State of Washington

Citizen Commission for Performance Measurement of Tax Preferences

Written public testimony provided for September 17, 2024 Meeting

Submitted Public Testimony

Precious metals and monetized bullion

- David Crenshaw - National Coin & Bullion Association
- Patrick Heller – National Coin & Bullion Association

2024 Tax Preference Reviews

- Sara Jones - Small Planet Supply

Agency Responses

2024 Tax Preference Reviews

- Department of Revenue and Office of Financial Management joint response

Alternative Fuel Vehicles and Infrastructure

- Department of Commerce

Customized Workforce Training

- State Board for Community and Technical Colleges

Public Utility Tax Credit for Home Energy Assistance

- Department of Commerce

From:	David Crenshaw
To:	JLARC Staff Office
Cc:	Pat Heller
Subject:	Written Testimony in Support of Tax Preferences for Precious Metals and Monetized Bullion
Date:	Thursday, September 5, 2024 12:43:17 PM
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CAUTION:External email.

Dear Commissioners,

Please find attached my written testimony in support of tax preferences for the sale of precious metals and monetized bullion, submitted for consideration during the public testimony hearing on the 2024 full JLARC Reviews scheduled for September 17, 2024.

Thank you for your time and attention to this important matter. Please feel free to reach out if you have any questions or require further information.

Kind regards,

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Testimony in Support of Tax Preferences for Sales of Precious Metals and Monetized Bullion

Introduction

My name is David Crenshaw, and as the executive director of the National Coin & Bullion Association, I represent our members both based in Washington state and nationwide. I am submitting this testimony in support of maintaining the tax preferences for sales of precious metals and monetized bullion. This testimony is offered in response to reviews done by the Joint Legislative Audit and Review Committee (JLARC), addressing the questions outlined by the Citizen Commission for Performance Measurement of Tax Preferences.

1. **Achievement of Tax Preference Purpose**
   The primary purpose of this exemption is to acknowledge that precious metals are not merely commodities but financial assets and investments. This aligns with historical precedents, including Article 1, Section 10 of the U.S. Constitution, which identifies gold and silver as money. By exempting these assets from sales tax, the state acknowledges their unique role in the economy and reduces the financial burden on investors, thereby promoting investment in these secure tangible assets. Thus, the tax preference for precious metals and monetized bullion effectively achieves its purpose as outlined in the 2024 tax preferences report.

2. **Additional Benefits Beyond Stated Purpose**
   Beyond that intended purpose, this tax preference provides significant additional benefits, chief among them being economic development and job creation stimulated by the exemption. Case studies from other states, like Michigan, show substantial increases in sales, employment, and overall economic activity within the precious-metals industry following the implementation of similar tax exemptions. This growth is not confined to businesses directly dealing in precious metals but extends into related industries, such as locally hosted coin shows supporting the hospitality sector, thereby boosting the state's economy as a whole. This further exemplifies the wide-ranging positive effects of this tax preference.

3. **Economic Activity vs. Revenue Loss**
   The taxes associated with the increased economic activity stimulated by this tax preference far exceed the potential loss of tax revenue. For instance, in Michigan the implementation of this exemption resulted in a 2,589% increase in in-state retail sales and significant gains in out-of-state sales. The ripple effects included a substantial rise in employment and payroll, leading to increased corporate tax payments and additional sales tax revenue from the spending of those newly hired employees. These positive fiscal impacts far outweighed the initial loss in sales-tax revenue, ultimately resulting in a net gain for the state. The dynamic nature of economic activity driven by such exemptions underscores the necessity of considering both direct and indirect tax benefits when evaluating the true fiscal impact.

4. **Potential Negative Consequences**
   There is no substantial evidence to suggest that this tax preference has negative consequences. On the contrary, the benefits far outweigh any potential downsides. The economic growth and

job creation stimulated by this exemption do not appear to harm other industries, workers, or the environment. In fact, in situations where states have revoked or suspended similar exemptions, such as in Florida or Louisiana, the resulting negative economic impacts led to the rapid reinstatement of these exemptions. This history demonstrates that the absence of such tax preferences can be more detrimental to state economies than their presence.

Conclusion

The tax preference for sales of precious metals and monetized bullion is a critical tool for promoting economic development, job creation, and investment in secure financial assets. It achieves its intended purpose while delivering additional economic benefits that far exceed any potential lost tax revenue. The positive impacts on the state's economy and the absence of significant negative consequences make a compelling case for maintaining this tax preference. I urge the commission to consider these points when examining the value of continuing this exemption.

Thank you for the opportunity to offer this testimony in support of the tax preference for precious metals and monetized bullion.

David Crenshaw
Executive Director, NCBA
September 10, 2024

Enclosure

Economic Development and Job Creation Through Coin and Precious Metals Tax Exemptions

Prepared by Patrick A. Heller, NCBA Industry Issues Advisor and Former CPA

Executive Summary

This white paper explores the economic impact of sales- and use-tax exemptions on precious-metals bullion and coins in various U.S. states. Currently, several states lack statewide sales taxes, while many others offer exemptions on these tangible assets. This paper argues for the appropriateness of such exemptions, citing reasons including the historical recognition of gold and silver as money rather than goods and the investment nature of precious metals. It emphasizes the need for dynamic analysis in assessing the fiscal impact of such exemptions and suggests economic development agencies should consider the broader benefits beyond tax revenue.

To illustrate that, this paper discusses the economic benefits observed in states with exemptions, highlighting significant growth in the precious-metals industry and job creation using case studies, particularly from Michigan, that demonstrate substantial growth in sales and employment following the implementation of exemptions. Additionally, it shows the low cost of job creation through these exemptions when contrasted with other government-funded economic development initiatives, underscoring their effectiveness. Finally, it examines instances of sunset provisions and reversals of exemptions in certain states, noting the subsequent economic effects.

Ultimately, this paper concludes that despite potential revenue losses, exemptions serve as a cost-effective tool for fostering economic growth and job creation in the precious metals industry, warranting consideration by state governments.

Introduction

At the time this document was prepared, five US states (Alaska, Delaware, Montana, New Hampshire, and Oregon) have no statewide sales taxes, while 37 other states (including 19 of the 20 most populous) have adopted some form of sales- and use-tax exemption on retail sales of precious-metals bullion, coins, and/or currency. Additionally, the state of Nevada, by regulation, has implemented a sales- and use-tax exemption on retail sales of precious-metals bullion and coins that do not sell for more than 50% above face value. The only jurisdictions that do not yet have sales- and use-tax exemptions on precious-metals bullion, coins, and/or currency are the District of Columbia, Hawaii, Kentucky, Maine, New Jersey, New Mexico, Vermont, and Wisconsin.

It is easily demonstrated that precious-metals bullion, coin, and/or currency sales- and use-tax exemptions are beneficial to businesses that sell such products and to the customers of those businesses that purchase such products. There are multiple conceptual reasons why such exemptions are appropriate and why they should be limited only to these tangible assets. Particularly, sales tax is a consumption tax for assets that are consumed:

1) In the U.S. Constitution Article 1 Section 10, it states, "No state shall . . . make any Thing but gold and silver Coin a Tender in Payment of Debts," recognizing gold and silver as money and therefore not a consumption asset.

2) Purchases of precious-metals bullion, coins, and currency not consumed for jewelry or other purposes are considered by the Internal Revenue Service and most states that impose an individual income tax to be capital investment assets on which capital gains income taxes are due when these assets are resold in their original condition for a profit.

However, when state governments consider whether to adopt such a sales- and use-tax exemption, it is appropriate for legislatures and administrations to consider the costs of doing so—called the tax expenditure—and the possible financial and other benefits to the state government itself.

The government agencies that analyze the financial impact of such exemptions to the state government almost always prepare a static dollar amount, which only claims to represent the amount of currently existing sales- and use-tax collections that would decrease because of adopting the exemption. However, when tax laws change, people change their financial activities. Ideally, these fiscal notes should reflect a dynamic analysis of both the loss of current tax collections and also any offsetting tax impact as a result of residents' changing financial activities. However, conversations with Treasury, revenue, and fiscal officials in multiple states indicate that there is not yet an approved methodology for performing a dynamic analysis of a change in tax laws. This is the reason virtually every fiscal note only includes a static analysis of potential lost taxes.

Existing precious-metals bullion, coin, and/or currency sales- and use-tax exemptions have proved to promote cost-effective economic growth and job creation in the states that have adopted such exemptions. Therefore, where the fiscal notes do not provide a dynamic impact on such exemptions, it would be appropriate for a state government's economic development agency to review proposed new exemptions for the benefits of economic development and job creation as a balance against the cost of the tax expenditure from the proposed exemption.

The precious-metals bullion, coins, and currency industry has experienced significant growth over the past 25+ years. The two most important reasons are 1) a federal tax law change in 1997 allowed individuals to establish a Precious Metals Individual Retirement Account, where no IRA could previously own physical precious metals, and 2) the 1999 debut of the U.S. Mint's Statehood Quarter Series sparked a massive increase in the number of coin collectors (at one point the U.S. Mint claimed that 100 million people were collecting these coins). The interest boost from these two reasons—plus added accessibility to precious-metals bullion, coin, and currency businesses with the spread of the internet—have led to much higher industry sales volume and, where subject, to higher sales- and use-tax collections on the sale of such items.

However, the economic development and job creation within the precious-metals bullion, coins, and currency industry has occurred almost exclusively in states that have no state sales or use taxes or have implemented sales- and use-tax exemptions on such products.

This document illustrates different ways that retail sales of precious-metals bullion, coins, and/or currency have sparked significant economic growth and job creation in states that enacted sales- and use-tax exemptions. It also offers a comparison of the cost-effectiveness of such tax exemptions compared to economic development expenses from governments in Michigan, Kentucky, and Wisconsin. In addition, there are details on sunset provisions that were established on such exemptions and a review of what happened in states that had revoked or suspended existing exemptions. The hope is that this information may help balance against future fiscal notes and may encourage agencies to provide economic development statements that will offer a more nuanced view of the value of sales- and use-tax exemptions on retail sales of precious-metals bullion, coins, and/or currency.

Economic Development and Job Creation in States with Precious Metals Tax Exemptions

At Liberty Coin Service in Lansing, Michigan, a sales- and use-tax exemption for precious-metals bullion and coins went into effect in July 1999. Comparing data from 1997 and 2011, in-state retail sales (almost exclusively precious-metals bullion and coins) rose 2,589%, in-state wholesale sales rose 589%, and out-of-state sales rose 706%. The number of employees and contractors increased 243% (from 7 to 17), with total payroll and contractor payments rising 809%. It is true that total Michigan sales taxes collected on sales from this business fell 93% (-$43,832). However, a Michigan Treasury study calculated that individuals in the state spent 38.5% of their income on items from which Michigan sales tax was collected. Consequently, the increased number of employees and higher payroll would indicate that imputed sales-tax also rose 808% (+$46,864), more than replacing the decrease in sales-tax collections from the sales of precious-metals bullion and coins. Further, Michigan individual income taxes withheld from payroll rose 826% (+$81,784), and the company's state Single Business Tax payments rose 2,160% (+$57,120). For the city of Lansing, corporate income tax payments rose $2,100 and the Lansing individual income tax withheld on payrolls rose 908% (+$15,907). In total, Michigan and Lansing tax collections increased 238% (+$159,942) in 2011 compared to 1997.

Yes, business volume increased from 1997 to 2011, but the increase in in-state retail sales was many times greater than Michigan wholesale and out-of-state sales. In 1997, only about 1% of Michigan retail sales were for transactions of $5,000 or more; in 2011, 94% of Michigan retail sales resulted from transactions of $5,000 or more. Obviously, the sales- and use-tax exemption brought in more business from Michigan customers who previously had opted to make purchases that would not have incurred Michigan sales-tax liability (such as purchases of commodity market futures contracts, shares of precious metals exchange-traded funds, shares of precious-metals mining companies, or purchases stored in vaults in Delaware or in the Royal Mint in England, the Perth Mint in Australia, or the Royal Canadian Mint).

This disparity in sales volume was confirmed by a 2016 Industry Council for Tangible Assets (ICTA) national coin dealer survey of 2015 sales and sales-tax collections, where usable responses were received from about 2.5% of all American precious-metals bullion and coins businesses. The survey found that the businesses in states that did not have to charge sales and use tax on precious-metals bullion and coins experienced 926% higher in-state retail sales of these products than businesses in states where sales taxes were imposed. Further, in-state retail sales of other merchandise that were not exempt from sales and use taxes (typically jewelry, antiques, other collectibles, and hobby supplies) were 237% higher than those made by businesses in states that charged sales and use taxes on precious-metals bullion and coins. The increased sales tax collected on taxable merchandise replaced almost exactly two-thirds of the sales- and use-tax collections lost from the exemption. Total sales by businesses in exempt states were 335% higher than by businesses in states with no sales-tax exemption for precious-metals bullion and coins.

Further, attendance at coin shows in states with such sales- and use-tax exemptions was far higher than in states without these exemptions. Consequently, the hospitality industry in the exempt states had much higher sales and resulting sales-tax collections for hotel rooms, restaurants, and other merchandise sold. Businesses in multiple other industries have provided information on how their in-state sales volume increased after their state adopted precious-metals bullion and coin sales- and use-tax exemptions. (Note: Sponsors of the largest coin shows in the country all have policies to locate future shows only in states that have sales- and use-tax exemptions on precious-metals bullion and/or coins.)

The United States Mint began producing Gold and Silver Eagle coins in 1986. They added Platinum Eagles in 1997 and Palladium Eagles in 2017. All of the businesses that are U.S. Mint Authorized Purchasers of these products, as well as primary distributors for mints in other countries, are located in states that have sales- and use-tax exemptions on precious-metals bullion and/or coins. There are no Authorized Purchasers or primary distributors for other mints located in any state that does not have such an exemption.

Since people have been allowed to own a Precious Metals IRA, a number of companies have started to focus particularly on servicing this market niche. An analysis of the 26 companies (25 of which were established in or after 1999) that advertise this service nationally shows that they are only located in states that have sales- and use-tax exemptions for precious-metals bullion and coins.

Tax Expenditure Impacts on Economic Development and Job Creation in Precious-Metals Businesses

The Michigan Treasury and the state's legislative fiscal agencies had no means to calculate the tax expenditure for a sales- and use-tax exemption on precious-metals bullion when legislation was introduced in the late 1990s. Using data from Dun & Bradstreet, three different calculations were made, which ranged from about $175,000 to $250,000 of annual statewide tax collections. After meeting with Treasury and fiscal agency officials, they concurred that the methodology was accurate and rounded up the total to $300,000 annually. With soaring industry sales in the decades since, the Michigan Treasury projected that the 2021 tax expenditure for this exemption would be $1,490,000, including sales to Michigan residents by out-of-state businesses and third-party marketplace facilitators.

In 2011, the precious-metals industry conservatively calculated the economic growth and job creation in Michigan since 1997. At least 400 new jobs had been created, doubling industry employment. The number of industry businesses increased by about two-thirds—half were new businesses and half were existing businesses that expanded their products to include precious-metals bullion and/or coins. Taking the $1,490,000 estimated 2021 tax expenditure and assuming that only 400 jobs were created from this exemption, that calculates to a tax expenditure of just $3,725 per job created.

This contrasts favorably to economic growth and job creation subsidies and credits adopted in Michigan, Kentucky, and Wisconsin. In 2023, Michigan's state government pledged a scaled-down $2.2 billion from Michigan taxpayers to fund Ford Motor Company's BlueOval Battery Park, creating 1,700 jobs at a cost of $1,294,000 per job created. The year before, Michigan committed $237 million to ONE to create 2,112 jobs at a cost of $112,000 per job created. Similarly, the Kentucky state government pledged $13 million to United Parcel Service in October 2022 to establish two new locations and create 435 jobs at a cost of $28,000 per job created. The Wisconsin state government's pledge to Foxconn in April 2021 is to provide $672 million for the creation of 1,454 jobs at a cost of $462,000 per job created.

Obviously, the extremely low cost of jobs created through the adoption of precious-metals bullion, coins, and/or currency sales- and use-tax exemptions when compared to other projects funded by state governments is quite favorable to enacting such exemptions.

Sunset Provisions, Revocations, and Suspensions in States with Precious-Metals Bullion and Coins Sales-Tax Exemptions

Understanding that the lost revenue estimated by fiscal notes can seem daunting, many states initially opted for a sunset provision to test the waters of a sales- and use-tax exemption for precious-metals bullion, coins, and/or currency. Such provisions typically lasted three to five years before renewal. This allowed states to begin to see the projected economic development and industry growth for themselves. And what happened in states that enacted sales- and use-tax exemptions for precious-metals bullion, coins, and/or currency that included a sunset provision?

California may have been the first state that included a sunset provision when it enacted precious-metals bullion and coin sales- and use-tax exemption in 1991. When it was up for renewal, California not only renewed the exemption but eliminated the sunset provision.

Alabama and Virginia also included sunset provisions when enacting their exemptions. Both have since been renewed, with Virginia expanding the scope of the exemption when it did so.

Florida was the first state to revoke its precious-metals bullion and coins sales- and use-tax exemption in 1992. Within one year, approximately 100 coin shows had either ceased operation or had relocated to another state that still had such an exemption. The Orange County Convention & Visitors Bureau prepared an analysis that showed the state's hospitality industry lost so much business from the lost coins shows that it reduced state taxable revenues by $60 million annually. Florida quickly reinstated its sales- and use-tax exemption.

After Colorado revoked its exemption, the legislature twice voted to restore the exemption. The governor vetoed both renewals of the exemption, noting that any new tax exemption could only be revoked in the future through a statewide vote, not by the government itself. After the second veto, the legislature voted to override the veto and re-establish the exemption.

Ohio's exemption was revoked in 2005 in response to a political scandal that involved an Ohio coin dealer. When the matter was later analyzed, though, it turned out that the Ohio state government actually made a net profit on the activities of that coin dealer. Within six months, *Coin World* reported that about 100 Ohio coin businesses had either closed, laid off staff, or moved out of state to continue operation in a state that did have a sales- and use-tax exemption. All major coin shows were canceled. A similar exemption was instated several years later, only to be revoked again two years after that, perhaps as an unintended consequence of language in the annual budget bill. It took another two years for this exemption to be reinstated.

In 2016, the state government of Louisiana suffered a huge revenue shortfall when oil and gas prices plummeted. In response, the state government increased the sales-tax rate for three months and suspended more than 200 sales- and use-tax exemptions and tax credits for 27 months—among them, the precious-metals bullion and coin sales-tax exemption. During the suspension period, the Louisiana Senate Revenue and Fiscal Affairs Committee held hearings reviewing whether to permanently end each exemption or credit, to modify it at the end of the suspension, or to let it remain as it was at the end of the suspension. In the testimony at the hearing that included the precious-metals bullion and coin sales- and use-tax exemption, it was explained that the suspension would actually result in a net decrease in Louisiana's tax collections. The committee chair objected to the statement and was quoted in the next day's issue of the New Orleans *Times-Picayune* attacking the testimony. However, after the committee chair learned that this forecast was accurate, he was one of three legislators who led the effort to get a similar exemption reinstated in 2017—one of only four exemptions that were expedited back into effect.

Every time a sales- and use-tax exemption for precious-metals bullion and coins has been revoked or suspended, it has been reinstated or else renewed with similar language.

Conclusion

When Michigan adopted its sales- and use-tax exemptions for retail sales of precious-metals bullion and coins, the Treasury eventually collected far more in taxes than the tax expenditure of the exemption. With nationwide sales of precious-metals bullion and coins now far higher than they were in the 1990s, state governments may still realize a net gain in revenues after the enactment of such exemptions. However, the net tax expenditures estimated in fiscal notes ignore the revenue collection benefits from economic development and job creation as a result of enacting such exemptions. These exemptions are ultimately an extremely low-cost way to promote economic development and job creation when compared to other programs financed by state governments.

From:	David Crenshaw
To:	JLARC Staff Office
Cc:	Pat Heller
Subject:	Written Testimony in Support of Tax Preferences for Precious Metals and Monetized Bullion
Date:	Thursday, September 5, 2024 12:47:07 PM
Attachments:	testimony-ncba-heller-wa-jlarc-20240917.pdf

Dear Commissioners,

Please find attached the written testimony of Patrick A. Heller, industry issues advisor for the National Coin & Bullion Association, in support of tax preferences for the sale of precious metals and monetized bullion. This testimony is submitted for consideration during the public testimony hearing on the 2024 full JLARC Reviews, scheduled for September 17, 2024.

Thank you for your time and attention to this important matter. Please feel free to reach out if you have any questions or require further information.

Kind regards,

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Testimony in Support of Tax Preferences for Sales of Precious Metals and Monetized Bullion

My name is Patrick A. Heller, industry issues advisor for the National Coin & Bullion Association. After working as a CPA in Michigan, in 1981 I became the owner of Michigan's largest coin dealer, Liberty Coin Service in Lansing. When Michigan enacted a comparable sales-tax exemption in 1999, the state House and Senate fiscal agencies and the Michigan Treasury used my calculations of forsaken tax collections in their analyses. I also conservatively forecasted the increase in Michigan tax collections if the exemption was enacted; later data showed that the actual increase in tax collections was nearly double what I had projected. My analyses of both tax expenditures and documented increases in state treasury tax collections were subsequently used to support successful efforts to adopt sales- and use-tax exemptions for precious-metals bullion and coins in Alabama, Arkansas, Indiana, Iowa, Kansas, Minnesota, Mississippi, Nebraska, North Carolina, Oklahoma, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, West Virginia, Wisconsin, and Wyoming. I met with legislators, legislative committees, or administration officials in eleven of these states; in the others I engaged in online meetings, submitted written documentation, and/or provided information to others who submitted my documents. In addition, similar sales-tax exemptions for which I worked are pending in Kentucky and New Jersey. These same analyses were used to expand the tax exemptions in Texas and Louisiana (and to restore the exemption in Louisiana in 2017 after it was suspended in 2016). In addition, I provided documentation for the 2023 effort in Oregon that successfully removed the costs paid for items of precious metal from being subject to that state's Corporate Activity Tax (Section 317A.100(WW), a tax similar to Washington's Business & Occupations (B&O) Tax.

The information provided below challenges the accuracy of the calculations given by the Washington Department of Revenue of estimated tax collections if the existing sales- and use-tax exemption on precious metals and bullion were rescinded. As evidence, I document the loss of sales and income tax collections that occurred in other states that (temporarily) eliminated similar sales-tax exemptions, suggest how Washington residents could continue to purchase such merchandise without having to pay the state's sales and use tax, and address interstate competition when almost 94% of the US population lives in a location with either no state sales tax or complete or partial sales- and use-tax exemptions on the retail sales of precious-metal bullion and coins.

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1. Potential inaccuracies in calculations from the Department of Revenue (DOR), estimating sales-tax and B&O collections if the precious metals and monetized bullion sales- and use-tax exemption were rescinded.

The DOR estimates that approximately $28 million in annual sales tax and B&O tax would be collected should the existing sales-tax exemption on precious metals and monetized bullion be eliminated. The DOR report claims its calculation is based on filed tax forms. Unfortunately, sales-tax reports filed by businesses do not break down how much tax was collected from sales of precious-metals bullion and monetized bullion versus other merchandise. I have seen two surveys conducted in the 1990s of coin dealers in Kentucky and Ohio that showed about 50% of sales-tax collections were for merchandise other than precious-metals bullion and monetized bullion. Such other products include jewelry, antiques, other collectibles, hobby supplies, and more.

In the process of gaining a precious-metals bullion, coin, and currency sales-tax exemption in Arkansas in 2021, all the dealers with storefronts reported their sales-tax collections for 2019 to an officer of the Arkansas Numismatic Society. The total collected taxes came to just over $200,000—a tiny fraction of the $2.5 million tax projection in the legislation's fiscal note provided by the Arkansas Department of Finance and Administration. However, the dealer who reported the highest sales-tax collections—about $100,000—operated a second-hand business, rather than strictly a coin company. Of his total sales-tax collections in 2019, only about $2,000 resulted from sales of precious-metals bullion, coins, and currency. Approximately 98% of that business's sales-tax collections were from jewelry, electronic equipment, tools, toys, firearms, furniture, or other items.

Clearly, using data from filed tax returns overstates the amount of potential sales-tax collections, even if state residents did not change their spending patterns. But when tax laws change, people alter their financial activities. The DOR's calculations assume that people would not change their financial activities, despite evidence from other states showing that in-state residents *sharply* changed their spending when their state temporarily revoked similar exemptions.

2. Other states that experienced lower tax collections after temporarily rescinding a precious-metals bullion and coin sales- and use-tax exemption.

In the late 1990s, the state of Florida eliminated its sales-tax exemption on precious-metals bullion and coins. Within a year, over 100 coin shows that had been held in that state were either cancelled or relocated to another state that did have such an exemption. The Orange County Convention & Visitors Bureau calculated that taxable sales by Florida's hospitality industry dropped by $60 million annually. Florida reinstated its precious-metals bullion and coin sales-tax exemption on July 1, 1999.

As the result of a political scandal involving an Ohio coin dealer, that state's sales-tax exemption for precious-metals bullion and coins was rescinded in 2005. Within six months the newspaper *Coin World* reported that at least one hundred Ohio coin dealerships had either moved out of state, laid off staff, or completely closed. Every major coin show in that state was cancelled. As it was a political issue, the exemption was not reenacted until 2016. That exemption was inadvertently eliminated again in the state's 2019 budget process but was reinstated in 2021.

In 2015, the states of Louisiana, Oklahoma, and Texas experienced huge declines in the collection of severance taxes from the oil and gas industry. As a result, Louisiana imposed a temporary hike in the sales-tax rate and suspended more than 200 sales-tax exemptions and tax credits for 27 months beginning April 1, 2016. That state's Senate Revenue and Fiscal Affairs Committee held hearings on each of the suspended exemptions and credits to decide whether to reinstate them at the end of the suspension, to alter them at the end of the suspension, or to permanently end them. The chair of that committee objected to my testimony that the state of Louisiana would experience a further decline in sales-tax and income-tax collections as a result of suspending the sales- and use-tax exemption on precious-metals bullion and coins. But when that committee chair learned that my forecast was accurate, he was one of three legislators who led the effort to expedite reinstating a comparable exemption in 2017—one of only four that were reinstated ahead of schedule.

These examples show on a macro level some of the economic shifts that can happen when an exemption is rescinded. But beyond canceled coin shows and closed businesses, tax collections decline when a sales- and use-tax exemption is eliminated because there are a variety of alternatives available for consumers that don't involve purchasing from dealers locally.

<u>3. Washington residents can purchase precious metals and monetized bullion without incurring potential sales taxes.</u>

In theory, sales and use taxes are charged on merchandise that is consumed. With rare exceptions, precious metals and monetized bullion are not consumed; these are capital investment assets that are subject to capital gains taxes when resold at a profit. Since they are maintained in their existing state rather than consumed, Washington residents do not need to receive them in their personal custody. If the existing Washington sales-tax exemption were rescinded, a high percentage of existing demand by in-state residents would still be met by purchases that would never be subject to Washington sales tax. Here are some examples of how this would be done:

- Purchases could be bought and stored out of state. There are major storage vaults for precious metals and monetized bullion in Delaware, and there are similar specialized storage vaults in Idaho, Oregon, California, and Nevada. Alternatively, Washington residents could drive to an adjoining state to make a purchase and then store it in a bank or credit union safe-deposit box there, so that it would never be brought into Washington and subject to a use tax. Before Indiana adopted its exemption on precious-metals bullion, coins, and currency, the Michigan coin dealership I once owned (and where I still work) served a number of customers from northern Indiana who stored their purchases at one of the seven banks and credit unions in or adjacent to the shopping center where our storefront was located.

- Washington residents could purchase precious metals or some forms of monetized bullion from foreign mints, including the Royal Canadian Mint in Canada, the Royal Mint in England, or the Perth Mint in Australia, that would be stored in those countries' mint vaults. Because such purchases would never come into the state of Washington, they would not be subject to sales and use taxes.
- Washington residents could purchase shares in precious metals exchange traded funds, which, as investments, would never be subject to Washington sales and use taxes.
- Washington residents could purchase commodity futures contracts for precious metals, which would never be subject to Washington sales and use taxes.
- Washington residents could purchase shares of stock in companies that mine precious metals, which would never be subject to Washington sales and use taxes.

My experiences in retail coin sales with Liberty Coin Service visibly demonstrates that in-state customers do seek alternatives to purchase precious metals and monetized bullion while legally avoiding paying sales and use taxes. Michigan adopted a sales- and use-tax exemption for precious metals and coins in July 1999. In 1997, only about 1% of our company's total in-state retail sales were to customers spending $5,000 or more in a single transaction. In 2011, about 94% of our company's total in-state retail sales were to customers spending $5,000 or more per transaction—and our total in-state retail sales in 2011 were almost 26 times higher than they were in 1997! (To compare, our in-state wholesale sales rose just over five times and our out-of-state sales increased by about seven times in that same period.)

4. Washington's existing exemptions match interstate competition.

Currently, five states have no statewide sales tax, including Washington's neighbor, Oregon. Another 38 states have enacted complete or partial sales- and use-tax exemptions on precious-metals bullion, coins, and/or currency sales. By regulation, Nevada exempts precious metals bullion and some monetized bullion from sales and use taxes. From the 2020 Census, that means that 93.95% of the U.S. population lives in a state where they do not pay sales and use tax to purchase precious metals and monetized bullion.

Only the states of Hawaii, Kentucky, Maine, New Jersey, New Mexico, Vermont, and the District of Columbia have no such exemption from sales and use tax. As I write this in September 2024, however, the Kentucky legislature passed a revenue bill that would implement a sales-tax exemption on precious-metals bullion, coins, and currency (HB8). The governor attempted to use a line-item veto to reject it, but the Kentucky attorney general's office has determined that the governor does not have authority to use a line-item veto on a revenue bill. The governor continues to assert his authority on the issue, which is being contested by the legislature and attorney general. Similarly, in New Jersey, the legislature unanimously passed a bill enacting an exemption on precious-metals bullion and coins, which is currently awaiting the governor's signature to become law. The governor has until October to either sign it or veto it.

Should the exemptions in Kentucky and New Jersey become effective, then over 98% of U.S. residents would live in states with such exemptions. On this basis alone, the state of Washington should match interstate competition, including from both neighboring states, by maintaining its existing exemptions for precious metal and monetized bullion from both sales and use tax and the B&O tax.

As the Joint Legislative Audit & Review Committee considers the tax expenditure estimates for the tax preference of precious metals and monetized bullion, please keep in mind 1) that the projected tax expenditure is almost certainly far higher than accurate, 2) what has happened in other states that have temporarily ended similar sales- and use-tax exemptions, 3) how Washington residents could alter their spending to avoid having to pay sales and use tax on such purchases, and 4) the interstate competition for this exemption.

Thank you for the opportunity to submit this written testimony and your consideration. Should you have any questions, you are welcome to contact me at 800-933-4720 or path@libertycoinservice.com.

Sincerely,

Patrick A. Heller
Industry Issues Advisor, National Coin & Bullion Association (2020–present)
Member of the Board of Directors, National Coin & Bullion Association (2002–2021)
Treasurer, National Coin & Bullion Association (2002–2019)
Liberty Coin Service, Communications Officer and Owner Emeritus (2015–present), and Owner (1981–2014)

From:	Sara Jones
To:	JLARC Staff Office
Cc:	Sosnowski, Donald
Subject:	CTP Letter
Date:	Monday, September 23, 2024 3:50:33 PM
Attachments:	image001.png image002.png image003.png image004.png CTP Letter.pdf

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Hello,

Please see attached.

Best,

Sara Jones

Chief Operating Officer

Small Planet Supply | 360-866-8779

Tumwater, WA

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To: Citizen Commission for Performance Measurement of Tax Preferences
Subject: Testimony on the Impact of the Customized Training Program
Date: September 23, 2024

Dear members of the Commission,

My name is Sara Jones, and have served as Chief Operating Officer of Small Planet Supply since 2013. Headquartered in Tumwater, Washington, we are committed to supplying, educating, and training in the use of energy-efficient building materials and practices.

In recent years, we have expanded into manufacturing with the introduction of our WaterDrop® system—a pre-manufactured, drop-in central heat pump plant designed to reduce greenhouse gas emissions and support the push for electrification. This system is ozone-friendly and aligns perfectly with both state and national sustainability goals. In September 2023, we were honored to welcome Washington Governor Jay Inslee to our Tumwater production facility, where he witnessed firsthand the potential of WaterDrop® to transform domestic water heating and contribute to a sustainable future.

We became involved with the Customized Training Program (CTP) in 2022 through our initial partnership with Impact Washington. The program has been pivotal in supporting our transition into the manufacturing sector. Since then, we have successfully completed the following training programs:

2022-2023 CTP:

- **Facility Layout:** 51 hours of training for 6 participants
- **Strategic Production Planning:** 46 hours of training for 7 participants

2023-2024 JSP:

- **Facility Layout:** 168 hours of training for 11 participants
- **ERP & MRP Systems:** 72 hours of training for 10 participants
- **Strategic Planning:** 160 hours of training for 11 participants

These customized training initiatives have significantly improved our operations. For example, the Facility Layout training is allowing us to optimize production processes as we scale up into a new warehouse. Training in ERP and MRP systems has equipped our team with the tools to manage resources effectively, scale production, and meet the growing demand for our products.

The skills and knowledge gained through the CTP have been instrumental in building a skilled and knowledgeable workforce, which is essential as we expand our manufacturing operations. This program has not only enabled us to create new jobs in the local manufacturing sector but has also provided existing employees with opportunities for professional development and career advancement.

Our employees have expressed how the CTP training has enhanced their professional capabilities and increased their job satisfaction. One participant in the Strategic Planning training shared that it boosted his confidence and provided the knowledge needed to lead a new project. Another employee highlighted that training in resource and time management has improved his ability to manage his team and onboard new members. Additionally, our team has gained valuable insights into using analytics and reporting to forecast manufacturing and staffing needs, identify bottlenecks, and solve problems using existing tools.

Our collaboration with local educational institutions and workforce development programs has been another positive outcome of our partnership with the CTP. These collaborations have enabled us to offer meaningful internships and apprenticeships, providing hands-on learning experiences for students and young professionals—something that would not have been possible without the support of the CTP.

The enhanced skills and capabilities our team has gained through this training have also had a positive impact on our revenue growth. We are now equipped to take on larger projects and expand our market presence beyond the northwest, reaching other states where sustainable building practices are increasingly prioritized.

The Customized Training Program is more than just an investment in individual companies; it is an investment in the future of our workforce and the economic vitality of our state. I strongly advocate for the continued support and expansion of this program to include more sectors and industries.

Looking forward, we are excited about the future and eager to continue our partnership with the CTP to further enhance our capabilities and contribute to a sustainable, electrified future. I appreciate the Commission's support of this invaluable program and the opportunity to share how it has benefited our company, our employees, and our community.

Thank you,

Sara J

Sara Jones

C.O.O., Small Planet Supply

STATE OF WASHINGTON

August 23, 2024

Eric Thomas, Legislative Auditor
Joint Legislative Audit and Review Committee
PO Box 40910
Olympia, WA 98504-0910

Dear Auditor Thomas:

The Office of Financial Management and the Department of Revenue have reviewed the Joint Legislative Audit and Review Committee's (JLARC) preliminary report on the 2024 tax preference performance reviews. This year's report includes recommendations in six separate tax reports on preferences for alternative fuel vehicles and infrastructure, home energy assistance, the aerospace industry, precious metals and monetized bullion, customized workforce training, and aluminum smelting.

We appreciate JLARC's thorough analysis and the detailed review provided by the Citizen Commission for Performance Measurement of Tax Preferences. A system that provides for a continuous review of state tax preferences is critical to ensure that the state of Washington maintains a fair and equitable tax system.

While we have no specific comments on the 2024 preliminary report, we continue to support JLARC's recommendations for the inclusion of performance statements and specific public policy objectives for all tax preferences where they do not exist in statute today.

Thank you for the opportunity to review this material and the recommendations made by JLARC and provide comments.

Sincerely,

David Schumacher, Director
Office of Financial Management

Drew Shirk, Director
Department of Revenue

cc: Nona Snell, Budget Director, OFM
Rachel Knutson, Senior Budget Advisor, OFM
Kathy Oline, Assistant Director for Research & Fiscal Analysis, DOR

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September 10, 2024

Via email: eric.thomas@leg.wa.gov

Eric Thomas, Legislative Auditor
Joint Legislative Audit & Review Committee
106 11th Ave SW
PO Box 40910
Olympia, WA 98504-0910

RE: Tax preference review – Alternative fuel vehicles and infrastructure

Dear Mr. Thomas:

Thank you for the opportunity to provide formal comments on the Joint Legislative Audit and Review Committee (JLARC)'s preliminary review of alternative fuel vehicles and infrastructure tax preferences.

Commerce broadly agrees with the following JLARC finding and recommendation included in the invitation to comment on the report:

Preliminary JLARC finding	Alternative fuel vehicles and associated infrastructure increased in Washington. The effect of the preferences is unclear because changes in the market and increased state and federal incentives also influence adoption.
Preliminary JLARC recommendation	The Legislature should determine whether to continue the eight tax preferences, and at what level, before four of them expire in 2025.

Considering the uncertainty found in incentives' effects, the findings of the Transportation Electrification Strategy (TES), and the Office of Financial Management's guidance to state agencies to request maintenance level funding in decision packages, Commerce makes three additional recommendations:

Commerce recommendation #1 | Applies to all tax preferences

- In determining whether to continue the eight tax preferences before four of them expire in 2025, the Legislature should consider shifting limited available revenue away from tax expenditures and toward rebate programs that can have higher levels of awareness and effect on consumer decisions.
- This is especially true for incentives that are duplicative in purpose to programs that have been created by the Legislature since the 2019 Green Transportation legislation. It is difficult for eligible individuals and organizations to navigate the complex web of financial incentives, and

the state should work to centralize programs to improve clarity and administrative efficiency. This is demonstrated by relatively low levels of participation in all but two of the preferences.

Commerce recommendation #2 | Specific to the sales and use tax exemption

- If determining to continue the sales and use tax exemption, the Legislature should:
  - Work with Commerce's Clean Transportation Unit to ensure the exemption acts as a broad-based "standard" rebate that aligns with the targeted income-based rebate in the Washington EV Instant Rebate Program.
  - Limit the exemption to battery-electric vehicles and match purchase price caps set in the federal clean vehicle credit to make it easier for consumers to understand and use.
  - Require dealerships to provide clear disclosure of the exemption to consumers and provide sufficient resources to the Department of Licensing to work with dealerships to ensure they are providing information about EV incentives to consumers,
- This recommendation is included in the TES as Recommendation 3.7 "Extend and expand the state sales and use tax exemptions for BEVs".

Commerce recommendation #3 | Specific to zero-emission bus sales and use tax exemption

- Commerce does not administer programs specific to zero-emission buses and recommends the Legislature work with the Departments of Ecology and Transportation, school districts, and transit agencies to identify which incentive mechanisms would best support faster electric vehicle adoption rates.

<u>Findings relevant to the report</u>

These three recommendations are based on findings by our Clean Transportation Unit through development of the TES and implementation of Commerce funding programs:

1. There have been three core barriers to EV adoption throughout the last decade:

- Higher upfront purchase prices for EVs than similar gasoline-powered vehicles.
- Lack of convenient and reliable charging.
- Unclear information for consumers when making car purchase decisions.

EV incentives should focus on removing one or more of these barriers.

2. EV-gasoline vehicle price parity, for the average personal vehicle, will be achieved in the near future. Both new and used EVs are now approximately $5,000 more to purchase than gasoline alternatives.

3. The $5,000 differential is an approximate average and is much harder to cover for lower income drivers, who are less likely to have an EV according to Transportation Electrification Strategy (TES) data. As of spring 2023, just 30% of EV drivers reported having an annual income of $75,000 or less, even though this income group makes up 48% of the state's driving age population.

4. Incentives lose effect when below $5,000. This finding is based on TES modeling analysis and direct feedback from industry sources, stakeholder survey results, research from California's experience with incentive programs, and community listening sessions.

As a result, targeted incentives above $5,000 can have a larger effect than broad-based incentives of $1,500 even though they may reach fewer consumers. This is due to a concept called “essentiality rate”, which measures how essential the incentive is in consumer decision-making. Based on data from other state programs, Commerce has assumed a 75% essentiality rate for the Washington EV Instant Rebates program, which launched Aug. 1, 2024. Program survey data will be available prior to the 2025 legislative session.

5. Incentives that prioritize leases can have more public benefit than those with neutrality toward transaction type. Leases are a key pipeline for used vehicle inventory volume and higher supply drives down prices. This indirect benefit is the most influential financial factor of incentive design.

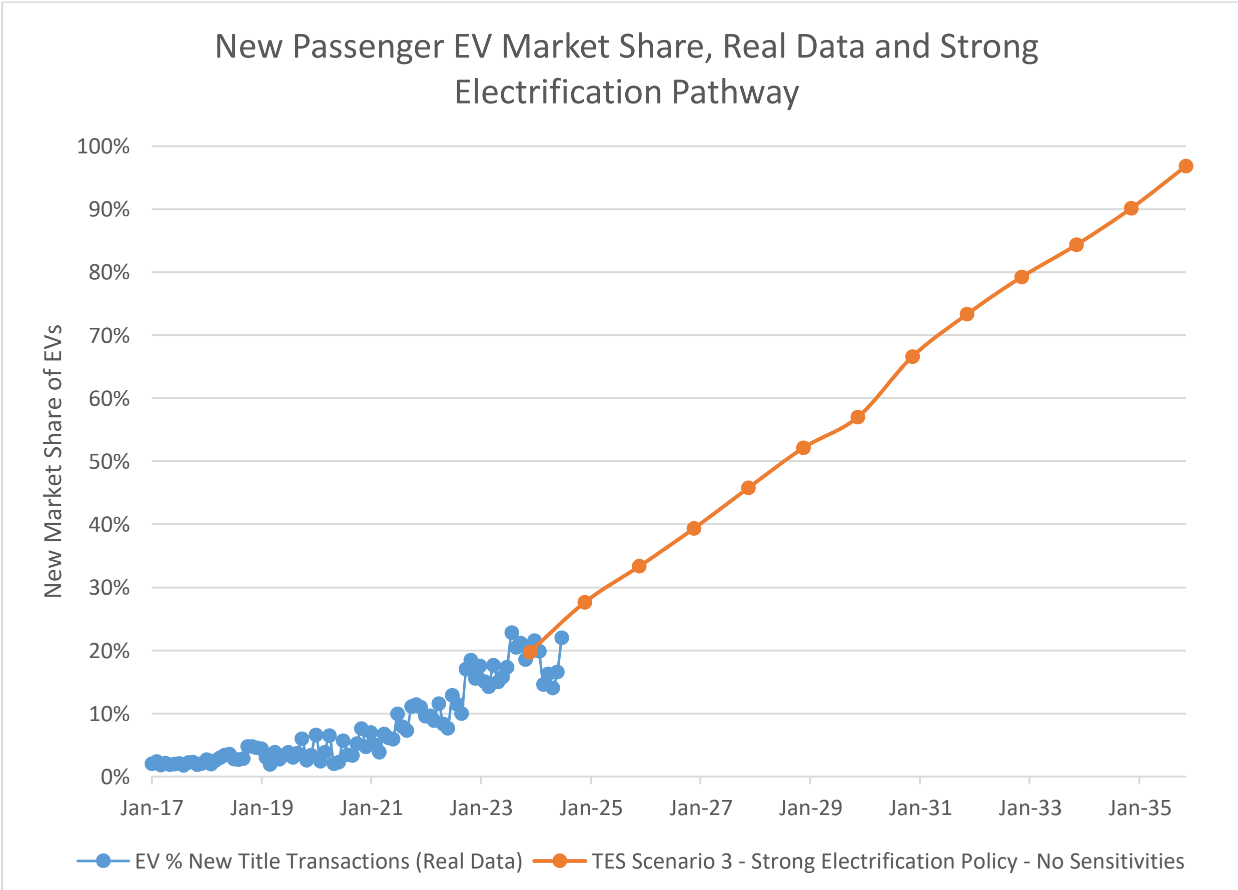
6. Trusted and high-quality consumer information is just as important in helping people access EVs as price incentives. Cox Automotive conducted research of U.S. consumers considering EVs and asked what could motivate them the most to choose an EV. Respondents indicated that education (56%) would be a larger motivator than price reduction (38%).

7. While Commerce has not assessed consumer awareness of the alternative fuel vehicle sales and use tax incentive through a statistically valid survey, anecdotal reports from consumers indicate an inconsistent application of the incentive that may be eroding the value of the exemption for consumers who are either not aware that it exists or do not receive clear disclosures of how the complicated incentive design is calculated. While the Department of Revenue advises that assessing the exemption as a percent of selling price is easier to administer, a flat maximum amount exempted with a purchase price cap (instead of a “selling price” cap) would be much easier for consumers to understand.

8. New EV growth slowed in the first half of 2024. Commerce analysis points to three factors:

- Used EV sales have gone up significantly in 2024 with prices declining faster than new EVs. This may be showing that consumers who previously preferred new EVs are now choosing used EVs because of price.
- Overall new vehicles sales are going up in 2024 because new vehicle prices have stabilized after several years of steep increases. New car consumers who are more price sensitive may be less likely to consider an EV and therefore lowering the EV market share.
- There are also reasons why this slowdown could be reflecting an actual softening of consumer demand for EVs following the accelerated growth in 2022-2023. A 2024 J.D. Power survey shows a decline in EV consideration from 51% in 2022 to 45% nationally. More troubling, of those who intend to purchase an EV in the next 12 months, the percent who are at least 50% certain has dropped from 73% to 48%.

However, we expect a rebound in the second half of 2024. July data came in closer to the trend needed in TES modeling and the Commerce rebates program should have a sizeable effect on August, September, and October data. As a result, current policies and market dynamics may keep the state on track to meet strong adoption rates consistent with the Legislature’s adopted motor vehicle emission standards. Such policies would need to continue to prevent falling behind in the next biennium.



9. Commerce estimates that the Washington EV Instant Rebates program likely has greater public benefit return on investment than a sales tax exemption by maximizing the "essentiality rate" and leasing percentages.

10. Through the first 26 days of the Washington EV Instant Rebates program, $11,976,000 has been provided in consumer savings for 1,584 electric vehicle transactions. This equates to an average rebate of $7,556, driven by a 69% lease rate.

We thank you for the opportunity to provide more information based on recent analysis and program implementation and will have more information to provide prior to legislative session 2025. Please let us know if you have questions about these comments or would like additional information.

Sincerely,

Michael Fong

Director

August 23, 2024

Eric Thomas, Legislative Auditor
Joint Legislative Audit & Review Committee (JLARC)
106 11th Ave SW, PO Box 40910
Olympia, WA 98504-0910

Dear Auditor Thomas,

We are in receipt of the 2024 Customized Workforce Training tax preference review of the Customized Training Program (CTP) managed by the State Board for Community & Technical Colleges (SBCTC). Our agency response is below. We would first like to take this opportunity to thank the JLARC staff for their expertise, time, and professionalism. Overall, this has been a welcome learning opportunity for our team.

SBCTC finds no technical issues with the 2024 review of the Customized Workforce Training tax preference given its intent and time period. The report accurately reflects the data collected and reviewed. SBCTC concurs with the Legislative Auditor's recommendations:

> *#1: To the Legislature, extend the tax preference's July 1, 2026, expiration date (requires legislative action).*

SBCTC enthusiastically supports the extension of the CTP tax credit. It is an important component of Washington's economic development toolkit and provides benefits to employers, workers, and community and technical colleges.

> *#2: To SBCTC, determine how to increase training program and preference use and report its implementation and progress to relevant legislative committees before the 2026 session. This might include:*
>
> - *Broadening use of the credit beyond the four counties where most of the beneficiaries are located and the four institutions that have to date provided most trainings.*
> - *Encouraging use of the credit by more industries.*

SBCTC embraces this recommendation. We have begun a process of inquiry about how to broaden use of the program, including a program orientation and feedback session with college continuing education directors on August 15, 2024. They showed interest in expanding the reach of the program across different regions and industries. We look forward to making progress on this matter, in partnership with colleges and business and industry, and will be prepared to brief relevant committees of the legislature as called upon.

While SBCTC finds the review to accurately reflect the data collected and reviewed, we wish to offer context to two parts of the report:

Part 3: Performance goals
Unclear if preference achieves the objective to retain and expand existing Washington businesses

SBCTC appreciates JLARC's outreach to businesses that took part in the program to inquire about the benefits and value of CTP. Since there were few respondents, it is understandable that JLARC found the evidence insufficient to prove if the preference achieved its goals of retaining and expanding businesses. SBCTC observes the program to be impactful to businesses, worker trainees, public colleges, and economic developers. Our longtime relationships with the Washington State Department of Commerce, Association of

Washington Business, and economic development entities inform us about how CTP is used as an incentive to attract, grow, and keep businesses in Washington. CTP investments represent employee training that would not have taken place without the available interest-free loan and B&O tax credit.

Part 4: Program use
Number of businesses using the training program peaked in 2017 and has declined

SBCTC encourages contextualizing program use by acknowledging four significant factors that impacted CTP during the review period:

Factor 1. The looming expiration of the tax credit slated for July 1, 2021, had a cooling effect on businesses' interest in participating in CTP. This expiration date was set by the 2017 Legislature.

Factor 2: The COVID-19 pandemic caused widespread disruption to businesses, including their ability to start new training projects or maintain training schedules given lockdowns, social distancing requirements, and unpredictable production demands and changes in consumer behavior.

Factor 3: The number of program users in any given period is a function of the size and duration of each project, taken together with the total amount of funding in the revolving loan fund and cadence at which loans are repaid. Projects range in duration from a couple of months to multi-year and in size from a couple thousand dollars to tens of thousands. The mean number of businesses over the past 11 years (2013 through 2023, as shown in figure 6 of the report) is 6.5. Thus, the highest observation of 17 businesses in 2017 is an outlier among annual observations. Regarding the overall capacity of the revolving loan fund, at one point the loan fund held $3.5 million. Currently, it is an order of magnitude smaller: approximately $330,000. A larger loan fund would significantly increase access to the program.

Factor 4: The growth of Washington's Job Skills Program (JSP) from 2019 to 2021 may have impacted business demand for CTP. As detailed in Part 4, the Job Skills Program is the larger of the state's two dedicated employee training programs and is sometimes more attractive to businesses thanks to its dollar-for-dollar matching grant design. SBCTC commends both programs to the Legislature as complementary to one another. Together, they are integral to the robustness of state economic development incentives to attract, keep, and grow well-paying jobs for Washingtonians.

We deeply appreciate JLARC's review of CTP, the professionalism of JLARC's team throughout the process, and look forward to continued discussion. Thank you for the opportunity to respond.

Sincerely,

Paul Francis

Paul Francis
Executive Director

cc: Joyce Hammer, SBCTC Deputy Executive Director of Education
Marie Bruin, SBCTC Workforce Education Director
Carolyn McKinnon, SBCTC Workforce Education Policy Associate
Danny Marshall, SBCTC Workforce Education Program Administrator
Vicky Chungtuyco, SBCTC Education Program Coordinator
Arlen Harris, SBCTC Legislative Director
Eric Whitaker, JLARC Research Analyst
Pete van Moorsel, Tax Review Coordinator, JLARC
Stephanie Hoffman, Deputy Legislative Auditor, JLARC

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September 10, 2024

Via email: eric.thomas@leg.wa.gov

Eric Thomas, Legislative Auditor
Joint Legislative Audit & Review Committee
106 11th Ave SW
PO Box 40910
Olympia, WA 98504-0910

RE: Tax preference review – public utility tax credit for home energy assistance (RCW 82.16.0497)

Dear Mr. Thomas:

Thank you and the Joint Legislative Audit and Review Committee (JLARC) for extending the opportunity to comment on the Public Utility Tax Credit for Home Energy Assistance (RCW 82.16.0497). Energy assistance need is an important public policy problem, and our state's current approach warrants reconsideration.

Recommendation
Our agency recommends the Legislature eliminate the Public Utility Tax Credit for Home Energy Assistance.

A lot has changed since this tax preference was established by the Legislature 23 years ago. Electric utilities now have explicit obligations to provide assistance to low-income households, obviating any need to provide encouragement through the tax code. Furthermore, the current funding level of the tax is not material, and the fact that it is not even used by many utilities demonstrates it is not material to them.

The Legislature may well want to take a more comprehensive approach to reducing the energy burden of our state's low-income households, and it may wish to alter the sharing of financial responsibility between individual utilities and state government. The Legislature has begun such considerations, as described below. Termination of the existing tax credit would not affect the future direction of state policy one way or another.

Additional information
As noted in your analysis, Commerce's Low-Income Energy Assistance 2023 Legislative Report found more than 250,000 low-income households (about 25%) are energy burdened—that is they spend more than 6% of their household incomes on residential energy bills. The average amount they spend above 6% of household incomes on home energy bills is $844 annually. These expenditures annually exceed $234 million statewide after taking bill reductions from energy assistance programs into account.

This is a significant energy and housing issue. Households that spend over 6% of their incomes on residential energy bills are more likely to leave the temperature of their homes at unhealthy and unsafe levels, forgo other household necessities, like essential food and medicine, and are more likely to lose their housing and remain in cycles of poverty.

Energy assistance programs reduce the likelihood of these harms, but Washington's current energy assistance system is a patchwork of utility energy assistance programs where crucial programs and funding remain absent. Utility programs serve only a small percentage (less than 25%) of low-income households compared to individual statewide programs, such as the Supplemental Nutrition Assistance Program (SNAP), that have similar eligibility requirements. In other words, more than four times as many low-income households participate in SNAP than low-income energy assistance program despite the programs having similar eligibility criteria.

Layered over this patchwork of utility programs is a federal block grant program, the Low-Income Home Energy Assistance Program (LIHEAP), and a few relatively small state programs that offer limited assistance to low-income households and often prove inaccessible to households due to limited funding, and restrictive eligibility and program design requirements mandated by the federal government.

Because of the underwhelming program participation rates of utility programs and the economic inefficiencies of administering 60+ utility bill assistance programs, the Legislature, in a 2023 budget proviso (Chapter 475, Laws 2023) directed Commerce to recommend a design for a statewide low-income energy assistance program to provide universal access to home energy assistance and meet energy assistance need. Our agency has been busy designing a program with community input over the last year. The report and recommendation will be published ahead of the 2025 legislative session.

Conclusion
The Public Utility Tax Credit for Home Energy Assistance is structured as an incentive mechanism, encouraging utilities to increase their support relative to year 2000 amounts. An incentive mechanism is no longer necessary since the Legislature has established explicit obligations for electric utilities to reduce their low-income customers' energy burden. If the Legislature aims to comprehensively address the performance of utility energy bill assistance programs, there are other more effective policy mechanisms that better align with the needs of low-income households and the public interest.

Please let us know if you have questions about these comments or would like additional information.

Sincerely,

Michael Fong
Director