Proposed Final Report:

2018 Tax Preference Performance Reviews

# Corporate Headquarters Investment Projects

Legislative Auditor's Conclusion:

Businesses have not used the tax preference to locate headquarters in community empowerment zones. The Legislature may want to consider other strategies to revitalize these areas.

*December 2018*

## Sales & use tax deferral for businesses locating in community empowerment zones

The preference provides a sales and use tax deferral on building expenses for businesses that establish corporate headquarters in a designated community empowerment zone (CEZ).

The deferred taxes are fully waived if:

- The Department of Revenue certifies the investment project meets all eligibility requirements.
- The completed project meets eligibility requirements for a total of eight years.

The company must pay back a portion of the waived taxes if it does not continue to meet eligibility requirements for a total of eight years.

The preference took effect July 1, 2009. The Legislature did not set an expiration date, but did establish that no new applications can be submitted after December 31, 2020.

**Estimated Biennial Beneficiary Savings**

$0 - Preference has not been used

**Tax Type**

Sales and Use Tax

RCW 82.82.020

Applicable Statutes

# One of two inferred public policy objectives met

The Legislature did not state a public policy objective when it passed this preference in 2008. JLARC staff infer two public policy objectives based on the eligibility requirements, other related legislation, and testimony to the Legislature.

| Inferred Objectives | Results |
|---|---|
| **Encourage private sector investment and employment in community empowerment zones (CEZs)**<br>• CEZs are designated areas that have limited employment and educational services, a lack of affordable housing, and deteriorating infrastructure. | **Not currently met.** Department of Revenue tax records indicate the preference has never been used. |
| **Better compete with Oregon and Idaho for private sector investment**<br>• Oregon has no sales tax, and Idaho had a similar incentive when the bill was passed. | **Met.** The preference makes Washington more competitive with Oregon for attracting corporate headquarters. Idaho repealed a similar preference in 2008 after this bill passed. |

# Many factors influence where businesses locate and invest

Evidence from corporate relocations and academic research suggest that tax incentives are one of many factors considered when businesses locate their headquarters. Many of these factors are not present in CEZs. Other states and local governments have used strategies beyond tax incentives to revitalize economically distressed areas.

# Recommendations

## Legislative Auditor's Recommendation: Allow to expire and consider other strategies

The Legislature should allow the preference to expire if no business has applied to use it by December 31, 2020. The Legislature may want to consider other strategies beyond tax incentives to encourage economic development in CEZs.

More information is available on the Recommendations Tab.

## Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. The Legislature should clarify the public policy objectives and performance metrics in the event a business applies for the incentive before it is set to expire. In the event the exemption is used in the next two years and does not expire, it would be helpful to have clearly stated policy objectives and performance metrics for future review.

# REVIEW DETAILS

## 1. What is the preference?

**Sales and use tax preference on building expenses for businesses that establish corporate headquarters in a community empowerment zone**

## Preference has two inferred objectives

The Legislature did not state a public policy objective when it passed this preference.

JLARC staff infer two public policy objectives based on the preference's eligibility requirements, the legislative purpose of community empowerment zones (CEZs), and the prime sponsor's testimony to the Legislature:

1. Encourage private sector investment and employment in CEZs.
2. Better compete with Oregon and Idaho for private sector investment.

## Qualifying projects must meet specific requirements

Businesses may apply for the deferral at any time before headquarters construction is completed. However, tax liabilities incurred before a business applies do not qualify for the deferral.

To be eligible, the project must meet all of the following requirements:

- **Locate within a CEZ.** See What are CEZs for more information.
- **Operate as a "corporate headquarters,"** meaning a facility where corporate staff are physically employed and handle most of the company's regional or national management services. "Company management services" include accounting, information technology, insurance, legal, payroll, personnel, research and development, and tax. Manufacturing, wholesaling, or warehousing facilities do not qualify.
- **Invest at least $30 million** in qualified building expenses, such as construction or expansion, tangible personal property, and fixtures. Qualifying expenses include planning, installation, and construction labor and services.
- **Provide at least 300 permanent, full-time positions after construction.** Each qualified employment position must earn at least the state's annual average wage for that year, as determined by the Employment Security Department. The qualified employment positions must be filled by the end of the calendar year following the year in which the project is certified as operationally complete. If a recipient does not meet the requirements for qualified employment positions by the end of the second calendar year following the year in which the project is certified operationally complete, all deferred taxes are immediately due. Washington's average annual wage for calendar year 2016 was $59,073.
- **File an annual tax performance report** with DOR.

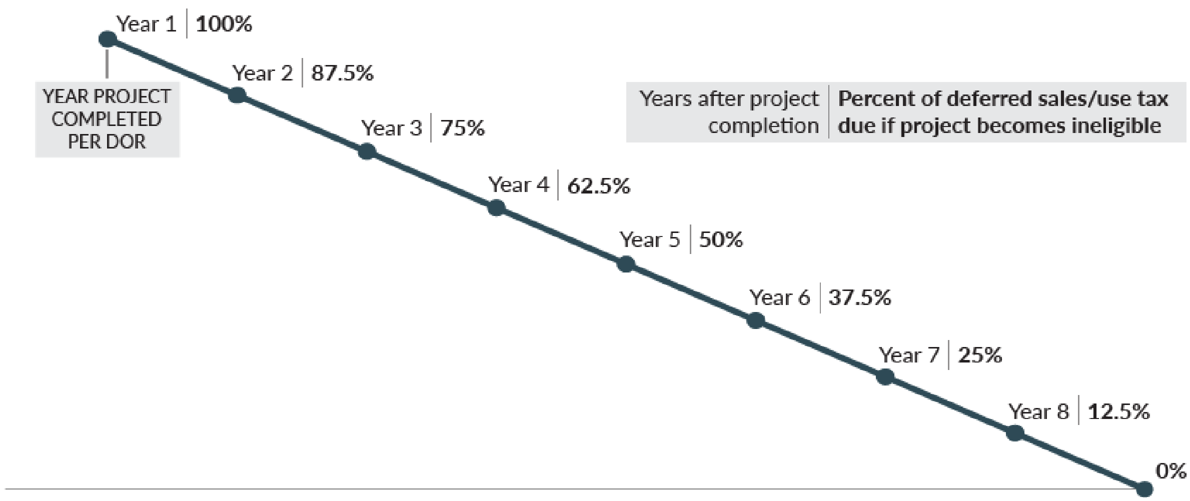
The number of eligible investment projects is limited to two statewide per biennium. Additionally, a CEZ can have only one eligible investment project per biennium.

## Projects must meet program requirements for eight years to receive full tax waiver

To receive the full waiver, the project must remain eligible for eight years: the year the project is complete, and for seven succeeding years. Deferred taxes are incrementally waived each year that the project remains eligible at a rate of 12.5 percent per year.

If DOR determines the investment project is no longer eligible at any time during the eight years, a percentage of the deferred tax amount is immediately due, along with interest retroactive to the date of deferral.

**Exhibit 1.1: Deferred taxes immediately due based on repayment schedule if DOR determines a project is no longer eligible**




**Source: JLARC staff analysis of RCW 82.82.040(2)(a).**

## Preference is time limited, but has no expiration date

The preference took effect July 1, 2009. The Legislature did not set an expiration date, but did establish that no new applications can be submitted after December 31, 2020.

REVIEW DETAILS

# 2. What are CEZs?

### Community empowerment zones designated as high unemployment, low-income geographic areas

## Six community empowerment zones designated across the state

The Legislature created a targeted approach for community revitalization — now called the Community Empowerment Zone (CEZ) Act — in 1993. The Act is intended to encourage reinvestment in areas with limited employment opportunities, low incomes, a lack of affordable housing, deteriorating infrastructure, and limited community service, job training, or education facilities.

State law allows up to six CEZs statewide.

As required by statute, the Department of Commerce director designated the CEZs before 2004.

### Exhibit 2.1: Washington's CEZs are located within six cities or unincorporated areas


**Source: JLARC staff map of CEZs listed on DOR website viewed March 30, 2018.**

## Other tax preferences for CEZs

The Legislature has established other tax preferences to assist with development in community empowerment zones.

### Exhibit 2.2: Other Washington tax preferences encourage investment in CEZs

| Tax Preference | Description | JLARC Review |
|---|---|---|
| **Rural County and CEZ B&O Tax Credit for New Employees**<br><br>**RCW 82.62.030, RCW 82.62.045** | Provides B&O tax credit for each new employment position filled and maintained by a qualified business in a rural county or CEZ. In CEZs, only positions filled by persons who are residents of the CEZ at the time of hire are eligible for the credit. Businesses must increase employment by 15 percent over four quarters from when the employees are hired. Limited to manufacturing, research and development, and commercial testing facilities. | Full review in 2013. Legislative Auditor recommended review and clarify. |

| Tax Preference | Description | JLARC Review |
|---|---|---|
| **Investment Projects in High Unemployment Counties and CEZs Sales and Use Tax Deferral RCW 82.60.040, RCW 82.60.049** | Provides a sales and use tax deferral and eventual waiver for qualifying machinery, equipment, and construction of buildings for new or expanding businesses located in a qualifying high unemployment county or CEZ. Limited to manufacturers, vegetable seed conditioning, research and development labs, and commercial testing facilities.<br><br>Businesses in a CEZ must meet these hiring requirements:<br>• At least one permanent full-time employee for each $750,000 of investment.<br>• The employee must live in the CEZ or the county containing the CEZ when hired.<br>• The position(s) must be filled within a certain timeframe after the project is certified operationally complete. | Full review in 2018. Legislative Auditor recommended review sufficiency of outcomes and add metrics. |

**Source: JLARC staff analysis of chapter 82.60 RCW and chapter 82.62 RCW.**

# REVIEW DETAILS

## 3. One of two inferred objectives met

### One of two inferred public policy objectives currently met. No qualifying headquarters have located in a CEZ.

The Legislature did not state a public policy objective when it passed this preference in 2008. This preference was passed before the Legislature required a performance statement for new preferences.

JLARC staff infer two public policy objectives based on the preference's eligibility requirements, the legislative purpose of community empowerment zones (CEZs), and the prime sponsor's testimony to the Legislature. One of the two inferred objectives has been met.

## One of two inferred objectives has been met

| Inferred Objectives | Results |
|---|---|
| **Encourage private sector investment and employment in community empowerment zones (CEZs)**<br>• CEZs are designated areas that have limited employment and educational services, a lack of affordable housing, and deteriorating infrastructure. | **Not currently met.** Department of Revenue tax records indicate the preference has never been used. |
| **Better compete with Oregon and Idaho for private sector investment**<br>• Oregon has no sales tax, and Idaho had a similar incentive when the bill was passed. | **Met. T**he preference makes Washington more competitive with Oregon for attracting corporate headquarters. Idaho repealed a similar preference in 2008 after this bill passed. |

### Inferred objective 1: Encourage private sector investment and employment in community empowerment zones

In committee testimony, the prime sponsor noted that existing incentives for CEZs focused on manufacturing and research and development facilities. He stated that this preference for new or expanding corporate headquarters would be a tool to attract private sector investments with high paying jobs. Others who testified in favor of the preference supported development in the Tacoma and Spokane CEZs.

Department of Revenue tax records indicate the preference has never been used. Since July 1, 2009, only one application has been submitted. The application was withdrawn and the project was not pursued.

The Department of Commerce reports it has provided 10 companies with information about the preference since 2011. Eight of the companies would have been new to the state and two would have been expansions or relocations for companies already in Washington. None applied to use the preference.

### Inferred objective 2: Better compete with Oregon and Idaho

In testimony, the prime sponsor noted that Washington was competing in a global economy for large, private sector investment. He stated this preference was a "tool in the toolbox" that "leveled the playing field" with Oregon, which does not have a sales tax, and Idaho, which had a similar preference in law.

The prime sponsor and others indicated that the original bill (which had a $50 million investment threshold and 500 jobs requirement) was nearly an exact replica of an Idaho tax incentive designed to encourage corporate headquarters to locate or remain there. The Idaho incentive, however, had no restrictions on where a qualifying investment could locate.

The Idaho Legislature repealed its Corporate Headquarters Incentive Act in 2008. Staff with Idaho's Commerce Department report that the legislation was aimed to encourage one specific company to maintain and expand its corporate headquarters in the state. According to Idaho's Commerce staff, the company did not use the incentive, but remained and expanded its operations in Idaho.

## No beneficiaries, revenue, or economic impacts from preference

Because the preference has never been used, there are no beneficiaries, revenue, or economic impacts to report.

REVIEW DETAILS

# 4. Many factors influence where businesses invest

**Research suggests many factors impact decisions for locating headquarters or investing in distressed areas**

## Businesses consider many issues when deciding where to locate headquarters

JLARC staff analyzed current national data and academic literature on corporate headquarter relocations. Key issues that businesses consider when selecting locations for new corporate headquarters include:

- The ability to attract and retain current and future workforce talent.
- Reestablishing or building the corporate brand/culture.

- Availability of business services and same industry clusters/specializations.
- Good airport and transportation infrastructure.
- Cutting edge research and higher education facilities nearby.
- Qualitative and cultural amenities that appeal to current and potential employees.

Community empowerment zones (CEZs) are characterized by limited employment opportunities, lower incomes, lack of affordable housing, deteriorating infrastructure, and limited educational and other community services. These locations do not appear to meet many of the criteria corporations value when siting headquarter facilities.

## Other states and local governments have used strategies in addition to tax preferences to encourage economic development in distressed areas

Academic researchers have identified several strategies that have been used successfully by other states and local governments to revitalize economically distressed areas. Some of these strategies were used in combination with tax preferences to encourage economic development.

- **Invest in training**. Both Kentucky and Michigan have offered incentives or grants to businesses to fund customized training programs for their employees. The two states have found the programs to be cost effective in terms of increasing employment and productivity.
  Similarly, South Carolina involved its community and technical colleges in offering specialized training and apprenticeship programs for new businesses that moved into distressed areas. The state's workforce training programs expanded to include 82 participating companies in aerospace, energy, healthcare, information technology, tourism, and transportation.
- **Improve infrastructure**. South Carolina and the city of Chattanooga, Tennessee, have both used infrastructure improvements as a method to attract new business investments.
  South Carolina expanded its marine terminal capacity and strengthened its inland infrastructure to handle larger shipping vessels at the Port of Charleston.
  The city of Chatanooga invested in fiber optics to turn a formerly distressed area into an innovation zone with the fastest internet in the country. A University of Tennessee study found this investment in infrastructure resulted in 2,800 new jobs in the area between 2011-2015.

- **Provide business and technical assistance**. The federal government partners with public and private entities in every state to provide assistance to small and medium-sized manufacturing businesses. This is known as the Manufacturing Extension Partnership (MEP) network. The network includes manufacturing experts who provide advice and technical expertise to about 7,000 mostly small manufacturers every year. Research suggests that MEP clients benefit from increased productivity, reduced costs, higher output, and greater employment.
- **Offer additional public services**. Combining tax credits with social service grants has increased the likelihood for job and productivity improvements in some distressed areas. Research from the original 1993 federal funding for community empowerment zones (CEZs) found that employment in designated zone areas increased by 15 percent by the year 2000. Businesses in these designated areas received employment tax credits (20 percent employment tax credit for the first $15,000 of wages paid to Zone residents) at the same time that the CEZ received social service block grants. The grants were used to fund business assistance programs, youth services, emergency housing, infrastructure investments, and other public services.

If the Legislature wants to encourage economic development in CEZs, it may want to consider using other strategies beyond tax incentives to attract businesses to these areas.

# REVIEW DETAILS

## 5. Applicable statutes

### Chapter 82.82 RCW, RCW 82.82.020, RCW 43.31C.005

## Community Empowerment Zones - Tax Deferral Program

### RCW 82.82.010

### Definitions

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Applicant" means a person applying for a tax deferral under this chapter.

(2) "Corporate headquarters" means a facility or facilities where corporate staff employees are physically employed, and where the majority of the company's management services are handled either on a regional or a national basis. Company management services may include:

Accounts receivable and payable, accounting, data processing, distribution management, employee benefit plan, financial and securities accounting, information technology, insurance, legal, merchandising, payroll, personnel, purchasing procurement, planning, reporting and compliance, research and development, tax, treasury, or other headquarters-related services. "Corporate headquarters" does not include a facility or facilities used for manufacturing, wholesaling, or warehousing.

(3) "Department" means the department of revenue.

(4) "Eligible area" means a designated community empowerment zone approved under RCW 43.31C.020. (5)(a) "Eligible investment project" means an investment project in a qualified building or buildings in an eligible area, as defined in subsection (4) of this section, which will have employment at the qualified building or buildings of at least three hundred employees in qualified employment positions, each of whom must earn for the year reported at least the average annual wage for the state for that year as determined by the employment security department.

(b) The lessor or owner of a qualified building or buildings is not eligible for a deferral unless:

(i) The underlying ownership of the building or buildings vests exclusively in the same person; or

(ii)(A) The lessor by written contract agrees to pass the economic benefit of the deferral to the lessee;

(B) The lessee that receives the economic benefit of the deferral agrees in writing with the department to complete the annual survey required under RCW 82.82.020; and

(C) The economic benefit of the deferral passed to the lessee is no less than the amount of tax deferred by the lessor and is evidenced by written documentation of any type of payment, credit, or other financial arrangement between the lessor or owner of the qualified building and the lessee.

(6) "Investment project" means a capital investment of at least thirty million dollars in a qualified building or buildings including tangible personal property and fixtures that will be incorporated as an ingredient or component of such buildings during the course of their construction, and including labor and services rendered in the planning, installation, and construction of the project.

(7) "Manufacture" has the same meaning as provided in RCW 82.04.120.

(8) "Operationally complete" means a date no later than one year from the date the project is issued an occupancy permit by the local permit issuing authority.

(9) "Person" has the same meaning as provided in RCW 82.04.030.

(10) "Qualified building or buildings" means construction of a new structure or structures or expansion of an existing structure or structures to be used for corporate headquarters. If a building is used partly for corporate headquarters and partly for other purposes, the applicable tax deferral is determined by apportionment of the costs of construction under rules adopted by the department.

(11) "Qualified employment position" means a permanent full-time employee employed in the eligible investment project during the entire tax year. The term "entire tax year" means a full-time position that is filled for a period of twelve consecutive months. The term "full-time" means at least thirty-five hours a week, four hundred fifty-five hours a quarter, or one thousand eight hundred twenty hours a year.

(12) "Recipient" means a person receiving a tax deferral under this chapter.

(13) "Warehouse" means a building or structure, or any part thereof, in which goods, wares, or merchandise are received for storage for compensation.

(14) "Wholesale sale" has the same meaning as provided in RCW 82.04.060. [ 2008 c 15 § 1.]

[ 2008 c 15 § 1.]
**NOTES:**
***Reviser's note:** RCW 82.82.020 was amended by 2017 c 135 § 43, changing "annual survey" to "annual tax performance report," effective January 1, 2018. **Effective date—2008 c 15:** "This act takes effect July 1, 2009." [ 2008 c 15 § 10.]

## RCW 82.82.020

## Application for deferral - Annual tax performance report. (Effective January 1, 2018.)

(1) Application for deferral of taxes under this chapter can be made at any time prior to completion of construction of a qualified building or buildings, but tax liability incurred prior to the department's receipt of an application may not be deferred. The application must be made to the department in a form and manner prescribed by the department. The application must contain information regarding the location of the investment project, the applicant's average employment in the state for the prior year, estimated or actual new employment related to the project, estimated or actual wages of employees related to the project, estimated or actual costs, time schedules for completion and operation, and other

information required by the department. The department must rule on the application within sixty days.

(2) Applications for deferral of taxes under this section may not be made after December 31, 2020.

(3) Each recipient of a deferral of taxes under this chapter must file a complete annual tax performance report with the department under RCW 82.32.534. If the economic benefits of the deferral are passed to a lessee as provided in RCW 82.82.010(5), the lessee must file a complete annual tax performance report, and the applicant is not required to file the annual tax performance report.

(4) A recipient who must repay deferred taxes under RCW 82.82.040 because the department has found that an investment project is no longer an eligible investment project is no longer required to file annual tax performance reports under RCW 82.32.534 beginning on the date an investment project is used for nonqualifying purposes.

[2017 c 135 § 43;2010 c 114 § 148;2008 c 15 § 2.]

**NOTES:**

**Effective date - 2017 c 135:** See note following RCW 82.32.534.

**Application- Finding-Intent-2010 c 114:** See notes following RCW 82.32.585.

**Effective date- 2008 c 15:** See noted following RCW 82.82.010.

## RCW 82.82.030

## Deferral certificate

(1) The department must issue a sales and use tax deferral certificate for state and local sales and use taxes due under chapters 82.08, 82.12, and 82.14 RCW on each eligible investment project meeting the requirements of this chapter.

(2) No certificate may be issued for an investment project that has already received a deferral under chapter 82.60 or 82.63 RCW or this chapter, except that an investment project for qualified research and development that has already received a deferral may also receive an additional deferral certificate for adapting the investment project for use in pilot scale manufacturing.

(3) The department must keep a running total of all deferrals granted under this chapter during each fiscal biennium.

(4) The number of eligible investment projects for which the benefits of this chapter will be allowed is limited to two per biennium. The department must approve deferral certificates for completed applications on a first in-time basis. During any biennium, only one deferral certificate may be issued per community empowerment zone.

[ 2008 c 15 § 3.]

**NOTES:**

**Effective date—2008 c 15:** See note following RCW 82.82.010.

## RCW 82.82.040

## Repayment of deferred taxes. (*Effective January 1, 2018.)*

(1) Except as provided in subsection (2) of this section and RCW 82.32.534, taxes deferred under this chapter need not be repaid.

(2)(a) If, on the basis of the tax performance report under RCW 82.32.534 or other information, the department finds that an investment project is no longer an "eligible investment project" under RCW 82.82.010 at any time during the calendar year in which the investment project is certified by the department as having been operationally completed, or at any time during any of the seven succeeding calendar years, a portion of deferred taxes are immediately due according to the following schedule:

| Year in which use occurs | % of deferred taxes due: |
|---|---|
| 1 | 100% |
| 2 | 87.5% |
| 3 | 75% |
| 4 | 62.5% |
| 5 | 50% |
| 6 | 37.5% |
| 7 | 25% |
| 8 | 12.5% |

(b) If the economic benefits of the deferral are passed to a lessee as provided in RCW 82.82.010(5), the lessee is responsible for payment to the extent the lessee has received the economic benefit.

(3) The department must assess interest at the rate provided for delinquent taxes under chapter 82.32 RCW, but not penalties, retroactively to the date of deferral. The debt for deferred taxes will not be extinguished by insolvency or other failure of the recipient. Transfer of ownership does not terminate the deferral. The deferral is transferred, subject to the successor meeting the eligibility requirements of this chapter, for the remaining periods of the deferral.

[ 2017 c 135 § 44; 2010 c 114 § 149; 2008 c 15 § 5.]

**NOTES:**

**Effective date—2017 c 135:** See note following RCW 82.32.534.

**Application—Finding—Intent—2010 c 114:** See notes following RCW 82.32.585.

**Effective date—2008 c 15:** See note following RCW 82.82.010.

## RCW 82.82.050

## Qualified employment positions - Requirements.

The qualified employment positions must be filled by the end of the calendar year following the year in which the project is certified as operationally complete. If a recipient does not meet the requirements for qualified employment positions by the end of the second calendar year following the year in which the project is certified as operationally complete, all deferred taxes are immediately due.

[ 2008 c 15 § 6.]

**NOTES:**

**Effective date—2008 c 15:** See note following RCW 82.82.010.

## RCW 43.31C.005

## Findings - Declaration

(1) The legislature finds that:

(a) There are geographic areas within communities that are characterized by a lack of employment opportunities, an average income level that is below the median income level for the surrounding community, a lack of affordable housing, deteriorating infrastructure, and a lack of facilities for community services, job training, and education;

(b) Strategies to encourage reinvestment in these areas by assisting local businesses to become stronger and area residents to gain economic power involve a variety of activities and partnerships;

(c) Reinvestment in these areas cannot be accomplished with only governmental resources and require a comprehensive approach that integrates various incentives, programs, and initiatives to meet the economic, physical, and social needs of the area;

(d) Successful reinvestment depends on a local government's ability to coordinate public resources in a cohesive, comprehensive strategy that is designed to leverage long-term private investment in an area;

(e) Reinvestment can strengthen the overall tax base through increased tax revenue from expanded and new business activities and physical property improvement;

(f) Local governments, in cooperation with area residents, can provide leadership as well as planning and coordination of resources and necessary supportive services to address reinvestment in the area; and

(g) It is in the public interest to adopt a targeted approach to revitalization and enlist the resources of all levels of government, the private sector, community-based organizations, and community residents to revitalize an area.

(2) The legislature declares that the purposes of the community empowerment zone act are to:

(a) Encourage reinvestment through strong partnerships and cooperation between all levels of government, community-based organizations, area residents, and the private sector;

(b) Involve the private sector and stimulate private reinvestment through the judicious use of public resources;

(c) Target governmental resources to those areas of greatest need; and

(d) Include all levels of government, community individuals, organizations, and the private sector in the policy-making process.

[ 2000 c 212 § 1.]

# RECOMMENDATIONS & AGENCY RESPONSE

## Legislative Auditor's Recommendation

### Legislative Auditor recommends allowing the preference to expire if no business has applied to use it by 2020, and considering other strategies.

The preference has been in effect since 2009 and no businesses have used it to date. Businesses have until December 31, 2020, to apply for the incentive. If no business has applied by then, the Legislature should allow the preference to expire.

If the Legislature wants to revitalize CEZs, it may want to consider other strategies beyond tax incentives to attract businesses to these areas.

**Legislation Required:** Yes.

**Fiscal Impact:** None.

State of Washington

# Citizen Commission for Performance Measurement of Tax Preferences



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October 18, 2018

The Honorable Representative Kristine Lytton
The Honorable Representative Ed Orcutt
The Honorable Representative Timm Ormsby
The Honorable Representative Bruce Chandler
The Honorable Senator Christine Rolfes
The Honorable Senator John Braun

Re: 2018 Tax Preference Reviews

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

We adopted the same position as the Legislative Auditor for all seven recommendations issued this year. The full text of our comments, as well as summaries of the JLARC staff's analysis and recommendations are linked here.

Tax preference reviews provide valuable information as the Legislature considers whether specific preferences are meeting the Legislature's policy objectives. With this year's report, there are now 12 years of tax preference evaluations available to the Legislature, comprising over 270 individual reviews.

I urge you to consider this year's and previous years' recommendations and comments on tax preference statutes in the upcoming legislative session.

The Commission is operating on a multi-year review schedule that goes through 2026. Next year's reviews will have an emphasis on the aerospace industry, but also include preferences for multi-family housing and wood waste (hog fuel) used to generate energy. More details on the reviews planned for 2019 are linked here.

As Chair of the Citizen Commission, I would be pleased to discuss the Commission's position and comments with you and any interested legislators. Please feel free to contact me at grant.forsyth@leg.wa.gov or the Legislative Auditor, Keenan Konopaski at keenan.konopaski@leg.wa.gov or 360-786-5187.

Sincerely,

Grant D. Forsyth

Grant D. Forsyth, Chair
Citizen Commission for Performance Measurement of Tax Preferences

Cc: Members of Washington State Legislature
David Schumacher, Office of Financial Management
Marc Baldwin, Office of Financial Management
Jim Schmidt, Office of Financial Management
Randy Simmons, Washington State Department of Revenue
Gil Brewer, Washington State Department of Revenue
Kathy Oline, Washington State Department of Revenue

# RECOMMENDATIONS & AGENCY RESPONSE

## Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. The Legislature should clarify the public policy objectives and performance metrics in the event a business applies for the incentive before it is set to expire. In the event the exemption is used in the next two years and does not expire, it would be helpful to have clearly stated policy objectives and performance metrics for future review.

STATE OF WASHINGTON

October 1, 2018

**TO:** Keenan Konopaski, Legislative Auditor
Joint Legislative Audit and Review Committee

**FROM:** David Schumacher, Director
Office of Financial Management

Randy Simmons, Acting Director
Department of Revenue

**SUBJECT: JLARC PRELIMINARY REPORT ON 2018 TAX PREFERENCE PERFORMANCE REVIEWS**

The Office of Financial Management and the Department of Revenue have reviewed the Joint Legislative Audit and Review Committee's (JLARC) preliminary report on the 2018 tax preference performance reviews.

We appreciate JLARC's thorough analysis and the detailed assessment provided by the Citizen Commission for Performance Measurement of Tax Preferences. A system that provides for a continuous review of state tax preferences is critical to ensure that the state of Washington maintains a fair and equitable tax system.

While we have no specific comments on the 2018 preliminary report, we continue to support JLARC's recommendations for the inclusion of performance statements and specific public policy objectives for all tax preferences where they do not exist in statute today.

Thank you for the opportunity to provide comments on this material and the recommendations made by JLARC.

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