



September 5, 2019

Citizen Commission for Performance Measurement of Tax Preferences
c/o Keenan Konapaski, Legislative Auditor
Washington State Legislature
PO Box 40910
Olympia, WA 98504-0910

Re: 2019 Preliminary Report on Aerospace Tax Preferences

Honorable Members of the Citizen Commission,

Founded in 1904, the Association of Washington Business (AWB) is the oldest and largest business association in Washington state. We serve as the state's chamber of commerce and manufacturing association. Our mission is to be the catalytic leader and unifying voice for economic prosperity throughout Washington state.

AWB respectfully requests that you consider adopting a position that the Commission does "Not Endorse" the Legislative Auditor's recommendation that the Legislature clarify the performance metrics in the 2003 tax package.

The Commission should "Not Endorse" the Legislative Auditor's recommendation.

The Legislature stated a policy objective, that the tax incentives "maintain and grow Washington's aerospace industry workforce." That has been achieved.

First, according to the Auditor's own figures, statewide aerospace employment is 38% above 2003 levels, and Boeing employment is 29% above 2003 levels¹. Aerospace employment in Washington continues to be larger than in any other state². Per the report, in 2018, the relative concentration of aerospace industry jobs in Washington was 7.3 times the national average³. When success is appropriately measured from the date of enactment in 2003, the results are

¹ *Preliminary Report*, p. 11.

² *Preliminary Report*, p. 7.

³ *Preliminary Report*, p. 7.

unassailable, unequivocal, and remarkable. The aerospace workforce has grown tremendously since 2003.

Second, there is no statutory direction or authorization to the Joint Legislative Audit and Review Committee (JLARC) to measure successful performance based on a snapshot of data from 2013 forward. The Legislative Auditor's findings that the jobs results are "unclear," rests on a faulty assumption that aerospace employment is to be measured from the date the incentive package was *extended* in 2013 rather than the date it was *enacted* in 2003. Absent some specific legislative direction to measure from 2013, this suite of tax preferences should have their performance measured from the date of enactment like any other tax preference you evaluate and comment upon. Engrossed Substitute Senate Bill 5952 (2013), Section 1(4), directs JLARC to review the aerospace industry tax preferences every five years and does not appear to call for measurement from 2013 to the present. Had the Legislature wished for JLARC and the Citizen Commission evaluate the performance of the incentive package for less than half the life of the incentive, from the date of the extension in 2013 forward, it could have expressed that.

Third, to base the evaluation on that more limited time period without direct legislative direction to do so, risks treating this industry in a manner that is inconsistent with the treatment of other industries. While it may be informative and permissible for JLARC to direct an analytical gaze specifically at the time period, 2013- present, this time period must not be mistakenly viewed as the time period for ultimate evaluation of whether the preferences are meeting the stated objective. This would set a bad precedent for cherry-picking dates for analyzing performance in other tax preference reviews.

Fourth, endorsing the Legislative Auditor's position that the performance metrics should be clarified would achieve nothing that furthers the public interest. The Legislative Auditor states that the Legislature "could" provide a specific employment baseline or target level for employment for JLARC staff to use in evaluating the preferences' effectiveness. But, even if a number were set, the Auditor would not be able to reach a conclusion on whether any employment level was "caused" by the tax incentive package.

Finally, endorsing the Legislative Auditor's position could result in negative outcomes by starting to unravel the threads of a deal that was difficult to achieve. The language used by lawmakers expresses that one of four public interests to be served by these preferences is to "maintain and grow" the aerospace workforce. It was not an oversight to omit an employment baseline. These tax incentives were not passed in a hastily drafted omnibus bill in the final hours of a long session, but instead thoughtfully considered in a special legislative session in November of 2013 called to deal solely with this issue. That session was called only after the aerospace industry, the Governor's Office, and organized labor partners had worked extensively over months on multi-party negotiations on the language of the tax extension.

At the House Finance Committee hearing of Nov. 7, 2013⁴ where the 2013 Aerospace industry tax package extension was announced, House Finance Chair Reuven Carlyle (now Sen. Carlyle), provided very specific remarks approving of the performance metrics during his introduction of Governor Inslee.

Sen. Carlyle said, addressing Governor Inslee and the assembled media,

We all know that we are here today because of the extraordinary hard work that you have done with the aerospace industry, with Boeing as a company, with the organized labor partners who are so central to that broader relationship. We know that the central driver of this for you is jobs, economic growth, and the long-term vitality of our state.

*I just want to note on a personal level, that **this Committee has taken very seriously the examination of our state's tax preferences, and credits, and preferential rates. We've tried to add a framework of analysis and rigor and metrics that are authentic with respect to making sure that the public in this state gets a really good deal. And I do feel like there is a great sense of appreciation for the hard work that your administration has done to ensure that this legislation meets that level of standard. We really appreciate that.***

As part of that negotiation, The Boeing Company agreed that the extension of the tax package would be contingent on siting construction of the Boeing 777X in Washington, both final assembly of the fuselage and manufacture of the carbon fiber wing. Viewed in its contemporary setting in 2013, as Washington was emerging shakily from a deep recession, this was a huge win for Washington lawmakers and the Governor. Governor Inslee stated in his public testimony on the bill,

I do believe this is a good deal for the State of Washington...Construction of the Boeing 777X and its carbon fiber wing and assembly of that airplane will be the linchpin of economic growth in Western Washington for decades to come...You cannot overstate the consequences on the upside of us winning this work and the downside of losing it.

When the tax preference package was passed by the Legislature, the Governor had a special signing ceremony at the Museum of Flight at Boeing Field, flanked by labor representatives and industry figures. The metrics were drafted with care and deliberation and in the context of give and take on accountability measures in the rest of the bill, including *making the entire package contingent on a siting decision*. The Commission should not join the Legislative Auditor in

⁴ Hearing on HB 2089, House Finance Committee, November 7, 2013, available at TVW archive, here: <https://www.tvw.org/watch/?eventID=2013111091>

recommending a re-write of this “good deal for Washington” where industry employment figures are unquestionably much improved over the entire period of the effectiveness of the incentives from 2003 to present.

In conclusion, the preliminary report confirms that the aerospace incentives are meeting the objective to reduce the cost of doing business in Washington, encouraging the continued presence of the industry, and providing jobs with wages and benefits well above state average. The Auditor’s rationale for a recommendation for the Legislature to “clarify” only the fourth of four metrics—job totals—is based on analysis of industry jobs for a narrow period rather than the full period of the effectiveness of these preferences. Because this narrower view has no basis in statute, the Citizen Commission should not endorse the recommendation.

Sincerely,



Clay Hill
Director, Government Affairs
Association of Washington Business