

What advice did Governor receive on B&O tax cut veto?

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By JASON MERCIER

There were many twists and turns during this year's record 193 day legislative session. Perhaps none was as surprising or shocking than the Governor vetoing a B&O manufacturing tax cut that was agreed to by lawmakers as part of the 2017-19 budget deal. We know that there was a letter sent by some House Democrats asking for the veto while legislative Republicans implored the Governor to honor the deal. What other advice did the Governor receive before making his veto decision? To answer this question I submitted a public records request.

Along with TONS (and I mean tons) of form letters advocating for and against a veto of the B&O tax cut, there were several interesting personalized emails and letters sent to the Governor's Office. Below are excerpts from a few of them (copies of the full emails/letters are available on request).

Supporting the veto

- Sen. Reuven Carlyle (D-36): "I wanted to send a personal note to make the case for a veto of the manufacturing B&O permanent reduction. I spoke at length with the Governor on Friday evening (early Sat a.m.) and made the case to him that he should veto this section . . . The Governor was not a part to this agreement. He had no consideration of the issue and is not bound in any way formally or informally to adhere to a last minute deal of this magnitude . . . This proposal violates our political Hippocratic oath to do no harm. It crosses a line of responsibility. This is permanent, wildly expensive, and virtually eliminates the business community's interest in any tax reform forever since the last remaining major players are virtually eliminated from any meaningful taxation."
- Rep. Gale Tarleton (D-36): "A number of House Democratic colleagues sent a letter to Governor Inslee requesting that he veto the section of SB 5977 authorizing a new B&O tax preferential rate for manufacturing. I only learned about this letter after it was sent to the Governor. The letter was not circulated to members of the House Democratic Caucus Leadership team. I support a veto of the reduced B&O preferential tax rate for

manufacturing. It may very well be the case that certain industries within the manufacturing sector need a preferential rate to compete more effectively in their particular markets. However, it is also the case that some industries do not need a preferential rate to be highly competitive . . . The B&O tax deters business growth. It deters hiring the best people. It suppresses business development and represents an inherent competitive disadvantage for businesses that export their products. That is why companies keep demanding exemptions and preferential rates. We need to move toward a corporate net income tax and eliminate the B&O tax structure. But that isn't on the table today. I will commit to exploring whether certain manufacturing companies need a preferential B&O rate in the near term and develop legislation that establishes performance metrics and periodic legislative reviews of the effectiveness of such policies."

- Misha Werschkul, Executive Director, Washington State Budget & Policy Center: "Giving such a hefty tax break to manufacturers would drain nearly \$40 million per year in tax resources that would be far more effectively used to support schools, early learning, protecting our environment, and other investments that make our state a great place live, work, and build a business. Especially now, when the business cycle is peaking and demand for manufactured goods is high, there is no reason to believe that reducing the B&O rate for manufactures would have any perceptible impact on our state economy."

Opposing the veto

- Bruce Dammeier, Pierce County Executive: "I am writing to urge your approval of Substitute Senate Bill 5977. This bill will help attract, grow, and retain high-wage manufacturing jobs in Washington State by lowering business & occupation tax rates for general manufacturers to match the existing rate for commercial aircraft manufacturers. In Pierce County, advanced manufacturing is critical to our economy and a key

component of our local workforce development plan. Simply put, lower rates will help us remain competitive and ensure our talented workforce can find jobs locally.”

- Eric Johnson, Executive Director, Washington Public Ports Association: “Senate Bill 5977, passed with bi-partisan support and an important component of the negotiated state budget deal, provides much-needed relief to manufacturing employers and supports ongoing economic prosperity across our entire state. I encourage you to maintain support for our state’s manufacturing community by honoring that commitment as part of the negotiated budget deal.”
- Lawrence Krauter, Chief Executive Officer, Spokane International Airport: “Your interest and support was a key determinant in convincing Aero-Flite, the aerial firefighting company, to relocate from Arizona to Spokane International Airport. They have tripled their employment and now maintain a growing fleet of aircraft and their corporate headquarters here. Signing SB 5977 with the B&O tax, rate reduction will allow Aero-Flite and all of the other aerospace, companies in our region to continue to be successful in a, very price-sensitive and competitive manufacturing industry, which will fuel job creation. I sincerely recommend and respectfully request your support of the reduction in the manufacturing B&O rate because it is an essential economic tool for our business recruitment, retention and expansion initiatives. Support of the B&O tax rate reduction compliments our shared vision for the continued development of an aerospace manufacturing cluster at Spokane International Airport.”
- David Anderson, Boeing Commercial Airplanes Managing Director, Product Development, retired: “We understand that you received a letter pressuring you to veto the sections of this budget that deal with the B&O rate reduction and that bill action on SB 5977 has been scheduled for this Friday. We write to encourage you not to remove the rate reduction, which will support the manufacturing industry here in the State of Washington.”
- Stephanie Koster, Director, Blue Origin: “Blue Origin is proud to call Washington State home. With more than 1,000 employees, we have spent more than a decade helping to craft the future of spaceflight in the Kent Valley. Local manufacturing has been and continues to be at the heart of our achievements in operationally reusable rocket technology. This rate reduction supports our continuing growth here in Washington.”
- Kelly Maloney, President and CEO, Aerospace Futures Alliance: “There are an estimated 10,000 manufacturing companies in Washington state that will be more financially stable and able to reinvest in their businesses, their local economies, and their hundreds of thousands of workers should this provision be allowed to stand . . . I read with interest about the 23 legislators encouraging you to eliminate this economically sound part of the budget. Many of these same legislators voted in favor of Part II of 2SSB 5977 and are now asking you to reverse their decisions. AFA believes resetting this tax rate will result in a positive economic benefit for the state, help create additional family wage jobs, and be a beacon to attract other manufacturing companies to Washington.”
- Tim Kuzma, Director, Alpha Modalities LLC: “As a small manufacturer struggling with the tax structure in Washington State, I urge you not to repeal the recent bill for revising taxes for Small manufacturers such as ourselves. We have moved 50% of our manufacturing out of state and would like to remain in the state, but with the cost of real estate, traffic issues and taxes you are making it very difficult.”
- Bryan Kelley, East King County Chambers of Commerce Legislative Coalition Chair, Greater Maple Valley-Black Diamond Chamber of Commerce: “We believe the manufacturing business and occupation tax reduction contained in 2SSB 5977, represents a strong commitment to the growth of manufacturing and family wage jobs, and urge you to sign the bill as adopted and enrolled by both the House and the Senate.”
- Andrea H. Reay, President/CEO, Seattle Southside Chamber of Commerce: “This rate reduction is beneficial for the entire manufacturing industry in Washington State and will make our state more competitive. According to the Department of Revenue, the reduction would benefit about 10,000 companies, many of those located here in Southwest King County. We know you have received a letter pressuring you to veto the sections of the budget that deal with this rate reduction and that bill action on SB 5977 has been scheduled for this Friday. We are writing you to encourage you to not remove the rate reduction and to encourage

and support the manufacturing industry here in the State of Washington.”

- Marie Dymkoski, Pullman Chamber of Commerce: “Lowering the B&O tax rate on general manufacturers will benefit small- and medium-sized employers, many of which are located right here on the Palouse. Our manufacturers are providing a critical boost to our local economy by producing good-paying careers along with products that are necessary to our state’s economy. This tax reduction provides a significant step in the right direction towards leveling the playing field for all manufacturers across the state. To that end, I urge you to support the business and occupation tax reduction agreed to as part of the bipartisan two-year state operating budget. It’s great to see a strong economy in pockets of the state and we hope you support this small measure that will spread economic opportunity to all parts of our state’s manufacturing sector.”
- Katherine Morgan, President & Chief Executive Officer, Greater Spokane Valley Chamber of Commerce: “This tax reduction provides a significant step in the right direction towards leveling the playing field for all manufacturers and closing the economic gap between the east and west side of the state. To that end, I urge you to support the business and occupation tax reduction agreed to as part of the bipartisan two-year state operating budget. We hope you support this important measure that will spread economic opportunity to all parts of our state’s manufacturing sector.”
- Jim Parkes, CEO, Fabriform: “I can go into all the reasons for and against a Washington domicile, but this is about competitiveness and it’s about fairness. If our B&O tax bite is reduced to that of other aerospace companies and we capitalize that annual savings, it goes a long way in helping us remain competitive, both domestically and internationally. As you know there are few incentives to remain a manufacturer in this state and especially west of the Cascades. I understand the politics of helping the working-class people. Well, for your information, we have working class people in this company and I’m one of them. So, you see, companies are people too....and guess what...we the people pay our taxes and you get to double dip it because our people company also pays taxes, If you want to grow and diversify an economy keep the gravy train on a fair footing.”
- Patrick Pierce President & CEO, Economic Alliance Snohomish County: “This rate reduction has the potential to make the state more competitive for manufacturing by reducing the B&O rate by more than \$60 million over four years, benefiting more than 10,000 companies throughout the state and over 750 locally in Snohomish County. We urge you to support the B&O tax reduction agreed to as part of the bipartisan negotiated operating budget. We encourage you to maintain support for our state’s manufacturing community by honoring that commitment as part of the negotiated budget deal.”
- Kris Johnson, President & CEO, Association of Washington Business: “As you know, the economy is growing fast in the Seattle area but much of the rest of the state continues to struggle with high unemployment. Lowering the B&O tax rate for general manufacturers will benefit small- and medium-sized manufacturers and help Washington’s rural economy. It will also help Washington manufacturers compete in a global market. As both the state chamber of commerce and the state manufacturing association, AWB understands the competitive challenges facing our members. Washington is a high-cost state for employers with businesses paying 58 percent of all state and local taxes. Providing a measure of relief for some manufacturers ensures that all manufacturers pay the same rate. Manufacturing jobs are worth supporting.”

Ultimately the Governor vetoed the B&O manufacturing tax reduction saying he wasn’t part of the final budget talks and thus wasn’t party to the deal reached. Republicans in the Legislature, however, maintain the Governor broke the budget deal and going forward his action “makes future negotiations virtually impossible.” Based on the margin of approval of the B&O tax cut it was surprising the Legislature didn’t attempt to override the veto, although some have recently called for a special session to do so.

In the near future we’ll take a closer look at the concerns expressed by the manufacturing businesses that encouraged the Governor not to issue the veto. One side note on the use of form letter advocacy - skip hitting send on a form blast and instead send a personalized note. Elected officials tend not to give much weight to receiving form letter advocacy.



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