Approved: March 24, 2016

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairperson Les Donovan at 9:30 am on Wednesday, February 17, 2016, 548-S of the Capitol.

All members were present except:

Senator Anthony Hensley – Excused

Committee staff present:

Gordon Self, Office of Revisor of Statutes
Chris Courtwright, Legislative Research Department
Edward Penner, Legislative Research Department
Adam Siebers, Office of Revisor of Statutes
Judy Seitz, Kansas Legislative Committee Assistant

Conferees appearing before the Committee:

Andre Fogarasi, Managing Director, Alvarez & Marsal
Nancy Zielke, Senior Director, Alvarez & Marsal

Others in attendance:

See Attached List

Possible bill introductions

Vice Chair Tyson requested the introduction of a bill regarding the high school athletic association and the elimination of school classifications based on enrollment. There being no objection from any member present, the Chair declared a motion to introduce the bill adopted by consensus.

Informational hearing:

Chairperson Donovan opened the informational hearing on the efficiency study recommendations of Alvarez & Marsal.

Justin Stowe, Deputy Legislative Post Auditor, said that he has been working lately as the legislative liaison for the Alvarez & Marsal study. He introduced Andre Fogarasi who in turn introduced Benjamin Diaz, Managing Director, Alvarez & Marsal.

The first recommendation for the Kansas Department of Revenue (KDOR) is to fill the 54 current vacancies in the Collections department. (Attachment 1) Mr. Fogarasi said this under staffing was partially due to attrition, retirement and budget cuts. He said that the filling of these positions will allow Collections to quickly generate additional revenue and to work efficiently moving forward. He also said that the departments believe they can fill about 20 of the open vacancies in this fiscal year and the remaining vacancies in the next fiscal year. He stated that the average Collection Officer currently produces approximately $1 million in collections annually.

Another recommendation is to launch a Discovery Team made up of one or two full-time employees from each of the six departments in the KDOR. Alvarez & Marsal found that little communication currently occurs between departments and that this lack of communication results in redundancies and inefficiencies. It was also recommended that the Discovery Team use a lot more software to identify the non-filers. Mr. Fogarasi said the study also noted that Discovery will not result in collections until FY 2017. Mr. Fogarasi said the KDOR should seek to eliminate the current backlog of cases in appeals which would rapidly generate additional revenue. There is a backlog of appeals cases estimated at approximately $24 million. Alvarez & Marsal conservatively assumes $10 million can be collected in FY16.

Alvarez & Marsal recommends the state should fill the 14 current vacancies in the Audit department of the KDOR. Filling these positions would allow Audit to process more cases and generate additional revenue enabling Audit to work efficiently moving forward.

Mr. Fogarasi took questions from the Committee.

Nancy Zielke said the first recommendation would require legislative change and that recommendation is to take a look at eliminating the Community Service Tax Credit Program (CSP). Ms. Zielke reviewed other states that have similar programs. While the ultimate beneficiaries are very good programs (Hospitals, Boy Scouts of America, Historic Museums, Public Libraries) many could be funded with other resources through federal grant dollars or foundations. She said the question is whether or not this is a mission critical tax incentive program for Kansas. The recommendation from Alvarez and Marsal is to eliminate the tax credit program going forward.

Alvarez and Marsal's next recommendation is to revise the primary tax incentive programs. In December 2014 Legislative Post Audit reported the existing economic development programs generate a return on investment of $56.20 for each HPIP (High Performance Incentive Program) dollar awarded and $57 of economic activity generated by every dollar of foregone revenue through PEAK (Promoting Employment Across Kansas). Alvarez & Marsal concluded that there are additional or indirect returns on the investments. The Department of Commerce indicated that the HPIP, PEAK and Jobs Creation Fund (JCF) programs were deemed to be mission critical to assist and incent development, job growth and capital investment. Ms. Zielke said the first annual impact will be in FY17 (in tax year 2016) with the HPIP tax credits totaling $25 million. Alvarez & Marsal also recommends that the state follow the 2009 legislation initiative and enact a 10 percent reduction to the existing tax credits for FY2017 and FY2018. The fiscal impact to the state would be a savings of approximately $5 million to $6 million in FY17 and FY18,

Ms. Zielke took questions from the Committee.

Adjournment

The meeting adjourned at 10:28 am.