

Citizen Commission for Performance Measurement of Tax Preferences

Draft Consolidated Commissioner Comments on 2019 Preferences

Chair's Note:

For each reviewed preference I have tried to consolidate comments into a single line titled "Chair's Reconciliation Proposal." As was discussed in our last meeting, the goal is for the voting commissioners to speak with "one voice" on each of the reviewed preferences. However, depending on the variation in comments, reaching that single voice can be difficult. Therefore, my reconciliation proposal is color coded to indicate the degree of unity I perceive across commissioner recommendations. Green means I perceive little or no deviation in commissioner recommendations. Yellow means I perceive one to two commissioners have expressed a moderate deviation from the majority, but the differences are not insurmountable to reaching a one voice opinion. Red means I perceive that one to two commissioners have expressed a significant deviation from the majority, and reaching a one voice opinion will be impossible without significant compromises. The table below is a summary of the Green, Yellow, and Red preferences:

Color	Preferences
Green	Aircraft Part Prototypes; Hog Fuel to Produce Energy; Modifying Large Private Airplanes Owned by Nonresidents
Yellow	Commercial Airplane Parts: Place of Sale; Commuter Air Carrier (Sales and Use Tax); Property Tax Exemption for Multifamily Housing in Urban Areas
Red	Aerospace Tax Preferences; Commuter Air Carriers (Property Tax); Financial Institutions' Income from Certain Airplane Loans

Please note that where a comment is part of the reconciliation proposal, I have included the initials of commissioners whose comments or intent were used (in part or full) for the proposed reconciliation comment.

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Name	Possible Comment	Rationale for comment
1. <u>Aerospace Tax Preferences (Business & Occupation Tax, Sales and Use Tax, Leasehold Excise Tax, Property Tax)</u>		
Legislative Auditor recommendation: Clarify The Legislature should clarify its expectations for the level of aerospace industry employment. Providing additional detail in the tax preference performance statement, such as a baseline level of employment, would facilitate future reviews of these preferences.		
Chair's Reconciliation Proposal	Endorse Legislative Auditor (LA) recommendation with comment.	<p>The tax preference continues to meet the majority of stated objectives. However, the employment analysis is ambiguous because there is no established base-year for future comparisons. For example, compared to 2003, aerospace employment is up. However, compared to 2013, it's down. As reflected in testimony, this results in two different narratives regarding the preference's impact on employment levels. The commission recommends the Legislature clarify its position on employment levels by either (1) establishing an explicit base-year or (2) explicitly stating that its decision not to establish a base-year in 2013 was a conscious choice and not an oversight. Either action would provide additional clarity for future Legislative Auditor reviews.</p> <p>With or without a fixed base-year, the Legislature must be very cautious in how it interprets and responds to employment changes as a factor in the preference's efficacy. The industry, like manufacturing in general, are rapid adopters of new technology that enhances productivity. This has the potential to significantly lower the labor input over time. Also, business cycle events, which are outside the industry's control, may lead to significant declines in employment that can persist for several years. In addition, the Legislative Auditor's research and aerospace industry testimony shows that the industry provides above-average investment spending, wages and benefits, and workforce training. None of these areas can be captured by an analysis of changes in employment.</p> <p>Given the above, employment changes by themselves are insufficient for evaluating the preference's efficacy. Therefore, the commission recommends that the Legislature continues to evaluate the preference on a regular cycle using a range of objectives, with employment levels being only one of the considerations. The current JLARC process, based on multiple objectives, provides the most transparent and valid method for determining the degree to which the majority of objectives are met and whether or not the Legislature needs to adjust the preference. (GF, DLD, ANM, RB, JM)</p>

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Grant Forsyth	Endorse LA recommendation with comment.	<p>The tax preference continues to meet the majority of stated objectives. However, the employment analysis is ambiguous because there is no established base-year for future comparisons. For example, compared to 2003, aerospace employment is up. However, compared to 2013, it's down. As reflected in testimony, this results in two different narratives regarding the preference's impact on employment levels. Even with an established base-year, the Legislature must be cautious in how it interprets and responds to employment levels as a factor in preference's efficacy. The industry, like manufacturing in general, are rapid adopters of new technology that enhances productivity. This has the potential to significantly lower the labor input over time. Also, business cycle events, which are outside the industry's control, may lead to significant declines in employment that can persist for several years. Therefore, the commission recommends that the Legislature continues to evaluate the preference on a regular cycle using a range of objectives. This process provides the most transparent method for determining the degree to which the majority of objectives are being met and weather nor not the Legislature needs to adjust the preference. Given the complexity of the aerospace industry, a single employment benchmark is insufficient for evaluating the preference's overall success.</p>
Diane Lourdes Dick	Do not endorse LA recommendation. Continue with comment.	<p>Public testimony suggests that the preferences are contributing to the growth and preservation of highly-paid, skilled employment in Washington's aerospace industry. Further legislative clarification is unnecessary and may bring significant unintended adverse economic consequences for the industry and possibly for the state. In particular, imposing a baseline level of employment would make it difficult for aerospace companies to react to changes in the marketplace.</p>
Andi Nofziger-Meadows	Endorse LA recommendation with additional comment.	<p>The Legislature should provide additional details in the tax preference performance statement regarding the expectation for maintaining and growing our state's aerospace industry workforce, including clarifying if the measurement timeline begins in 2003 when the original preferences were enacted or in 2013 when they were extended.</p> <p>It is difficult to know if the tax preferences are meeting the intent of the Legislature if there is no clear target or timeline for examining aerospace industry employment. Given the biennial estimated beneficiary savings is over \$500 million, both the beneficiaries of this tax preference and the citizens of Washington should have clarity on the Legislature's expectation for industry employment levels.</p>

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<p>Ron Bueing</p>	<p>Do not endorse LA recommendation and recommend that the “preference” be continued.</p>	<p>1. The aerospace tax provisions properly reduce aerospace taxation to an appropriate level of taxation. Critical to analysis of a preference is to determine if the provision is actually a preference. The legal definition adopted by the Legislature does not distinguish between actual preferences and deductions, credits and tax rate differentials necessary to a fair system of taxation. The Ernst & Young tax study indicates that the effective tax rate in Washington prior to the incentives was over 20% and after the incentives is at 10%. A 10% effective state and local tax rate appears to be reasonable, not preferential. While it is true that that Washington taxes other manufacturing activities at a tax rate of 0.484%, it is more likely that other manufacturing is over taxed rather than aerospace manufacturing is under taxed. This is largely due to the taxation of 100% of the gross receipts from manufacturing, as opposed to market-based sourcing used for virtually all other business sectors.</p> <p>2. The aerospace tax provisions did maintain and grow Washington’s aerospace industry workforce. Following the creation of the aerospace tax provisions in 2003 and the extension of the aerospace provisions in 2013 Boeing, in particular, made historic investments in infrastructure necessary to develop new aircraft lines in Washington. It seems impossible to conclude that these investments did not maintain and grow the aerospace industry in Washington. No company invests in unique manufacturing facilities and then ships all of the jobs out of state where they would then need to rebuild the same facilities. Boeing, in 2003 and 2013, bargained for the aerospace tax provisions as a condition of making historic investments in Washington and then made those facilities investments insuring that those jobs would be located in Washington. Other aerospace companies have also testified that the aerospace tax provisions have led to increased aerospace workforce in Washington. Clearly, evidence exists that the incentives continue to meet the objective of maintaining and growing aerospace employment in Washington.</p> <p>3. Baseline levels of employment punish an industry for economic downturns that are beyond its control. While the establishment of baseline levels of employment, might be appropriate in other situations they are inappropriate in the context of a complex industry, such as aerospace. There is simply no substitute for rigorous economic analysis that takes into account the multitude of complexities involved in examining the performance of tax provisions across a complex industry such as aerospace. While baseline employment levels make measurement easy, they provide no rational basis for judging the efficacy of the tax provisions. If the legislative auditor can find no clear link</p>

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		<p>between the tax provisions and employment levels, it would seem impossible for the Legislature to establish meaningful guidelines.</p>
<p>Justin Marlowe</p>	<p>Endorse LA recommendation with comment.</p>	<p>We heard considerable testimony on this issue. Thanks again to everyone who participated.</p> <p>My sense is that those who oppose this recommendation are advancing a logic that's something to the effect of "let's not let the perfect be the enemy of the good." There's no doubt these preferences have been a contributing factor – perhaps the decisive factor – for many recent aerospace industry investments throughout the state. In that sense there is plenty of evidence to believe these preferences are working well. Moreover, it's always difficult, even with the best measurement framework and data, to attribute some or all of the credit for economic outcomes to tax preferences. In other words, there's no perfect tax policy analysis. So given that there's plenty of evidence to suggest these preferences are working, and given that we can never know without reservation that they're working, some have suggested the Legislative Auditor look at the preponderance of evidence and conclude these preferences are, on balance, meeting their objective.</p> <p>There are two problems with this logic. First, assumptions matter a lot in tax policy analysis, and without clarity on those assumptions reasonable people can arrive at wildly different conclusions about whether a preference is working. In this specific case, with just a few simple assumptions about how to measure and interpret changes in employment, one could conclude that aerospace has stagnated or even declined. To be clear, that's not my view. I believe the data tells a compelling story about the success of these preferences. But that story is far less compelling without clarity on how we ought to think about changes in employment levels. In my view that's a strong argument in favor of endorsing the Legislative Auditor's recommendation to clarify.</p> <p>The second problem with this logic is that it does not give the Legislature the benefit of the doubt. There are many reasons why the Legislature should not define "baseline employment." No industry wants to be tethered to performance expectations set by outside stakeholders, especially during difficult economic times when industry leaders need flexibility to make difficult decisions on employment and capital investments. Those points came through loud and clear during public testimony on these preferences. My sense is that this argument resonates with the Legislature, and that helps to explain why they have not clarified what they mean by employment levels or</p>

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		<p>trends. But another interpretation of these same facts is that the Legislature's silence is simply an oversight. So once again, reasonable people can disagree. My sense is that lack of clarity is not an oversight or a failure to consider the Legislative Auditor's task, but rather a policy statement that's easily mistaken for ambiguity or ambivalence. If that's the case, then the Legislature simply needs to make clear that it has no intent of defining employment levels. That clarity would change, for the better I think, how the Legislative Auditor evaluates these preferences next time. So once again, the Legislative Auditor's request for clarity is appropriate.</p> <p>For those two main reasons, I concur with the recommendation.</p>

Name	Possible Comment	Rationale for comment
<p>2. <u>Aircraft Part Prototypes (Sales & Use Tax)</u></p> <p>Legislative Auditor recommendation: Terminate</p> <p>The Legislature should terminate the sales and use tax exemption for prototypes for aircraft parts, auxiliary equipment, and modifications because the tax preference is not being used and has not contributed to the state public policy objectives.</p> <p>The Legislature may wish to consider other strategies beyond this tax incentive to accomplish the public policy objectives.</p>		
Chair's Reconciliation Proposal	Endorse LA recommendation without comment.	
Grant Forsyth	Endorse LA recommendation without comment.	
Diane Lourdes Dick	Endorse LA recommendation without comment.	
Andi Nofziger-Meadows	Endorse LA recommendation without comment.	
Ron Bueing	Endorse LA recommendation without comment.	
Justin Marlowe	Endorse LA recommendation without comment.	

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<p>3. <u>Commercial Airplane Parts: Place of Sale (Business & Occupation Tax)</u></p> <p>Legislative Auditor recommendation: Review and Clarify</p> <p>The Legislature should review and clarify the preferential tax treatment provided to out-of-state manufacturers because it seems to run counter to the Legislature’s state policy objective of reducing the cost of doing business in Washington compared to locations in other states.</p> <p>In addition, the Legislature may want to consider adding reporting or other accountability requirements that would provide better information on out-of-state manufacturers’ use of this preference.</p>		
<p>Chair’s Reconciliation Proposal</p>	<p>Endorse LA recommendation with comment.</p>	<p>The tax preference addresses what had previously been an area of significant dispute between taxpayers and the Department of Revenue on sourcing of sales where final inspection of the products for FAA purposes occurs outside of Washington. The Legislature should clarify this by continuing the preference and re-stating that its purpose is to define the place of sale as opposed to reducing Washington’s cost of business. Doing so will avoid further disputes and will not require further reporting for this structural clarification. (RB)</p>
<p>Grant Forsyth</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Diane Lourdes Dick</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Andi Nofziger-Meadows</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Ron Bueing</p>	<p>Do not endorse the LA recommendation and recommend that the “preference” be continued.</p>	<p>This aerospace tax provision provides clarity to what had previously been an area of significant dispute between taxpayers and the Department of Revenue on sourcing of sales where final inspection of the products for FAA purposes occurs outside of Washington. Elimination of the provision will result in further disputes on the place of sale with no guarantee of sourcing of such sales to Washington.</p>
<p>Justin Marlowe</p>	<p>Endorse LA recommendation without comment.</p>	<p>No comment.</p>

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4. <u>Commuter Air Carriers (Property Tax)</u>		
Legislative Auditor recommendation: Modify		
<p>The preference is meeting one of two inferred objectives. While it is simplifying reporting for one taxpayer and the Department of Revenue, it is not providing an alternative to property tax that results in a similar amount of tax paid.</p>		
<p>The Legislature should modify the preference to:</p>		
<ul style="list-style-type: none"> • Provide a method to equalize commuter air carrier excise tax fees on airplanes with property taxes over time. • Clarify why the preference is limited to commuter air carriers primarily located on private property. • Provide a performance statement with stated objectives and metrics to determine if the objectives are met. 		
Chair's Reconciliation Proposal	Endorse LA recommendation with comment.	Extensive calculations by the Legislative Auditor suggests that current tax methodology is not revenue neutral relative to the older, more complicated methodology. The Legislature should be aware that the lack of neutrality is not the fault of industry; it's an unintended consequence of much needed tax simplification. Because the new methodology has been in place since 2014, the industry has already budgeted in the current tax going forward. Therefore, should the Legislature decide to adjust the tax, it should be done in a way that increases the burden very gradually. Industry testimony indicates they operate with narrow margins and abrupt changes in costs can be difficult to absorb. The ability to absorb tax changes is an important consideration given that industry testimony and the Legislative Auditor's research shows the industry provides unique transportation services to residents in remote parts of the state. (GF)
Grant Forsyth	Endorse LA recommendation with comment.	Evidence provided by the JLARC staff suggests that current tax methodology is not revenue neutral relative to the older, more complicated methodology. The Legislature should be aware that the lack of neutrality is not the fault of industry; it reflects an unintended consequence of much needed tax simplification. Because the new methodology has been in place since 2014, the industry has already budgeted in the tax going forward. Therefore, should the Legislature decide to adjust the current tax, it should be done in a way that increases the burden very gradually. Industry testimony indicates they operate with narrow margins and abrupt changes in costs can be difficult to absorb. The ability to absorb tax changes is an important consideration given that industry testimony and JLARC research shows the industry provides unique transportation services to residents in remote parts of the state.

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Name	Possible Comment	Rationale for comment
Diane Lourdes Dick	Do not endorse LA recommendation. Continue with comment.	Public testimony suggests that prior to the passage of this preference, compliance with Washington tax laws required that a commuter air carrier and the DOR engage in a highly burdensome and time-consuming process each year to estimate the value of property and determine a taxable amount. Therefore, the preference appears to be substantially reducing the administrative burden of taxation for these firms. Modifying the preference may bring significant unintended adverse economic consequences for the industry.
Andi Nofziger-Meadows	Endorse LA recommendation without comment.	
Ron Bueing	Do not endorse LA recommendation and recommend that the “preference” be continued.	Air carrier fleets are subject to a method of property tax, known as central assessment. This is a very complex process. A Department of Revenue appraiser calculates value under three separate models, cost income and market. Further, there are multiple calculation models under each valuation method. The final results of each valuation method are analyzed and weighted and a taxable amount is then calculated. For a small carrier this methodology has many problems. One, there is no way of accurately estimating property tax liability as professional judgement of the appraiser is relied on significantly and is difficult, if not impossible, to determine objectively. This is important to an industry segment that has traditionally struggled from a financial perspective and greatly values advance knowledge of its tax obligations. Two, significant costs must be incurred to review the complex valuation process. The current weight schedule prescribed by this tax provision eliminates problems of associated with central assessment for smaller carriers. The revenue loss indicated in JLARC’s analysis appears to be based primarily on examination of market valuation of aircraft, which is not equivalent to the application of the full central assessment method used prior to the adoption of this tax provision. The primary objective of the tax provision was to provide an easier method to calculate property taxes while collecting similar amounts. It appears that a more rigorous analysis is needed to determine if similar amounts are being collected, but it is clear that simplicity has been achieved. If the Legislature determines that higher fee levels are necessary to avoid revenue loss, such changes should be considered.
Justin Marlowe	Endorse LA recommendation without comment.	

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<p>5. <u>Commuter Air Carrier (Sales and Use Tax)</u></p> <p>Legislative Auditor recommendation: Clarify expectations for levels of service and locations served</p> <p>The Legislature should clarify its expectations for this preference by adding a performance statement that clearly states the public policy objectives and metrics to determine whether the objectives have been met. The Legislature should clarify what it hopes to achieve in terms of frequency of flights and locations served.</p>		
Chair's Reconciliation Proposal	Endorse LA recommendation with comment.	It would be helpful for future reviews for the Legislature to clarify its expectations for this tax preference by adding a performance statement. However, public testimony suggests that any performance metrics must be chosen carefully so as not to be overly burdensome to firms that provide an important service in a low-margin industry. Also, in many cases, economics unrelated to the tax preference will dictate a specific route's viability and optimal flight frequency. Therefore, metrics related to specific routes and frequency may not accurately reflect the preference's impact on industry performance. In particular, although the preference likely improves industry viability by lowering costs, linking the preference's impact to route changes may be difficult and/or overly burdensome to the industry. (DLD, RB)
Grant Forsyth	Endorse LA recommendation without comment.	
Diane Lourdes Dick	Endorse LA recommendation (first sentence only) with comment.	While it would be helpful for the Legislature to clarify its expectations for this preference, public testimony suggests that performance metrics may be overly burdensome to firms that provide such an important public service in an extremely challenging industry sector. I do not endorse the last sentence of the Legislative Auditor's recommendation because metrics tied to frequency of flights and locations served would make it difficult for commuter air carriers to react to changes in the marketplace
Andi Nofziger-Meadows	Endorse LA recommendation without comment.	
Ron Bueing	Endorse with comment.	While the Legislature should establish clear public policy objectives to guide future analysis of this tax provision, it is inconceivable that the Legislature can

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		provide meaningful metrics in terms of flight frequency and locations served. Economics will ultimately dictate whether a route is viable and what the frequency of flights will be. What is abundantly clear from testimony received is that commuter air carriers struggle to remain in business and certainly this tax provision enhances the ability of carriers to provide this unique service. Clear public policy objectives should be stated, but specific metrics should rarely be used unless there is a clear link between the public policy objective and the metric proposed. In most cases, rigorous economic analysis and applied judgement must be employed to determine compliance with public policy objectives.
Justin Marlowe	Endorse LA recommendation.	I appreciated the extensive and detailed testimony on this preference, but I continue to believe the Legislative Auditor's recommendation is well-reasoned and adequately supported.

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<p>6. <u>Financial Institutions' Income from Certain Airplane Loans (Business and Occupation Tax)</u></p> <p>Legislative Auditor recommendation: Clarify the intent and duration</p> <p>The Legislature should clarify the intent and duration of the tax preference. If the preference is intended to provide targeted financial relief to Washington-based airlines, the Legislature should add a performance statement and determine whether the relief is meant to be permanent or time-limited.</p>		
<p>Chair's Reconciliation Proposal</p>	<p>Do not Endorse LA recommendation. Clarify intent only.</p>	<p>Given the Legislature did not add an expiration date in 2010, it can be inferred the tax preference was not intended to be time limited. However, the Legislature should add an explicit performance statement. This would bring it in line with the Legislature's current requirement that similar tax arrangements have an explicit performance statement. Such a statement would aid future reviews by removing any ambiguity about the Legislature's intent. (DLD, RB)</p>
<p>Grant Forsyth</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Diane Lourdes Dick</p>	<p>Do not endorse LA recommendation. Continue with comment.</p>	<p>This preference exempts out-of-state lenders from owing B&O taxes on commercial aircraft loan income- costs that would otherwise be passed on to the borrowers pursuant to the terms of their financing agreements. Because lenders financing the aircraft of out-of-state airlines are not subject to the tax, the exemption helps create a fair and level playing field for commercial airlines operating in an already highly competitive environment. JLARC's report and public testimony suggest that the incentive is meeting its inferred objective of providing targeting financial relief to Washington-based commercial airlines, and that the financial relief provided by the preference has been used to support business growth in Washington. Public testimony further suggests that the preference has the potential to support other, smaller Washington-based commercial airlines who may finance their aircraft with out-of-state financial institutions. Given that the B&O tax is in place for an indefinite period and considering the new surcharge and B&O tax increase applicable to certain financial institutions, there is a potential for significant unintended adverse economic consequences for Washington-based airlines and possibly for the state if the preference is made subject to a sunset provision.</p>
<p>Andi Nofziger-Meadows</p>	<p>Endorse LA recommendation without comment.</p>	

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Ron Bueing	Do not endorse the LA recommendation and recommend that the "preference" be continued.	Sourcing of interest payments under Washington's current apportionment method results in interest being taxed in the jurisdiction where the taxpayer is commercially domiciled. Common terms in aircraft loans require that taxes other than income taxes be reimbursed by the borrower. This results in Alaska Airlines having to pay B&O taxes assessed on interest paid on loans to acquire aircraft in the absence of this tax provision, placing Alaska Airlines at a disadvantage with respect to its competitors based solely on Alaska's decision to maintain its corporate headquarters in Washington. This is a permanent problem under the B&O taxing regime. Accordingly, the tax provision should be continued.
Justin Marlowe	Endorse LA recommendation without comment.	

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Name	Possible Comment	Rationale for comment
<p>7. <u>Hog Fuel to Produce Energy (Sales and Use Tax)</u></p> <p>Legislative Auditor recommendation: Continue of facilities keep achieving the 75% job retention goal</p> <p>The Legislature should continue the preference because the statutory employment goal is being met.</p> <p>The Legislature should monitor facility employment levels through 2023 to determine if they continue to meet statutory goal.</p> <ul style="list-style-type: none"> • If employment levels continue to meet the statutory goal, then the Legislature will need to decide in the 2024 legislative session whether to extend the preference and re-state or update employment goals. • If employment levels do not continue to meet the statutory goal, then the Legislature should allow the preference to expire on June 30, 2024. 		
Chair's Reconciliation Proposal	Endorse LA recommendation without comment	If employment goals are not met at any time, the Legislature should analyze whether the tax preference should be continued based on a differing set of goals. The jobs protected by this tax provision are often located in rural parts of the state that continue to struggle with good job opportunities for its citizens. (RB)
Grant Forsyth	Endorse LA recommendation without comment.	
Diane Lourdes Dick	Endorse LA recommendation without comment.	
Andi Nofziger-Meadows	Endorse LA recommendation without comment.	
Ron Bueing	Endorse LA recommendation with comment.	If employment goals are not met at any time, the Legislature should analyze whether the preference should be continued based on a differing set of goals. The jobs protected by this tax provision are often located in rural parts of the state that continue to struggle with good job opportunities for its citizens. These above average jobs are important to these communities and it would be irresponsible for the Legislature simply allow for expiration of the provision without further analysis of statutory goals.
Justin Marlowe	Endorse LA recommendation with comment.	This analysis is a good example of a preference where a clear statement of policy goals and measurement of those goals has facilitated ongoing improvements to tax policy.

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<p>8. <u>Modifying Large Private Airplanes Owned by Nonresidents (Sales and Use Tax)</u></p> <p>Legislative Auditor recommendation: Continue and clarify the objective</p> <p>The Legislature should continue the preference by extending the expiration date before it is scheduled to expire on July 1, 2021. Since the preference was enacted, several large private airplanes have been modified, or are currently being modified, in Washington. This work was not conducted in Washington prior to the preference. This work has created new jobs and increased economic activity in Moses Lake and elsewhere in the state.</p> <p>The preference has had a negligible impact on Washington’s broader aerospace manufacturing industry. The Legislature should clarify whether the objective of growing the broader aerospace manufacturing industry is relevant.</p> <p>If the preference is allowed to expire, the modification activity would likely cease.</p>		
<p>Chair’s Reconciliation Proposal</p>	<p>Endorse LA recommendation with comment.</p>	<p>The tax preference should not be linked to an objective of growing broader aerospace manufacturing industry. Public testimony suggests that the preference is promoting economic development and offering highly-paid, skilled employment in a very specialized segment of the aerospace industry. The evidence further suggests that this segment would likely relocate outside of Washington without the preference. (DLD)</p>
<p>Grant Forsyth</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Diane Lourdes Dick</p>	<p>Endorse LA recommendation with comment.</p>	<p>The preference should not be linked to an objective of growing broader aerospace manufacturing industry. Public testimony suggests that the preference is promoting economic development and offering highly-paid, skilled employment in a very specialized segment of the aerospace industry. The evidence further suggests that this segment would likely relocate outside of Washington without the preference.</p>
<p>Andi Nofziger-Meadows</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Ron Bueing</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Justin Marlowe</p>	<p>Endorse LA recommendation without comment.</p>	<p>No comment.</p>

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<p>9. <u>Property Tax Exemption for Multifamily Housing in Urban Areas (Property Tax)</u></p>		
<p>Legislative Auditor recommendation: Modify</p> <p>The Legislature should modify the preference to direct cities to include analysis of profitability as a consideration in offering or approving exemptions.</p> <p>The Department of Commerce should report annually to JLARC and the relevant policy committees on city compliance with the requirements, as well as the metrics in statute and affordability measures.</p> <p>The Department of Revenue should report to JLARC and the relevant policy committees on which statutory ambiguities can be resolved through guidance and which require statutory changes.</p>		
<p>Chair’s Reconciliation Proposal</p>	<p>Endorse Legislative Auditor recommendation with additional comment.</p>	<p>The Legislature should pay particular attention to reporting guidelines as it applies to low-income units and residents. In particular, the lack of reporting means the actual number of low-income units and associated rents are difficult to identify. This makes it impossible to analyze how the tax preference is impacting the low-income housing supply. Testimony regarding the City of Olympia’s use of the preferences strongly highlights the current reporting problems.</p> <p>The Legislature may want to review how rent limits for low-income households are set. In particular, the Legislature may want to include in the formula an adjustment for a low-income household’s actual income, rather than relying only on a county’s median income.</p> <p>Finally, public testimony raised the important question of whether the introduction of MFTEs in Washington communities has had the unanticipated consequence of increasing rental costs and squeezing out existing affordable housing. More research is needed to investigate the impacts of this preference on housing affordability in Washington.</p> <p>While the commission endorses the intent of the Legislative Auditor’s recommendations to Commerce and Revenue to improve reporting and clarify ambiguities, both departments did not concur and cite resource and authority issues to act on this without further legislative action. However, without improvements in clarity and allowable use, the Legislature will continue having difficulty determining the preference’s success. The commission suggests the Legislature could begin with a workgroup to provide options to improve reporting and consistency of use. (DLD, GF)</p>

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<p>Grant Forsyth</p>	<p>Endorse LA recommendation with additional comment.</p>	<p>The Legislature should pay particular attention to reporting guidelines as it applies to low-income units and residents. In particular, the lack of reporting means the actual number of low-income units and associated rents are difficult to identify. This makes it impossible to analyze how the preference is impacting the low-income housing supply. Testimony regarding the City of Olympia’s application of the preferences strongly highlights the current reporting problems. Finally, the Legislature may want to review how rent limits for low-income households are set. In particular, the Legislature may want to include in the formula an adjustment for a low-income household’s actual income, rather than relying only on a county’s median income.</p>
<p>Diane Lourdes Dick</p>	<p>Endorse LA recommendation with comment.</p>	<p>Public testimony raised the important question of whether the introduction of MFTEs in Washington communities has had the unanticipated consequence of increasing rental costs and squeezing out existing affordable housing. More research is needed to investigate the impacts of this preference on housing affordability in Washington.</p>
<p>Andi Nofziger-Meadows</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Ron Bueing</p>	<p>Endorse LA recommendation without comment.</p>	
<p>Justin Marlowe</p>	<p>Endorse LA recommendation without comment.</p>	<p>No comment.</p>