

September 19, 2014



To: Members of the Citizen Commission for Performance Measurement of Tax Preferences

From: Andrew Nicholas, Senior Fiscal Analyst, Washington State Budget & Policy Center

Subject: Perspective on aerospace tax incentives

Good afternoon Mr. Chair and members of the Commission. Thank you for giving me the opportunity to testify this afternoon.

For the record, my name is Andy Nicholas. I am the Senior Fiscal Analyst at the Washington State Budget & Policy Center, which is an independent, non-profit research organization that focuses on building a just and prosperous future for all Washingtonians.

We strongly support the Legislative Auditor's recommendation for policymakers to establish minimum performance goals, such as specific job retention and creation targets, for Washington state's aerospace tax breaks.

Like most Washingtonians, we are proud of our state's aerospace legacy. We are also proud to be the home of dynamic, cutting edge companies like Boeing and its many suppliers and partners. To ensure our aerospace investments benefit Washington state, it is critical that policymakers properly structure incentives to reward businesses for creating new jobs here.

However, under current law aerospace companies can claim Washington tax breaks while shipping jobs out-of-state, undermining the central goal of these incentives. You may recall that in January 2014, just two months after the latest round of aerospace tax breaks were approved by policymakers, Boeing began to ship thousands of Puget Sound-based engineering jobs to California and other states.

To prevent further job losses and more wasted resources, we recommend amending these incentives so that only those businesses that invest in Washington state and create new jobs here are able to benefit from them. Going forward, this would help ensure that the legislature's specific goal for these tax breaks, which is "to maintain and grow Washington's aerospace industry workforce" is achieved.

This can be accomplished by building in better safe guards that would allow the Department of Revenue to deny or recoup tax break dollars from businesses that ship aerospace jobs out of state. Policymakers could also restructure these tax breaks to ensure they more accurately reward the desired activity – creating good jobs here in Washington state. This could be done by converting the current preferential business and occupation (B&O) tax rates applied to

aerospace activities into credits that are allocated on a per job basis – \$2,000 per job, for example.

Although, current law includes some accountability provisions, they are not sufficient. For all the billions of dollars in state tax breaks aerospace companies will claim in the coming years, there are no guarantees that total aerospace employment will grow as result.

You may hear that job guarantees and accountability measures would be too onerous for businesses to comply with. However, as my colleague Thomas Cafcas from Good Jobs First will discuss in more detail, job guarantees and accountability provisions are commonly built into tax breaks in other states. Furthermore, such commonsense transparency measures have **not** been overly burdensome for businesses that benefit from tax breaks offered in other states.

The Legislative Auditor's analysis of these tax breaks vividly shows the dangers of continuing Washington state's aerospace subsidies without adding more robust accountability provisions. The Auditor modeled three potential scenarios related to the effectiveness of these tax breaks. The third scenario, which assumed Boeing accepted state tax breaks but failed to create new jobs in Washington state, resulted in nearly 5,000 jobs lost and billions of dollars in squandered resources. That could be Washington's future should policymakers fail to add specific job creation targets and better safeguards to our state aerospace tax breaks.

In sum, we are proud of Washington's aerospace legacy and we support smart investments that strengthen and grow our bonds with Boeing and other members of the industry. However, in exchange for the large public investments we make in aircraft manufacturing and design, requiring Boeing to uphold its end of the deal with job creation and investment guarantees is not too much to ask. To that end we strongly support amending these tax breaks to include specific job creation targets, as recommended by the Legislative Auditor. To improve the effectiveness of these tax breaks, we also support adding accountability measures to the law that would deny tax breaks to companies that ship jobs out of Washington state.

Again, thank you for giving me the opportunity to testify this afternoon. I would be happy to answer any questions you may have.