



September 5, 2019

Dr. Grant D. Forsyth  
Chair, Citizen Commission for Performance Measurement of Tax Preferences  
106 11<sup>th</sup> Ave SW  
PO Box 40910  
Olympia, WA 98504

Re: Legislative Auditor's Recommendations for Financial Institutions' Income from Certain Airplane Loans

Dear Chair Forsyth and members of the Citizen Commission for Performance Measurement of Tax Preferences,

On behalf of Alaska Airlines and Horizon Air Industries, hereinafter referred to as "Alaska Airlines" or "Alaska Air Group", I respectfully request the Commission adopt a position not to endorse the Legislative Auditor's recommendation for Financial Institutions' Income from Certain Airplane Loans, thereby ensuring this important tax preference can continue to perform as originally designed.

In 2010, the Washington State Legislature made changes to how the state B&O tax was applied to certain income earned by service businesses and extended the B&O tax to financial institutions not physically located in Washington. Anticipating the significant competitive disadvantage this would create for Washington-based commercial airlines financing large aircraft purchases, legislators and Governor Gregoire enacted the tax preference for Financial Institutions' Income from Certain Airplane Loans, exempting out-of-state lenders from owing B&O tax on aircraft loan income – taxes which would otherwise be passed along to Washington airlines as part of their contract, but would not apply to out-of-state airlines.

Headquartered in Seattle for many decades Alaska Airlines provides important and vital air service to all 9 commercial airports in the state of Washington and to more than 115 destinations across the United States, Canada, Mexico and Costa Rica. As the only major commercial airline headquartered in Washington (or the West Coast), Alaska has used the financial relief provided by this tax preference to support growth in our company and our fleet of aircraft for nearly a decade, and we continue to invest in our people and the communities we serve.

Since 2010, we've nearly doubled our employment and established the strongest commercial passenger network on the West Coast, offering 1,300 daily flights to 285 nonstop markets. According to an economic impact study performed by BERK Consulting, Alaska Air Group contributed \$7 billion in economic impact and supported 23,561 jobs in the Washington state economy in 2017. From 2013-2017, Alaska Airlines made nearly \$2.4 billion worth of aircraft purchases from Boeing, which created \$3.4 billion of additional economic activity in Washington state and supported an average of nearly 1,600 jobs across the state per year. Moreover, Washington state charities received \$8 million from Alaska Air Group companies in 2017 alone – more than half of total corporate donations that year.

Alaska Airlines operates in a highly competitive environment. As a result of acquiring Virgin America in 2016, Alaska Airlines grew its domestic market share to 6 percent and became the fifth largest US airline. Still, the four largest US airlines control a combined 85 percent of the domestic market share and compete head-to-head with Alaska in markets across the country, including in Washington state. This important tax preference establishes a fair and level playing field, making it possible for a Washington-based carrier like Alaska Airlines to effectively

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compete with much larger legacy carriers who operate in the same markets but are not subject to the state B&O tax on aircraft loans.

In order to grow, we must continue to keep our costs low and operate on a level playing field with our competitors. The JLARC review further demonstrates how the recent increase to the B&O tax on financial institutions passed in 2019 would only exacerbate this disparity and make it more difficult for us to operate and compete.

Washington state leaders acknowledged the important role commercial aviation plays in supporting our state's growing economy when they enacted this tax preference indefinitely in 2010. The best outcome would be to ensure that this tax preference can continue to perform as designed, without changes. We respectfully ask that the Commission recommend not to endorse the Legislative Auditor's recommendation related to the tax preference for Financial Institutions' Income from Certain Airplane Loans.

Sincerely,

A handwritten signature in black ink that reads "Megan Ouellette".

Megan Ouellette  
Managing Director, Government Affairs  
Alaska Airlines