HOUSE FINANCE COMMITTEE PRESENTATION

2021 Tax Preference Performance Reviews

The Legislative Auditor recommends action on four of seven preferences reviewed. The Citizen Commission unanimously endorsed recommendations and adopted comments on four reviews.

WASHINGTON JLARC

Scott Hancock | Dana Lynn | Pete van Moorsel | Eric Whitaker

January 2022

Tax reviews follow audit standards, different process than other JLARC work

Legislature created Citizen Commission for Performance Measurement of Tax Preferences.

- Five-member body created by Legislature.
- Determines review schedule.
- Takes public testimony and adopts comments on staff work.

Staff are required to make recommendations to Legislature.

Overview

All reports include:

one page overviews & video summaries

Legislative Auditor recommends action on four preferences:

- Health Benefit Exchange
- Manufacturers' Deferral
- Reduced B&O Rate for Printing and Publishing Newspapers
- Medical Cannabis Tax Preferences

Allow one preference to expire and clarify intent of another:

- Nonprofit Outpatient Dialysis Facilities
- Credit for Renewable Energy Program Payments

One recommendation already implemented during 2021 session:

- Targeted Urban Area Exemption

B&O TAX

Health Benefit Exchange

Legislative Auditor’s Conclusion: The preference reduces the Exchange's administrative costs by $1 million per year, allowing it to maximize its funding for operating a health insurance marketplace. The Legislature should extend the July 2023 expiration date or make the preference permanent.

Scheduled to Expire:
July 1, 2023

Estimated 2021-23 Beneficiary Savings: $2.2 million

WASHINGTON JLARC

Dana Lynn

January 2022

Income received by the Health Benefit Exchange is exempt from B&O tax

The Exchange:

Established to help implement Affordable Care Act.

An online marketplace to compare and enroll in health plans.

- A public-private partnership.
- Funded by appropriations.
- Subject to B&O tax.

Preference is meeting inferred objective

Allows the Exchange to **maximize its total state funding.**

Enacted when the Legislature created the Exchange, **structural** purpose.

Reduces the Exchange's administrative costs **by $1 million a year or 2%** of total state funding.

Legislative Auditor's Recommendation

Extend the July 2023 expiration date or make the preference permanent.

Citizen Commission endorsed and commented the Legislature should extend the expiration date or make the preference permanent, as it appears to address structural tax issues.

SALES & USE TAX

Manufacturers' Deferral

Legislative Auditor's Conclusion: Four businesses used the tax deferral and met job goals through temporary construction work rather than permanent manufacturing jobs.

Businesses likely would have built facilities without the deferral.

To increase manufacturing jobs or training, the Legislature should consider modifying the deferral program.

Scheduled to Expire: January 1, 2026

Estimated 2023-25 Beneficiary Savings: $240,000-$380,000

WASHINGTON JLARC

Dana Lynn | Pete van Moorsel

January 2022

Manufacturers defer sales & use tax for up to $10M spent to:

- Build, expand, or remodel facilities.
- Buy machinery and equipment.

Since 2018, open to 2 businesses a year, one each in Eastern & Western WA.

Businesses have 5 years with no payments, then repay over 10 years.

State portion (6.5%) of repayments to fund job training for manufacturers (Invest in Washington account).

Four businesses have claimed deferral and filed annual tax performance report

MALTBY

BUSINESS:
OSW Equipment and Repair

ACTIVITY:
Dump truck and trailer production

SPOKANE

BUSINESS:
Tainio Biologicals

ACTIVITY:
Agricultural input production

FREDERICKSON

BUSINESS:
Oldcastle APG West

ACTIVITY:
Concrete pavers and consumer product production

WALLA WALLA

BUSINESS:
Cielo LLC, Aluve Winery

ACTIVITY:
Wine production

Legislature set goal for each deferral project to generate at least 20 full-time jobs

- Temporary construction jobs used to build facilities.
- Permanent, full-time jobs at facility within 1 year of facility completion.

All 4 businesses met the job goal through temporary construction work.

None of the businesses created 20 FT manufacturing jobs.

Businesses report they likely would have built facilities without deferral

Businesses state the deferral enabled them to:

Build earlier.

Complete more construction.

Plan for future growth.

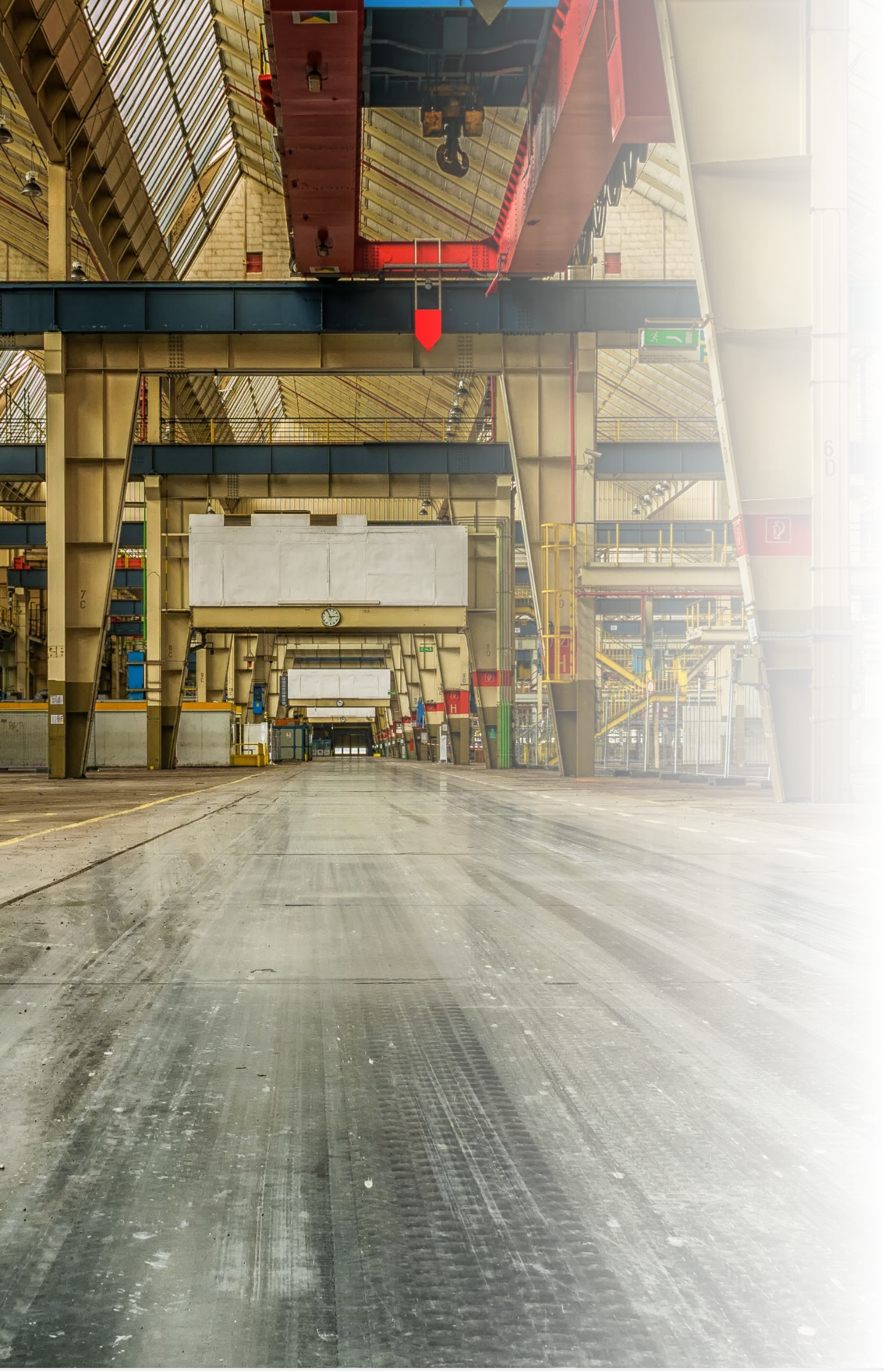
Spread tax liability over several years.

No impacts yet on job training programs

First repayments due by 12/31/2021.

Repayments estimated to peak at $325,000 in 2031.

SBCTC developing plans to use anticipated funding.



Legislative Auditor's Recommendation

Extend the 1/01/26 expiration date and modify the program.

Extend because each business met the legislative goal of creating 20 FT jobs and repayment of deferred taxes is expected to fund future training.

If the Legislature wants to encourage businesses to create and retain more manufacturing jobs, it could modify the preference to:

- Focus on creating more FT manufacturing jobs, not temporary construction work.
- Directly appropriate money to the SBCTC for manufacturing training/apprenticeships.

Citizen Commission endorsed.

B&O TAX

Newspaper Printing and Publishing

Legislative Auditor's Conclusion: The preference provides tax relief to newspaper printers and publishers and saves these businesses money. However, the newspaper industry continues to lose revenue and jobs as it seeks to stabilize financially.

Scheduled to Expire: July 1, 2024

Estimated 2021-23 Beneficiary Savings: $823,000

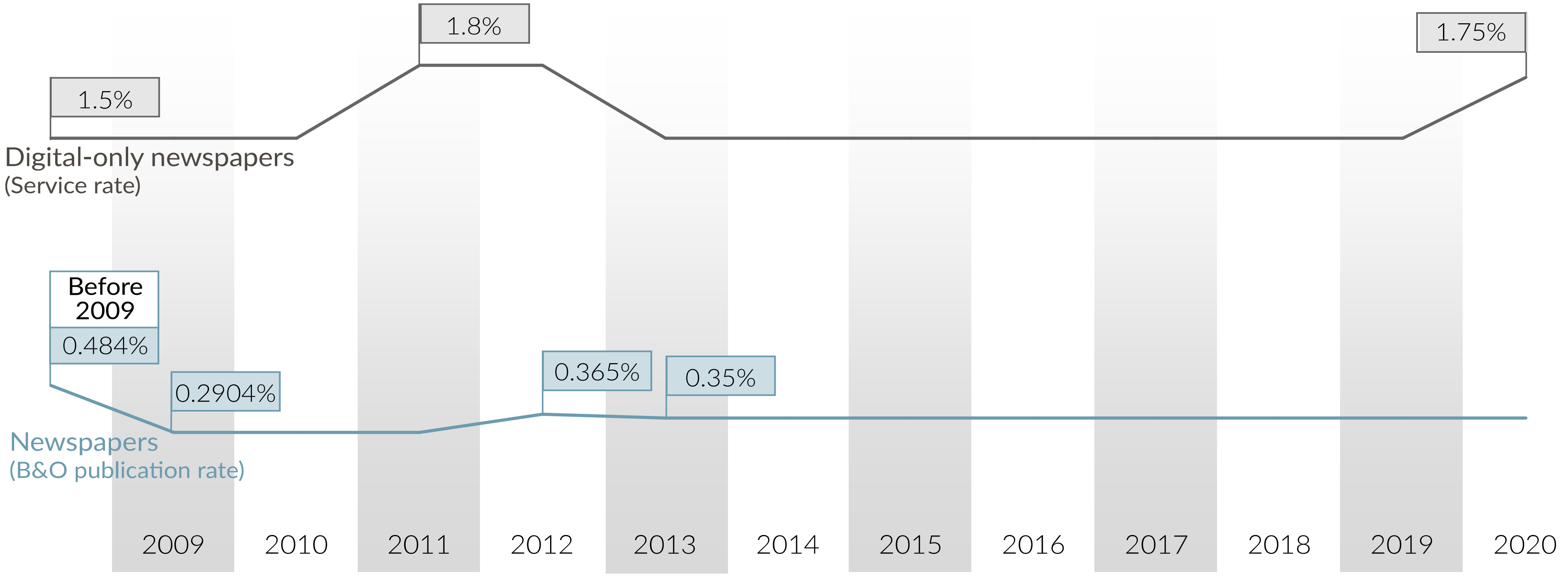
WASHINGTON JLARC

Eric Whitaker

January 2022

Legislature has taken multiple steps to help newspapers

- In 2008, the statutory definition of newspaper was changed to include digital versions of print newspapers.
- The Legislature created this tax preference in 2009.



Preference modified in 2015 to provide financial relief to newspaper printers and publishers

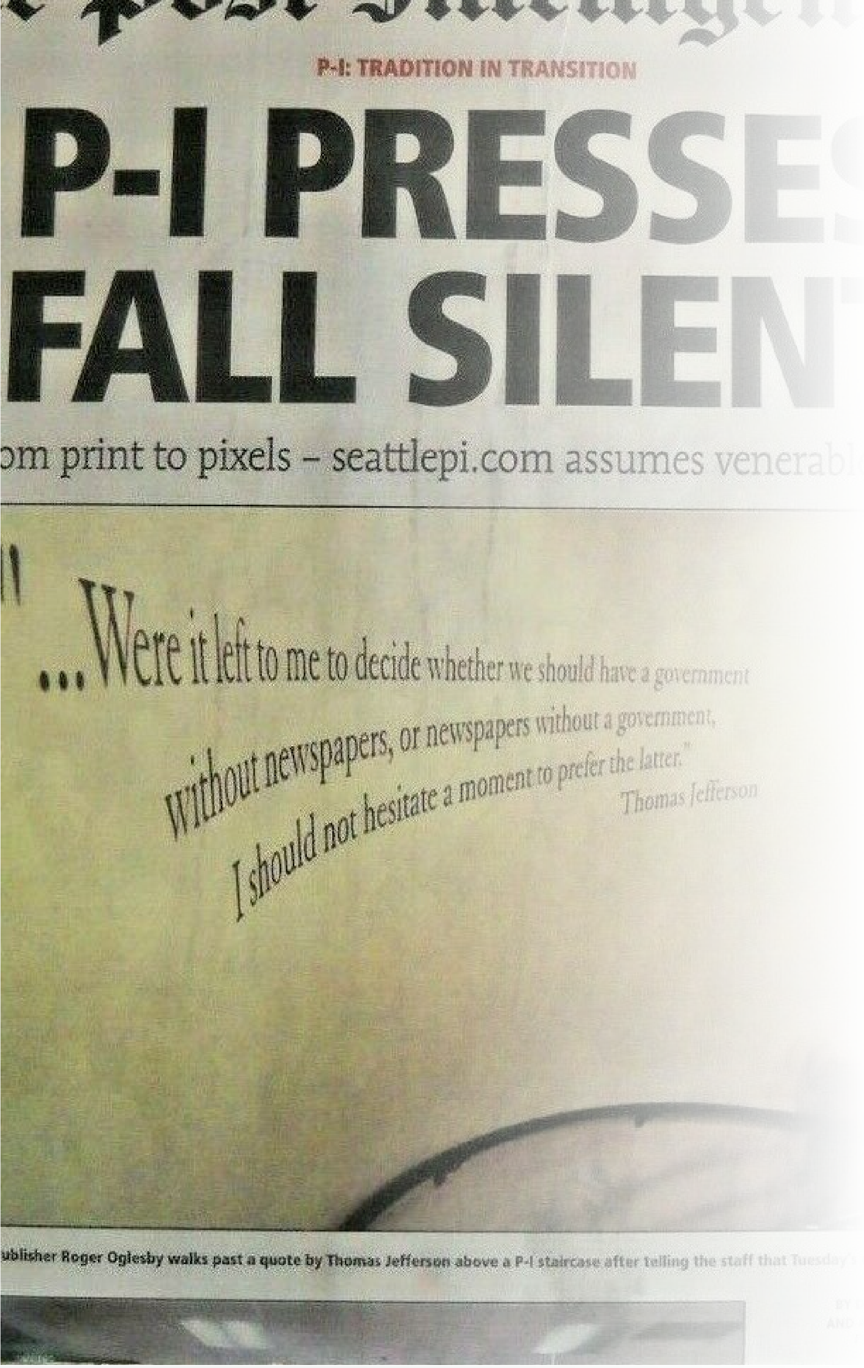
The Legislature extended the expiration date and added a performance statement.

Policy objectives:

- Tax relief.
- Permanent uniform rate.

Metric: Growth in gross revenues over most recent three-year period.

- Intent: Let the preference expire if revenue grows.



Fewer newspapers are claiming the preference and its overall value is decreasing

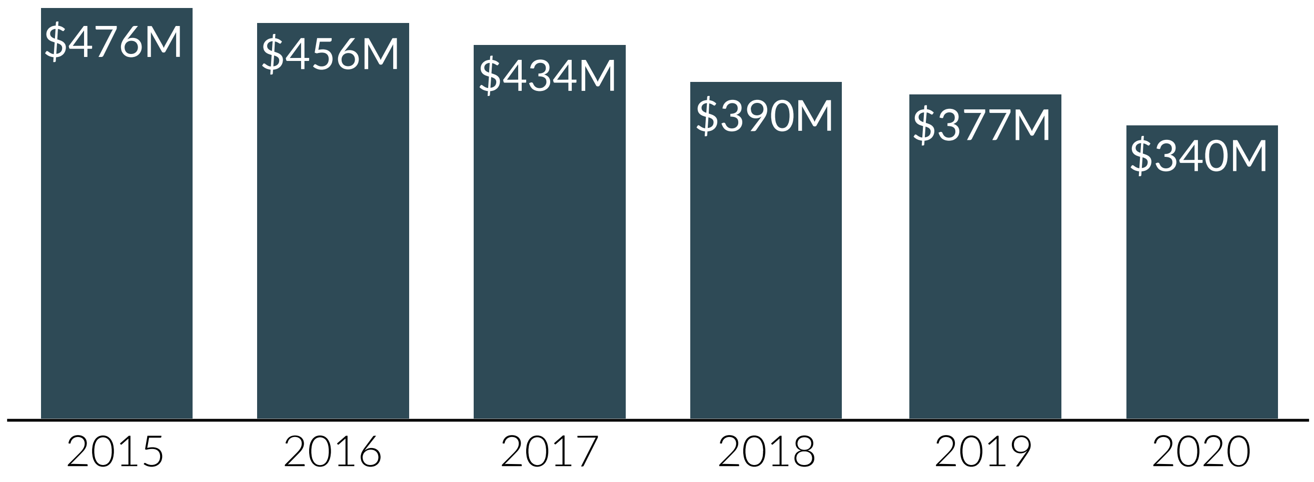
Between FYs 2016 and 2020, the total value of the preference decreased 6.1% annually, on average.

Newspaper printers or publishers make up 66% of all beneficiaries.

Definition of newspaper focuses on form and frequency rather than content.

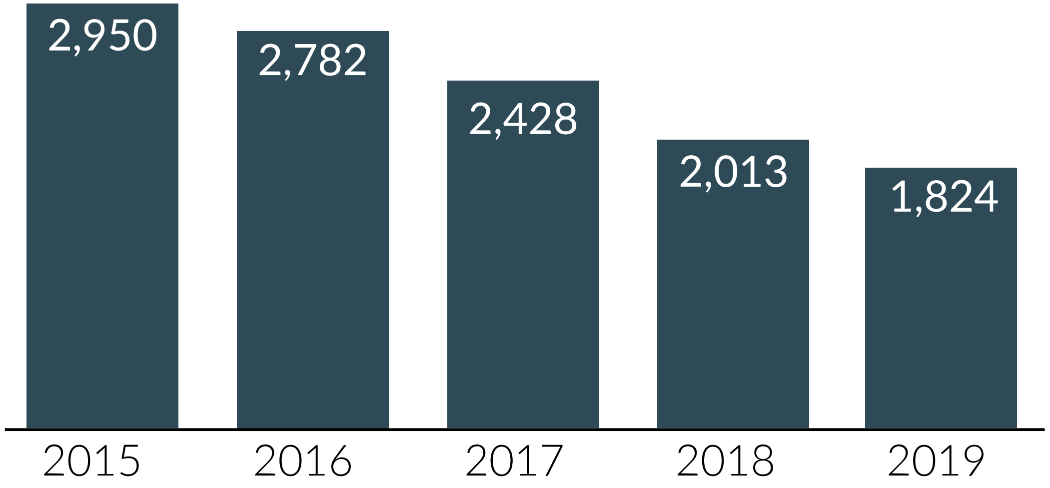
29%

Percent decline in gross revenues at newspapers claiming the preference.



38%

Percent decline in employment at newspapers claiming the preference.



WA newspapers are pursuing other funding opportunities to help mitigate revenue losses

THE SPOKESMAN-REVIEW SR

Working with community groups to create endowed reporting positions.

The Seattle Times

Partnered with entities such as the Seattle Foundation to help fund its news-gathering operations.

McCLATCHY

McClatchy partnered with Report for America to add positions at its WA-owned newspapers.

Policy efforts in other jurisdictions may serve as a model for WA

Other states do not limit support to newspaper printer or publishers.

- NJ's Civic Information Consortium
- CO's Media Project

As the industry transitions to digital, a preference for producing a physical newspaper may be less helpful.

Legislative Auditor's Recommendation

The Legislature should review this preference to **determine if it provides sufficient relief** to the newspaper industry and **whether additional assistance is needed** as these businesses attempt to stabilize financially.

Citizen Commission endorsed and commented the Legislature should review to determine if preference provides sufficient relief, and if additional assistance is needed to help these businesses stabilize financially.

MULTIPLE TAXES

Medical Cannabis Tax Preferences

Legislative Auditor's Conclusion: Seven medical cannabis tax preferences provide tax relief to patients and cooperatives. After 2019 statutory changes, it is unclear how pending taxpayer guidance may affect beneficiary savings.

No expiration date

Estimated 2021-23 Beneficiary Savings: $4.9 million

WASHINGTON JLARC

Scott Hancock

January 2022

Seven preferences for medical cannabis

Preferences vary by:

- Product
- Retailer
- Customer

Objective:

Reduce tax burdens on medical cannabis patients.

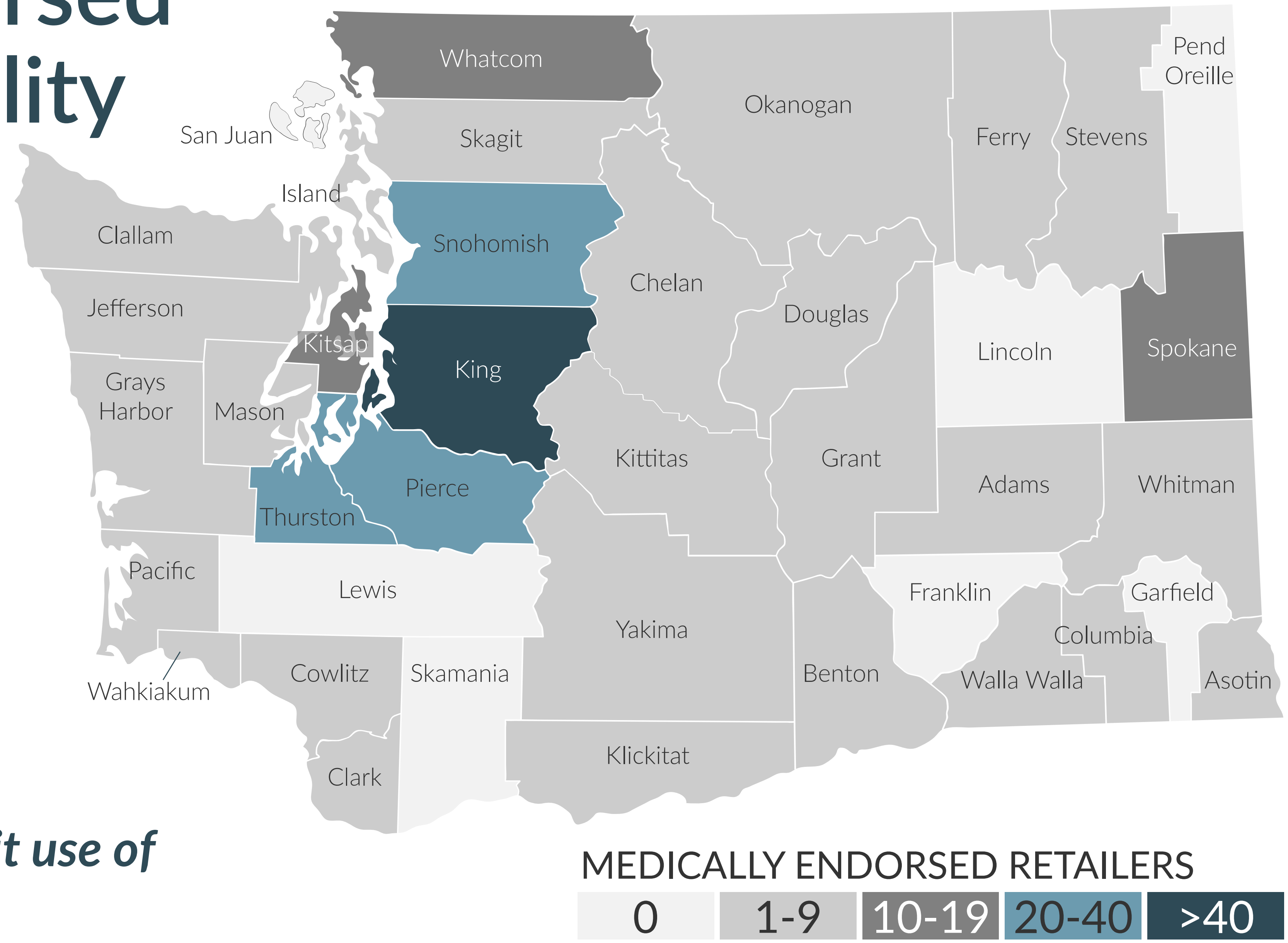
Medically endorsed retailers

- Required for six of seven preferences.
- Register patients and caregivers into patient database.
- Issue recognition cards.
- Make exempt sales.

WASHINGTON STATE
MEDICAL MARIJUANA
LIQUOR AND CANNABIS BOARD

Medically endorsed retailer availability may limit use

- Available in 32 of 39 counties.
- 275 of 510 retailers had medical endorsements (FY 2020).
    - 205 made exempt sales.



Retailer availability may limit use of the preferences.

2019 statutory change may affect beneficiary savings

Over 87% of beneficiary savings from one sales tax exemption for qualified patients.

Exemption was modified in 2019.

- "…compliant marijuana product…"

DOR and DOH state they are working to update guidance, WAC.

- Effects uncertain.

$6,895 of beneficiary savings on DOH-compliant product purchases in FY 2020

- *Less than 1%*

Legislative Auditor's Recommendation

Continue the preferences.

Because they meet the objective to **provide tax relief** to medical cannabis patients. The Department of Revenue and the Department of Health should **update guidance** to reflect 2019 statutory changes.

Citizen Commission endorsed, commented the preferences should be continued and agencies should update taxpayer guidance. The agencies concurred.

PROPERTY TAX

Nonprofit Outpatient Dialysis Facilities

Legislative Auditor's Conclusion: Preference provides tax relief to nonprofit outpatient dialysis facilities, which outperform for-profit counterparts on two standard measures. Legislature should clarify its intent.

No expiration date

Estimated 2021-23 Beneficiary Savings: $4.2 million

WASHINGTON JLARC

Scott Hancock

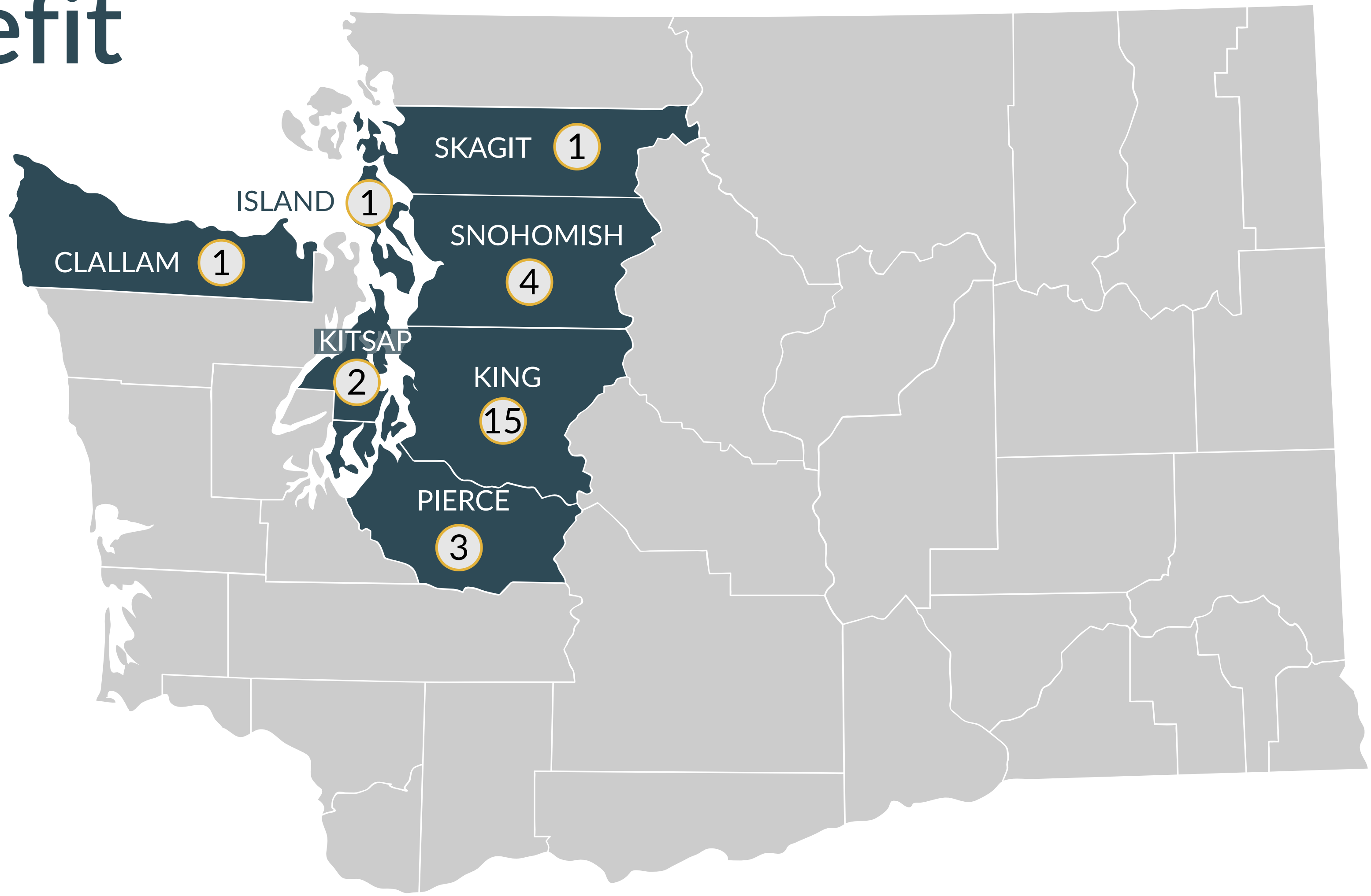
January 2022

Property tax exemption for nonprofit outpatient dialysis facilities

Real and personal property used exclusively by nonprofits for outpatient dialysis treatment.

Beneficiaries must re-certify each year to maintain their exemption.

27 facilities in 7 counties benefit from the preference



Preference intent unclear

No explicit policy objectives in statute.

Testimony suggested intent is similar to nonprofit hospitals: support charity care.

Medicare, Kidney Disease Program provide coverage and assistance for people diagnosed with ESRD.

Support for charity care not a relevant objective.

Beneficiaries outperform on two measures

✓	More patients on transplant waitlist.	*16.3% vs. 12.2%*
✓	Lower revenue per treatment.	*$397 vs. $480*
=	Similar performance on other measures.	

Legislative Auditor's Recommendation

Clarify the preference's objectives by including a performance statement.

Citizen Commission endorsed.

PUBLIC UTILITY TAX

Credit for Renewable Energy Program Payments

Expires June 30, 2030 – no new participants

Estimated 2021-23 Beneficiary Savings $27.4 million

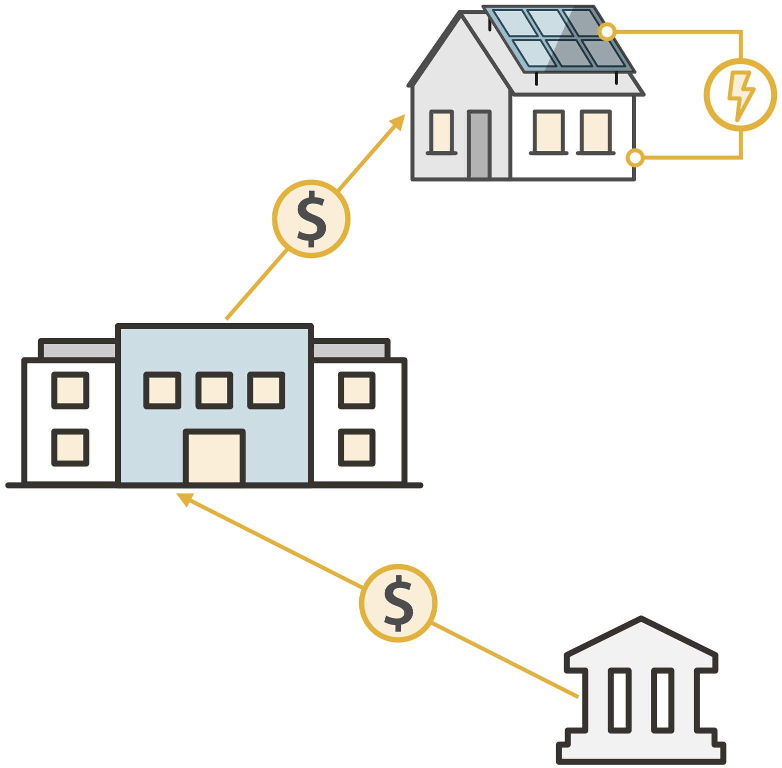
Legislative Auditor's Conclusion: The tax credit program increased Washington's solar capacity and met its solar-related employment target. It did not broaden low-income participation. Solar installations have continued after the program reached its funding limit.

WASHINGTON JLARC

Eric Whitaker

January 2022

Tax credit for utilities participating in the Renewable Energy System Incentive Program (RESIP)



1 Customers install renewable energy systems (solar panels, wind turbines) and generate energy.

2 Utilities pay customers based on electricity generated, times rate in statute.

3 The state reimburses utilities with a tax credit for the amount paid.

Legislature gave two solar energy metrics to measure the credit

In 2017, Legislature directed JLARC staff to measure:

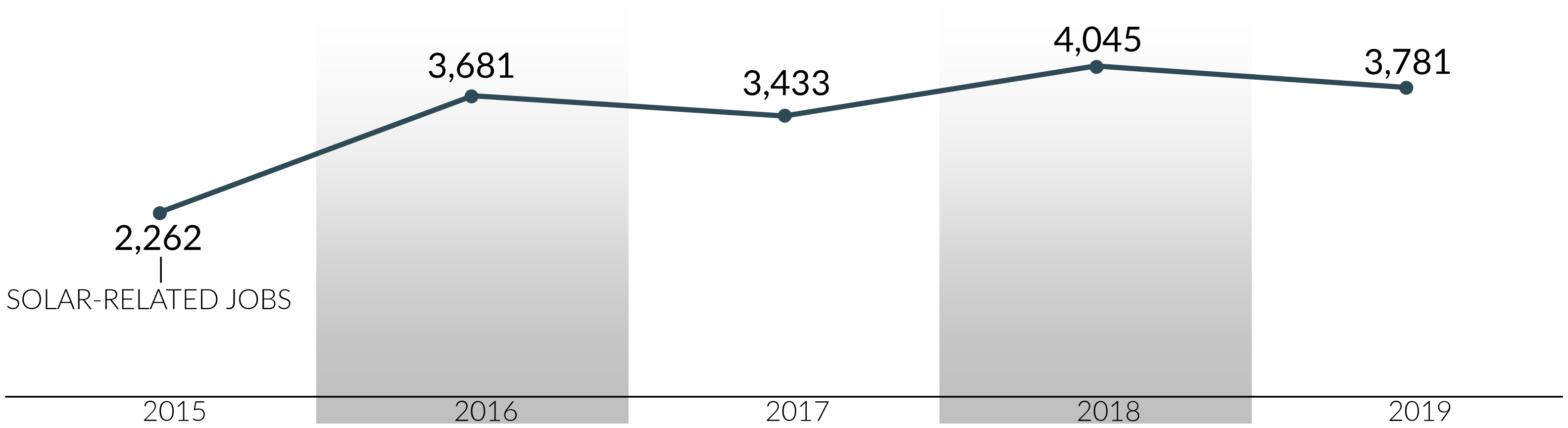
- Increase solar-related employment.
- 115 megawatts (MW) of solar capacity installed.

Also noted intent to broaden low-income participation through community solar.

Solar employment target met

1,519 solar jobs were added.

State ranking remained 21st in the nation.



Source: The Solar Foundation

87%

of solar capacity target reached.

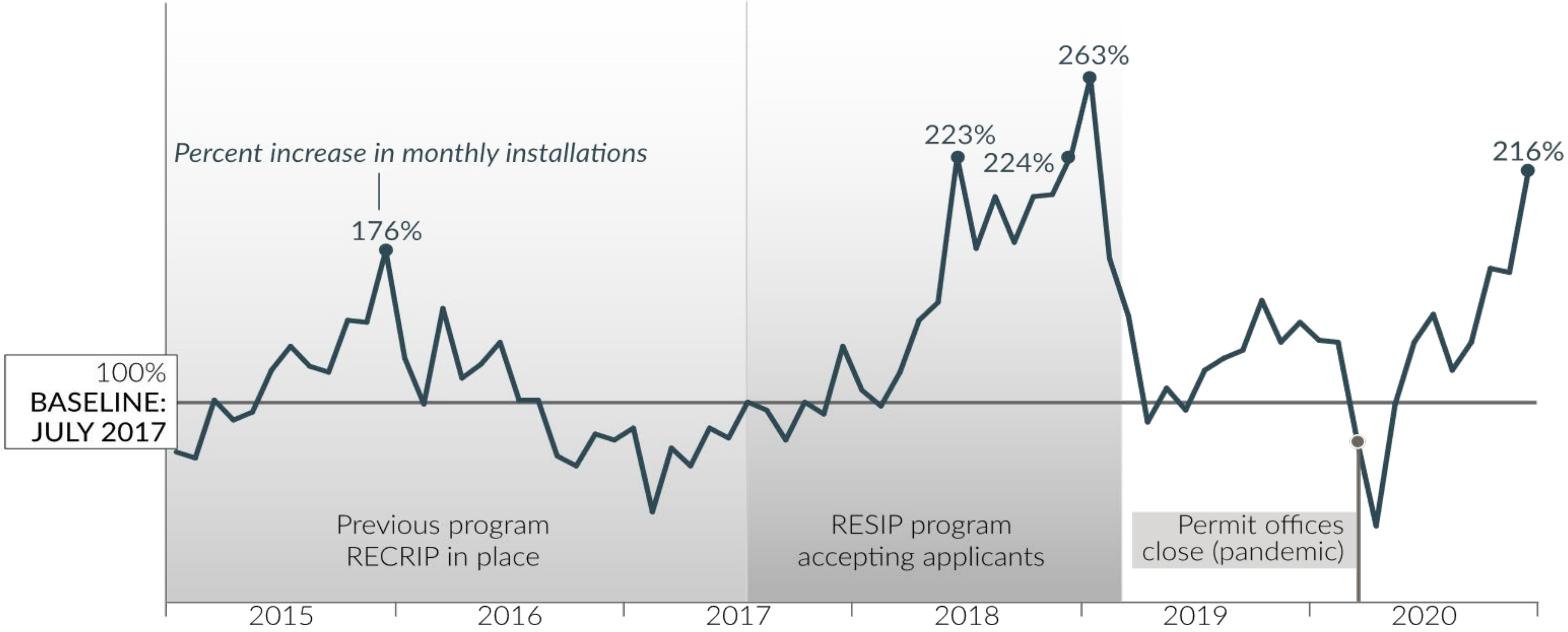
(100 MW out of 115 MW)

Program includes about 7,500 solar energy systems.

Installations have continued

With the incentive in place, installations may have occurred earlier.

Installations have continued after the funding limit was reached.



RESIP did not broaden low-income participation

System owners have higher income – 180% the median in their counties.

Community solar **less than 2%** of capacity.

Benefits to participants different from systems on homes or businesses.

Legislative Auditor's Recommendation

Allow the credit to expire in 2030 because the objectives are **mostly met** and installations **have continued** after the program funding limit was reached. If the Legislature wants to broaden low-income participation in the production and use of solar energy, it should **consider other options**.

Citizen Commission endorsed and commented that the metrics were mostly met but the program did not broaden low-income participation. Legislature should allow to expire, as installations have continued after funding limit reached.

PROPERTY TAX EXEMPTION | UPDATED PRELIMINARY REPORT

Targeted Urban Area Exemption

Scheduled to Expire: December 31, 2030

Estimated 2019-21 Beneficiary Savings: $0

Updated Legislative Auditor's Conclusion: The Legislature acted on the Legislative Auditor's recommendation to ensure the preference is available by modifying the preference's population criteria and extending the expiration date.

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January 2022

10-year local property tax exemption was limited by population and geographic criteria to three Snohomish County cities

It was unclear if cities could legally offer the preference.

Snohomish Co exceeded population limits in 2018.

No businesses has applied previously.

No other county met statutory population criteria.

In January 2021, Legislative Auditor recommended the Legislature modify the population criteria and extend the expiration date if it wanted the preference to be available in the future.

2021 Legislature passed ESHB 1386, removing population and geographic criteria and extending expiration date.

Legislative Auditor's Recommendation

Continue and review at a later date.

The Citizen Commission should schedule review in 2028 to determine if preference achieved the goals to encourage new development and increase family living wage jobs.

Citizen Commission endorsed.

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