



# Citizen Commission for Performance Measurement of Tax Preferences

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State Auditor

November 2, 2015

The Honorable Representative Reuven Carlyle  
The Honorable Representative Kristine Lytton  
The Honorable Representative Hans Dunshee  
The Honorable Senator Andy Hill

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

## **Re: 2015 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. These comments were adopted unanimously by the five commissioners.

We endorsed 14 of the 15 Legislative Auditor's recommendations. We did not endorse one recommendation by the Legislative Auditor to review a preference for interest on real estate income, and instead we recommend continuing the preference. The full text of our endorsements and comments, as well as summaries of the JLARC staff's analysis and recommendations, are attached and linked [here](#).

Commissioners encouraged me, in my capacity as Chair, to emphasize to you the importance of the Legislature considering this year's and previous years' recommendations and comments on tax preference statutes, which have undergone rigorous review by the Joint Legislative Audit and Review Committee staff (JLARC), pursuant to legislatively mandated criteria and government auditing standards, and which also have been the subject of public testimony.

Tax preference reviews provide a valuable evaluation tool to assist the Legislature in grappling with difficult fiscal issues. Terminating tax preferences that do not appear to be meeting their intended purposes provides the Legislature with the option of using resources for alternative revenue or program purposes. Similarly, continuing effective preferences provides an assurance that the state is getting the value the Legislature expects. And reviewing preferences with an unclear policy purpose and those whose costs or benefits may not be meeting the Legislature's intent provides information and analysis to the Legislature which enables the Legislature to review and clarify those preferences.

During 2015 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 review and clarify the purpose of 12 preferences and continue three preferences.

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

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consideration of some others, in the Commission's judgment, would not benefit from a JLARC staff evaluation. In 2015, the Commission scheduled 44 preferences for "expedited" review. In our call for public testimony, 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. To further assist the Legislature, the Commission unanimously adopted comments on three of these "expedited" preferences that have not been used.

The tax preference review process established by the Legislature in 2006 envisioned a ten-year review cycle. In 2016 we will have completed the first ten-year cycle. The Commission believes this milestone provides an opportune time to reflect on the lessons learned in these ten years, and will hold additional meetings this spring and will request public testimony to assess ideas for improving the reviews, including potential legislative changes to the review process. We intend to issue a report in June 2016, which will include any suggestions for legislative changes.

As Chair of the Citizen Commission for Performance Measurement of Tax Preferences, 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 [bill@tlff.org](mailto:bill@tlff.org). 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](mailto:keenan.konopaski@leg.wa.gov).

Additional information on all nine years of tax preference reviews can be found at: [www.citizentaxpref.wa.gov/reports.htm](http://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](#).

Sincerely,

William A. Longbrake, Chair  
Citizen Commission for Performance Measurement of Tax Preferences

cc: Members, Citizen Commission for Performance Measurement of Tax Preferences  
All Legislators  
Keenan Konopaski, Legislative Auditor  
David Schumacher, Director, Office of Financial Management  
Vikki Smith, Director, Department of Revenue