2006 legislative mandate: conduct performance audits of tax preferences

Legislature (Chapter 43.136 RCW):

- **Created** the Citizen Commission for Performance Measurement of Tax Preferences
- **Specified** JLARC to review preferences over 10-year cycle
- **Outlined** specific questions for JLARC staff to answer
- **Required** audit recommendation
- **Key questions**: public policy objective stated? Achieved?
Steps in process repeated each year

In 2016, Commission determined 10-year review schedule and preferences for JLARC staff review

**July 2017**  Staff presented to JLARC Committee

**August**  Staff present to Citizen Commission

**September**  Commission will take public testimony

**October**  Commission will adopt comments

**December**  JLARC will hear final report

**January 2018**  Joint fiscal committee hearing
16 Preferences reviewed in 2017

- **4** Renewable and Clean Energy
- **3** Financial Industry
- **4** Preferences Expiring Soon
- **5** Other
Renewable and Clean Energy Preferences
Cogeneration Facilities and Renewable Resources

Public Utility Tax

No Expiration Date
Cogeneration Facilities and Renewable Resources (Public Utility Tax)

30-year deduction for operating costs of facilities constructed between 1980 and 1990

No expiration date
Cogeneration Facilities and Renewable Resources

2017-19 Estimated Beneficiary Savings: $0

Beneficiaries: None since 2013

Legislative Auditor recommends: Terminate
Not contributing towards stated objective

<table>
<thead>
<tr>
<th>Renewable energy</th>
<th>Not currently achieving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage efficient energy use and a reliable supply of energy based upon renewable energy resources</td>
<td>The preference may have met its objective at one time, but is not currently contributing because no taxpayers are claiming it</td>
</tr>
</tbody>
</table>
Legislative Auditor Recommends

Terminate

Add an expiration date to terminate the preference because it is not being claimed and no utilities will be eligible within a few years
Electric Vehicle Batteries and Charging Stations

Sales and Use Tax; Leasehold Excise Tax

Preferences expire January 1, 2020
1. **Sales/use tax exemption** for:
   - Electric vehicle (EV) battery purchases, installation and repair services
   - EV charging station parts, construction, installation and repairs

2. **Leasehold excise tax (LET) exemption** for private use of publicly owned property to build or operate EV charging stations

All expire January 1, 2020
**EV Batteries** *(Sales and Use Tax)*

<table>
<thead>
<tr>
<th>2017-19 Estimated Beneficiary Savings</th>
<th>$ Limited impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
<td>Less than three identified</td>
</tr>
</tbody>
</table>

Legislative Auditor recommends

Review and clarify if meeting legislative expectations
### Batteries - stated intent to encourage transition to EVs, develop EV infrastructure

<table>
<thead>
<tr>
<th>EV batteries (sales &amp; use)</th>
<th>Objective not being met</th>
</tr>
</thead>
</table>
| Exemption for sales, installation, repair services | Not used as anticipated when enacted in 2009  
  • “Lease and swap” scenario did not materialize  
  • **Unclear** level of activity  
    Less than 3 businesses reported sales in 2016, none in 2014 or 2015 |
**EV Charging Stations (Sales and Use Tax)**

**2017-19 Estimated Beneficiary Savings**

- **$1.8 to $3.4 million**

**Beneficiaries**

- Public entities, individuals and businesses that construct, install charging stations or equipment at public areas, homes or businesses

**Legislative Auditor recommends**

- Review and clarify to set target for number of stations
Level 2 and Level 3 Chargers Qualify for Preference
Charging stations - stated intent to encourage transition to EVs, develop EV infrastructure

<table>
<thead>
<tr>
<th>EV charging stations (sales &amp; use)</th>
<th>Preference being used, unclear if objective being achieved</th>
</tr>
</thead>
</table>
| Exemption for parts and construction, repair, improvement services | Since 2009, **1,663 publicly available** EV charging stations added – most are Level 2, not Level 3  
  • **Unclear** if this growth meets legislative goal for expanded EV infrastructure  
  • Preference also applies to **private** charging stations – likely Level 2  
    JLARC staff estimate a **range** between **4,000 to 13,000** private outlets installed |
## EV Charging Stations (Leasehold Excise Tax)

<table>
<thead>
<tr>
<th>2017-19 Estimated Beneficiary Savings</th>
<th>$ Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beneficiaries</strong></td>
<td>Private businesses using publicly owned property to operate EV charging stations</td>
</tr>
<tr>
<td><strong>Legislative Auditor recommends</strong></td>
<td>Clarify to add reporting requirement</td>
</tr>
</tbody>
</table>

**Private businesses using publicly owned property to operate EV charging stations.**
### Private use of public land – stated intent to encourage EV use and develop EV infrastructure

<table>
<thead>
<tr>
<th>Exempts private leases of publicly owned land (LET)</th>
<th>Preference being used but details are unclear</th>
</tr>
</thead>
</table>
| No LET owed by private businesses that lease or use public lands to build or operate EV charging stations | Extent of use **unknown**  
  - **No data or records** available to determine extent this is used, the value of preference, or if it is achieving public policy objective |
Legislative Auditor recommends
Before January 1, 2020, expiration date:

**EV batteries (sales & use) – Review and clarify**
Determine if use matches *legislative expectations* for preference.

**EV charging stations (sales & use) – Review and clarify**
Set a target for number of new EV charging stations. *Consider a metric* for number of stations sufficient to achieve public policy objective.

**EV charging stations (LET) – Clarify**
Add a reporting requirement to identify who is using the preference and the extent to which they benefit.
Wood Biomass Fuel Manufacturing
Business and Occupation Tax
No Expiration Date
**Wood Biomass Fuel Manufacturing (B&O Tax)**

Preferential B&O tax rate (0.138%, vs. 0.484%) for manufacturers of wood biomass fuel

Qualifying wood biomass fuel:
- Liquid, used in internal combustion engine
- Produced from wood, forest, or field residue, or dedicated energy crops
- Manufactured through pyrolysis or gasification

No expiration date
Wood Biomass Fuel Manufacturing (B&O Tax)

2017-19
Estimated Beneficiary Savings

$0

Beneficiaries
Businesses that manufacture wood biomass fuel – No beneficiaries identified

Legislative Auditor recommends
Terminate
Preference is one of five enacted in 2003 and the only one still in effect

- 2003: Preferential rate and 4 other preferences enacted to benefit wood biomass fuel production
- 2008: Citizen Commission recommended allow to expire
- 2009 - 2015: Four other preferences expired
- 2017: This preference, with no expiration date, is the only one still in effect
Two qualifying manufacturing processes to create liquid fuel from wood biomass

<table>
<thead>
<tr>
<th>SOURCE MATERIAL</th>
<th>PROCESS</th>
<th>PRODUCT/USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood Biomass</td>
<td>Pyrolysis</td>
<td>Liquid Fuel (for internal combustion engines)</td>
</tr>
<tr>
<td>Wood Biomass</td>
<td>Gasification</td>
<td>Liquid Fuel (for internal combustion engines)</td>
</tr>
</tbody>
</table>

- **This Tax Preference Applies**
- **This Tax Preference Doesn’t Apply**

- Wood Biomass → Pyrolysis or Gasification → Heat/Electric Generation
- Wood Biomass → Direct Combustion → Heat/Electric Generation
- Corn/Sugar Cane → Fermentation → Liquid Fuel (for internal combustion engines)
- Animal/Vegetable Oil → Transesterification → Liquid Fuel (for internal combustion engines)
JLARC staff infer three public policy objectives

<table>
<thead>
<tr>
<th>Encourage wood biomass fuel production</th>
<th>Not achieving objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>To support creation of <strong>alternative fuels</strong> that lessen dependence on <strong>foreign oil</strong></td>
<td>Preference is not being claimed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reduce air pollution</th>
<th>Increase use of a carbon-neutral source of fuel</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Increase wood biomass demand</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To help <strong>offset costs</strong> of forest thinning, wildfire prevention</td>
<td></td>
</tr>
</tbody>
</table>
Legislative Auditor recommends

Terminate

The Legislature should terminate the tax preference because it is not being used and other tax preferences directed at wood biomass fuel manufacturing are no longer in effect.

- Initially enacted in 2003 with other wood biomass fuel tax preferences
- None appear to have been claimed
- Only this wood biomass fuel tax preference remains, it may not provide sufficient incentive to meet the public policy objectives
Financial Industry Preferences
International Banking Facilities

Business and Occupation Tax

No expiration date
International Banking Facilities (B&O Tax)

International banking facilities do not pay B&O taxes on their gross receipts.

IBFs are separate accounts established on the books of qualifying financial institutions in the United States.

No expiration date.
International Banking Facilities (B&O Tax)

2017-19 Estimated Beneficiary Savings: $208,000

International banking facilities
JLARC staff estimate one IBF in Washington

Legislative Auditor recommends: Review and clarify
Preference established shortly after IBFs were first authorized

- **1981**: Federal Reserve approves establishment of international banking facilities
- **1982**: Washington exempts IBF receipts from B&O tax
- **2010**: Apportionment rules changed to single-earnings factor
- **2016**: One IBF in Washington
IBFs are subject to different regulations than domestic banks

IBFs are not subject to *reserve requirements*, *interest rate ceilings* and *deposit insurance assessments*

The Federal Reserve established rules specific to IBFs, including:

- Limiting who can borrow from and deposit with IBFs;
- Requiring business financed through IBFs be outside of the U.S.
IBFs earnings from foreign customers not apportioned to Washington, not subject to B&O tax

2010 apportionment rule change from 3-factor to single-factor formula:

• Before change, financial institution earnings apportioned to Washington based on the average share of property and payroll in Washington, and earnings from Washington sources

• After change, earnings apportioned to Washington based only on share of earnings from Washington sources
JLARC staff infer one public policy objective

<table>
<thead>
<tr>
<th>Encourage establishment</th>
<th>Unclear if achieving inferred objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exempting IBFs from state taxation to make them competitive with offshore financial centers</td>
<td>JLARC staff identified one IBF in Washington However, apportionment rules may limit the value of the preference and its ability to influence IBFs’ decisions to locate in Washington</td>
</tr>
</tbody>
</table>
Legislative Auditor recommends

Review and clarify

To provide an explicit public policy objective and metrics to determine if the objective has been achieved

Review the relevance of the preference given changes to Washington’s apportionment laws

- 2010 legislative changes to the apportionment formula may have diminished the value of this preference
Please work with admin to find high quality images.

Standard Financial Information

Sales and Use Tax
Expires July 1, 2021
Standard Financial Information
(Sales and Use Tax)

International investment management companies do not pay sales or use tax on the first $15 million of standard financial information they purchase each year.

Standard financial information is financial data, facts or information services (e.g., financial market data, bond ratings, credit ratings, and deposit, loan, or mortgage reports).
Standard Financial Information
(Sales and Use Tax)

2017-19 Estimated Beneficiary Savings
$3.1 million

Beneficiaries
International investment management companies that buy standard financial information – three in 2016

Legislative Auditor recommends
Clarify
Three legislative efforts to exempt standard financial information from sales and use tax

- **2007**: Legislature creates exemption for standard financial information.
- **2009**: Exemption repealed, replaced with broader exemption for some digital goods.
- **2010**: DOR interprets some financial information purchases are searchable databases, subject to SUT.
- **2013**: Legislature creates current preference.
- **July 1, 2021**: Scheduled expiration date.
Legislature stated two public policy objectives

<table>
<thead>
<tr>
<th>Exempt sales of standard financial information</th>
<th>Preference achieving objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>To conform with a previously determined policy objective</td>
<td>By exempting sales of standard financial information, the preference is meeting this objective</td>
</tr>
<tr>
<td>Provide exemption with minimal fiscal impact</td>
<td>Unclear if preference is achieving objective</td>
</tr>
<tr>
<td>So actual fiscal impact on state revenues “reasonably conforms” to the estimate in the fiscal note</td>
<td>Fiscal impact depends on share of SFI that is considered a searchable database</td>
</tr>
<tr>
<td></td>
<td>Share is unknown, JLARC staff illustrated 3 scenarios</td>
</tr>
</tbody>
</table>
Legislature stated two public policy objectives

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Percentage of SFI that is Online Searchable Database</th>
<th>Fiscal Note Estimate, State Revenue (FY16)</th>
<th>Estimated Revenue Impact (FY16)</th>
<th>Difference ($)</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 3</td>
<td>100%</td>
<td>($469,000)</td>
<td>($1,125,000)</td>
<td>$656,000</td>
<td>140%</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>50%</td>
<td>($469,000)</td>
<td>($563,000)</td>
<td>$94,000</td>
<td>20%</td>
</tr>
<tr>
<td>Scenario 1</td>
<td>42%</td>
<td>($469,000)</td>
<td>($469,000)</td>
<td>$0</td>
<td>0%</td>
</tr>
</tbody>
</table>
Legislative Auditor recommends

Clarify

The preference is meeting the stated objective of exempting sales of standard financial information.

Because there is no metric, unclear if the actual fiscal impact reasonably conforms to the 2013 fiscal estimate.
State-Chartered Credit Unions

Business and Occupation Tax

No expiration date
State-Chartered Credit Unions (B&O Tax)

State-chartered credit unions do not pay B&O tax on their gross income

No expiration date
State-Chartered Credit Unions (B&O Tax)

- **2017-19 Estimated Beneficiary Savings**: $47.9 million
- **Beneficiaries**: 55 state-chartered credit unions
- **Legislative Auditor recommends**: Clarify
JLARC staff infer two objectives

<table>
<thead>
<tr>
<th>Keep state C.U.s under state regulation</th>
<th>Inferred objective achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remove potential incentive to switch to federal charter to avoid B&amp;O tax</td>
<td>State-chartered C.U.s exempt from B&amp;O tax in same manner as federally chartered C.U.s</td>
</tr>
<tr>
<td>Support serving low-income populations</td>
<td>Unclear if Legislature had specific goal to serve low-income populations</td>
</tr>
<tr>
<td>Past statements suggest C.U.s had underlying purpose to serve low-income people</td>
<td>Not explicitly stated in C.U. law or regulations Broad field of membership allows to serve, but doesn’t limit to just low-income</td>
</tr>
</tbody>
</table>

State-Chartered Credit Unions
Legislative Auditor recommends

Clarify

To **identify the public policy objectives**, as none are stated in statute. As part of clarification, **provide a performance statement** that provides **targets and metrics** to measure if the public policy objectives have been achieved.

Consider if an objective to serve low-income populations is consistent with other state-chartered credit union policy objectives, such as providing a broad field of membership.
Preferences That Expire Soon
Auto Adaptive Equipment for Veterans/Service Members with Disabilities

Sales and Use Tax
Expires July 1, 2018
Automobile Adaptive Equipment (AAE) for Disabled Veterans & Service Members (Sales and Use Tax)

Disabled veterans and service members do not pay sales or use tax for add-on AAE to help enter, exit, or safely operate vehicles.

AAE must be prescribed by physician and paid for by V.A. or other federal agency.

Expires July 1, 2018
AAE for Disabled Veterans & Service Members (Sales & Use Tax)

<table>
<thead>
<tr>
<th>2017-19 Estimated Beneficiary Savings</th>
<th>$194,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
<td>Veterans and service members who are disabled – VA reports 185 approved applications in 2016</td>
</tr>
<tr>
<td>Legislative Auditor recommends</td>
<td>Clarify for fiscal impact</td>
</tr>
</tbody>
</table>

$194,000 estimated beneficiary savings for disabled veterans and service members.
Legislature stated public policy objectives

<table>
<thead>
<tr>
<th>Provide financial relief</th>
<th>Achieving stated objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disabled veterans/service members often: need specialized transportation equipment; have lower incomes; cannot afford AAE to customize vehicles</td>
<td><strong>Reduces cost</strong> for add-on AAE by 9% (average sales tax rate)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Offset competitive issue</th>
<th>Perceived disadvantage removed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived competitive disadvantage for WA AAE businesses competing with OR</td>
<td><strong>Eliminates perceived disadvantage</strong> for WA businesses compared with businesses located in states with low or no sales tax</td>
</tr>
</tbody>
</table>
Legislature wanted to reexamine in 5 years

Compare actual use to 2013 estimate

Legislature wanted to compare cost of preference with 2013 fiscal note estimate

Benefits savings consistently exceed 2013 fiscal note estimate by at least 267%

AAE for Disabled Veterans & Service Members
Legislative Auditor recommends

Clarify

While the preference provides financial relief and removes a perceived competitive disadvantage, the estimated beneficiary savings exceeded the 2013 fiscal note estimate for the past three fiscal years.
Clean Alternative Fuel Vehicles

Sales and Use Tax

Expires July 1, 2019, at the latest
Alternative Fuel Vehicles (AFVs) (Sales and Use Tax)

No sales or use tax owed on first $32,000 of sale or lease for AFVs with MSRP of $42,500 or less for lowest base model

Qualifying AFVs:
- Exclusively powered by electricity, natural gas, propane, or hydrogen
- Plug-in hybrids that travel at least 30 miles using only battery power

Expires earliest of:
- Target of 7,500 qualifying AFVs titled since July 15, 2015
- July 1, 2019
Alternative Fuel Vehicles (Sales and Use Tax)

2017-19 Estimated Beneficiary Savings

$14.8 million

Beneficiaries

Individuals and entities that buy or lease qualifying AFVs – 3,520 titled as of 3/31/17

Legislative Auditor recommends

Review in 2019 session if target not reached
Legislature has tried different options to increase clean AFVs in Washington

January 2009
Sales/use tax exemption for clean AFVs began – no $ limitations

July 1, 2015
Exemption expired

July 15, 2015
New sales/use exemption for clean AFVs $35,000 or less

July 1, 2016
Exemption changed to first $32,000 for vehicles with MSRP of $42,500 or less

July 1, 2019
Latest expiration date
Legislature stated public policy objective

Increase clean vehicle use | Preference achieving objective
--- | ---
**Increase use** of qualifying clean AFVs by **reducing** their **price** | Preference **reduces price** for qualifying new AFVs on first $32,000 of sale or lease price

<table>
<thead>
<tr>
<th></th>
<th>Price without preference</th>
<th>Price with preference</th>
<th>Savings with preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle purchase price</td>
<td>$42,500</td>
<td>$42,500</td>
<td></td>
</tr>
<tr>
<td>Cap on exemption</td>
<td></td>
<td>($32,000)</td>
<td></td>
</tr>
<tr>
<td>Taxable amount</td>
<td>$42,500</td>
<td>$10,500</td>
<td></td>
</tr>
<tr>
<td>Sales tax owed (Avg 9.3%)</td>
<td>$3,953</td>
<td>$977</td>
<td>$2,976</td>
</tr>
<tr>
<td>Total price paid</td>
<td>$46,453</td>
<td>$43,477</td>
<td>$2,976</td>
</tr>
</tbody>
</table>
Legislature set metric for JLARC review and target for titled AFVs

### Report on new titles
Legislature directed JLARC to report on **number** of new qualifying AFVs titled

### Qualifying AFV titles increasing

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3</td>
<td>268</td>
<td>1,346</td>
<td>3,520</td>
</tr>
<tr>
<td>Q4</td>
<td>668</td>
<td>1,936</td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>954</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**UPDATE:** As of July 31, 2017, **4,752** qualifying AFVs titled

As of March 31, 2017:
- **47% progress** to 7,500 target
- **44% of time elapsed** to last expiration date

Unclear if titles will hit 7,500 before 7/1/2019
Legislative Auditor recommends

Review in 2019

Review the preference during the 2019 legislative session if the number of qualifying vehicles titled in Washington has not yet reached the 7,500 vehicle target.
Electricity for Electrolytic Processors

Public Utility Tax
Scheduled to expire June 30, 2019
Electricity for Electrolytic Processors (Public Utility Tax)

Public utilities do not pay **public utility tax** on their sales of **electricity** to processors when the electricity is used to convert dissolved salt into chemicals like chlorine through **electrolysis**

Processors must use on average 10 megawatts of electricity per month to qualify

Set to expire June 30, 2019
Electricity for Electrolytic Processors
(Public Utility Tax)

- **2017-19**
  - Estimated Beneficiary Savings: $1,344,000
- **Beneficiaries**
  - Electrolytic processing firms – Two beneficiaries in 2016
- **Legislative Auditor recommends**
  - Clarify
The value of the preference depends on the price of electricity

The cost of electricity represents about 50 percent of production costs, depending on the price of power.

<table>
<thead>
<tr>
<th></th>
<th>Without Exemption</th>
<th>With Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of electricity used in electrolysis</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Utility tax rate</td>
<td>3.873%</td>
<td>Exempt</td>
</tr>
<tr>
<td>Tax due</td>
<td>$38,730</td>
<td>$0</td>
</tr>
<tr>
<td>Total power bill for processor</td>
<td>$1,038,730</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

Savings = 3.873% of price
JLARC staff infer two public policy objectives

Electricity for Electrolytic Processors

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Production (Tons):</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>64,932</td>
</tr>
<tr>
<td>2015</td>
<td>158,685</td>
</tr>
</tbody>
</table>

- Allow processors to continue production
- So industry remains competitive and positioned to preserve and create new jobs
JLARC staff infer two public policy objectives

- Retain family-wage jobs
- Achieving inferred objective

Electricity for Electrolytic Processors

- At least 75% of the jobs that were on the payroll for electrolytic processors in January 1, 2004

- In 2004, one beneficiary employed 33 workers, making the target 24.75 jobs

- In 2015, two beneficiaries employed 106 workers

- Target: 24.75 jobs

- Westlake
- AkzoNobel
Legislative Auditor recommends

Clarify

The inferred objectives are being met. The Legislature repealed the stated public policy objectives in 2010.

If the Legislature is interested in family wage jobs, a jobs target and definition of “family wage jobs” would inform future reviews.

If the Legislature is interested in allowing the industry to continue production, clarifying criteria to assess competitiveness and production would help future reviews.
Other Preferences Reviewed in 2017
Coal Plant Preferences

Sales and Use Tax, Property Tax

No expiration dates
Coal Plant Preferences (Sales and Use Tax, Property Tax)

Coal plants constructed after December 3, 1969, and before July 1, 1975, do not pay sales and use tax on:

- Coal used to generate electricity
- Air pollution control equipment

Air pollution control equipment is also exempt from property tax

No expiration dates
Coal for Thermal Generating Plants
(Sales and Use Tax)

2017-19 Estimated Beneficiary Savings

$6.1-$16.6 million

Beneficiaries
Coal-fired electric plant in Centralia

Legislative Auditor recommends
Continue
Air Pollution Control Equipment
(Sales and Use Tax)

<table>
<thead>
<tr>
<th>2017-19</th>
<th>$0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Beneficiary Savings</td>
<td>Coal-fired electric plant in Centralia</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Beneficiaries</th>
<th>Legislative Auditor recommends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue</td>
<td></td>
</tr>
</tbody>
</table>

Thermal Plant Preferences
Air Pollution Control Equipment
(Property Tax)

<table>
<thead>
<tr>
<th>2017-19 Estimated Beneficiary Savings</th>
<th>$2,249,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
<td>Coal-fired electric plant in Centralia</td>
</tr>
<tr>
<td>Legislative Auditor recommends</td>
<td>Continue</td>
</tr>
</tbody>
</table>
Legislature stated three public policy objectives

- Update pollution control equipment
- Regulatory agencies in 1995-97 ordered reduction of air pollution, requiring installation of sulfur dioxide scrubbers

Plant installed:
- Sulfur dioxide scrubbers in 2001-02
- Nitrogen oxide reduction technology in 2011-12

Coal preference contingent emitting <10,000 tons of sulfur dioxide in any 12-month period
Sulfur dioxide emissions below 10,000 tons each year since 2003

The sales and use tax preference for coal purchases requires emissions below 10,000 tons
Legislature stated three public policy objectives

<table>
<thead>
<tr>
<th>Play long-term economic role in community</th>
<th>Achieving stated objective</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Plant employs 200 people</td>
</tr>
<tr>
<td></td>
<td>TransAlta makes $55m in financial assistance payments, contingent on availability of tax preferences</td>
</tr>
</tbody>
</table>
Legislative Auditor recommends

Continue

Until the coal-fired boilers at the plant are decommissioned. Preferences meet objectives of helping Washington’s only coal-fired power plant to update air pollution control equipment, abate pollution, and play an economic role in its community through 2025. As the plant transitions away from coal by 2025, coal purchases and beneficiary savings attributable to those purchases will reduce to zero.
Vessel Deconstruction

Sales and Use Tax

Expires January 1, 2025
Sales and use tax exemption for vessel deconstruction work when performed at either:

• Qualified vessel deconstruction facility or

• Over the water in an area permitted under federal law

Expires January 1, 2025
**Vessel Deconstruction** *(Sales & Use Tax)*

- **2017-19**
  - Estimated Beneficiary Savings: $246,000

- **Beneficiaries**
  - Authorized public entities (i.e., DNR, DFW, other government entities), private organizations, individuals

- **Legislative Auditor recommends**
  - Review and clarify
**Stated objective - decrease abandoned/derelict vessels by removing them from WA waters**

**Metrics provided for JLARC review:**

<table>
<thead>
<tr>
<th>If Either...</th>
<th>Results in...</th>
<th>Then:</th>
</tr>
</thead>
<tbody>
<tr>
<td>An increase in available capacity to deconstruct derelict vessels</td>
<td>An increase in the number of derelict vessels removed from Washington waters</td>
<td>The Legislative Auditor should recommend extending the January 1, 2025, expiration date</td>
</tr>
<tr>
<td><strong>OR</strong></td>
<td>(compared to before June 12, 2014)</td>
<td></td>
</tr>
<tr>
<td>A reduction in the average cost to deconstruct vessels</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
No clear trend for vessel removals since 2006
Slight increase in removals recently, but unclear if due to preference or other factors

<table>
<thead>
<tr>
<th>Vessel removals have varied since 2006</th>
<th>Unclear if preference caused the increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removals up slightly recently</td>
<td>Not all removals require deconstruction</td>
</tr>
<tr>
<td>• Before: 29.5 every 6 months</td>
<td>• 78 of 205 vessels removed between Oct 2014 – Sept 2016 were deconstructed</td>
</tr>
<tr>
<td>• After: 31.8 every 6 months</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>More capacity</th>
<th>Not being achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage increased capacity for vessel deconstruction work in Washington</td>
<td>Since enacted, no additional deconstruction businesses or increased capacity</td>
</tr>
<tr>
<td></td>
<td>• Deconstruction <strong>minor part</strong> of business, too sporadic for successful business model</td>
</tr>
</tbody>
</table>
Legislative Auditor recommends

Review and clarify

While the average cost for deconstruction is lower, it is unclear if preference led to changes in vessel removals.

When reviewing, the Legislature might consider:

1. **Adopting a metric** other than number of vessels removed to measure if public policy objective is achieved.

2. **Re-categorizing the purpose** of the preference as intended to provide tax relief rather than to induce a certain behavior.
Electric Power Sold in Rural Areas

Public Utility Tax

No expiration date
Electric Power Sold in Rural Areas (Public Utility Tax)

Deduction based on the number of customers per mile of power line and the average retail power rate, up to $400,000 per month

No expiration date
Electric Power Sold in Rural Areas

2017-19 Estimated Beneficiary Savings

$1.7 million

Beneficiaries

17 utilities in FY 2016 with 156,000 customers

Legislative Auditor recommends

Continue
Deduction = Lowest of three calculations

1. Percentage of wholesale power costs based on customers per mile of line:
   - <6 customers: 50%
   - 6-10 customers: 40%
   - 11-17 customers: 30%
   - >17 customers: No deduction

2. Percentage of wholesale power costs based on average retail power rate:
   - 10% above average: 10%
   - 30% above average: 30%
   - 50% above average: 50%

3. $400,000 per month
Preference is meeting inferred objective

<table>
<thead>
<tr>
<th>Provide tax relief</th>
<th>Achieving the objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>To utilities and their customers in rural areas where retail power rates exceed the state average</td>
<td>Structure ensures that only utilities with above average rates and low customer density benefit</td>
</tr>
</tbody>
</table>

Number of utilities has varied over the years

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</tbody>
</table>

Electric Power Sold in Rural Areas

2017 Tax Preference Performance Review

August 2017
Legislative Auditor recommends

**Continue**
Meeting inferred objective of providing tax relief to rural utilities with higher electricity costs and their customers

**Consider**
Stating the public policy objective in statute

Electric Power Sold in Rural Areas

2017 Tax Preference Performance Review

August 2017
Manufactured Home Communities

Real Estate Excise Tax
Expires December 31, 2018
Exemption for sellers when they sell a manufactured home community to an organization for the purpose of preserving it.

Current expiration date: 2018
Manufactured Home Communities

2017-19
Estimated Beneficiary Savings

$96,000

Beneficiaries
Two sellers in FY 2016
10 sales since 2008

Legislative Auditor recommends
Continue
Washington has 1,377 registered communities with 69,279 spaces for homes.

Tenants do not own the land under their homes.
How it works – example sale

Example: Property selling for $1,000,000

<table>
<thead>
<tr>
<th>Offer 1</th>
<th>Potential buyer offers $1,000,000 – $18,000 REET paid by owner = $982,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer 2</td>
<td>Tenant organization could offer $982,000 with preference</td>
</tr>
</tbody>
</table>

Property owner net price received $982,000 under both offers
Preference meeting its stated objective

<table>
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<tr>
<th><strong>Encourage preservation</strong></th>
<th><strong>Achieving the stated objective</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage and facilitate preservation of communities and involve community tenants</td>
<td>Increases potential purchasing power of tenant organizations relative to other buyers</td>
</tr>
</tbody>
</table>
Community closures continue to occur

Upcoming closures planned for development: apartments, hotels, schools, hospitals
Ten communities purchased since 2008

480 spaces for homes
Legislative Auditor recommends

Continue

Meeting its stated objective of facilitating preservation

Communities continue to close across the state

Consider

In extending, Legislature should consider adding a performance statement with metrics for future reviews
Next Steps

Citizen Commission Takes Public Comment

September 2017

Proposed Final Report

December 2017

Presentation to Legislative Fiscal Committees

January 2018

Full Report

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