STATE OF WASHINGTON
DEPARTMENT OF COMMERCE
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September 14, 2021

Keenan Konopaski, Legislative Auditor
Joint Legislative Audit & Review Committee
106 11th Ave SW, PO Box 40910
Olympia, WA 98504-0910
Keenan.konopaski@leg.wa.gov

Dear Mr. Konopaski,

As requested in your letter dated August, 26, 2021, the Department of Commerce is providing formal comments to the following Joint Legislative Audit and Review Committee's (JLARC) 2021 tax preference reviews. The Department largely agrees with JLARC's recommendations and provides key considerations to advise the Legislature below.

- Credit for Renewable Energy Program Payments. Allows utilities to pay customers for every kilowatt-hour of electricity they generate from their own renewable energy systems.

Commerce offers comments on this tax preference based on its role under RCW 43.21F.045 as the state energy policy office. Commerce has no direct role in the implementation of this tax preference. Commerce has reviewed the comments of the Washington State University Energy Program and agrees with those comments.

Commerce supports the Legislative Auditor's recommendation to allow this tax preference to expire. As noted in the recommendation, the incentive mechanism has largely met its intended purposes of expanding renewable energy systems and expanding employment in clean energy.

Expiration is also consistent with the Legislature's intent expressed when it enacted this tax preference:

> The legislature intends to provide an incentive sufficient to promote installation of systems through 2021, at which point the legislature expects that the state's renewable energy industry will be capable of sustained growth and vitality without the cost recovery incentive. [2017 3rd sp.s. c 36 § 1.]

The 2017 legislation was the third round of taxpayer funds provided to support development of small scale solar photovoltaic projects in Washington, and the consensus at that time was that a final, limited amount of funding should be provided. The state now has more comprehensive mechanisms in place to encourage the development of renewable energy sources, most notably the Clean Energy Transformation Act of 2019.

However, Commerce believes that the statement that the preference "did not broaden low-income participation" is overly broad. The analysis itself shows that community solar participation included low-income customers. Commerce agrees with the Legislative Auditor's conclusion that, "If the Legislature wants to broaden low-income participation in the production and use of solar energy, it should consider other options."

The Legislature may also wish to consider policy options that focus more directly on the resilience benefit of distributed energy resources such as customer-sited solar photovoltaic systems. Distributed energy resources may reduce the impact of power outages and allow communities to recover more quickly from natural disasters.

- Reduced B&O rate for Printing and Publishing Newspapers. Provides reduced B&O rate to any business producing print and digital newspapers.

Commerce supports JLARC's recommendation for review by the Legislature without further comment.

- Targeted Urban Area Exemption. Provides a local property tax exemption for new industrial or manufacturing development.

Commerce supports the Legislative Auditor's recommendation to schedule the preference for review in 2028. This preference can support the state's goals to increase the manufacturing workforce and growth of state and local economies for those planning under the Growth Management Act (GMA); however, those counties not fully planning under the GMA won't benefit from the modified exemption.

The modification of the exemption to allow all Washington cities and towns in counties planning under the GMA to use the preference is a good change that aligns with the strength of the distribution of manufacturing jobs currently. That is, 80% of the state's manufacturing jobs are in urban counties with 60% of the total jobs in King and Snohomish counties alone. The 11 counties not planning under GMA have 4.4% of the state's manufacturing workforce, and if you exclude Cowlitz County which has a strong manufacturing workforce, that drops to 2.2%. This means the areas that need incentives to increase manufacturing won't get one with this proposal.

The modified tax preference can help:
- The state meet its 10-year goal to double the state's manufacturing workforce under HB 1170 (2021).
- Incentivize the creation or expansion of regional clusters of industrial/manufacturing uses for both new and existing industries.
- Incentivize the use of underutilized and available sites in some rural counties, which has the potential to grow family wage jobs, as well as state and local tax revenues.

- Manufacturers' Deferral tax preference. Provides a tax deferral for manufacturers that build or expand facilities or purchase equipment.

Commerce supports the Legislative Auditor's recommendation to extend and modify the preference and notes that low take-up rate of this program may give the false impression that this benefit isn't needed.

The opposite is true – such a program could greatly benefit Washington, especially given its regional-orientation that grows opportunities across the state. The program in its current form doesn't match the speed of business, and the following changes could improve Washington's competitive position:

- Temporary construction positions. Commerce supports JLARC's recommendation to modify this program to spur the creation of permanent, full-time manufacturing jobs rather than permanent and temporary as currently allowed.
- Extending the sunset. Businesses can no longer apply for deferral after January 1, 2026. Commerce recommends extending this sunset, with particular consideration for recently passed HB 1170, which sets the goal to double the number of manufacturing jobs in the state over the next 10 years.
- Construction impacts. JLARC's critical finding that recipients of this benefit report faster construction periods, while perhaps an unintended outcome, is another reason we are supportive of extending this program. Accelerating growth in manufacturing will require faster delivery of production spaces and this is one tool to do that.
- Expansion of access to maximize benefits. A critical challenge in take-up of this program is the 2 project per year cap and the first-in-time basis of application. We recommend removing the first-in-time basis for eligibility and increasing the number of allowable projects. Such changes could increase the deferral total from the 18% currently utilized if additional consideration were given to larger projects or a greater number of smaller-scale projects.

Thank you for the opportunity to provide formal comments on the above tax preference reviews. Please contact my Legislative Director, Jasmine Vasavada, at 360-480-6622 or Jasmine.Vasavada@commerce.wa.gov if you have any questions.

Sincerely,

Lisa J. Brown

Lisa Brown
Director

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