



January 21, 2015

The Honorable Sharon Brown, chair
Senate Trade & Econ. Dev. Committee
PO Box 40408
Olympia, WA 98504-0408

The Honorable Maralyn Chase, ranking member
Senate Trade & Econ. Dev. Committee
PO Box 40432
Olympia, WA 98504-0408

Dear Sens. Brown and Chase:

Thank you again for the kind invitation to participate in today's work session discussing the state's *Economic Climate Study* and opportunities for economic development and job creation in our state.

During the last Legislature, under the leadership of Sens. John Braun and Maralyn Chase, the Senate Trade & Economic Development Committee tackled a number of subjects underpinning economic performance, which resulted in legislation in several issue areas. I hope this approach will continue this session under your leadership.

As I mentioned, small business owners routinely cite taxes, regulations and lack of sales as their top three concerns. Quality of labor tied for third in our latest *Small Business Economic Trends* report, which surveyed small business owners in [December 2014](#).

From NFIB's perspective, there are many opportunities for improvement in these areas.

TAXES

Business and Occupations Tax

Businesses pay more than half of all taxes collected in Washington state. Among those revenue sources, the Business and Occupations (B&O) tax is by far the most reviled. This gross receipts tax is levied disproportionately on small businesses. And, it requires that the government gets paid even if the owner does not, when business losses are incurred.

It is my understanding that small firms grossing less than \$250,000 annually are nearly 75 percent of B&O taxpayers, but provide less than five percent of revenue collected from this tax. Yet this small group is frequently targeted for tax increases, such as the 20 percent surcharge on service businesses in effect from 2010 to 2013.

Moreover, the B&O tax code is riddled with preferential rates for favored industries, few of which are applicable to small employers. By way of comparison, large multinational aerospace

manufacturers enjoy a preferential rate of 0.2904 percent, locked in for the next *quarter century*, while a self-employed beautician or other service provider currently pays 1.5 percent B&O tax on gross earnings – five times as much as the aerospace sector – down from a punitive 1.8 percent levied between 2010 and 2013. Such preferences are tacit admission that the B&O tax structure makes Washington firms uncompetitive.

And rumors abound that the B&O tax may be looked to as a source of new revenue for the coming biennium to address *McCleary* and other spending demands, adding to the uncertainty these entrepreneurs face when assessing whether and how to grow their enterprises.

The time and expense small employers, specifically those with annual earnings of \$250,000 or less, devote to filing and paying B&O taxes might be better used to increase wages, make long overdue capital improvements or to add new employees, particularly given the small share of tax collections they account for, if the B&O were restructured to have fewer classifications and fewer preferential rates.

Better yet, this committee ought to further explore alternatives to the B&O tax, such as the Washington Policy Center's [single business tax](#) proposal.

Unemployment Insurance

Washington perpetually ranks among the most generous states for unemployment benefits paid. For displaced workers, this is a good thing. However, since employers pay 100 percent of unemployment taxes, this generosity comes at a high cost to job creators.

During the recent, long recession, Washington State's unemployment system paid out record benefits. We acknowledge much of those costs were subsidized by federal funds (also fully paid by employers). Nonetheless, while other states depleted their unemployment trust funds and took loans from the federal government to meet as much as 99 weeks of benefits for claimants, Washington State amassed nearly \$3 billion in surplus. Again, 100 percent of these dollars came from employers.

That is \$3 billion in a government savings account that is unavailable for employers to use for wage increases, make long overdue capital improvements, or to add new employees.

While the Legislature did grant some modest relief by lowering the social tax component a few years ago, it came at the cost of increased benefits to workers and a loosening of eligibility requirements for benefits and training – and again put us out of compliance with federal law.

This has long been a pattern in our state's unemployment debates. In order for employers, who are clearly overtaxed, as evidenced by the \$3 billion reserve, to keep some of their own money, labor must "get something" in exchange. And, generally, the additional worker benefits violate federal law, placing employers at risk of punitive tax increases imposed by the federal government. Having survived the great recession with \$3 billion in reserve, and the unemployment rate in decline, the Legislature ought to consider lowering the unemployment tax on employers.

Workers' Compensation

While modest improvements achieved in the 2011 reforms are beginning to pay minor dividends, small businesses are still on the hook for roughly \$1 billion in rate increases or surcharges just to rebuild the State Fund's contingency reserves.

Washington's unique structure makes it difficult to accurately compare the performance of our workers' compensation system to others around the country. The state's *Economic Climate Study* relies on the so-called "Oregon Study," which compares states based on industrial insurance (workers' compensation) premium paid per \$100 of payroll. As the committee heard from other panelists this morning, the Oregon analysts' efforts to turn Washington's hours-based rate structure "apple" into something resembling the rest of the nation's payroll-based "oranges" is imprecise to say the least.

Perhaps it is time the Legislature gave thoughtful consideration to converting to a payroll-based rate structure, so that true "apples to apples" comparisons can be made, at least in so far as comparing a government-run monopoly with competitive systems is possible. Such an approach should also minimize all too frequent rate swings, since revenue would increase as wages increase. L&I Director Joel Sacks has attempted to peg rate increases to wage inflation during his tenure, mimicking this effect, but still necessitating annual rate increases.

In addition, a payroll-based rate structure would give business owners more predictability. There is almost no way to estimate how many hours an employee may work, given sick and vacation leave or overtime. Rather than guessing, or waiting for the department's year-end rate announcement, business owners could better budget their workers' compensation costs if it were a percentage of payroll, which is much easier to estimate and can be done with far greater precision.

Of course, an overwhelming majority of NFIB members and other small business owners still support moving to a competitive workers' compensations system. While that remains a long-term goal of this organization, one which would improve injured worker outcomes and turn our system from an expense to the state budget into a revenue generator, we recognize there is little political will to even discuss such a transformation given the current political climate. Should that change, we would be happy to suggest possible routes to achieve that goal.

REGULATIONS

As we discussed in testimony this morning, there are 26 state agencies that administer nearly 1,400 licenses, permits and inspections affecting small businesses in our state. Building on the work of the state Auditor's office, the Legislature should examine ways to reduce, eliminate or at least streamline the number of agencies and the licenses, permits and inspections they require. Small business owners should be freed to concentrate on growing their operations and creating jobs, rather than jumping through a myriad of regulatory hoops that cost them precious time and money.

We also mentioned, as have others, the overly lengthy permit processes most projects are

subjected to in this state. Since we have been unable to get agencies and local governments to agree on a permit timeline that would require approval as the consequence of inaction, we urge the committee to explore ways to use technology to allow the public access to a statewide permit tracking system. Such a system should require each county and applicable state agencies to electronically track and report the number of permits – building, water, and others – applied for, as well as the duration the permit spent in processing, so that permit applicants could see the number of permits approved in, say, 15 days or less, 30 days, 60 days, 90 days, and 180 days or more. The largest and second largest cities, or those over a certain population threshold, such as 50,000 residents, should similarly be required to report their permit processing data. Publishing such metrics in a statewide matrix would undoubtedly spur agencies and local jurisdictions to expedite permits or risk losing development to more effective and business-friendly jurisdictions. This would incentivize investment without necessitating tax expenditures or other preferences.

LACK OF SALES AND QUALIFIED APPLICANTS

There are larger forces at work than legislative activity could easily influence when it comes to consumer confidence and spending. However, by reducing costs and otherwise making the state's business climate more competitive, scarce dollars would be freed for use to increase wages, make long overdue capital improvements, or to add new employees. All of these would lead to greater economic growth and, consequently, revenue growth for the state.

In terms of better equipping applicants for the job market, the bills Sen. Brown put forward for consideration at today's public hearing take a novel approach to redirecting dollars to job training. They deserve consideration from the committee and the rest of the Legislature.

In addition, easing the tax and regulatory burden on small business in particular, as discussed above, would also give employers more flexibility to invest in on-the-job-training, apprenticeship programs and direct support to local educational activities, as well as greater ability to increase employment opportunities. More employed residents means more tax payers, and more revenue to the state, while also reducing the state's social services caseload.

Again, thank you for the invitation to discuss the state's *Economic Climate Report* and to offer these additional comments for the committee's consideration.

I would be happy to further discuss any of these issues with you.

Best regards,



Patrick Connor
NFIB/Washington State Director

cc: Senate Trade & Economic Development Committee
Jeff Olsen, Senate Trade & Economic Development Committee Coordinator/Analyst
Sen. Michael Baumgartner, Senate Commerce & Labor Committee chairman