Name	Possible Comment	Rationale for comment
1. Family Business Property (Estate Tax)		
Legislative Auditor recommendation: Continue		
Because the tax preference is meeting the inferred public policy objective of reducing the likelihood of heirs being forced to sell the property to pay estate taxes.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
2. Horticultural Services for Farmers (Sales and Use Tax)		
Legislative Auditor recommendation: Continue		
Because the preference is achieving the inferred public policy objective of treating horticultural services provided to farmers as nondiscretionary services rather than as discretionary services subject to sales tax.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
3. Commercially Grown Shellfish (Enhanced Food Fish Tax)		
Legislative Auditor recommendation: Review and clarify		
Because providing additional detail in the tax preference performance statement such as a measure of the desired increase in jobs would facilitate future reviews of these preferences.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
4. Family Farm Property (Estate Tax)		
Legislative Auditor recommendation: Review and clarify		
To determine whether there are unintended beneficiaries because the heirs may immediately sell the farm without penalty.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.

5. Farm Machinery Replacement Parts (Sales and Use Tax)

Legislative Auditor recommendation: Review and clarify

It is unclear whether the combined circumstance of stagnant crop prices and rising input costs still applies, and what changes in prices and costs would be appropriate for continuing the preferences relative to farm profits; it is unclear what participation level of eligible farmers and the total fiscal impact of the preference the Legislature intended; and the Legislature may want to consider adding reporting or other accountability requirements that would provide better information on the use of this preference.

Bill Longbrake	The Commission endorses the JLARC staff recommendation to "Review and Clarify" the preference. The Legislature is encouraged to clearly state the public policy of the preference and make sure it is designed effectively to achieve that purpose.	Washington State agricultural producers compete with their counterparts in other states who are subject to different tax regimes. Research by JLARC staff shows other major agricultural states also provide tax exceptions for machinery parts. This was also confirmed by testimony from agricultural producers. This implies that the existing preference may be necessary to enable Washington State agricultural producers to compete effectively. However, as currently designed, this preference may be more than sufficient or inadequate to assure competitive equity.
Grant Forsyth	I concur with JLARC's recommendation.	The impact of machinery tax preferences provided by other states should be carefully considered by the legislature. Research by JLARC's staff shows other major agricultural states also provide tax exceptions for machinery parts. This was also confirmed by testimony from agricultural producers. The presence of tax exemptions in other states suggests the preference can still be justified based on inter-state competition.
Ron Bueing	Any review by legislature should consider the merits of these contentions. Public testimony indicated that the exemption addresses the creation of a level playing field with farmers in competing states. Testimony also indicated potential economic benefit to Washington tax rolls by increasing investment, which would seem to have a positive impact on employment in parts of Washington that continue to suffer high unemployment. Limited analysis was made of the fiscal impact of the exemption and its benefits to the state by the Legislative Auditor other than the cost of the tax preference, but credible testimony indicates the positive impact of this preference. The recommendations for Review and Clarify focus exclusively on the inferred legislative goals for the tax preference, but credible testimony indicates the positive impact of this preference. Any review by legislature should consider the merits of these contentions, which indicate a recommendation of Continue as opposed to Review and Clarify.	While tax preferences may be enacted for specific reasons or as a reaction to certain events, all benefits sought may not have been anticipated and evidence should be gathered to accurately measure of the performance of these preferences from information that has presented itself through the experience with the preference. Regardless of intent formed at the time of preference adoption, the experience in the state with the preference provides information that should inform the state of benefits, as well as costs, that accrue from the exemption and not merely focus on the cost alone. The examination of this tax preference seemed to ignore economic factors that appear largely to be self-evident, such as the status of farmers as price takers in the market as opposed to price makers or that overall investment in farm operations would be affected by the elimination of the tax preference.

6. Fuel Used on Farms (Sales and Use Tax)		
Legislative Auditor recommendation: Review and clarify		
To provide a performance statement that specifies a public policy objective and provides a metric, such as a metric based on the price of diesel, to determine when the preference is necessary.		
Bill Longbrake	The Commission endorses the JLARC staff recommendation to "Review and Clarify" the preference. The Legislature is encouraged to clearly state the public policy of the preference and make sure it is designed effectively to achieve that purpose.	Washington State agricultural producers compete with their counterparts in other states who are subject to different tax regimes. Research by JLARC staff shows other major agricultural states also provide tax exceptions for farm fuel. This was also confirmed by testimony from agricultural producers. This implies that the existing preference may be necessary to enable Washington State agricultural producers to compete effectively. Nevertheless, the preference was passed to alleviate the impact of rising diesel costs in 2006 without an explicit review clause. For tax preferences that are enacted to deal with potentially transitory market shocks, the legislature should consider a clause that triggers an automatic review should market conditions return to pre-shock levels. In addition, as currently designed and given the drop in fuel costs, this preference may be more than sufficient or inadequate to assure competitive equity.
Grant Forsyth	I concur with JLARC's recommendation.	The impact of farm fuel tax preferences provided by other states should be carefully considered by the legislature. Research by JLARC's staff shows other major agricultural states also provide tax exceptions for farm fuel. This was also confirmed by testimony from agricultural producers. The presence of tax exemptions in other states suggests the preference can still be justified based on inter-state competition. Nevertheless, the preference was passed to alleviate the impact of rising diesel costs in 2006 without an explicit review clause. For tax preferences that are enacted to deal with potentially transitory market shocks, the legislature should consider a clause that triggers an automatic review should market conditions return to pre-shock levels.
Ron Bueing	Same Comments as in #5	

7. Fuel Used to Heat Chicken Houses; Chicken Bedding Materials (Sales and Use Tax) **Legislative Auditor recommendation: Review and clarify** Because the two inferred objectives lead to different conclusions. If the objective was to help chicken farmers at a time when agriculture was struggling, then the Legislature should consider whether assistance is still needed in light of increases in sales, and commodity prices relative to the increase in propane costs. If the objective was to make taxation of Washington chicken farmers more consistent with other states, that objective has been achieved. The taxation of propane and natural gas to heat chicken structures and bedding materials is similar to that of other states with which Washington competes. The Legislature may want to consider adding reporting or other accountability requirements that would provide better information on the use of this preference.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
8. Grain and Unprocessed Milk Wholesaling (B&O Tax) **Legislative Auditor recommendation: Review and clarify** Because it is unclear why the Legislature chose to provide preferential treatment to wholesale sales of certain crops but not to other agricultural products.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
9. Livestock Medicine (Sales and Use Tax) **Legislative Auditor recommendation: Review and clarify** To provide a performance statement that includes a public policy objective and specifies metrics to determine if the objectives have been achieved.		
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
Ron Bueing	Same comments as in #5	

10. Aluminum Industry Tax Preferences for Smelters: ***Reduced B&O Rate (B&O Tax)*** ***B&O Credit Taxes Paid on Property (Property Tax)*** ***Sales and Use Tax Credit (Sales and Use Tax)*** ***Brokered Natural Gas Exemption (Use Tax)***		
Legislative Auditor recommendation: Review and clarify Because future reviews will be facilitated by specifying jobs and commodity pricing metrics that can be used to determine if the objective for the four preferences directly available to aluminum smelters has been achieved; providing a performance statement that includes a public policy objective and specifies metrics to determine if the objectives for the two preferences available for businesses selling power to aluminum smelters have been achieved; and adding a requirement for the beneficiaries of the aluminum preferences to disclose their beneficiary savings because otherwise the fiscal impact of the preferences may not be identified in the future.		
Bill Longbrake		The aluminum industry in Washington creates well-paying jobs in economically depressed areas of the State. These preferences were originally authorized in response to specific input cost pressures which have now largely been resolved. However, in reviewing whether to retain and extend these preferences, the legislature should consider industry testimony suggesting that the aluminum market is facing significant competitive pressures due to weak global demand and over production from Chinese producers.
Grant Forsyth	I concur with JLARC's recommendation.	In reviewing these preferences, the legislature should consider industry testimony suggesting that the aluminum market is facing a significant downturn due to weak global demand and over production from Chinese producers.
Ron Bueing	Not endorse. Recommend Continue	Testimony indicates that the effect of this preference is to maintain jobs and activities within Washington that will evaporate if this industry shuts down in Washington. There has already been a number of smelters that have shut down in Washington. If the industry fails in Washington, not only are well paying jobs lost, but the revenue that is generated by the activities of the smelters is eliminated as well. While reporting requirements should be considered to assist in determining the necessity of the exemptions to maintaining this existing industry, analysis should also emphasize the reductions in revenues and costs to Washington from job losses that appear to mandate a recommendation to continue these preferences.

11. Aluminum Industry Tax Preferences for Energy Sellers: ***Public Utility Tax Credit (Public Utility Tax)*** ***B&O Credit for Electric and Gas Sales (B&O Tax)***		
Legislative Auditor recommendation: Review and clarify Because future reviews will be facilitated by specifying jobs and commodity pricing metrics that can be used to determine if the objective for the four preferences directly available to aluminum smelters has been achieved; providing a performance statement that includes a public policy objective and specifies metrics to determine if the objectives for the two preferences available for businesses selling power to aluminum smelters have been achieved; and adding a requirement for the beneficiaries of the aluminum preferences to disclose their beneficiary savings because otherwise the fiscal impact of the preferences may not be identified in the future.		
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
Ron Bueing	Same comments as in #10	
12. Interest on Real Estate Loans (B&O Tax)		
Legislative Auditor recommendation: Review and clarify Because the application of different definitions for "community bank" changes the pool of lenders who qualify for the preference; and the original inferred public policy objective of stimulating the residential housing market may no longer apply given the changes in the lending industry and the rise of the secondary mortgage market.		
Bill Longbrake	Not Endorse. Recommend continue.	Washington State financial institutions that portfolio mortgage loans compete with their counterparts in other states who are subject to different tax regimes. The industry's testimony made the reasonable argument that the current tax preference helps mitigate the competitive disadvantage created by recent federal regulatory changes. In this new environment, smaller financial institutions are struggling to absorb the increase in regulatory costs associated with lending. Although offsetting regulatory costs was not the preference's original stated intent, the preference appears to enable smaller financial firms to compete with (1) large nationally-based financial firms whose size enables them to absorb these additional costs and (2) credit unions, which have special tax status. Indicative of increased cost pressures facing smaller community banks, the number of community banks nationally has fallen from about 7,000 in 2008 to 5,400 recently (a 23% decline). Over this same time period, the number of commercial banks headquartered in Washington State has declined from 81 to 45 (a 44% decline). While there are many factors driving shrinkage in the number of community banks, limiting the current preference in same fashion could aggravate that trend. Furthermore, the inferred public policy objectives do not capture the legislative debate and compromise that surrounded the compromise reached to determine the class and type of banks that would continue to qualify for the exemption. Specifically, the current testimony and debate at the time of the 2011 legislation indicated the restructuring of the exemption

		was to provide a benefit to a certain population of smaller, local lending institutions without violating commerce clause restrictions imposed by the courts. The community bank definitions considered by JLARC staff were not adopted during legislative debate of these provisions because they would not have encompassed the full population of banks the Legislature determined should be covered.
Grant Forsyth	I concur with JLARC's recommendation.	The industry's testimony made the reasonable argument that the current tax preference helps offset the competitive disadvantage created by the new regulatory environment. In this new environment, smaller financial institutions are struggling to absorb the increase in regulatory costs associated with lending. Although offsetting regulatory costs was not the preference's original intent, for the time being the tax preference may still have a purpose given (1) the ability of large financial firms to absorb these costs and (2) the special tax status of credit unions. However, the legislature should consider how banking sector consolidation will change the long-run need for this preference. Since the last financial crisis bank consolidation has accelerated. At the end of 2008 there were about 7,000 commercial banks in the U.S.; by the middle of 2015, this number had fallen to 5,400 (a 23% decline). For the same time period, there were 81 commercial banks headquartered in the Washington; by the middle of 2015 this number had fallen to 45 (a 44% decline). Typically, consolidation takes the form of large banks acquiring smaller banks. The current preference is unlikely to reverse this trend. Banks most susceptible to being acquired would probably meet one or more definitions of a "community bank." With enough consolidations, it is possible that very few banks would qualify for the tax preference.
Ron Bueing	Not Endorse. Recommend continue.	The inferred objectives do not capture the legislative debate and compromise that surrounded the compromise reached to determine the class and type of banks that would continue to qualify for the exemption. Specifically, the current testimony and debate at the time of the 2011 legislation indicated the restructuring of the exemption was to provide a benefit to a certain population of smaller, local lending institutions without violating commerce clause restrictions imposed by the courts. Testimony indicates the benefit of this preference to Washington-based institutions because of the low-margin residential lending market, increased regulatory demands and competition with credit unions and large multistate banks. The community bank definitions considered by the Legislative Auditor were not adopted during legislative debate of these provisions as they would not encompass the full population of banks that were desired. Testimony also provided reasons for why certain community banks would not maintain ownership of all residential mortgages due to capital constraints. It does not seem that there has been any significant change in the nature and conduct of this industry since the current compromise structure was adopted. If anything testimony indicated the same forces continue to affect smaller local lenders.

13. Motion Picture Program Contributions (B&) Tax)		
Legislative Auditor recommendation: **Review and clarify** To provide additional detail on the target for Washington's film industry relative to other states, as well as desired employment outcomes for jobs, average hourly wages, and health and benefits coverage.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	The legislature should consider if the current structure of the tax preference needs to be altered to better achieve the goals expressed in the original preference.
14. Public Facilities Districts (Leasehold Excise Tax)		
Legislative Auditor recommendation: **Review and clarify** To provide a performance statement that includes a public policy objective and specifies metrics to determine if the objectives have been achieved, and to add reporting or other accountability requirements to provide better information on the use of the preference.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.
15. Warehouse and Grain Elevator Remittance (Sales and Use Tax)		
Legislative Auditor recommendation: **Review and clarify** To provide more specificity about what trade and what kinds of jobs the Legislature has as its objectives, measurable targets for these objectives, and data collection mechanisms that can be used to assess performance in meeting these objectives.		
Bill Longbrake	Endorse without comment.	
Grant Forsyth	I concur with JLARC's recommendation.	I concur with JLARC's findings.

Comments on Expedited Reviews

Bill Longbrake	For the following unused preferences-consider terminating	• Natural Gas Purchased by DSI Customers (Use Tax) • Natural Gas Purchases by DSI Industry (B&O Tax) • Electricity Purchased by DSI Industry (Public Utility Tax)