STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR
P.O. Box 47454 • Tumwater, Washington 98504-7454 • (360) 534-1600 • FAX (360) 534-1606

November 30, 2018

TO: Brad Hendrickson, Secretary
Washington State Senate

Bernard Dean, Chief Clerk
Washington State House of Representatives

FROM: Randy Simmons, Acting Director

SUBJECT: High Unemployment County Deferral Program Report

RCW 82.60.070(1)(b) requires the Department of Revenue to study the high unemployment county deferral program and report to the Legislature by December 1, 2018. This program allows manufacturers in high unemployment counties in Washington State to defer state and local sales taxes associated with qualifying investment projects. The Department waives the taxes in eight years, if the manufacturer meets certain requirements.

This report provides a discussion of the program and its requirements, a variety of data and summary information about program participants, and an analysis of the effect of the program on job creation, the number of jobs created for residents of eligible areas, and company growth, as required by the statute.

The report is available on our statistics and reports website at: https://dor.wa.gov/about/statistics-reports.

If you have questions about this report, please contact Kathy Oline, Assistant Director of Research and Fiscal Analysis, at (360) 534-1534.

Attachment

cc: Members, Senate Ways and Means Committee
Members, House Finance Committee
Members, House Appropriations Committee
David Schumacher, Director, Office of Financial Management
Drew Shirk, Executive Director, Legislative Affairs

HIGH UNEMPLOYMENT COUNTY DEFERRAL PROGRAM

2018 Report to the Legislature
Pursuant to RCW 82.60.070 (1) (b)
December 1, 2018

Randy Simmons, Acting Director
Washington State Department of Revenue

Department of Revenue Washington State

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EXECUTIVE SUMMARY

This report is submitted to the Legislature pursuant to RCW 82.60.070(1) (b). It contains the results of an evaluation of the high unemployment county sales tax deferral program for manufacturing and research and development facilities. The initial program was adopted in 1985 and is codified in Chapter 82.60 RCW. Certain aspects of the program have been modified over time. This report provides the Department of Revenue's summary and results related to the current high unemployment county deferral program.

Projects Approved and Sales Tax Deferred

In 2010, the current iteration of this program was introduced. From July 1, 2010, to June 30, 2018, 103 applications for tax deferral were approved and 88 firms have benefited from this tax incentive. The total cost of these projects is estimated at over $546 million. The amount of retail sales tax foregone is estimated at approximately $45.1 million, $35.0 million in state sales tax and $10.1 million in local sales taxes.

High Unemployment Counties and Community Empowerment Zones

As of July 1, 2018, there are 21 designated high unemployment counties and six community empowerment zones dispersed throughout the state. To-date, the counties with the most investment projects under this program include Clark, Benton, Yakima, and Cowlitz Counties. The community empowerment zone with the most investment projects is the one located in the city of Spokane.

Measurement of the Effect of the Program on Defined Factors

Additionally, this report uses information reported in the Annual Tax Incentive Survey to measure the effect of the high unemployment county deferral program on job creation, the number of jobs created for residents of the eligible areas, and company growth.

Job Creation

The analysis indicates that on average, for the period studied, overall participant firm job creation grew 66.5 percent from the year before to three years after project completion, compared to job creation growth for non-participant firms of approximately 4.4 percent during the same period.

Number of Jobs Created for Residents of Eligible Areas

Data indicates that participant firms fill new employment positions with Washington residents well over 70 percent of the time, approximately 10.1 percent of all employees added by participant firms were to support the expansion of existing business activity, and participant firms hire the majority of employees for administrative or manufacturing job functions. Additionally, analysis indicates that participant firm employees are enrolled in dental, medical, and retirement benefit plans at similar rates as employees of non-participant manufacturing firms in Washington State.

Company Growth

The analysis indicates that on average, for the period studied, overall participant firm gross business income, a proxy measurement for company growth, grew 36.2 percent from the year before to three years after project completion, compared to company growth for non-participant firms of approximately 6.4 percent during the same period.

OVERVIEW OF THE TAX INCENTIVE AND REPORT REQUIREMENTS

Tax Incentive Program

Over the past three decades, Washington has had a number of tax incentives intended to assist new or existing businesses and to encourage the creation of new jobs in the state. Most of the newer tax incentives target specific industries or geographic regions of the state, have an expiration date stated in the law, and have accountability provisions that require participants to report employment and other data.

The original tax deferral program for investment projects in rural counties was adopted in 1985 and expired on July 1, 2010. The high unemployment county sales tax deferral program, in the most recent iteration of this tax incentive, was introduced by the 2009 Legislature with an effective date of July 1, 2010. In this program, investments must be located in qualifying high unemployment counties or in qualifying community empowerment zones. Eligible manufacturing projects include activities performed by research and development laboratories, commercial testing laboratories, and the conditioning of vegetable seeds. RCW 82.60.010 specifically states that this program serves the purpose of creating employment opportunities and reducing poverty in the distressed counties of the state.

Report to the Legislature

RCW 82.60.070(1) (b) directs the Department to use the information reported on the Annual Tax Incentive Survey to study the high unemployment county tax deferral program and report to the Legislature by December 1, 2018. The contents of this report must measure the effect of the program on job creation, the number of jobs created for residents of eligible areas, company growth, and such other factors as the Department selects. In order to meet these requirements, this report explains relevant information about the high unemployment county deferral program and to the extent possible, provides an analysis of data covering the period between July 1, 2010, and June 30, 2018.

Terminology Used in this Report

To help with readability, this report uses a handful of abbreviations throughout. For quick reference, below is a list of the most commonly used abbreviations:

- **CEZ** – Community Empowerment Zone
- **Department** – Department of Revenue
- **ESD** – Employment Security Department
- **GBI** – Gross Business Income
- **HUC** – High Unemployment County
- **NAICS** – North American Industry Classification System. This is a standard used by many government agencies to classify business establishments for the purpose of collecting, analyzing, and publishing statistical data.
- **R&D** – Research and Development
- **RCW** – Revised Code of Washington
- **Survey or Annual Survey** – Annual Tax Incentive Survey. Note that the name of this survey changed to the Annual Tax Performance Report effective January 1, 2018. This report uses the older terminology for consistency with the period analyzed.

HISTORY OF THE PROGRAM

The program for investment projects in rural counties, under Chapter 82.60 RCW, was initially effective July 1, 1985, and allowed up to $20 million in deferred tax per facility for all applications. Tax was allowed to be deferred for three years following completion of the project, and repayment was required over the next five years. The original expiration date for this program was July 1, 1991. The program requirements and expiration date were adjusted multiple times between 1985 and 1999. These details can be found in the Department's report to the Legislature titled, *Analysis of Rural County Sales Tax Program*, dated December 2009.

The following table provides an abbreviated outline of the major statutory changes to the tax incentive program that have occurred since 1999.

Table 1. Abbreviated History of Statutory Changes

History of the Tax Deferral Under Chapter 82.60 RCW: 1999 to 2018	
1999	The rural county designation based on population density replaces the previous distressed area criteria. The requirement for annual reporting by participants during the deferral repayment period is repealed. The definition of manufacturing is amended to exclude mere processing of agricultural products (sorting, washing, packing, etc.).
2000	A "qualified" employment position for a CEZ is defined, FTEs must be full time, and positions must be filled by end of second year following project completion.
2004	The program is extended to counties with fewer than 225 square miles (Island County). A "qualified" employment position is defined in terms of the minimum number of hours worked. The expiration date is extended six years to July 1, 2010. Additionally, accountability provisions are adopted: • Surveys are required of participants by the end of March each year. • Annual reports are required by the Department by September 1. • An evaluation of the program is required and is due December 1, 2009.
2006	The definition of manufacturing is changed to include conditioning of vegetable seeds. Conditioning includes drying, cleaning, sorting, and related processing activities to prepare the seeds for sale.
2010	The rural and small county designations are replaced with the high unemployment county definition. A qualifying county is defined as a county that has an unemployment rate that is at least 20% above the state average for the last three calendar years. The list of qualifying counties is updated every two years. The expiration date of the incentive program is extended to July 1, 2020. Additionally, the following definitions are amended: • "Manufacturing" to exclude computer programming, the production of computer software, and other computer-related services. • "Research and development" to require that a qualified R&D activity result in a substance or tangible personal property for sale.
2017	The "Annual Tax Incentive Survey" is changed to the "Annual Tax Performance Report" and is effective January 1, 2018, for incentives claimed in 2018 or after. The due date for the report to the Legislature is moved from December 1, 2019, to December 1, 2018. The requirements for this report eliminate the measurement or analysis of: • The introduction of new products; • The diversification of the state's economy; • Growth in research and development investment; and, • The movement of firms or the consolidation of firms' operations into the state.

PROGRAM REQUIREMENTS

Eligible Activity

To qualify for the HUC deferral program, a firm must be engaged in manufacturing, R&D activities, operation of commercial testing laboratories, or the conditioning of vegetable seeds. Expenditures for cogeneration may qualify if the power produced is consumed at the same manufacturing facility. Facilities located on leased land may qualify for the program if the lessor passes on the tax benefit to the lessee. Applications must be submitted to the Department prior to the start of construction. The application must describe the proposed activity, detail the estimated investment costs, provide data on current employment of the firm, and the anticipated new jobs at the facility.

Eligible Expenditures

The tax deferral applies to costs associated with planning, installation, and construction of an eligible manufacturing or other qualified facility, including construction or remodeling of new or existing structures and acquisition of machinery and equipment that is an integral and necessary part of the manufacturing or R&D operation (this is machinery and equipment that is not already exempt from sales tax as used directly in the manufacturing operation under RCW 82.08.02565 since 1995). For existing structures, the investment must increase floor space or production capacity of the plant. Note that repayment of deferred sales tax is waived as long as all eligibility requirements are met and the Annual Tax Incentive Survey is filed for the eight years following project completion.

Eligible Geographic Locations

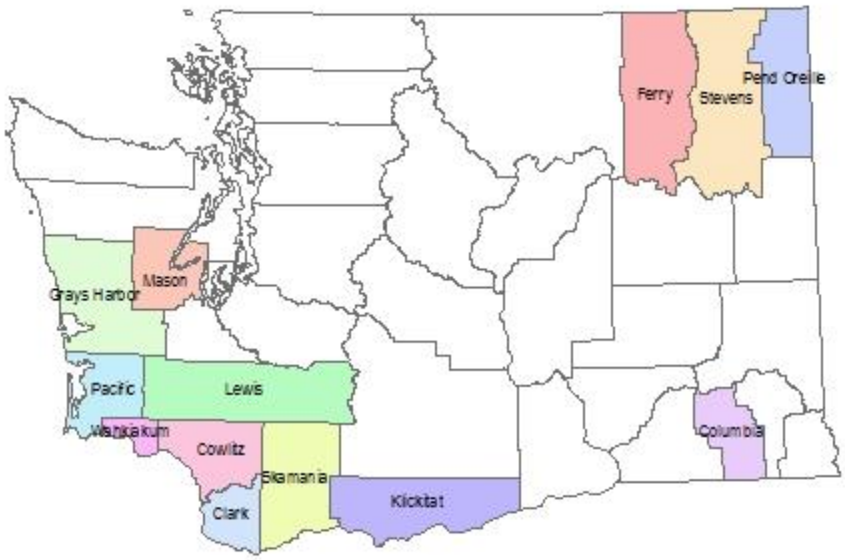
Eligible firms may qualify for the deferral if the investment takes place in a location that meets one of two criteria. The location must be within a qualified high unemployment county or within a community empowerment zone.

High Unemployment County

The definition of a high unemployment county is a county that has an unemployment rate, as determined by the Employment Security Department, which is at least 20 percent above the state average for the three calendar years immediately preceding the year in which the list of qualifying counties is established or updated.

The total number of high unemployment counties initially decreased from 13 counties in the 2010 – 2012 period to ten counties in the 2012 – 2014 period, before continuing to increase in each successive two-year period to 21 counties as of July 1, 2018. The following series of maps and Table 2 show the changes in the qualifying counties over the five two-year periods from July 1, 2010, to the most recent July 1, 2018, designation. Only nine counties have maintained the designation as a high unemployment county over the entire ten-year period.

Map 1. High Unemployment Counties, 2010 - 2012



Map 2. High Unemployment Counties, 2012 - 2014

Map 3. High Unemployment Counties, 2014 - 2016

Map 4. High Unemployment Counties, 2016 - 2018

Map 5. High Unemployment Counties, 2018 - 2020

Table 2. Ten-Year History of Qualifying High Unemployment Counties

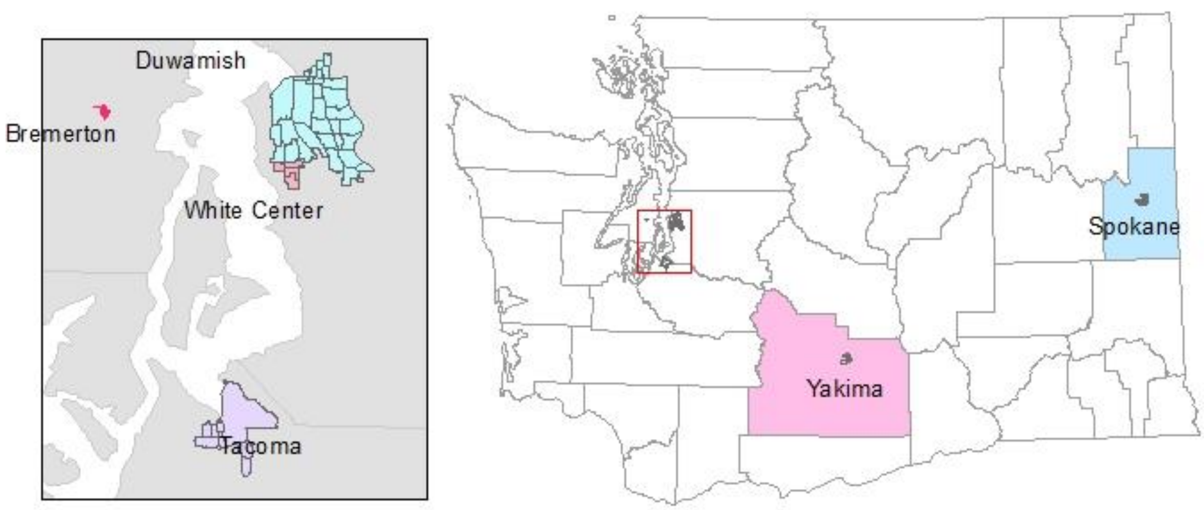
High Unemployment Counties	July 1, 2010 – June 30, 2012	July 1, 2012 – June 30, 2014	July 1, 2014 – June 30, 2016	July 1, 2016 – June 30, 2018	July 1, 2018 – June 30, 2020
Clark	X	X	X		
Columbia	X		X		X
Cowlitz	X	X	X	X	X
Ferry	X	X	X	X	X
Grays Harbor	X	X	X	X	X
Klickitat	X		X	X	X
Lewis	X	X	X	X	X
Mason	X		X	X	X
Pacific	X	X	X	X	X
Pend Oreille	X	X	X	X	X
Skamania	X	X	X	X	X
Stevens	X	X	X	X	X
Wahkiakum	X	X	X	X	X
Clallam			X	X	X
Yakima			X	X	X
Adams				X	X
Benton				X	
Franklin				X	X
Grant				X	X
Jefferson				X	X
Okanogan				X	X
Skagit				X	X
Douglas					X

Community Empowerment Zones

There are six qualifying CEZs in Washington. These are specified areas targeted by a city or county for development pursuant to RCW 43.31C.020. At least 51 percent of the households within the zone must have income below 80 percent of the median level for the county, and the unemployment rate within the zone for the latest 12-month period must exceed the county average by at least 20 percent. The six qualifying CEZs are:

- **Duwamish** – Located in South Seattle, including the Rainier Valley, the SODO area down to Boeing Field, and much of West Seattle.
- **White Center** – Located just south of West Seattle.
- **Bremerton** – Approximately eight blocks in the downtown area along the waterfront adjacent to the Naval Shipyard.
- **Tacoma** – Much of the tidelands adjacent to Commencement Bay and the southern downtown area.
- **Spokane** – Much of the downtown and industrial area to the east.
- **Yakima** – Much of the northeastern part of the city. Note that since July 1, 2014, all of Yakima County qualifies for the program as a HUC.

Map 6. Community Empowerment Zones in Washington



For investment in a CEZ, the firm must hire at least one person who resides within the CEZ or county in which the zone is located for each $750,000 of investment that qualifies for the deferral. Hiring of these employees must occur after the application for the tax incentive has been filed with the Department and these positions must be filled by the end of the calendar year following the year in which a project is operationally complete. These positions must also remain filled for a period of 12 consecutive months.

Annual Tax Incentive Survey

Each recipient of this deferral must file a complete Annual Survey with the Department. If the economic benefits of the deferral are passed to a lessee, the lessee must file the complete Annual Survey with the Department. The survey asks for information such as:

- The amount of sales tax deferred;
- The number of employment positions and the type of work performed; and,
- Employee wage and benefit information.

Recipients are required to file the Annual Survey for eight years beginning the year after a deferral project is complete. For the period covered in this report, except for the amount of tax benefit received, the information reported on the Annual Survey is confidential and may not be disclosed for specific firms. Aggregate data provided by participants is reported to the Legislature annually in the Department's publication titled, *Descriptive Statistics for Tax Incentive Programs*.

Additional Information about Data Disclosure

The following sections of this report contain both Annual Survey data and other data collected by the Department through various sources. In places where the data set becomes too small or data cannot otherwise be appropriately aggregated, a "D" has been inserted to indicate that data has been withheld to avoid disclosure of individual firm information, as required by the excise tax confidentiality statute.

PROGRAM PARTICIPATION

This section presents data for the HUC deferral program for the July 1, 2010, to June 30, 2018, time period. All information presented in this section is based on data as of June 30, 2018. Note that in some places, data has been stratified to separate HUC project information from CEZ project information. Due to the relatively small size of the data set, this is not always possible because of data disclosure rules.

Project Applications by Qualified Area

Since 2010, 118 projects or 88 percent of all deferral project applications were for an HUC deferral project. Only 12 percent of the projects met the program requirements through being located in a CEZ. This may be due to the additional employment requirements for CEZs and the comparatively smaller designated CEZ areas.

Figure 1. Total Project Applications by Qualifying Area

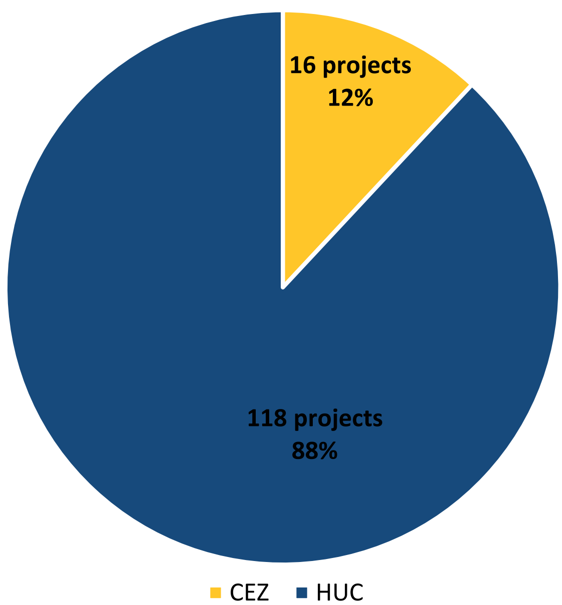
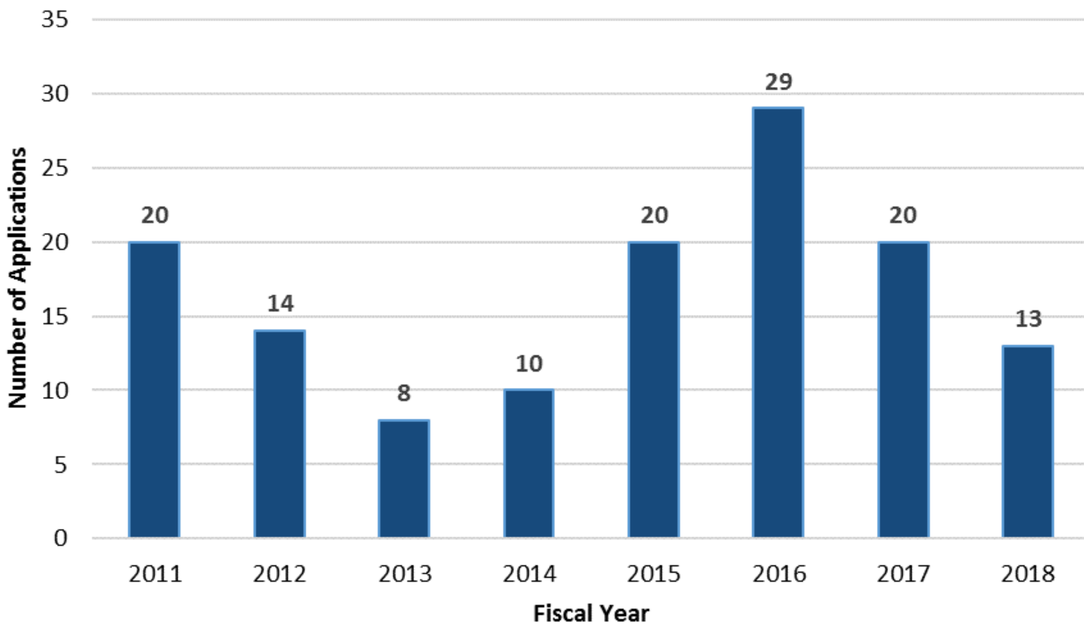


Figure 2 illustrates the distribution of the 134 applications received over this period. The average number of applications received per fiscal year was 17 applications, but has varied from a low of eight applications in FY 2013 to a high of 29 applications in FY 2016.

Figure 2. Total Applications Received Per Year



Project Application Status

The Department received applications for 134 HUC and CEZ deferral projects. The number of project applications received each year can vary depending on a variety of factors such as the number and mix of qualifying high unemployment counties in any given year, the demand for new or expanded qualifying structures, or the awareness within the business community about the availability of the HUC deferral program.

Table 3. Application Status as of June 30, 2018

Status	Number of Projects
Approved	27
Completed	76
Denied	16
Withdrawn	15
Total	134

Withdrawn Projects

Applicants withdrew applications for 15 investment projects. The most common reasons for an application to be withdrawn were:

- The applicant never started the project because of a financial decision, so the sales tax deferral certificate was never used.
- The applicant purchased machinery and equipment that qualified for the machinery and equipment sales tax exemption, so they received a benefit under that exemption and there was no additional sales tax remaining to defer under the HUC deferral program.

Denied Projects

The Department denied 16 applications. Multiple attempts were made to verify information before an application was denied. The most common reasons for an application to be denied were:

- The taxpayer began construction or acquired machinery and equipment prior to the application date.
- The taxpayer was not performing qualified manufacturing.
- The project was in an ineligible county.
- Lack of response from the taxpayer.

Approved and Completed Projects

The Department approved applications for 103 deferral projects, 76 of the 103 projects are complete as of June 30, 2018. Project costs for these applications total $546 million. State and local sales and use taxes deferred for these projects are estimated to be $45.1 million. The 103 approved projects are distributed among 88 firms. Over 88 percent of the firms, 78 firms in total, have only one approved project. Of the remaining ten firms:

- Seven firms have two projects each;
- Two firms have three projects; and,
- One firm has five projects in the program.

For this analysis, a "firm" is defined as an entity with a unique tax registration number on file with the Department. Large companies may have multiple affiliated entities with separate tax registration numbers. This analysis does not attempt to group data for all potential affiliated entities.

The 78 firms with only one approved project account for 57.5 percent of the total project costs, with an average project cost of $4.03 million per project. The ten firms with multiple projects have an average project cost of $5.6 million per project.

Figure 3. Approved Applications per Firm

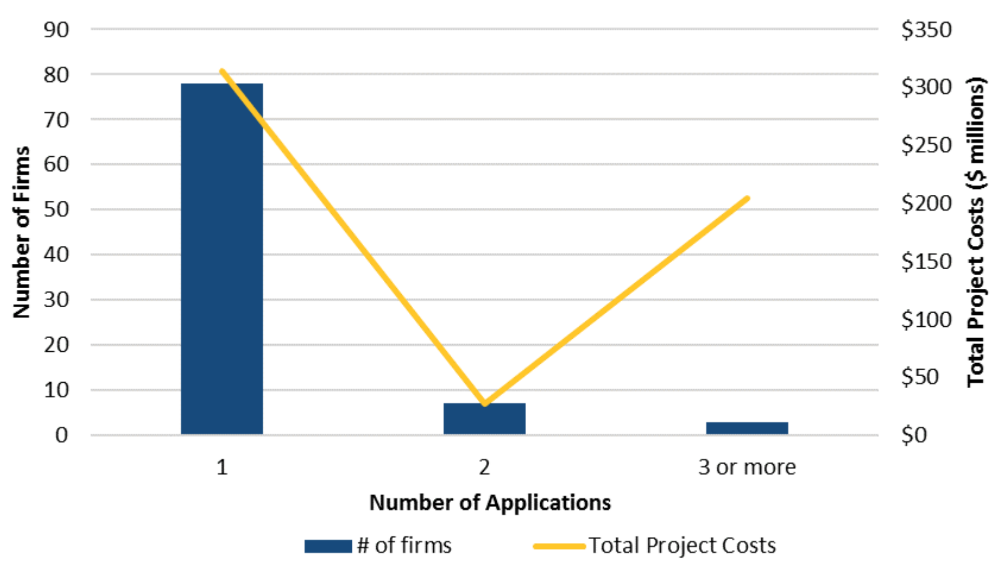


Table 4 illustrates the split between CEZ and HUC total project costs and approved project counts. CEZ projects represent $24.9 million or 5 percent of the total estimated project costs.

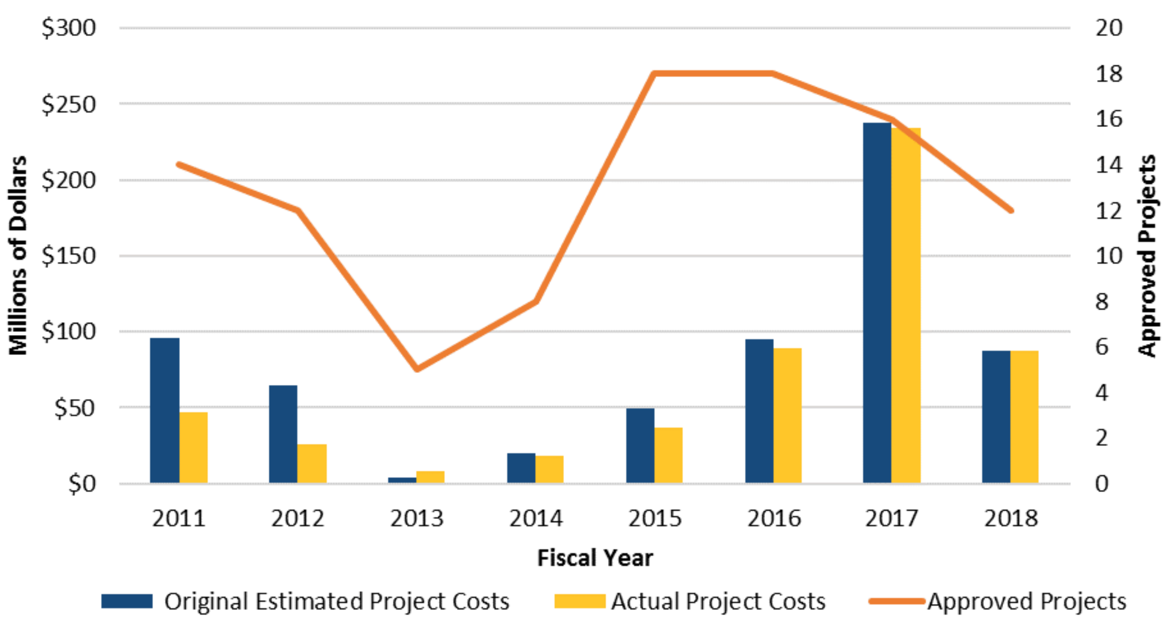
Table 4. Total Approved Project Costs per Qualifying Area

	Estimated Total Project Costs	Approved Projects
CEZ	$ 24,900,000	16
HUC	$ 521,100,000	87
Total	$ 546,100,000	103

Participation and Project Costs over Time

Looking at only the 103 approved projects by the fiscal year in which the applications were received by the Department, Figure 4 shows how the cost of these projects has varied over time. The original estimated project cost is the amount reported by the taxpayer on the original application. The actual project cost is the final project cost after a project is complete and has been audited by the Department. The difference observed in estimated project cost and actual project cost after a project is complete is expected, given the nature of construction. It is not uncommon for any number of factors to influence a project’s timeline and budget during construction, increasing or decreasing the overall costs incurred.

Figure 4. Approved Projects and Estimated Costs per Year



Note: For more recent projects that are either not yet complete or are complete but have not yet been audited, the “actual” amount is not yet available, so the original estimated project cost has been substituted. This explains the smaller gap between the blue and yellow bars in more recent years in Figure 4.

State and Local Sales Tax Deferred

The estimated state and local sales tax deferred by taxpayers using the HUC deferral program is displayed by application year in Table 5.

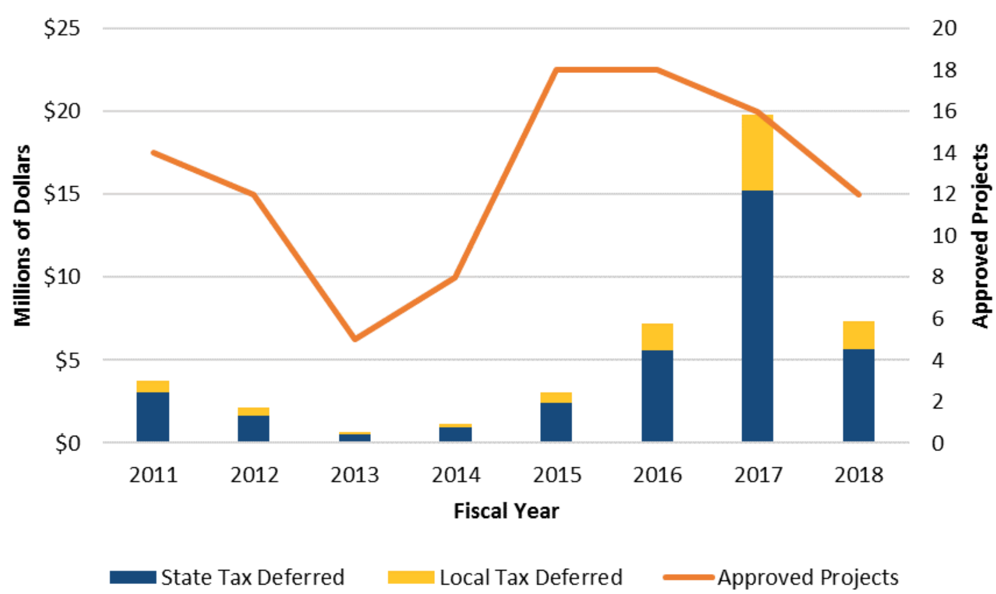
Note: These values are estimated, as the actual tax deferred amounts are only available for the projects that have been both completed and audited. For projects that are not yet complete or complete but not yet audited, the total tax deferred is estimated using the project costs reported on the application and the local tax rates that correspond to a project's location.

Table 5. Estimated State and Local Sales Tax Deferred

Fiscal Year	State Tax Deferred	Local Tax Deferred	Total Tax Deferred
2011	$ 3,035,000	$ 735,000	$ 3,770,000
2012	$ 1,673,000	$ 487,000	$ 2,160,000
2013	$ 503,000	$ 154,000	$ 657,000
2014	$ 926,000	$ 250,000	$ 1,176,000
2015	$ 2,394,000	$ 635,000	$ 3,029,000
2016	$ 5,571,000	$ 1,638,000	$ 7,209,000
2017	$ 15,227,000	$ 4,546,000	$ 19,773,000
2018	$ 5,685,000	$ 1,686,000	$ 7,371,000
Total	$ 35,014,000	$ 10,131,000	$ 45,145,000

The amount of deferred tax follows the same general trend as the number of approved projects in any given period, more projects typically results in more deferred tax. For 2017, there is one large project, in terms of cost, influencing the total amount of deferred tax shown in both Table 5 and Figure 5. This project has yet to be completed and audited. This means that this project's actual final cost is still subject to change and could come in much lower than initially estimated on the application, which in turn could significantly reduce the estimated amount of tax deferred. Without the influence of this large project, the total tax deferred for 2017 would be more in line with other recent years.

Figure 5. Estimated Sales Tax Deferred Per Year



Geographic Location of Participants Using the HUC Deferral Program

Approved projects are located in 18 counties throughout Washington, 15 of these counties meet the HUC criteria, three of these counties: King, Pierce, and Spokane, contain projects in qualifying CEZs. Additionally, it can be noted that Yakima County contains projects within its qualifying CEZ and in other parts of the county. Eight counties currently qualify for the incentive or have qualified at some point in the past, but have had no approved projects to date. They are:

- Adams
- Douglas
- Ferry
- Jefferson
- Okanogan
- Pacific
- Pend Oreille
- Wahkiakum

Sixteen counties have never qualified under the requirements for being a high unemployment county. The table below shows the top 5 counties by number of approved projects. Despite falling off the HUC list as of July 1, 2016, Clark County has had the most approved projects to-date with 31, followed by Benton County with 13, Yakima County with 12 (two in the CEZ, plus ten others), Spokane County with 11 (all within the CEZ), and Cowlitz with eight approved projects to-date.

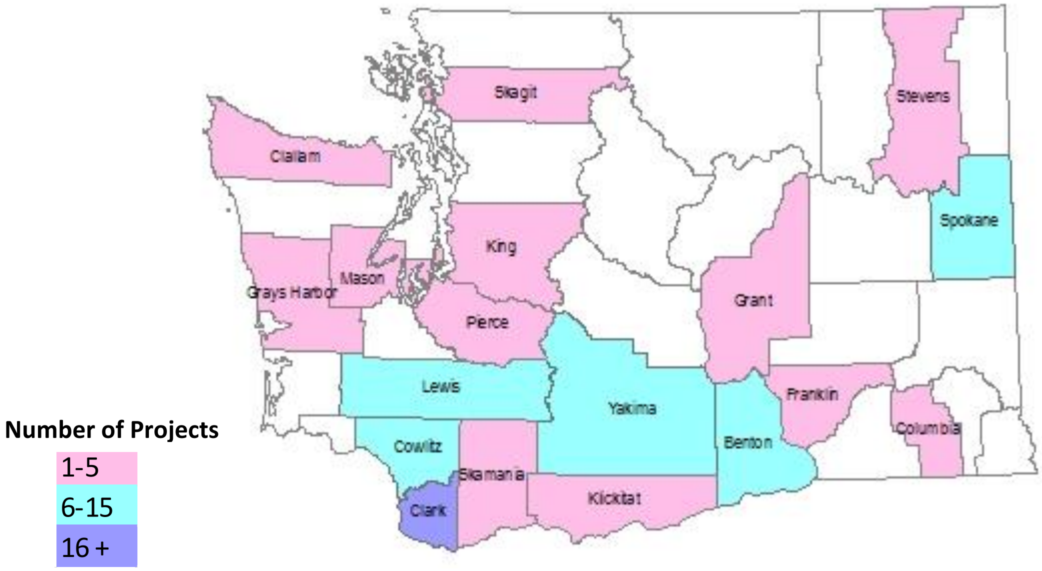
Table 6. Top 5 Counties by Number of Approved Projects

County	HUC	CEZ	Total
Clark	31	--	31
Benton	13	--	13
Yakima	10	2	12
Spokane	--	11	11
Cowlitz	8	--	8

The projects in Benton County were the most costly totaling over $219 million followed by Clark County totaling $99.9 million. Map 7 and Map 8 on the next page show the approved applications and estimated project costs by county.

Note: There is one particularly large approved project in Benton County that has yet to be completed and audited. This means that this project's actual final cost is still subject to change and could come in much lower than initially estimated on the application, which in turn could significantly reduce the total project cost currently reported for Benton County.

Map 7. Number of Approved Project Applications by County



Map 8. Estimated Total Project Costs by County

Completed and Audited Projects

Through Fiscal Year 2018, 103 projects have been approved, 76 have been completed, and 64 of the completed projects have been audited. Recipients are required to notify the Department when projects are operationally complete. It can be noted that there are often several years between project application and completion. After the Department receives notice that a project is operationally complete, it is referred to the Audit Division. Audits are then completed to verify that the amount of tax deferred is consistent with the final costs of the project and that taxes were only deferred on eligible purchases and services.

Table 7 shows the amount of deferred sales tax audited or remaining to be audited as of June 30, 2018.

- Projects with applications received in FY 2011, 2012, and 2013 are 100 percent complete and audited.
- Projects with applications received in FY 2014 and 2015 have mostly been completed and audited, but the amount that is still unaudited is not disclosable.
- Projects with applications received in FY 2016, 2017, and 2018 that are completed are still mostly unaudited.

Note: The impact of one large project, as discussed previously, can be observed in the 2017 data in Table 7.

Table 7. Audited and Unaudited State and Local Sales Tax

Fiscal Year	Audited	Unaudited	Total	Percent Audited
2011	$ 3,771,000	$ -	$ 3,771,000	100%
2012	$ 2,160,000	$ -	$ 2,160,000	100%
2013	$ 657,000	$ -	$ 657,000	100%
2014	$ 945,000	D	$ 945,000	--
2015	$ 2,154,000	D	$ 2,154,000	--
2016	$ 933,000	$ 6,277,000	$ 7,210,000	12.9%
2017	$ 854,000	$ 18,919,000	$ 19,773,000	4.3%
2018	$ -	$ 7,371,000	$ 7,371,000	0.0%
Total	$ 11,474,000	$ 32,567,000	$ 44,041,000	26.1%

Note: D = Data has been withheld to avoid disclosure of individual firm information, as required by the excise tax confidentiality statute.

EVALUATION OF THE TAX INCENTIVE

RCW 82.60.070(1) (b) requires the Department to measure the effect of the HUC deferral program on job creation, the number of jobs created for residents of eligible areas, company growth, and other selected factors. This section is an analysis of the data reported in the Annual Survey relevant to these areas. Specifically, this evaluation and analysis looks at the following information:

- Job creation
  - Comparison of job creation for participant vs. non-participant firms.
  - Comparison of job creation for participant firms vs. national manufacturing trends.
- The number of jobs created for residents of eligible areas.
  - New positions filled by Washington residents.
  - New positions created for existing or new business activities.
  - Number of employees by type of job: administration, distribution, manufacturing, or research.
  - Number of employees enrolled in medical or retirement plans compared to statewide manufacturing industry benefit information.
- Company growth
  - Comparison of company growth for participant vs. non-participant firms measured using gross business income.

Job Creation

In order to measure the effect of the HUC deferral program on job creation, employment information for both participant firms and non-participant firms is evaluated. For participant firms, employment levels before and after HUC project completion is compared. A parallel employment comparison is conducted for similar types of non-participant manufacturing firms for corresponding periods.

Due to the relatively few number of completed projects per year and other data availability, this analysis is focused on projects that were completed between 2011 and 2013. Projects located in CEZs have not been analyzed separately due to data disclosure rules.

Participant Firms

For participant firms with qualifying projects completed between 2011 and 2013, the following were established:

- **Base year** – the year prior to the calendar year in which the project was complete.
- **Project complete year** – the calendar year in which the project was complete.
- **Fourth year after base year** – the calendar year that is four years after the base year or three years after the project complete year.

Table 8 illustrates the corresponding base year and fourth year for each year in which completed projects were analyzed.

Table 8. Crosswalk: Base Year, Project Complete Year, 4th Year

Project Complete Year	Base Year	4th Year After Base Year
2011	2010	2014
2012	2011	2015
2013	2012	2016

Next, data sources for this analysis were established. For participant firms, survey data is available for the fourth year after the base year. For the base year, information from the Employment Security Department has been used, as there is no requirement that the participant firms file a survey until after a HUC project is complete.

Non-Participant Firms

For comparison purposes, a set of non-participant firms was established using the following criteria:

- **Location** – Non-participant firms must be located in the same counties as participant firms for the given project complete year.
- **NAICS codes** – Non-participant firms must have a manufacturing NAICS code (31-33); however, firms with the following four digit NAICS codes were removed from the population as non-participant firms in these NAICS codes would be unlikely to meet the requirements of the HUC deferral program and are therefore not comparable:
  - 3114 – Fruit and Vegetable Preserving and Specialty Food Manufacturing;
  - 3115 – Dairy Product Manufacturing;
  - 3117 – Seafood Product Preparation and Packaging; and,
  - 3346 – Manufacturing and Reproducing Magnetic and Optical Media (Software).

Limiting the non-participant population to only manufacturing NAICS does not necessarily capture all manufacturing businesses and may not include businesses in which manufacturing is a secondary activity. Additionally, all non-participant job creation data is drawn from the employment data the Department receives annually from the Employment Security Department. Employment data for the non-participant firms is compared for periods corresponding to those established for the participant firm analysis.

Job Creation Comparison: Participant Firms and Non-Participant Firms

Results of this comparison for both participant and non-participant firms are presented in Table 9 and Table 10. Employment, or job creation, has grown between the base year and the fourth year for both firms that used the HUC deferral program and for the comparable set of non-participant manufacturing firms. In each period comparison analyzed, growth appears to be stronger for firms using the HUC deferral program than those who are not. Overall, for the periods analyzed, growth in participant employment from the base year to the year is 66.5 percent, compared to employment growth for non-participants of 4.4 percent. Absent the larger than average growth observed for participant firms for projects completed in 2012, overall participant growth would be about 21.7 percent, which is still much higher than the average employment growth observed for non-participant manufacturing firms.

Table 9. Participant Firm Job Creation

Project Complete Year	Base Year: Employment	4th Year: Employment	Growth
2011	799	1,065	33.2%
2012	531	1,699	220.2%
2013	1,020	1,149	12.7%
Total	2,350	3,913	66.5%

Table 10. Non-Participant Firm Job Creation

Project Complete Year	Base Year: Employment	4th Year: Employment	Growth
2011	16,097	18,232	13.3%
2012	20,073	21,225	5.7%
2013	123,213	126,977	3.1%
Total	159,383	166,433	4.4%

Job Creation Comparison: Participant Firms and National Manufacturing Trends

In order to compare job creation for participant firms to national manufacturing employment trends, data from the Bureau of Labor Statistics is compared to employment data reported by HUC program participants on the Annual Survey. National manufacturing employment data has been adjusted to exclude employees in NAICS codes that are unlikely to meet the requirements of Washington's HUC deferral program. Similar to the non-participant analysis, NAICS codes 3114, 3115, 3117, and 3346, have been excluded. The total number of employees for participant firms is inclusive of all employees that are employed by the firm and is not limited to the number of new employees resulting from participation in the HUC deferral program.

Year-over-year growth in employment, or overall job creation, for HUC deferral participants is significantly higher than national growth in manufacturing employment for the corresponding period. Additionally, the participant share of national manufacturing employment has increased over time.

Table 11. National Manufacturing Employment Trends

Survey Year	Participant: Employment	Participant: Employment Growth	National: Manufacturing Employment	National: Employment Growth	Participant Percent of National
2011	1,006	--	11,384,376	--	0.009%
2012	2,256	124.3%	11,589,981	1.8%	0.019%
2013	3,437	52.3%	11,678,153	0.8%	0.029%
2014	4,979	44.9%	11,842,559	1.4%	0.042%
2015	6,014	20.8%	11,979,714	1.2%	0.050%
2016	6,375	6.0%	11,983,522	0.0%	0.053%

Number of Jobs Created for Residents of Eligible Areas

In addition to job creation data, the Annual Survey contains a variety of additional questions that capture information about number and type of jobs that the HUC deferral program is creating for residents of eligible areas in Washington State.

Note: Due to the relatively small number of HUC deferral projects that have been completed during this period, breakouts of this data at the county level cannot be provided in this report due to data disclosure rules.

Jobs in Eligible Areas: New Positions Filled by Washington Residents

The Annual Survey includes questions about the residential location for new employees at the time of hire. The table below shows that HUC deferral participant firms are filling the majority of new employment positions with Washington residents. The average percentage of new employment positions filled by Washington residents has remained steadily above 70 percent.

Table 12. Percent of New Positions Filled by WA Residents

Survey Year	Participant Firm Count	Average Percentage of New Employment Positions Filled by Washington Residents
2011	3	85.8%
2012	8	71.8%
2013	13	72.9%
2014	17	89.1%
2015	26	83.0%
2016	28	81.1%

Jobs in Eligible Areas: New Positions for Existing or New Business Activity

The Annual Survey includes questions about the number of new positions created due to the expansion of existing business activity or due to new business activity. Table 13 shows that, on average, HUC deferral participant firms hired more employees to support the expansion of existing business activity than to support new business activity. Approximately 10.1 percent of all employees added were to support the expansion of existing business activity.

Table 13. Employees Added by Type of Business Activity

Survey Year	Employees Added: Expansion of Existing Business Activity	Employees Added: New Business Activity
2011	317	0
2012	304	175
2013	468	0
2014	541	D
2015	538	10
2016	269	4

Note: D = Data has been withheld to avoid disclosure of individual firm information, as required by the excise tax confidentiality statute.

Jobs in Eligible Areas: Number of Jobs Created by Type

The Annual Survey includes questions about the types of new jobs that are created in four specific categories that are relevant to the type of manufacturing firms that qualify for the HUC deferral program. These categories are: administration, distribution, manufacturing, and research. Data indicates that firms participating in the HUC deferral program hire the majority of employees for administrative or manufacturing job functions and fewer employees in distribution or research job functions.

Table 14. Employees by Type of Job

Survey Year	Administration	Distribution	Manufacturing	Research
2011	29	45	238	D
2012	150	47	365	7
2013	333	D	142	D
2014	341	25	179	D
2015	221	33	292	20
2016	162	7	82	23

Note: D = Data has been withheld to avoid disclosure of individual firm information, as required by the excise tax confidentiality statute.

Jobs in Eligible Areas: Employees Enrolled in Dental, Medical, and Retirement Plans

The Annual Survey includes questions about the types of plans that the employees of participant firms are enrolled in. The table below shows that HUC deferral participant firms have the majority of their employees enrolled in dental, medical, and retirement benefits. For 2016, 81.4 percent of these employees were enrolled in a medical plan, 79.1 percent were enrolled in a dental plan, and 76.6 percent were enrolled in a retirement plan. While the number and percentage of employees enrolled in medical and dental plans has been relatively constant over time, the percentage of employees enrolled in retirement plans has increased substantially from 52.6 percent to 76.6 percent between 2011 and 2016.

Table 15. Employees Enrolled in Dental, Medical, and Retirement Plans

Survey Year	Dental		Medical		Retirement	
	Employees	Percentage	Employees	Percentage	Employees	Percentage
2011	811	80.6%	817	81.2%	529	52.6%
2012	1,739	77.1%	1,821	80.7%	1,202	53.3%
2013	2,586	75.2%	2,630	76.5%	2,436	70.9%
2014	4,125	82.8%	4,156	83.5%	3,668	73.7%
2015	4,637	77.1%	4,764	79.2%	4,169	69.3%
2016	5,040	79.1%	5,192	81.4%	4,884	76.6%

For comparison purposes, statewide data on employee benefits are available from the Employment Security Department publication titled*, Annual Employee Benefit Survey*, last published in 2013. ESD does not collect or report information exactly like the Annual Survey, but it is close enough to look at overall manufacturing industry trends. Table 16 shows the percentage of employees enrolled in health insurance in the manufacturing industry and the percentage of employees who worked for firms in the manufacturing industry that offer retirement plans, split by full-time and part-time employees. When taking into account this information as a whole, in general terms, it appears that employees of HUC deferral participant firms are enrolling in dental and medical plans at about the same rate as employees of all manufacturing firms in Washington. Although the retirement plan statistics from ESD are not identical to those collected from HUC firms on the Annual Survey, it appears that retirement plan participation for employees of HUC deferral recipients are in-line with expectations, when compared to statewide manufacturing industry statistics. It is expected that, on average, the retirement plan statistics reported in Table 16 should be higher than those reported in Table 15, as the statewide manufacturing industry data is reporting the percentage of employees who worked for firms in the manufacturing industry that offer retirement plans rather than the percentage of employees enrolled in retirement plans.

Table 16. Statewide Manufacturing Industry Benefits

	Health Insurance		Retirement	
Report Year	**Full-time**	**Part-time**	**Full-time**	**Part-time**
2011	--	--	83.6%	29.6%
2012	86.0%	60.5%	86.0%	30.0%
2013	87.5%	75.1%	88.5%	31.7%

Company Growth

In order to measure the effect of the HUC deferral program on company growth, a broad measure of overall economic activity, gross business income (GBI), is chosen to analyze these trends. GBI is calculated on a per firm basis using information reported on the combined excise tax return. GBI growth for both participant firms and non-participant firms is evaluated. For participant firms, GBI levels before and after HUC project completion are compared. A parallel GBI comparison is conducted for similar types of non-participant manufacturing firms for corresponding periods. Due to the relatively few number of completed projects per year and other data availability, this analysis is focused on projects that were completed between 2011 and 2013. Projects located in CEZs have not be analyzed separately due to data disclosure rules.

The analysis of company growth uses the same basic structure as the job creation analysis presented earlier. For HUC deferral participant firms with projects completed between 2011 and 2013, a base year and the fourth year after the base year is established. A corresponding sample of non-participant manufacturing firms was drawn for the same period, using the same criteria as earlier, which includes both location and NAICS code considerations.

Company Growth Comparison: Participant Firms and Non-Participant Firms

Results of this comparison for both participant and non-participant firms are presented in Table 17 and Table 18.

Table 17. Participant Firm Company Growth

Project Complete Year	Base Year: GBI	4th Year: GBI	Growth
2011	$ 215,292,000	$ 867,970,000	303%
2012	$ 383,115,000	$ 324,530,000	-15%
2013	$ 972,090,000	$ 947,123,000	-3%
Total	$ 1,570,497,000	$ 2,139,623,000	36.2%

Table 18. Non-Participant Firm Company Growth

Project Complete Year	Base Year: GBI	4th Year: GBI	Growth
2011	$ 21,346,299,000	$ 18,621,717,000	-13%
2012	$ 19,450,285,000	$ 19,251,749,000	-1%
2013	$ 93,988,557,000	$ 105,590,486,000	12%
Total	$ 134,785,141,000	$ 143,463,952,000	6.4%

The change in GBI, the chosen proxy measure for company growth, shows some mixed results when analyzed by project completion year. This is likely due to a variety of factors that may include issues related to small sample size, small sub-area size, imperfect data matching, and the way tax information is reported to the Department. Notably, businesses that are registered and pay taxes to the Department are not required to report tax information for separate business locations. A single manufacturing firm may have multiple locations throughout the state and report taxes on a single tax return that uses the business address of a main office. These are a few of the potential issues that may be impacting results.

Overall, for the periods analyzed, growth in participant firm GBI from the base year to the fourth year is 36.2 percent, compared to GBI growth for non-participant firms of 6.4 percent. This indicates that participant firms are likely experiencing a higher company growth rate than non-participant manufacturing firms.