

State of Washington
Citizen Commission for Performance Measurement of Tax Preferences

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November 4, 2022

The Honorable Senator Christine Rolfes
The Honorable Senator Lynda Wilson
The Honorable Senator Annette Cleveland
The Honorable Senator Ron Muzzall
The Honorable Senator Marko Liias
The Honorable Senator Curtis King
The Honorable Representative Mike Chapman
The Honorable Representative Bruce Chandler
The Honorable Representative Jake Fey

The Honorable Representative Andrew Barkis
The Honorable Representative Timm Ormsby
The Honorable Representative Drew Stokesbary
The Honorable Representative Noel Frame
The Honorable Representative Ed Orcutt
The Honorable Representative Cindy Ryu
The Honorable Representative Matt Boehnke
The Honorable Representative Eileen Cody
The Honorable Representative Joe Schmick

Re: 2022 Tax Preference Reviews

Dear Senators and Representatives:

I am pleased to be forwarding to you the comments that the Citizen Commission for Performance Measurement of Tax Preferences **unanimously adopted for this year's review of tax preferences**. Our comments are informed by JLARC staff work, public testimony and our professional knowledge of Washington's tax structure.

The Citizen Commission consists of five voting members appointed by each of the four caucuses and the Governor's office and represent a broad range of ideologies and professional backgrounds. Members include a retired tax attorney and CPA, the president of the Edmonds Education Association, a University of Washington public policy professor, a retired K-12 teacher and myself, the Chief Economist at Avista. Notably, reviews this year included:

Five Legislative Auditor recommendations that require legislative action:

- A review of a preference for **Commuter Trip Reduction**, in which the Legislative Auditor concluded that *"More Washingtonians are using commute alternatives. However, fewer employers are requesting the tax credit, and the credit likely has limited influence on the amount of financial incentives employers provide."*
- A review of three preferences for **Food Processors**, in which the Legislative Auditor concluded that *"Dairy and fruit and vegetable beneficiaries had job and wage increases that exceeded industry and state averages. Seafood beneficiaries saw a decline in both. The preferences reduced the effective tax rates, but rates remain higher than neighboring states."*
- A review of **Property Tax Exemptions for Nonprofit Hospitals and Cancer Clinics**, in which the Legislative Auditor concluded that *"Property tax exemptions for nonprofit hospitals and cancer clinics meet the inferred intent of encouraging charity care and*

community benefits. Beneficiaries provide 99% of charity care statewide, and the value of charity care exceeds tax savings.”

Two Legislative Auditor recommendations that do not require legislative action:

- A review of a preference for Food Possessors for Dairy products used as an ingredient or component to create other dairy products, in which the Legislative Auditor concluded that *“The preference was enacted in 2013 to encourage development of an infant formula production facility in Sunnyside. Industry representatives note the activity for which it was intended did not occur.”*
- A review of a Historic Automobile Sales and Use Tax Deferral, in which the Legislative Auditor concluded that *“The tax deferral meets the public policy objective of improving the fiscal stability of its one beneficiary. This may have improved economic vitality, but other local financial incentives likely had a larger influence.”*

The Commission endorses all of the Legislative Auditor’s recommendations. The full text of the Commission’s recommendations is attached and will be added to JLARC’s proposed final report in November. Summaries of the JLARC staff’s analysis and recommendations and brief video summaries of each preference are available [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. These reviews provide valuable information as the Legislature considers whether individual preferences are meeting policy objectives. Please feel free to contact me (grant.forsyth@leg.wa.gov) or the Legislative Auditor, Keenan Konopaski (keenan.konopaski@leg.wa.gov or 360-786-5187).

Sincerely,



Grant D. Forsyth, Chair

Citizen Commission for Performance Measurement of Tax Preferences

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Commissioner Comments Adopted on October 18, 2022

1. Commuter Trip Reduction (Business and Occupation Tax, Public Utility Tax)

Legislative Auditor Recommendation: Continue and modify the preference

The Legislature should continue and modify the preference. Although more Washingtonians are using commute alternatives, the tax credit likely has limited influence on the amount of incentives that employers provide and on employee use of commute alternatives. Modifications to the credit might include:

- Amending the preference to further reduce single-occupant vehicle travel. The Legislature may consider options such as increasing the benefit for smaller employers whose use of the preference has declined, targeting new employers, or targeting employers outside of King County. The Legislature should consult with the Department of Transportation when developing amendments. The Department's expertise in administering the Commuter Trip Reduction program could help inform any modifications.
- Alternatively, the Legislature could recategorize the preference as one intended to provide tax relief to employers providing financial incentives for commute alternatives. If the Legislature chooses to do so, it should consider changing its objective from increasing use of commute alternatives to one that focuses on increasing the number of businesses providing incentives to their employees.

Commission Comment	Rationale for comment
Endorse Legislative Auditor recommendation with comment.	Increasing commute alternatives, decreasing traffic congestion, and decreasing energy use and air pollution are becoming more important to our state for quality of life and sustainability. Traffic congestion and energy use is not solely a Puget Sound corridor issue; Eastern Washington and rural communities can all benefit from reducing single-occupant travel.

2. Food Processors (Business and Occupation Tax)

Legislative Auditor Recommendation: B&O preferences for dairy processors: Continue and clarify

The Legislature should continue the B&O tax preferences for dairy product processors because they are meeting the objectives of providing tax relief and creating and retaining industry jobs. To facilitate future reviews, the Legislature should clarify its expectations for job and wage growth and determine the level of tax relief needed to meet those expectations.

Commission Comment	Rationale for comment
Endorse Legislative Auditor recommendation without comment.	

Citizen Commission for Performance Measurement of Tax Preferences

Commissioner Comments Adopted on October 18, 2022

2. Food Processors (Business and Occupation Tax)

Legislative Auditor Recommendation: B&O preference for dairy products used as an ingredient or component to create other dairy products: Allow to expire

The Legislature should allow the preference for dairy products used as an ingredient or component to create other dairy products to expire as scheduled, June 30, 2023. The infant formula production in Sunnyside that the preference was intended for in 2013 did not occur.

Commission Comment	Rationale for comment
Endorse Legislative Auditor recommendation without comment.	

2. Food Processors (Business and Occupation Tax)

Legislative Auditor Recommendation: B&O preferences for fruit & vegetable processors: Continue and clarify

The Legislature should continue the B&O tax preferences for fruit & vegetable processors because they are meeting the objectives of providing tax relief and creating and retaining industry jobs. To facilitate future reviews, the Legislature should clarify its expectations for job and wage growth and determine the level of tax relief needed to meet those expectations.

Commission Comment	Rationale for comment
Endorse Legislative Auditor recommendation with comment.	Public testimony highlighted the importance of this tax preference for our state's wine industry, which has shown solid industry growth in jobs, wages, and tourism in the past decade. More generally, food processors face higher tax burdens in Washington compared to neighboring states. This preference helps level the playing field for all kinds of food processors, allowing them to remain competitive and/or grow.

Citizen Commission for Performance Measurement of Tax Preferences

Commissioner Comments Adopted on October 18, 2022

2. Food Processors (Business and Occupation Tax)

Legislative Auditor Recommendation: B&O tax preferences for seafood processors: Review and clarify

The Legislature should review the B&O tax preferences for seafood product processors because they are only meeting one of two objectives. While the preferences provide tax relief, beneficiary jobs in Washington have declined and their employee wages have decreased. It is unclear why more businesses are not using the preference or what the Legislature's expectations are for the industry's jobs and wages.

Commission Comment	Rationale for comment
Endorse Legislative Auditor recommendation without comment.	

3. Historic Automobile Museums Sales and Use Tax Deferral (Sales & Use tax)

Legislative Auditor Recommendation: Continue

The Legislature should continue the preference until the current deferral is repaid in 2032. After that, the tax preference will no longer be necessary in statute.

Commission Comment	Rationale for comment
Endorse Legislative Auditor recommendation without comment.	

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4. Property Tax Exemptions for Nonprofit Hospitals and Cancer Clinics (Property tax)

Legislative Auditor Recommendation: Clarify

The Legislature should clarify the objectives of the preferences by including performance statements. Both preferences were enacted before the Legislature required a performance statement for new tax preferences. There are no explicitly stated public policy objectives for the tax preferences in statute.

If the tax preferences are intended to support certain outcomes, the Legislature should clarify its expectations by adding performance statements that clearly state the public policy objectives and metrics to determine if the objectives have been met.

Commission Comment	Rationale for comment
Endorse Legislative Auditor recommendation with comment.	The preference has no expiration date, but it should be continued with clarification. The legislature should state public policy objectives and metrics so the intent and performance of this preference can be more easily measured in future reviews. The non-profit hospitals and cancer centers provide essential charity care to vulnerable populations in our state, and metrics would assist them in demonstrating the value of the service they provide to our state and communities.