

Multiple Agency Fiscal Note Summary

| | |
|-----------------------------|---|
| Bill Number: 5721 SB | Title: Advanced aerospace training |
|-----------------------------|---|

Estimated Cash Receipts

| Agency Name | 2023-25 | | | 2025-27 | | | 2027-29 | | |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | GF-State | NGF-Outlook | Total | GF-State | NGF-Outlook | Total | GF-State | NGF-Outlook | Total |
| Department of Revenue | (57,600,000) | (57,600,000) | (57,600,000) | (80,600,000) | (80,600,000) | (80,600,000) | (79,800,000) | (79,800,000) | (79,800,000) |
| Total \$ | (57,600,000) | (57,600,000) | (57,600,000) | (80,600,000) | (80,600,000) | (80,600,000) | (79,800,000) | (79,800,000) | (79,800,000) |

Estimated Operating Expenditures

| Agency Name | 2023-25 | | | | 2025-27 | | | | 2027-29 | | | |
|--|------------|----------------|----------------|----------------|------------|---------------|---------------|---------------|------------|---------------|---------------|---------------|
| | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total |
| Joint Legislative Audit and Review Committee | .1 | 13,300 | 13,300 | 13,300 | .0 | 4,500 | 4,500 | 4,500 | .0 | 0 | 0 | 0 |
| Department of Revenue | .7 | 255,500 | 255,500 | 255,500 | .4 | 82,400 | 82,400 | 82,400 | .4 | 82,400 | 82,400 | 82,400 |
| Total \$ | 0.8 | 268,800 | 268,800 | 268,800 | 0.4 | 86,900 | 86,900 | 86,900 | 0.4 | 82,400 | 82,400 | 82,400 |

Estimated Capital Budget Expenditures

| Agency Name | 2023-25 | | | 2025-27 | | | 2027-29 | | |
|--|------------|----------|----------|------------|----------|----------|------------|----------|----------|
| | FTEs | Bonds | Total | FTEs | Bonds | Total | FTEs | Bonds | Total |
| Joint Legislative Audit and Review Committee | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Department of Revenue | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Total \$ | 0.0 | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 0 | 0 |

Estimated Capital Budget Breakout

| | | |
|---------------------------------------|---------------------------------|---|
| Prepared by: Cheri Keller, OFM | Phone: (360) 584-2207 | Date Published: Final 2/14/2023 |
|---------------------------------------|---------------------------------|---|

Individual State Agency Fiscal Note

| | | |
|-----------------------------|---|---|
| Bill Number: 5721 SB | Title: Advanced aerospace training | Agency: 014-Joint Legislative Audit and Review Committee |
|-----------------------------|---|---|

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|-------------------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| Account | | | | | |
| General Fund-State 001-1 | 13,300 | 0 | 13,300 | 4,500 | 0 |
| Total \$ | 13,300 | 0 | 13,300 | 4,500 | 0 |

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

| | | |
|-----------------------------------|-----------------------|------------------|
| Legislative Contact: Alia Kennedy | Phone: 360-786-7405 | Date: 02/09/2023 |
| Agency Preparation: Dana Lynn | Phone: 360-786-5177 | Date: 02/13/2023 |
| Agency Approval: Eric Thomas | Phone: 360 786-5182 | Date: 02/13/2023 |
| OFM Review: Cheri Keller | Phone: (360) 584-2207 | Date: 02/14/2023 |

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

The bill creates a new B&O tax preference for investment in advanced aerospace manufacturing training and education.

TAX PERFORMANCE STATEMENT DETAILS

SECTION 1 is the tax preference performance statement that categorizing the preference as intended to induce certain designated behavior by taxpayers and create jobs, as indicated in RCW 82.32.808(2)(a) and (e).

The Legislature's specific public policy objective is to provide consistent benefits for private sector employers to invest in training and upskilling current and future employees to increase employment.

To measure the effectiveness of the tax preference, JLARC must evaluate the changes in employment for employers claiming the tax credit and the types of training and education methods used by these employers. JLARC staff should use annual tax preference performance report data provided to the Department of Revenue.

SECTION 2 creates a new section in chapter 82.04 RCW providing a B&O tax credit for qualified training and education expenditures occurring after January 1, 2024. The credit equals 50% of the amount qualified training and education expenditures.

Businesses intending to claim the credit must file a form prescribed by the Department of Revenue (DOR) collecting information detailed in the bill and additional information as DOR determines necessary. Terms are defined.

The preference takes effect August 1, 2023 and expires July 1, 2040.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

JLARC staff would contact and work with the Department of Revenue immediately after passage of the bill to ensure project contacts are established and any other necessary data for JLARC staff's future evaluation needs are identified and collected. JLARC will likely review these preferences in 2034, as the preference does not expire until 2040, and statute requires a JLARC review of the preference at least once in a 10-year period.

The expenditure detail reflects work conducted to prepare for the future review of the preferences. Costs associated with the review are not included in this fiscal note. This fiscal note reflects only the costs associated with establishing data collection.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2023 legislative session.

This audit will require an estimated 1 audit month.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately \$22,100 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

| Account | Account Title | Type | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|-----------------|---------------|-------|---------|---------|---------|---------|---------|
| 001-1 | General Fund | State | 13,300 | 0 | 13,300 | 4,500 | 0 |
| Total \$ | | | 13,300 | 0 | 13,300 | 4,500 | 0 |

III. B - Expenditures by Object Or Purpose

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | 0.1 | | 0.1 | | |
| A-Salaries and Wages | 8,600 | | 8,600 | 2,900 | |
| B-Employee Benefits | 2,700 | | 2,700 | 900 | |
| C-Professional Service Contracts | | | | | |
| E-Goods and Other Services | 1,800 | | 1,800 | 600 | |
| G-Travel | 200 | | 200 | 100 | |
| J-Capital Outlays | | | | | |
| M-Inter Agency/Fund Transfers | | | | | |
| N-Grants, Benefits & Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| T-Intra-Agency Reimbursements | | | | | |
| 9- | | | | | |
| Total \$ | 13,300 | 0 | 13,300 | 4,500 | 0 |

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

| Job Classification | Salary | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------|---------|---------|---------|---------|---------|---------|
| Research Analyst | 126,694 | 0.1 | | 0.1 | | |
| Support staff | 89,671 | | | | | |
| Total FTEs | | 0.1 | | 0.1 | | 0.0 |

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

| | | |
|-----------------------------|---|--|
| Bill Number: 5721 SB | Title: Advanced aerospace training | Agency: 140-Department of Revenue |
|-----------------------------|---|--|

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

| Account | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|---|--------------|--------------|--------------|--------------|--------------|
| GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax | (17,100,000) | (40,500,000) | (57,600,000) | (80,600,000) | (79,800,000) |
| Total \$ | (17,100,000) | (40,500,000) | (57,600,000) | (80,600,000) | (79,800,000) |

Estimated Expenditures from:

| Account | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|----------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | 1.0 | 0.4 | 0.7 | 0.4 | 0.4 |
| GF-STATE-State 001-1 | 213,300 | 42,200 | 255,500 | 82,400 | 82,400 |
| Total \$ | 213,300 | 42,200 | 255,500 | 82,400 | 82,400 |

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

| | | |
|-----------------------------------|-----------------------|------------------|
| Legislative Contact: Alia Kennedy | Phone: 60-786-7405 | Date: 02/09/2023 |
| Agency Preparation: Beth Leech | Phone: 60-534-1513 | Date: 02/14/2023 |
| Agency Approval: Valerie Torres | Phone: 60-534-1521 | Date: 02/14/2023 |
| OFM Review: Cheri Keller | Phone: (360) 584-2207 | Date: 02/14/2023 |

Request # 5721-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

There is no business and occupation (B&O) tax credit for qualified training and education expenditures for those engaged in manufacturing commercial airplanes, tooling, aerospace product development, or advanced manufacturing.

PROPOSAL:

This legislation creates a B&O tax credit for qualified training and education expenditures occurring after January 1, 2024. The credit equals 50% of the amount of qualified expenditures. The credit must be claimed against taxes due in the same calendar year in which the qualified training and education expenditures occur. The credit may not exceed the amount of tax otherwise due and no refunds may be granted in place of a credit. The credit may not be carried forward to succeeding calendar years.

Those intending to claim this credit must file an application as prescribed by the Department of Revenue (department) and an annual tax performance report.

Advanced manufacturing means manufacturing processes that improve existing or create entirely new materials, products, and processes through the use of science, engineering, or information technologies, high-precision tools and methods, a high-performance workforce, and innovated business or organizational models using any of the following technology areas:

- Microelectronics and nanoelectronics.
- Advanced materials.
- Additive manufacturing.
- Industrial biotechnology.

Eligible person means a business primarily engaged in manufacturing commercial airplanes or components, manufacturing tooling for use in manufacturing commercial airplanes or components, aerospace product development, or advanced manufacturing

Qualified training and education mean any program, course, curriculum, or routine of instruction that trains, upgrades, or enhances a prospective or current employee in a manner that is necessary to impart basic occupational skills and knowledge or adapt to new demands in the workplace due to the adoption of new technology, equipment, or innovation.

Qualified training and education expenditures means the cost of employee training incurred by an employer and paid to an institution of higher education, apprenticeship program, credentialed program, certification program, or continuing education program.

Taxable amount means the taxable amount subject to B&O tax during the year in which the credit is claimed, less any taxable amount related to the multiple activities tax credit.

This credit expires July 1, 2040.

EFFECTIVE DATE:

This bill takes effect on August 1, 2023; however, the department is unable to implement the bill until January 1, 2024, because of the required programming and testing for system changes.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- The average yearly cost of an advanced degree for engineering is \$19,300.
- The average yearly cost of an associate's degree for technical fields is \$8,500.
- The average yearly cost of professional development hours for engineers is \$150.
- The average cost of new employee training is \$625.
- The aerospace industry employs approximately 60,000 engineers and technicians in Washington.
- The advanced manufacturing industry employs approximately 150,000 engineers, technicians, and operators in Washington.
- Employment in the aerospace industry will increase 20% over the next 10 years.
- Employment in advanced manufacturing will increase 12% over the next 10 years.
- The department implements on January 1, 2024, impacting 5 months of collections in fiscal year 2024.

DATA SOURCES:

- TheNerve.org, "Public cost of training Boeing workers far higher than projections."
- SeattleTimes.com, "Boeing added 15,000 jobs in 2022, with more hiring ahead."
- WSJ.com, "Boeing Plants to Hire 10,000 Employees in 2023."
- Everett Community College
- Association for Talent Development
- Workforce, Southwest Washington
- Statista.com
- Department of Revenue, tax incentive data
- Department of Employment Security

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$17.1 million in the 5 months of impacted collections in fiscal year 2024, and by \$40.5 million in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

| | |
|-----------|-------------|
| FY 2024 - | (\$ 17,100) |
| FY 2025 - | (\$ 40,500) |
| FY 2026 - | (\$ 40,500) |
| FY 2027 - | (\$ 40,100) |
| FY 2028 - | (\$ 40,100) |
| FY 2029 - | (\$ 39,700) |

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This estimate affects 150 taxpayers.

Request # 5721-1-1

Form FN (Rev 1/00) 183,545.00

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Bill # 5721 SB

FIRST YEAR COSTS:

The department will incur total costs of \$213,300 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 1.0 FTE.

- Develop and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.
- Set up, program, and test computer system changes.
- Attend implementation meetings, monitor reports, and work complex accounts.

Object Costs - \$88,000.

- Contract computer system programming.

SECOND YEAR COSTS:

The department will incur total costs of \$42,200 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.4 FTE.

- Develop and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.
- Monitor reports, work complex accounts, and conduct audit case reviews.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$82,400 and include similar activities described in the second-year costs. Time and effort equate to 0.4 FTE in each year.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|----------------------------------|------------------|-----------------|------------------|-----------------|-----------------|
| FTE Staff Years | 1.0 | 0.4 | 0.7 | 0.4 | 0.4 |
| A-Salaries and Wages | 77,200 | 27,000 | 104,200 | 54,000 | 54,000 |
| B-Employee Benefits | 25,400 | 8,900 | 34,300 | 17,800 | 17,800 |
| C-Professional Service Contracts | 88,000 | | 88,000 | | |
| E-Goods and Other Services | 15,700 | 4,700 | 20,400 | 8,200 | 8,200 |
| J-Capital Outlays | 7,000 | 1,600 | 8,600 | 2,400 | 2,400 |
| Total \$ | \$213,300 | \$42,200 | \$255,500 | \$82,400 | \$82,400 |

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

| Job Classification | Salary | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------|--------|------------|------------|------------|------------|------------|
| EXCISE TAX EX 3 | 61,632 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| IT SYS ADM-JOURNEY | 92,844 | 0.2 | | 0.1 | | |
| MGMT ANALYST4 | 73,260 | 0.4 | | 0.2 | | |
| TAX POLICY SP 3 | 85,020 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 |
| Total FTEs | | 1.0 | 0.4 | 0.7 | 0.4 | 0.4 |

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required