



Citizen Commission for Performance Measurement of Tax Preferences

William A. Longbrake,
Commission Chair

Lily Kahng, *Vice Chair*
Associate Professor
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James Bobst
Human Resource Manager
Pacific Fibre Products

Stephen Miller
Member
Washington Education Association

Paul Guppy
Vice President for Research
Washington Policy Center

Representative Troy Kelley
Chair, Joint Legislative Audit
and Review Committee

Brian Sonntag
State Auditor

Citizen Commission for Performance Measurement of Tax Preferences

Meeting Minutes

October 16, 2009

John A. Cherberg Bldg.,
Senate Hearing Rm. 3
Olympia, WA

Members Present:

William A. Longbrake
James Bobst
Stephen Miller

Lily Kahng
Paul Guppy

Members Absent:

Rep. Troy Kelley

Brian Sonntag

Staff:

Ruta Fanning
Mary Welsh
Dana Lynn
Cindy Evans
Lisa Hennessy

Keenan Konopaski
David Dean
Peter Heineccius
Suzanne Kelly

WELCOME / INTRODUCTIONS

Commission Chair Bill Longbrake welcomed those in attendance and called the meeting to order at 2:05 p.m.

APPROVAL OF MEETING MINUTES

MOTION: A motion was made to approve both the August 14, 2009, and September 11, 2009, meeting minutes.

The motion was seconded and carried.

STAFF REPORTS

Ruta Fanning introduced a new JLARC staff member, Peter Heineccius. Peter will be one of the staff team analyzing the tax preferences on the 10-year schedule.

Keenan Konopaski presented a proposed Commission policy regarding adjusting the level of tax preference reviews:

Tax Preferences being reviewed at the direction of the Citizen Commission for Performance Measurement of Tax Preferences ("Commission") are classified by size of fiscal impact, based

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on information from the Department of Revenue. When conducting tax preference reviews for the Commission, the Legislative Auditor has the delegated authority to adjust the level of review for a specific tax preference if additional information indicates the fiscal impact size is incorrect. The Legislative Auditor will notify the Commission of any adjustments prior to the completion of each year's reviews. The Commission will consider action to ratify any adjustments made by the Legislative Auditor at the next available Commission meeting.

MOTION: A motion was made to adopt the Delegated Authority to Adjust Level of Reviews policy.
The motion was seconded and carried.

2010 COMMISSION MEETING SCHEDULE

Ruta Fanning presented a draft 2010 Commission meeting schedule.

MOTION: A motion was made to approve the 2010 meeting schedule.
The motion was seconded and carried.

DISCUSSION / APPROVAL OF COMMISSION COMMENTS ON 2009 TAX PREFERENCE REVIEWS

The Commission discussed the 2009 Tax Preference Reviews.

MOTION: A motion was made to acknowledge receipt of the 2009 JLARC Tax Preference Reviews. The Commission has provided a forum for discussion and public comment on the recommendations and endorses JLARC recommendations on the following 17 tax preferences:

| | No Change | Terminate or Allow to Expire | Modify or Clarify |
|--------------------------------------|--------------|------------------------------------|----------------------|
| Municipal Utilities Deduction | X | | |
| Commercial Aircraft Excise | X | | |
| Nonresident Aircraft & Aircraft Held | X | | |
| Motor Vehicle and Special Fuel | X | | |
| Joint Utility Services Deduction | X | | |
| Cash Discounts Deduction | X | | |
| Income of Employees Exemption | X | | |
| Motor Fuel B&O Tax Deduction | X | | |
| Feed and Seed Exemptions | X | | |
| Casual Sales Exemption | X | | |
| Rural Software and Help Desk | | X | |
| Field Burning Equipment | | X | |
| Patient Lifting Devices Credit | | X | |
| Fraternal Benefit Societies | | | X |
| Ocean Marine Insurance Tax | | | X |
| Manufacturers of Flour & Oil | | | X |
| Newspapers Exemptions | | | X |

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The motion was seconded and carried.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for **Investments of Nonfinancial Firms Deduction from B&O Tax** that JLARC staff recommended to continue with no change. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission endorses the recommendation; however the Legislature should consider whether investment income should be taxed by some means other than the B&O gross receipts tax.

The motion was seconded and carried.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for **General Aviation Aircraft Exemption from Property Taxes** that JLARC staff recommended to continue with no change. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission endorses the recommendation because it meets the Legislature's objective of avoiding double taxation; however the Legislature should consider whether the current excise fees should be raised and whether the level of these excise fees should more closely correspond to the Legislature's apparent original intent of approximately one percent of value.

The motion was seconded and carried.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for **Tuition and Fees Deductions from B&O Tax** that JLARC staff recommended to continue with no change. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission does not endorse the recommendation but instead recommends that the Legislature clarify the intended public policy purpose of the Tuition and Fees Deductions from B&O tax and define more precisely the term "education institution" for purposes of determining which institutions are entitled to the B&O tax deduction.

The motion was seconded and carried; however Commissioner Miller acknowledged that he may file a Minority Report.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for **Rural Electric Utility Contributions Public Utility Tax Credit** that JLARC staff recommended to expire as scheduled. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission endorses the recommendation; however, the Legislature should consider requesting that an economic impact study be conducted by December 31, 2010, which is enabled by relevant data gathering. Such a study would provide a more informed basis for determining whether to let this preference expire as scheduled, whether to extend the expiration date, or whether to modify the preference and extend the expiration date.

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The motion was seconded and carried.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for **Nursing Homes, Kidney Dialysis Facilities, and Hospice Centers** that JLARC staff recommended to clarify the intended public policy objective of the B&O tax deduction. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission does not endorse the recommendation but instead recommends that the Legislature eliminate the B&O tax deduction for nursing homes, kidney dialysis facilities, and hospice centers.

The motion was seconded and carried.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for **Aluminum Industry Tax Preferences** that JLARC staff recommended to extend the expiration date. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission endorses the recommendation to extend the expiration date, and further recommends that the Legislature should consider establishing a final expiration date. In addition, the Legislature should explore other alternative means of achieving the goal of preserving family wage jobs in rural communities.

The motion was seconded and carried.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for **Janitorial Services Exemptions from Sales and Use Taxes** that JLARC staff recommended to continue with no change. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission does not endorse the JLARC recommendation, and recommends the state legislature terminate this preference.

The motion was seconded and carried.

MOTION: The Commission acknowledges receipt of the 2009 JLARC Tax Preference Review for the **Public Utility Tax Exemption for Electricity for Electrolyte Firms** that JLARC staff recommended to continue. The Commission has provided a forum for discussion and public comment on this recommendation and provides the following comment: The Commission endorses the JLARC recommendation and further recommends that the current expiration date of June 30, 2019 be considered the final date for this preference. In addition, the Legislature should explore other alternative means of achieving the goal of preserving family wage jobs.

The motion was seconded and carried.

MOTION: JLARC has now completed reviews of 75 tax preferences over the last three years. These reviews have highlighted many important performance and policy issues that should be considered by the Legislature. JLARC has summarized all of their recommendations to date and the Commission's comments in a single document. The

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Commission wants to remind the Legislature of this important body of work. Therefore, the Commission will **distribute the Recommendation Summary to the Legislature**, and urge them to take action on the issues identified in our reviews.

The motion was seconded and carried.

With no further public comment or Commission discussion, the meeting was adjourned at 4:08 p.m.