



MEMORANDUM

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TO: Members, Senate Committee on Commerce
FROM: Justin Stowe, Interim Legislative Post Auditor
DATE: March 21, 2018
SUBJECT: Neutral Testimony Regarding Senate Bill 448

I appreciate the opportunity to provide neutral testimony regarding Senate Bill 448, which would establish a joint economic development incentive review committee to oversee regular evaluations of the state's economic development incentives to be performed by our office.

Background Information

In October 2017, our office released a performance audit report comparing Kansas' process for evaluating its tax incentives to best practices from other states. As part of that audit we found The Pew Charitable Trusts (Pew) had examined the evaluation practices of all 50 states and identified three major best practices for evaluating tax incentives in its May 2017 report.

- States should require regular and systematic evaluations of all major tax incentives.
- Those evaluations should address the costs and economic impacts of selected incentives, and especially how they affect businesses behavior.
- Lawmakers should have a formal process to consider the results of those evaluations and make changes as necessary.

We found that although Kansas maintains a comprehensive inventory of its tax credits and exemptions, it trails what many other states are doing to regularly evaluate their tax incentives and make policy decisions. That is because Kansas does not have a formal process to systematically evaluate its major tax incentives. The limited ad-hoc evaluations currently conducted in Kansas do not necessarily address the cost or economic impact of the incentives, and the state does not have processes to ensure lawmakers consider the results of those evaluations. On the other hand, several states, including Kansas' neighbors, met many of Pew's best practices and often had legislative staff perform the evaluations.

Observations on SB 448 Provisions

Although we are neutral on SB 448, we want to highlight several provisions of the bill that would affect our office. The provisions of SB 448 would:

- **Require LPA to perform an initial study of the state's economic development incentives by July 1, 2019.** That study would require us to determine the purpose of each incentive, the data available, and what additional information may be needed to facilitate future high-quality evaluations. Washington State, one of the leading states identified by Pew, conducted a similar study when it first established its review process for its tax incentives.
- **Require LPA to perform regular evaluations of the state's economic development incentives on a regular basis at the direction of the joint economic development incentive review committee.** Depending on the incentive, those evaluations could include an estimate of the economic and fiscal impact of the incentive, the extent to which the incentive changes business behavior, and an assessment of whether the incentive is being administered effectively. We think the various assessments included in SB 448 generally conform to the best practices we identified in our 2017 audit.
- **Replace about one-third of the performance audits we currently perform each year with tax incentive evaluations unless additional staff are added to our office.** In previous testimony to the Senate Committee on Commerce, we suggested the Legislature consider establishing a new three-person tax incentives audit team within our office to perform these types of tax incentive evaluations. We also suggested phasing in the new staff, adding 1.0 FTE analyst during the first year and the other 2.0 FTE analysts during the next. If more than 3.0 FTE analysts are needed, then other resource considerations such as additional office space and management staff would be required. If the Legislature does not provide additional staff for our office, we estimate about one-third of the audits we currently perform at the direction of the Post Audit Committee would have to be replaced to meet the provisions of the bill.

We would be glad to provide input on any of the other provisions of SB 448 to the best of our ability. However, we will remain neutral on SB 448 because it is ultimately a policy decision for the Legislature to make.