



Preliminary Report

2020 Tax Preference Performance Reviews

The Legislative Auditor identified four preferences for further legislative review, including two not achieving stated objectives, and two for industries that have changed since preferences' inception.

Scott Hancock | Dana Lynn | Rachel Murata | Pete van Moorsel | Eric Whitaker

July 2020



Tax reviews follow same audit standards, different process than other work

Legislature created Citizen Commission for Performance Measurement of Tax Preferences.

- Five-member body created by Legislature.
- Determines review schedule – considerations include industry groupings, expiration dates, and Legislative direction.
- Takes public testimony and adopts comments on staff work.

JLARC directed to address five key areas



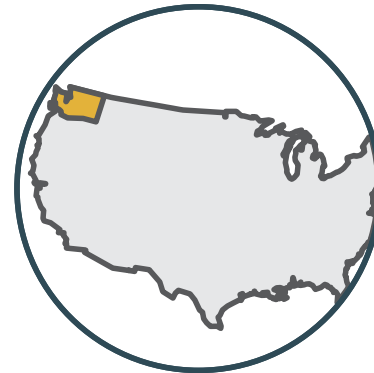
Public policy objectives: Intent of the preference and is it being achieved?



Beneficiaries: What entities are affected and what are their savings?



Revenue and economic impacts to the taxpayers and to the government?



Do **other states** have a similar tax preference?



Required to make **recommendation** to Legislature.

Overview

Summarized in
one pagers and
short videos

Two preferences not meeting their stated objective.

- Customized training tax credit
- Hiring unemployed veterans tax credit

Two preferences where the industry has changed since the preference was initially enacted.

- Microbreweries beer tax exemption
- Farmworker housing exemption

One likely had limited impact in its initial form, but it was changed to a different purpose last legislative session and made permanent.

- Tribal lands used for economic development



B&O tax

Customized Training

Enacted 2006 | Expires July 1, 2021

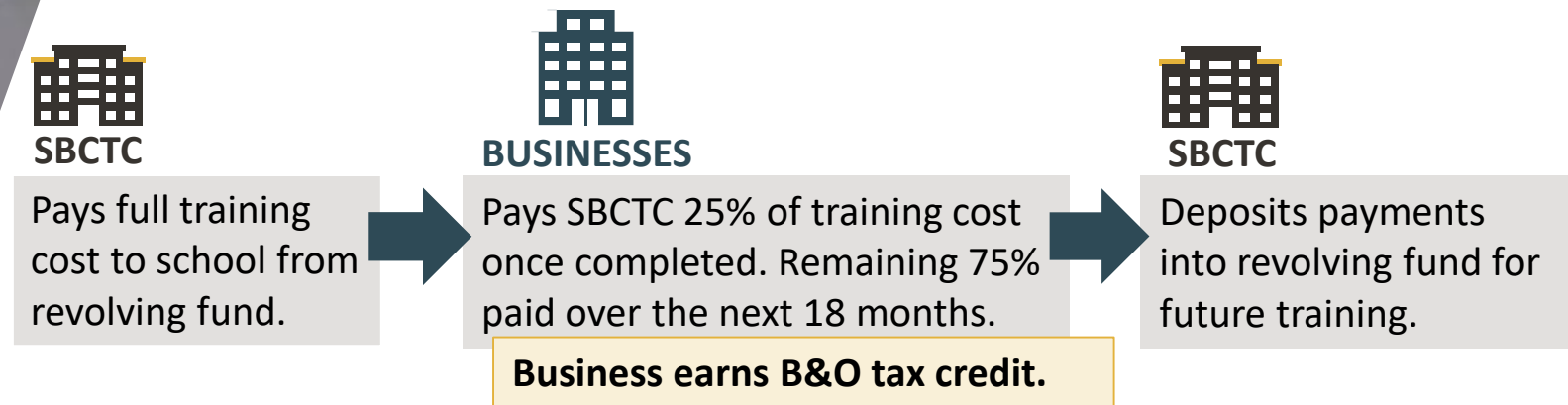
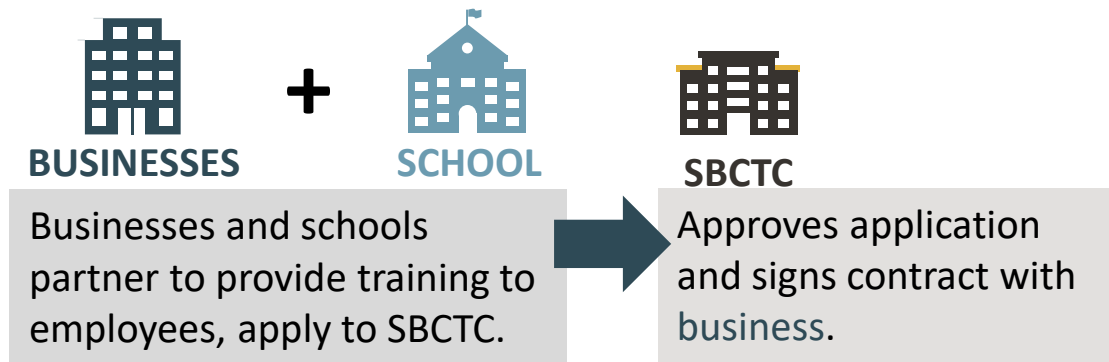
2019-21 Estimated Beneficiary Savings: \$125,500

Legislative Auditor's conclusion: The Customized Training Credit is not attracting new businesses and unlikely to contribute to business retention. The Legislature should allow the credit to expire. Funding could be redirected to other programs if there is interest in maintaining support for customized training.

Dana Lynn | Scott Hancock

July 2020

Businesses earn 50% B&O tax credit for each repayment made to SBCTC for contracted Customized Training Programs



✘ Credit not achieving stated objective: attract and retain new and expanding businesses

Credit used by 61 businesses (June 2006 - November 2019).

81% of users had been in business in WA for 11+ years.

69% of users had 50+ employees. Law states preference should be given to businesses with < 50 employees.

Preference valued at 0.008% of all business's gross income. Unlikely to factor into business location decisions.



Legislative Auditor's Recommendation

The Legislature should allow the credit to expire as scheduled, July 1, 2021.

- B&O credit not achieving stated objective to attract, retain businesses to WA.
- Consider repealing the associated Customized Training Program. JLARC staff did not evaluate the educational or workforce development outcomes of the associated program, which could provide other benefits to businesses and employees.
 - If Legislature wants to retain funding for customized training for policy purposes, it could redirect money from revolving fund to existing training programs.



B&O tax and public utility tax

Hiring Unemployed Veterans

Enacted 2015 | Expires July 1, 2023

2021-23 Estimated beneficiary savings: \$152,800

Legislative Auditor's conclusion: The preferences have had limited use, and the Legislature's goal of reducing the number of unemployed veterans has not been met. The Legislature should modify the preferences to better serve unemployed veterans.

Dana Lynn | Scott Hancock

July 2020

Up to \$1,500 B&O or public utility tax credit for hiring unemployed veterans

Stated objective:

Encourage businesses to hire and create jobs for unemployed vets.

Legislature set goal:

Reduce number of unemployed veterans by 30%.

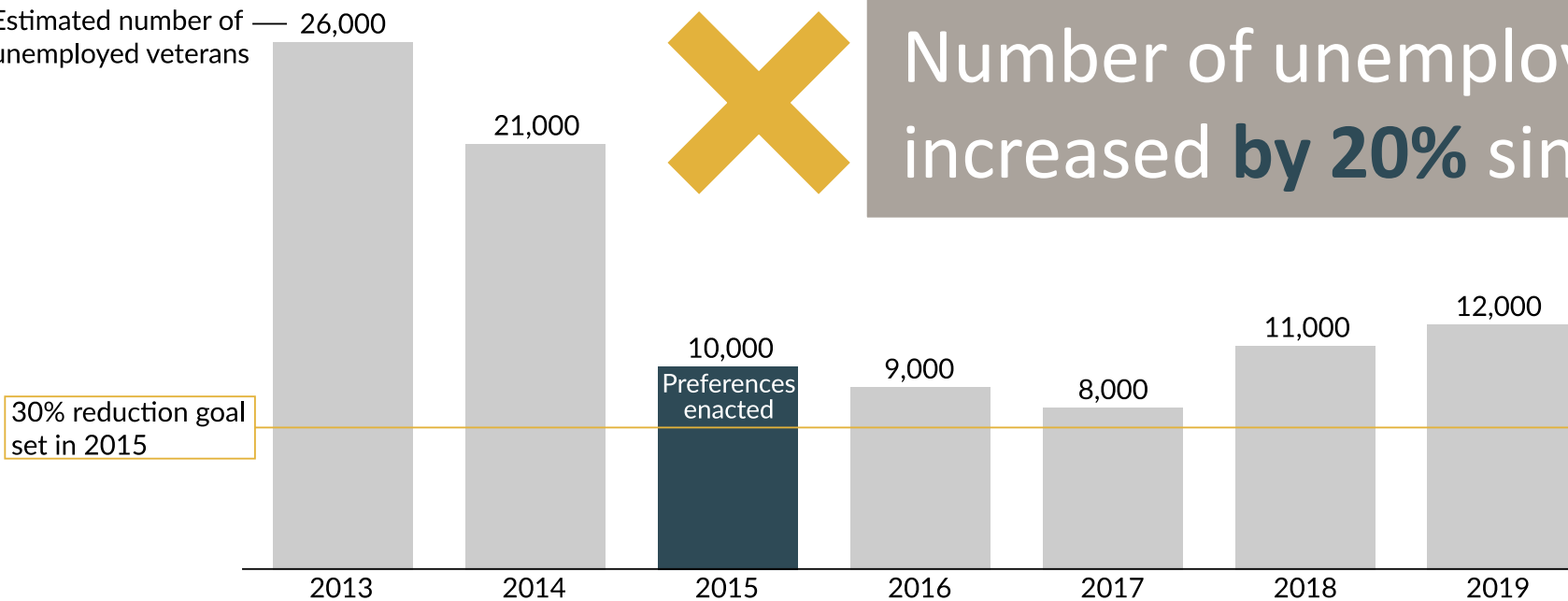
Legislature did not designate any agency, such as Employment Security Department or Department of Veterans Affairs, to actively promote the preference.

Neither objective nor 30% reduction goal met. As of December 2019:



132 vets hired by 45 businesses. If all hired because of credits, preferences reduced total number of unemployed veterans **by 1%**.

Estimated number of unemployed veterans



Number of unemployed veterans increased **by 20%** since 2015.



Legislative Auditor's Recommendation

The Legislature should modify the preferences to better serve vets seeking jobs.

Options could include:

- Designating a state agency to actively promote the credits.
- Focusing on a subset of veterans or businesses.
- Redirecting resources to other state-funded veteran employment programs.



Beer tax

Microbrewers

Enacted 1993 | No expiration date

2021-23 Estimated Beneficiary Savings: \$7.2 million

Legislative Auditor's conclusion: \$7.2 million biennial preference created an estimated 2 to 6 jobs in beverage manufacturing industry. Distributors receive 84% of direct preference savings, which is 0.17% of their gross income.

Dana Lynn | Scott Hancock

July 2020

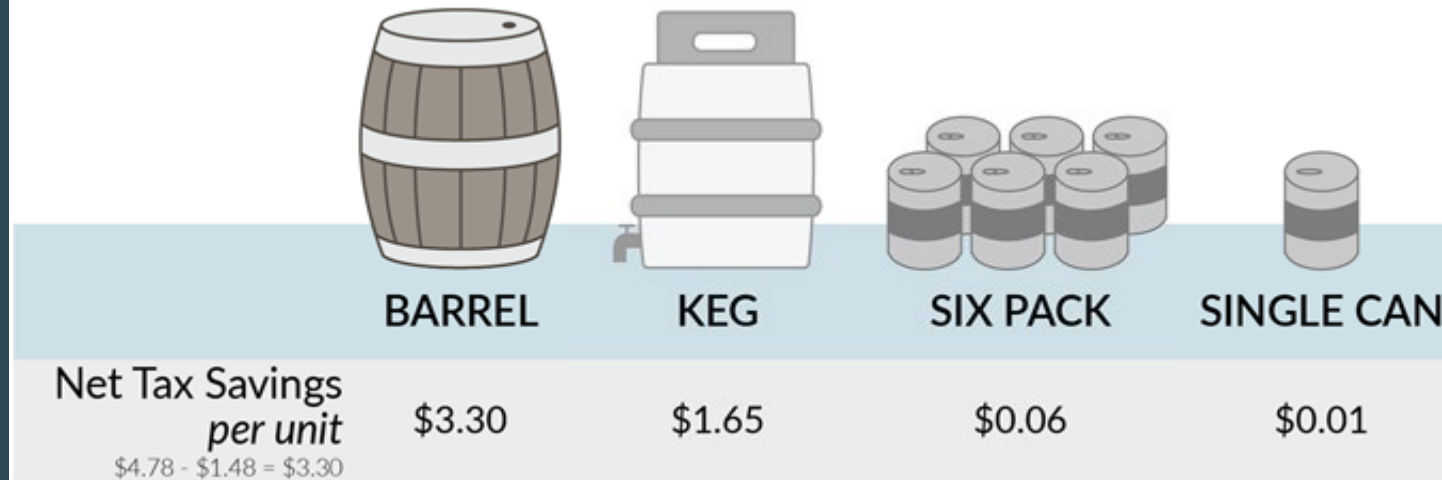


Preference provides **net \$3.30 beer tax exemption** for first 60,000 barrels sold by breweries that produce under 2 million barrels

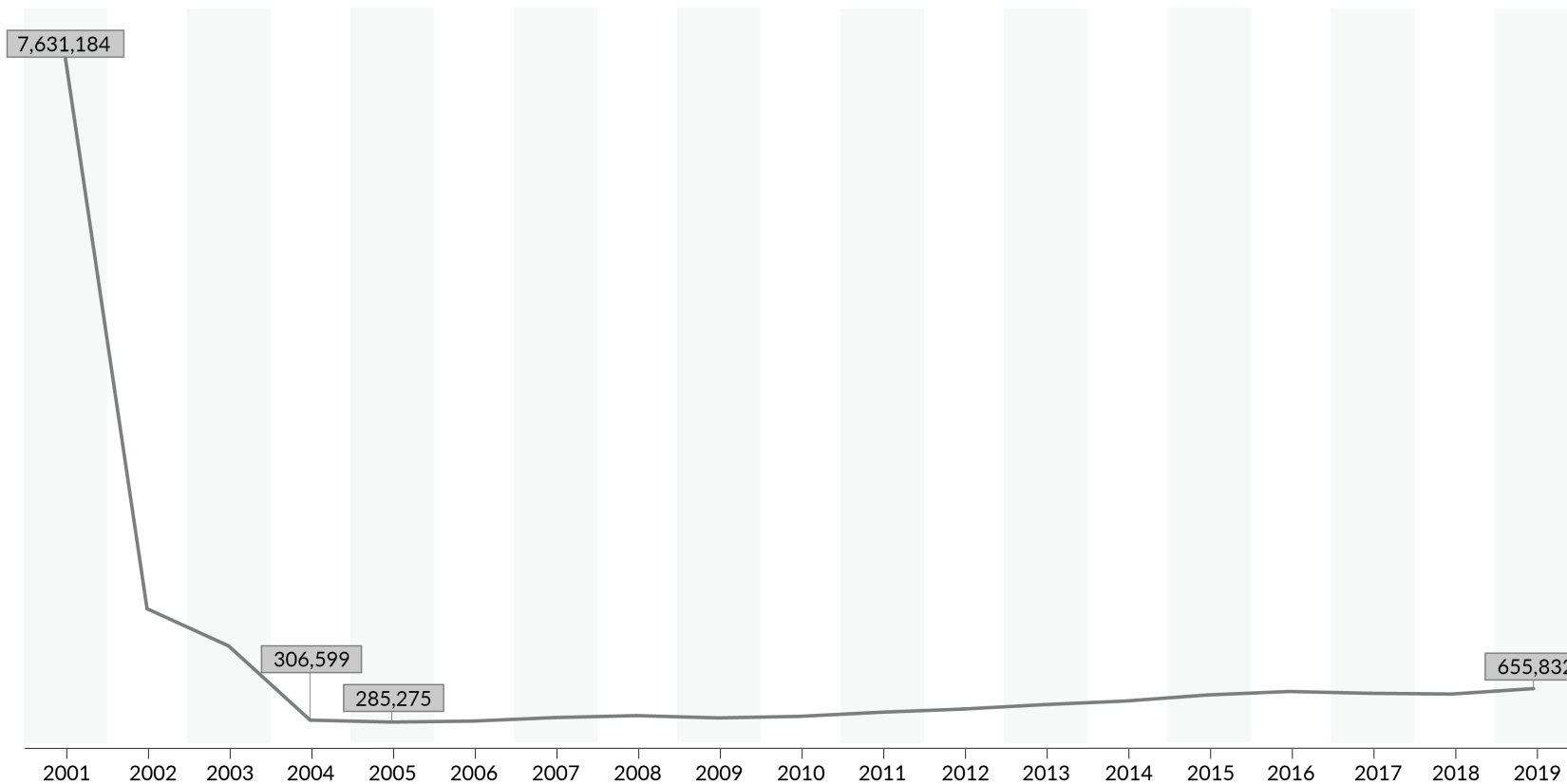
breweries & distributors

Inferred Objective

Provide tax relief to WA microbreweries as the industry developed.



Washington's beer industry has changed

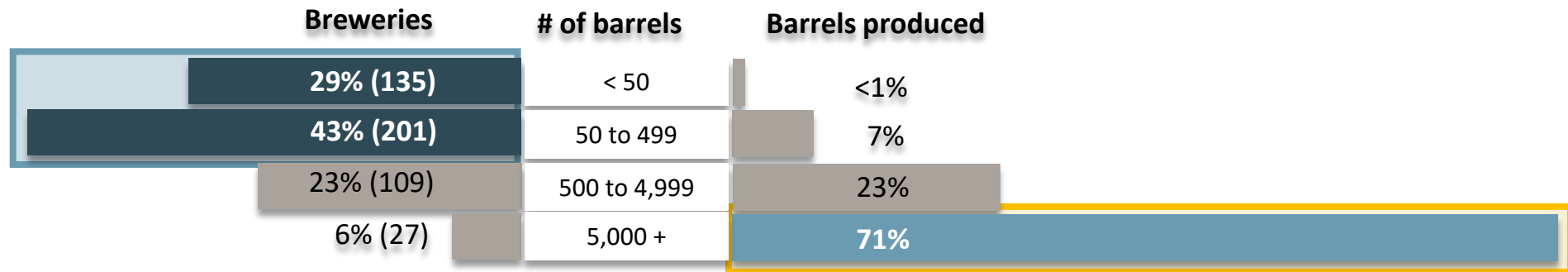


Large breweries left the state by 2003.

Production dropped from 7.6M barrels (2001) to under 300K (2005).

Washington's brewers are relatively small

Most breweries (72%) in Washington produce fewer than 500 barrels per year.



Most production (71%) occurs at the 6% of breweries that produce over 5,000 barrels per year.

In FY19, distributors realized 84% of preference savings - 0.17% of their gross business income

16%

WA breweries self-distributing or directly selling to customers.

30%

Distributors purchasing from WA breweries.

54%

Distributors purchasing from out-of-state breweries.

Economic modeling tool suggests preference:

Directly supported
between **2 to 6 jobs**
in **beverage**
manufacturing
industry.

Reduced state and
local government
spending, resulting
in **loss of 25 to 27**
public sector jobs.



Legislative Auditor's Recommendation

The Legislature should review and clarify the beer tax preference.

Clarify to include a performance statement stating policy objectives and providing metrics to measure if objectives are met, state the preference's intended beneficiaries, and ensure the preference directly targets those businesses.



Sales and use tax

Farmworker Housing

No expiration date

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

Legislative Auditor's conclusion: The exemption may have incentivized construction of some types of farmworker housing. Exemption requirements may not align with other current housing practices.

Rachel Murata | Dana Lynn

July 2020



| Inferred public policy objective

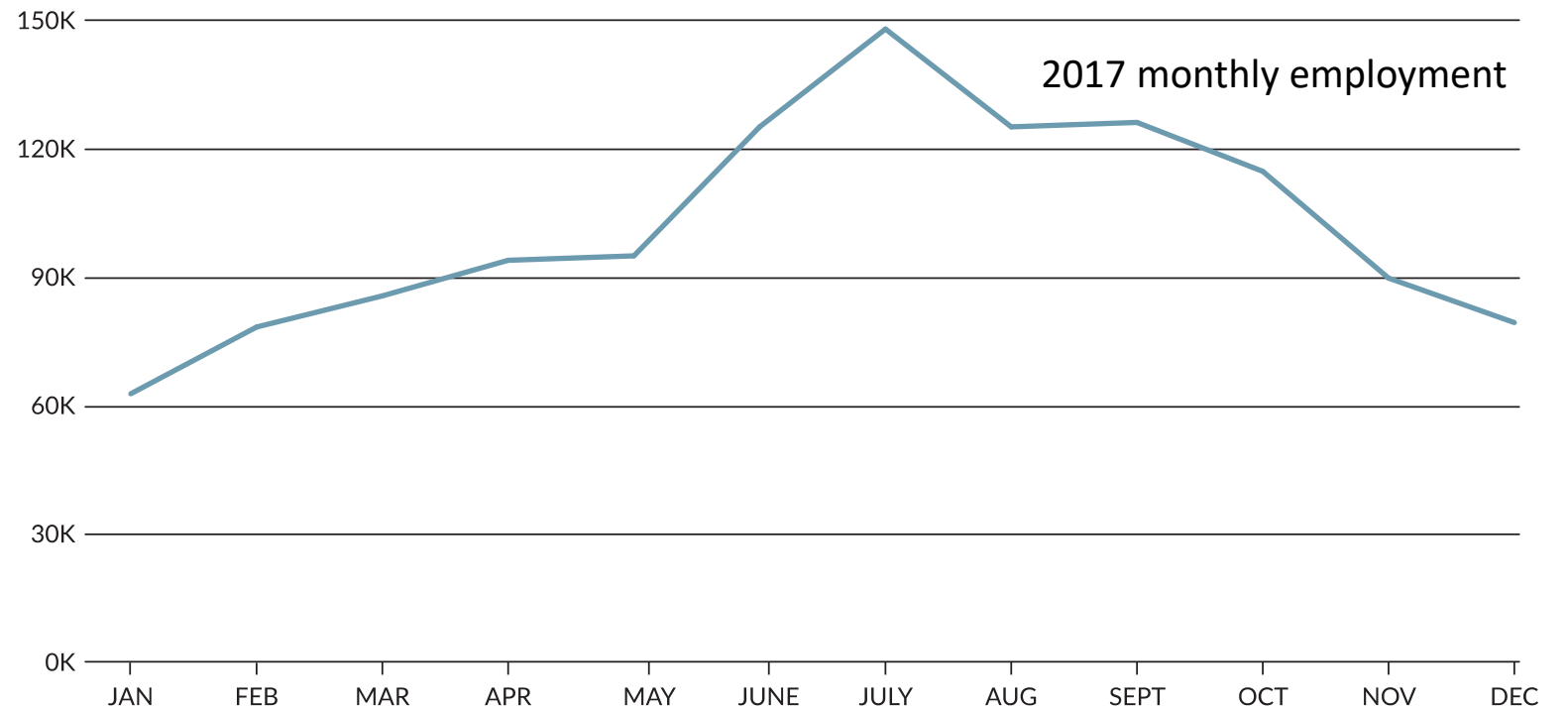
Incentivize building farmworker housing.



Alleviate housing shortage for 57,000 workers.

Agricultural employment fluctuates each year

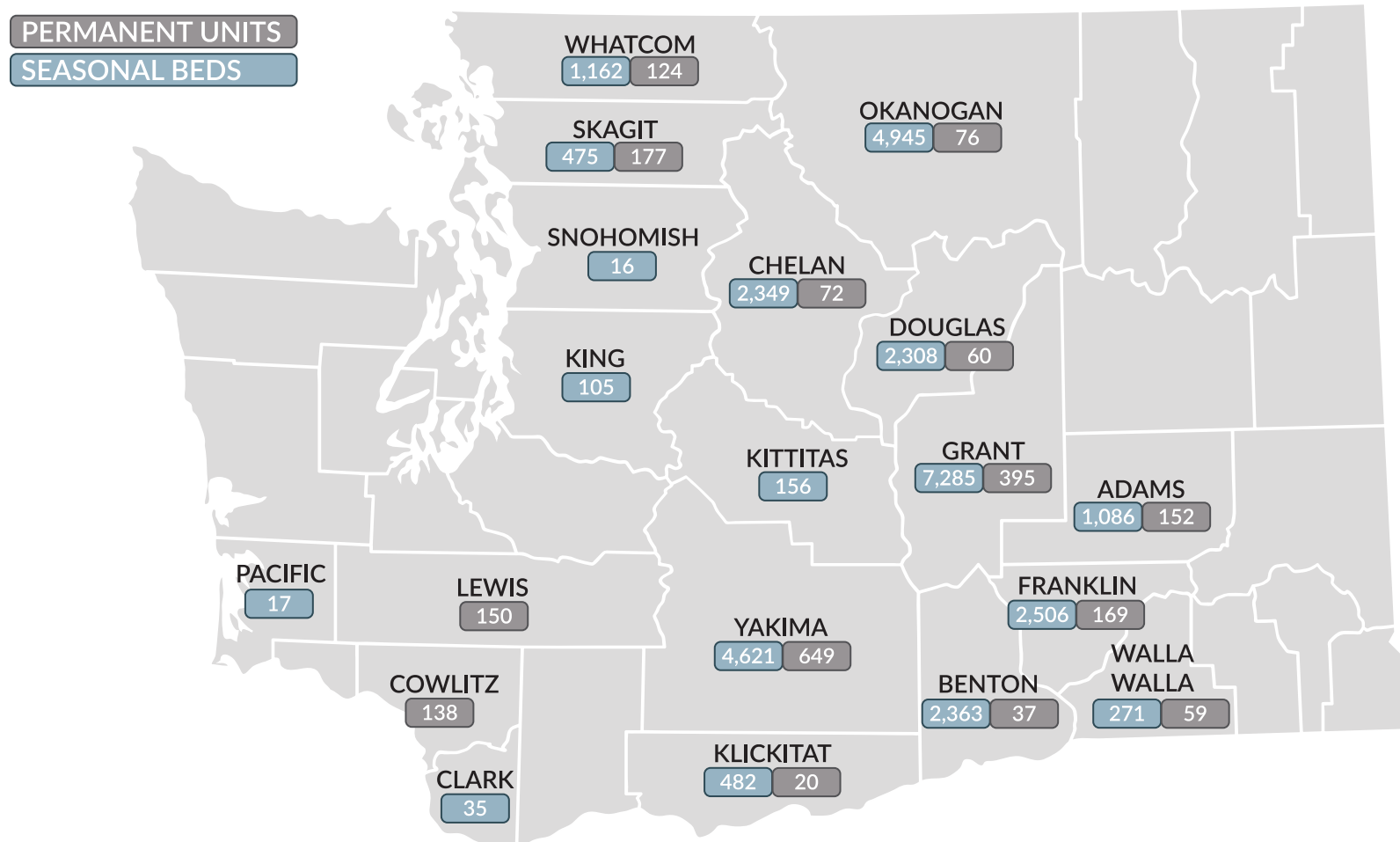
More workers needed during the summer months





**Exemption applies to both
permanent and seasonal housing**

Since created in 1996: at least 2,425 permanent units and 29,987 seasonal beds



New housing is unlikely to eliminate shortage

2012 estimate:
Shortage for 15,000
local workers and
36,200 nonlocal
workers.

Since then, 539
permanent units
and 21,564
seasonal beds
built.

Agricultural
employment
has grown by
over 10,000.

84% of seasonal housing was required by a federal visa program – not likely caused by the exemption.

Other seasonal and permanent housing may have been incentivized.



Exemption requirements may not align with current housing practices and funding sources

This exemption requires housing to be exclusively (100%) for farmworkers.

- Exception for housing authorities, at least 80% must be for farmworkers.

Housing often built combining farmworkers with other populations.

- Stakeholders say this can increase financial stability and local support.
- Other funding sources often fund projects with 75% farmworkers.





Definition of farmworker differs from other funding sources

This exemption defines farmworker differently from sources like the Washington State Housing Finance Commission and the Housing Trust Fund.

The Department of Revenue's position is that it excludes aquaculture, which is included by other funding sources.



Legislative Auditor's recommendation

Clarify the preference by:

- Adding a performance statement.
- Determining if it should align with other funding sources or be maintained in its current form.

Estimated biennial beneficiary savings: \$3.4 million



Property Tax

Tribally Owned Land Used for Economic Development

Enacted 2014 | Amended 2020

Estimated 2019 Beneficiary Savings: \$748,000

Legislative Auditor's Conclusion: Tribal businesses on exempt properties provide economic benefits, but the preference itself likely had limited impact. The Legislature should continue the preference as amended in 2020, with its new objective to provide equal treatment to tribal and nontribal governments.

Eric Whitaker | Pete van Moorsel

July 2020



Preference provides a property tax exemption for tribally owned economic development land

Objective:

Create jobs and improve the economic health of tribal communities.

Tribal governments manage two types of land:

Trust land is held by US government and not subject to property tax.

Fee land is held by a tribe and generally subject to property tax.

What the preference does:

Exempts federally recognized Indian tribes from owing property tax on **fee land** used for economic development.

Provisions of the 2014 tax preference

Acquisition date requirement:

Tribes must purchase the property *prior to* March 1, 2014.

Payment in lieu of taxation (PILT):

Property located outside of a reservation and occupied by a tribe must pay a PILT.

Specific metrics mandated by the Legislature:

Number of parcels and use

Investment and competition

Business activities affected

Employment changes

Infrastructure and services

Revenue changes

Preference was amended in 2020. This review focuses on the preference between 2015 and 2019.

Six exempt properties at the end of 2019

Tribe	County	Property	PILT	2019 Assessed Value
Muckleshoot	King	Emerald Downs	Yes	\$57,469,000
Puyallup	Pierce	Marine View Ventures	No	\$2,161,000
Suquamish	Kitsap	Kiana Lodge	No	\$582,000
Suquamish	Kitsap	Beach House	No	\$780,000
Suquamish	Kitsap	Saltair House	No	\$554,000
Suquamish	Kitsap	Raven's Nest	No	\$337,000
All properties			1	\$61,883,000

Source: JLARC staff analysis of county assessor data.

Preference may serve as a stop-gap measure while tribes seek trust status.

Economic Impact of Preference Unclear



Businesses located on the exempt properties were operating prior to 2014.



Local authorities collect general information, but do not track impacts of exempt properties.



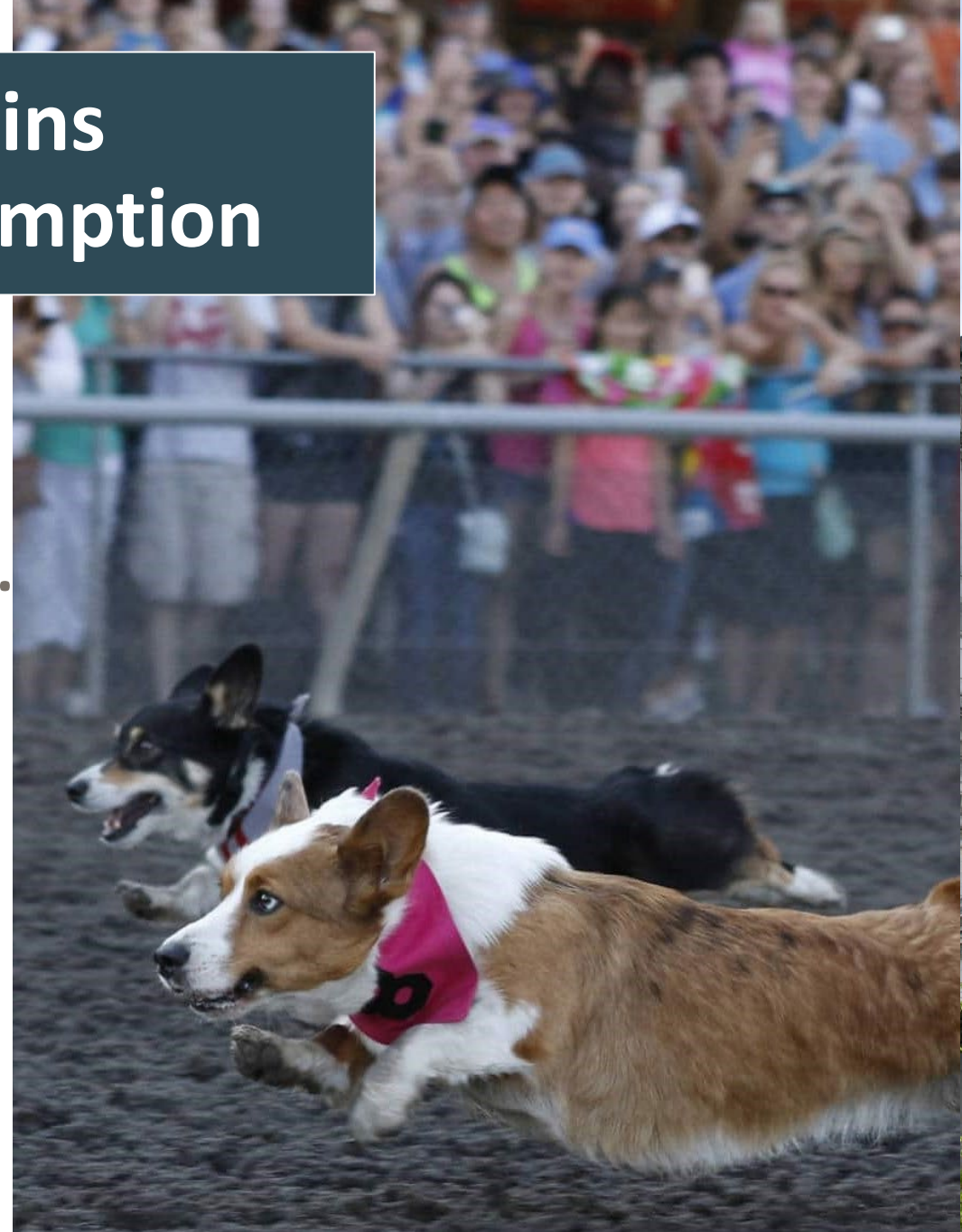
The impact of the preference on the operations of Emerald Downs is unclear.

Modeling estimates limited job gains related to the Emerald Downs exemption

JLARC staff made three assumptions:

- Exemption (net of PILT) resulted in property tax reduction for **Emerald Downs**.
- 88% of the exemption shifted to **other taxpayers**.
- 12% of the exemption resulted in local government **revenue loss**, offset by **PILT payments**.

Estimated gain of 14 jobs statewide.



Beneficiaries saved \$748,000 in 2019 resulting mostly in shifts for other taxpayers

Tax savings	PILT amount	Net savings
\$1,171,000	- \$423,000	= \$748,000

Tax savings resulted in a mix of revenue losses, levy rate increases, and shifted tax burden.

Of the \$1,171,000 tax savings estimated for 2019:

92%

was **shifted** to other taxpayers as most levies increased the levy rate.

8%

was **lost** revenue for local levies at their statutory maximum.



Preference changed in 2020

New Objective

Treat tribes same as other governments.

Qualification Requirements

2020

Performance
Statement

Expiration
Date

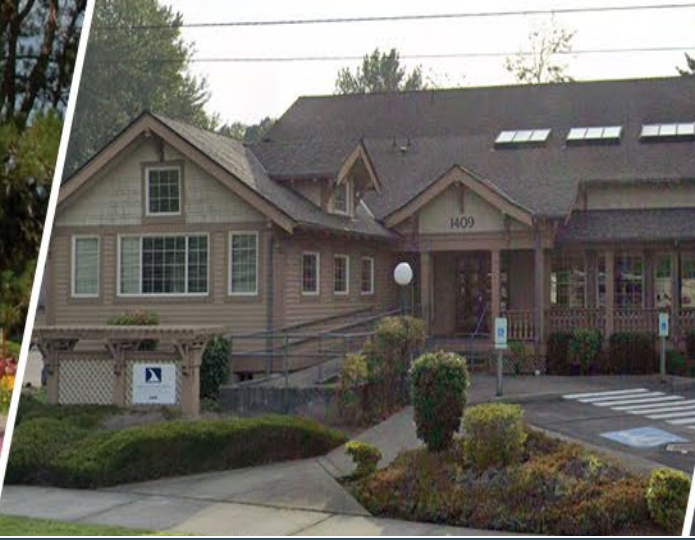
Ownership
Date

✓
PILT

*If located outside of
reservation and
occupied by tribe.*

PILT negotiations now involve the tribal owner, the county, and, if applicable, the city.





Legislative Auditor's Recommendation

The Legislature should continue the preference as amended in 2020.

The preference is part of a broader tax exemption for essential government services. The initial objective is now superseded by the new objective to treat tribal and nontribal governments the same for property tax purposes.

The Citizen Commission should consider whether the preference is critical to the tax structure. If so, it will be excluded from future tax preference reviews.

**Three
additional
reviews
not
covered
today**

Tax Preference	Legislative Auditor Recommendation
Shipping Farm Products to Interim Storage Facilities (public utility tax)	Continue
Livestock Nutrient Management Equipment (sales and use tax)	Continue
Anaerobic Digesters (sales and use tax)	Continue, monitor future use

Next step: Present to Citizen Commission

July

Present preliminary report to JLARC.

August

Present preliminary report to the Citizen Commission.

September

Citizen Commission obtains public testimony.

October

Citizen Commission adopts comments on the report.

December

Present proposed final report to JLARC.

Full Report:  leg.wa.gov/jlarc

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