation:

The Legislature should modify this preference to:

- Provide a method to equalize the excise tax with property taxes over time.
- Clarify why the preference is limited to carriers on private property.
- Provide a performance statement with stated objectives and metrics.



Citizen Commission

Endorsed and commented:

- JLARC staff calculations suggest current tax methodology not revenue neutral relative to taxation under property tax.
- Lack of neutrality is unintended consequence of needed tax simplification.
- If Legislature decides to adjust the tax, it should be done gradually so industry can absorb any increase.



Business & occupation (B&O) tax

Financial Institutions' Income from Certain Airplane Loans

Enacted: 2010/ No expiration date

2021-23 estimated beneficiary savings: \$2.1 - \$3.4 million

Legislative Auditor's Conclusion: The preference provides targeted financial relief to two airlines headquartered in Washington. The Legislature should add a performance statement to clearly state the public policy objective.



Inferred objective achieved Preference provides targeted tax relief to two WA-based airlines and about 32 out-of-state lenders

Legislative Auditor's Recommendation:

Clarify the intent and duration

If the preference is intended to provide targeted financial relief to Washington-based airlines, the Legislature should add a performance statement and determine whether the relief is meant to be permanent or time-limited.



Citizen Commission

Recommends continue and clarify intent only

- **Continue:** Legislature did not provide expiration date, so can be inferred preference not meant to be time-limited.
- **Clarify:** Legislature should add explicit performance statement to align with current requirement and aid future reviews.



Sales and use tax

Hog Fuel to Produce Energy

Enacted 2009 / Expires June 30, 2024

2021-23 Biennial estimated beneficiary savings: \$5.6 million

Legislative Auditor's Conclusion: The Legislature should continue this preference because beneficiaries are exceeding the goal of retaining 75% of the jobs at participating facilities.

Stated objective being achieved

47% of beneficiary employees earned **\$60,000 or more** vs. county average wage of \$51,000.

Retain “relatively high wage jobs” in counties with facilities that use preference.

83% of beneficiary employees enrolled in employer-provided medical plans vs. 51% of all private-sector employees enrolled in employer-provided medical plans.



Legislative Auditor's Recommendation:

Continue if facilities keep achieving the 75% job retention goal.

Facility job levels should be monitored through 2023 to ensure they continue to meet the goal. If they do, the Legislature must decide whether to extend the preference and update job goals.

If the goals are not met, the Legislature should allow the preference to expire.



Citizen Commission

Endorsed and commented:

If employment goals are not met at any time, the Legislature should analyze if the preference should be continued based on different goals.

The jobs protected by the preference are often located in rural areas that continue to struggle with good job opportunities for their citizens.



Property tax

Multifamily Housing Property Tax Exemption (MFTE)

No expiration date

\$262 million (2022-2023)

Legislative Auditor's Conclusion: Developers have created housing using the Multifamily Housing Tax Exemption. It is inconclusive whether this use represents a net increase in development. Cities have opportunities to maximize the impact of the exemption and improve reporting on results.

Three Recommendations

- 1. The Legislature should modify the preference:** direct cities to include analysis of profitability as a consideration
- 2. The Department of Commerce should report annually** on city compliance, metrics in statute, and affordability measures
- 3. The Department of Revenue should report on which statutory ambiguities** require legislative changes

Agencies did not concur

Commerce and Revenue cited resource and authority issues

Legislative Auditor response:

- State will lack critical information on **how much housing** has been developed or whether the program is **applied consistently**
- Beneficiaries saved **\$19M in state property taxes in 2018**, in addition to \$61M in local property taxes, and estimated to grow to total of over \$100M per year.

Association of Washington Cities would like to be **involved in future conversations** and would like **access to tools** to assess profitability



Citizen Commission

Recommends work group

Citizen Commission offers a path forward: Legislature should convene a workgroup to propose ways to **improve reporting and consistency** of use.

Include:

- Commerce
- Revenue
- Association of Washington Cities



Multiple taxes

Aerospace Tax Preferences

Enacted: 2003 / Expires 2040

2021-23 Biennial estimated beneficiary savings: \$569 million

Legislative Auditor's Conclusion: The aerospace industry remains in Washington, offering wages and benefits above the state average. The preferences improved competitiveness by reducing the industry's effective tax rate by 50%. Employment has declined from its 2013 level, but it is unclear to what extent the preferences prevented greater job loss.

3 of 4 stated objectives met



Reduce the cost of doing business in Washington for the aerospace industry compared to other states.



Encourage the continued presence of the aerospace industry in Washington.



Provide jobs with good wages and benefits.

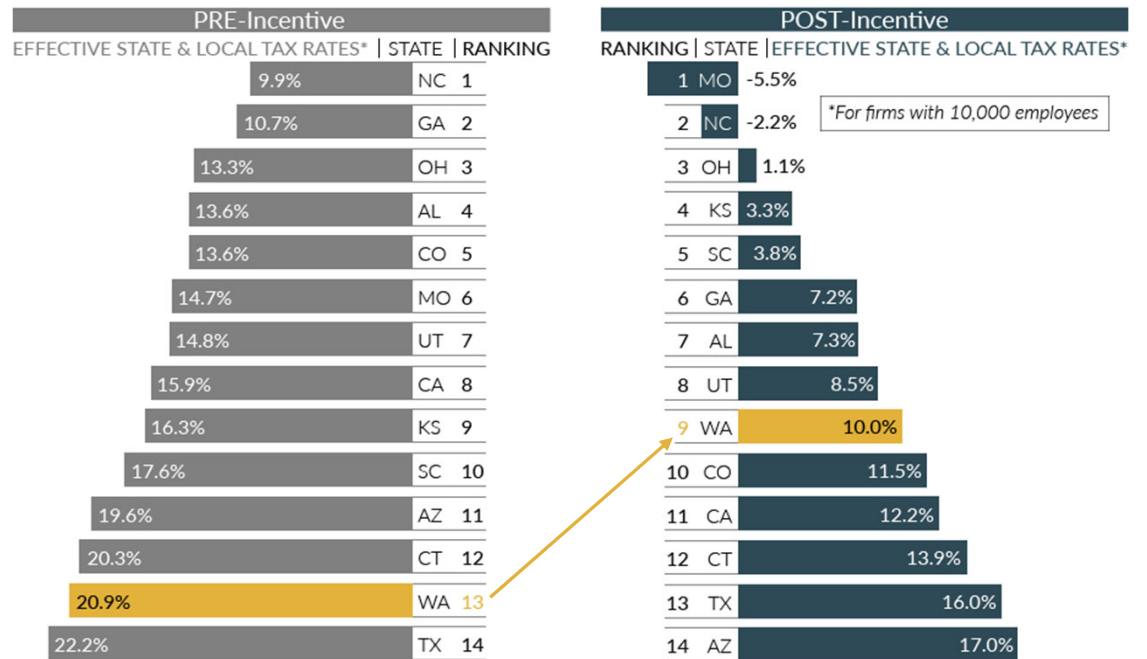


Maintain and grow Washington's aerospace industry workforce.



Preferences reduce costs and improve competitiveness

- Tax savings reduce beneficiary business costs.
- Accounting analysis estimated effective tax rates (ETR) for hypothetical firm.
- Applied applicable incentives to estimate their impact on ETR.



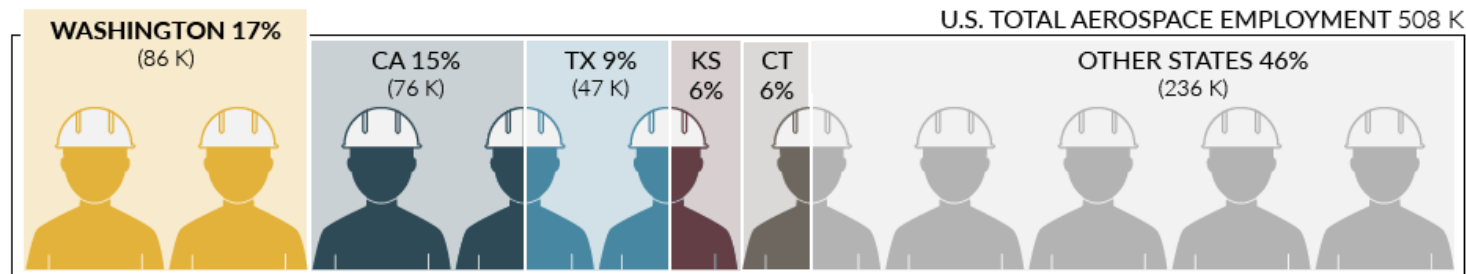
Source: Ernst & Young analysis.



Aerospace continues to be a major industry in Washington

Industry met two statutory contingencies to locate a manufacturing program in Washington.

WA aerospace employment also largest in nation.

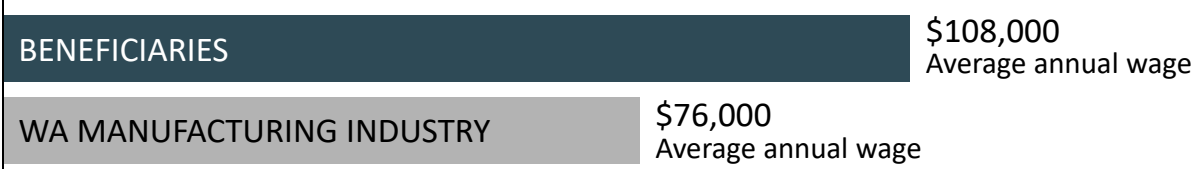


Source: Bureau of Labor Statistics.



Beneficiaries provide above-average wages, benefits

Beneficiary wages are higher than average manufacturing jobs.



Source: JLARC analysis of ESD Data, DOR Tax Return Data, BLS QCEW Data.

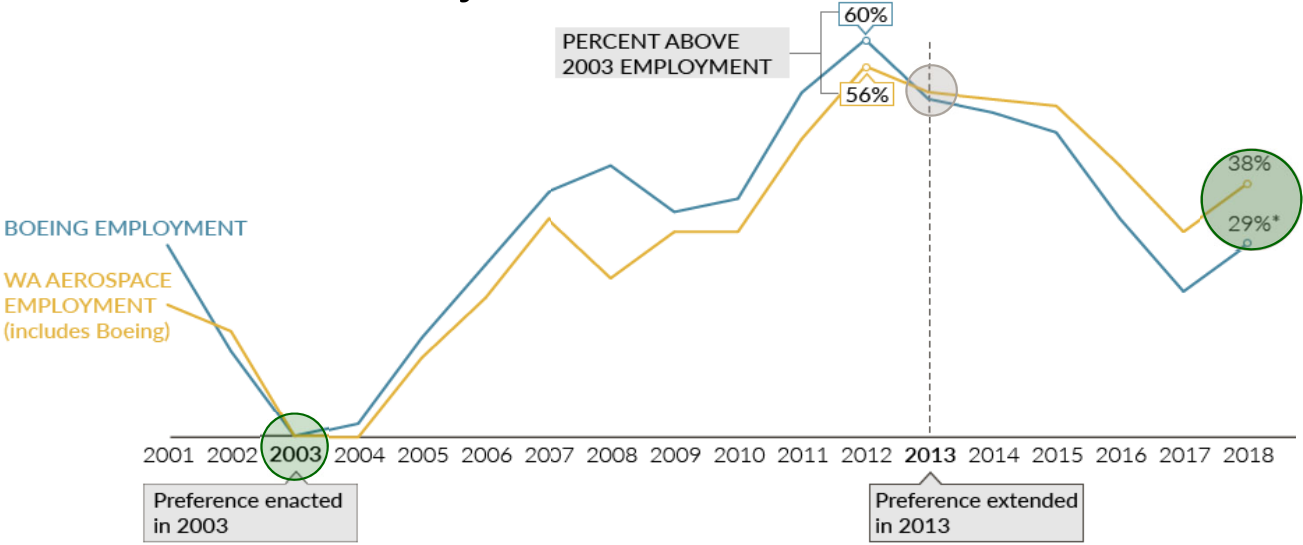
Beneficiaries report more than 90% of employees are enrolled in medical, dental, and retirement plans.



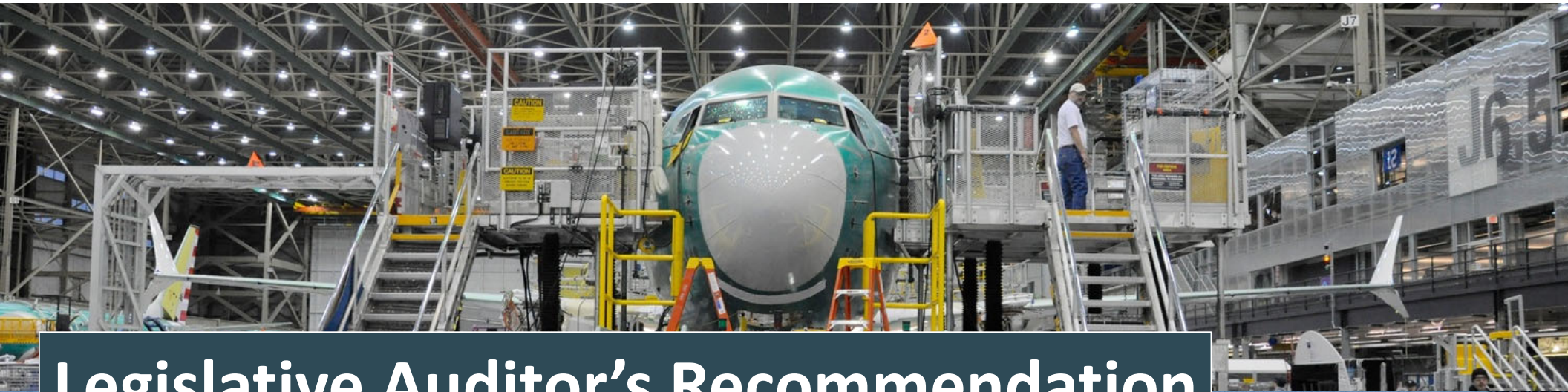
The Legislative Auditor cannot determine if the preferences maintained or grew aerospace employment

Uncertain how preferences influenced location decisions means JLARC staff cannot make a definitive conclusion about this objective.

- Aerospace employment is **lower** than in 2013, but **higher** than when the preferences were first enacted in 2003.
- The preferences may have prevented greater job losses if they caused a major Boeing location decision.



Source: Bureau of Labor Statistics and Boeing.



Legislative Auditor's Recommendation

The Legislature should clarify its expectations for the level of aerospace industry employment.

Providing additional detail in the tax preference performance statement such as a baseline level of employment would facilitate future reviews of these preferences.

Citizen Commission

Endorsed and commented:

The tax preferences continue to meet the majority of stated objectives. However, the employment objectives are ambiguous. The commission recommends the Legislature:

- Clarify its position on employment levels.
- Be cautious in how it interprets and responds to employment changes as a factor in the preference's efficacy.
- Continue to evaluate the preference on a regular cycle using a range of objectives, with employment levels being only one of the considerations.

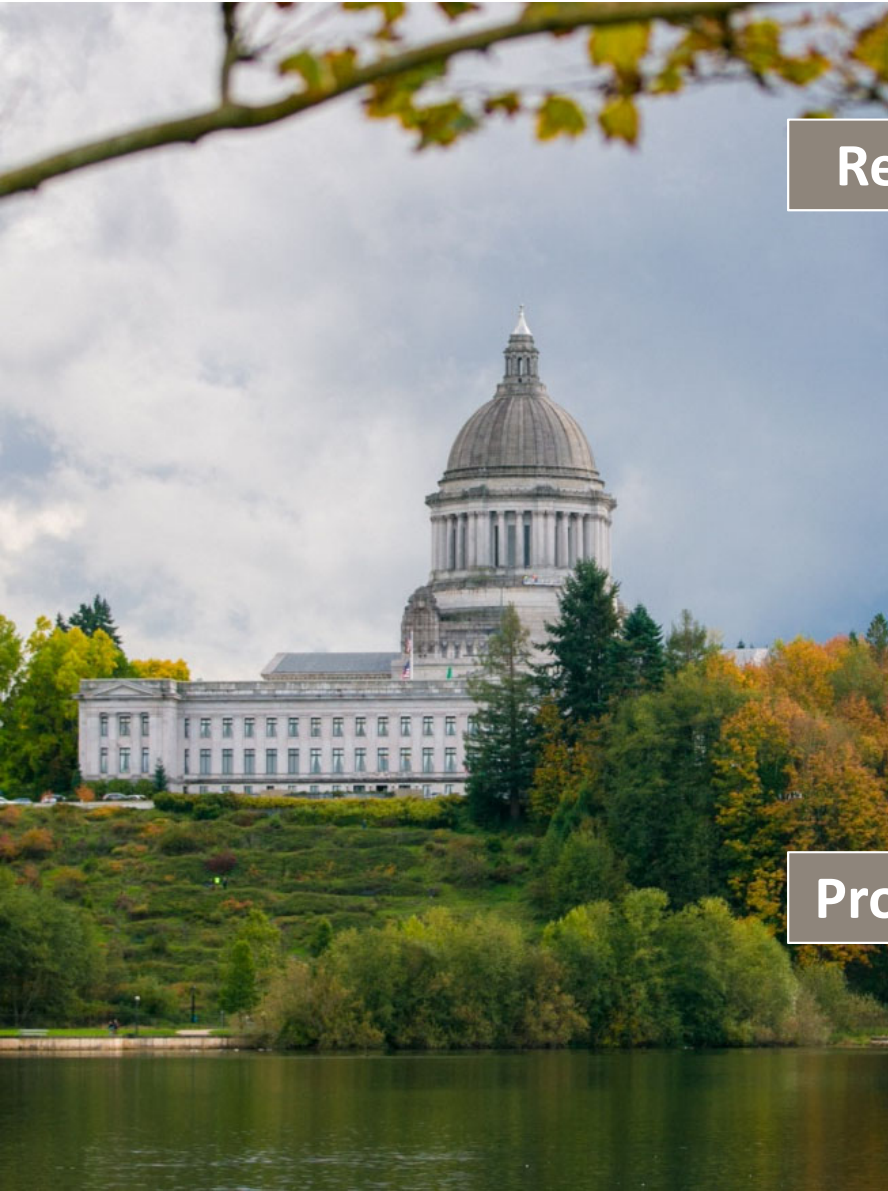
Citizen Commission endorsed four other 2019 tax preference reports

Preference	Legislative Auditor recommendation
Aircraft Part Prototypes	Terminate - preference has not been used
Commercial Airplanes Parts: Place of Sale	Review and clarify preferential tax treatment for out-of-state manufacturers
Commuter Air Carrier Airplanes (Sales and Use Tax)	Clarify expectations for levels of service and locations served
Modifying Large Private Airplanes Owned by Nonresidents	Continue and clarify the objective

9 preferences scheduled for 2020

Proposed study questions soon available for:

- **Anaerobic digesters**
- **Customized workforce training**
- **Farm worker housing**
- **Hiring unemployed veterans**
- **Livestock nutrient management equipment**
- **Microbrewers**
- **Shipping farm products to port**
- **Tribal lands used for economic development**



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