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Testimony of John Hamman
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Chair Lynn, Ranking Member Holland, and members of the Committee:

Good morning and thank you very much for the opportunity to testify today. My name is John Hamman and I am a researcher with The Pew Charitable Trusts, a public charity that engages in research and technical assistance at the local, state, and federal levels. We have been publishing research on the evaluation of economic development tax incentives since 2012. While Pew does not have a position on HB 2006, our research may provide some useful context.

Our project helps states make evidence-based reforms to their economic development tax incentives. To accomplish this, our research shows that one of the most important steps a state can take is to set up a process for regular, rigorous evaluation of tax incentives.

To date, 30 states, including neighboring states—Colorado, Missouri, Nebraska, and Oklahoma—have in place laws requiring regular evaluation of tax incentives. Evaluations resulting from these laws have given policymakers reliable information on the economic and fiscal impacts of incentives, including the extent to which they're successfully influencing business behavior, and their effects on state budgets.

Lawmakers considering a process to evaluate tax incentives face a variety of choices. Today, I'd like to highlight six key questions policymakers should answer, presented alongside best practices from across the country, and whether HB 2006 reflects those best practices.[i]

First, the law should specify **which incentives** the evaluator should review. State evaluation processes vary depending on the needs and interests of lawmakers, but at a minimum, states should evaluate all major economic development tax incentives. Giving lawmakers information on the design and effectiveness of these incentives can help policymakers compare the results of alternative programs. HB 2006 provides a clear definition of which incentives are to be included, and allows new incentives to be included without necessarily needing to change the evaluation law.

Second, the law should include **how often** incentives are to be reviewed. States have adopted evaluation schedules of varying lengths, but most states evaluate their incentives on a rotating basis every three to six years. When deciding the timing of reviews, policymakers should consider the capacity of the office they've selected, and the scope of what incentives are included in the review. Settling on a three-year re-evaluation schedule, HB 2006 is well within the range of what other states have chosen, and should give evaluators the ability to provide timely, in-depth analysis.

Third, an evaluation law should address **who evaluates** the incentives. Selecting the right entity to lead tax incentive evaluations is crucial to ensuring the reviews provide independent, well-informed analysis to policymakers. Ideally, evaluators have relevant expertise, an impartial perspective, and a willingness to draw conclusions about policy. HB 2006 selects the Legislative Division of Post Audit (LPA), which has an established record of providing valuable insights into Kansas' programs, and has already conducted a review of how other states inventory and evaluate their incentives.[ii]

Fourth, the law should clarify **what data** evaluators will use, and importantly, specify what rights they will have to access the data needed for their analysis. Evaluators not having access to the information they need to conduct full economic analyses has proven to be one of the most significant challenges when establishing a new evaluation process.[iii] HB 2006 includes data sharing provisions for the LPA, conditioned by existing confidentiality restrictions.

Fifth, an evaluation law should clearly state **which criteria** should be used to evaluate incentives. Evaluations often include information on the history and purpose of an incentive, how well an incentive is designed and administered, the extent to which an incentive affects business behavior, and the fiscal and economic effects of an incentive. HB 2006 asks the LPA to include analysis on some of these criteria, but the Legislative Post Audit Committee could ask the LPA to include all of them, along with any other information the committee deems necessary to provide a full assessment of the effectiveness of an incentive.

Finally, an evaluation law should ensure there is a **strong connection between evaluations and the policymaking process**. Two practices in particular have helped states act on the information contained in tax incentive evaluations: clear, actionable findings and legislative hearings where evaluators can share them. Legislative research or audit units are the most common offices lawmakers have given evaluation responsibilities to, and are particularly apt at producing policy-relevant conclusions for the members they work closely with. Evaluators should also be given an opportunity to publicly share their analysis with policymakers and other interested parties. HB 2006 asks the LPA to submit its reports to the Legislative Post Audit Committee, but does not provide for recommendations from the LPA on potential changes to state policy.

A regular, comprehensive incentive evaluation process provides an opportunity for policymakers to get good information on both the costs and benefits of the economic development policies they adopt. And our research shows that when policymakers have this information, they use it. As I close my testimony, I'd like to share a few of these examples.

In 2017, Indiana lawmakers phased out one of the state's signature geographically targeted incentives after evaluations called certain aspects of the program into question. In Alabama, evaluations spurred policymakers to renew the state's historic preservation tax credit program while improving the incentive's design. Last year, scrutiny from evaluations in Florida improved the administration of several sports incentives without any involvement from the legislature.

And improvements to policymaking haven't stopped there. In some states, an emphasis on evaluation has changed the way policymakers think about incentive design at the outset. When lawmakers in Washington propose a new incentive, they're asked to include a statement that explains their expectations of the incentive, and the data sources evaluators should use to assess the incentive's effectiveness.[iv] In Maine, lawmakers asked their evaluation office to provide a comprehensive review of the design of a new incentive before it went into effect. Lawmakers implemented nearly all the office's recommendations the following year, well before businesses could begin participating. Policymakers in Kansas could consider these practices as they develop new economic development programs.[v]

With that, I'll conclude by saying that evaluations can provide a wealth of information on the design, administration, and economic and fiscal impact of incentives. By answering these questions, Kansas can ensure that economic development programs are working well for the state's budget, for businesses, and for workers.

Thank you for the opportunity to testify, and I'm happy to answer any questions.

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[i] For more on these questions and practices, see Pew's 2017 report *How States Are Improving Tax Incentives for Jobs and Growth*.

[ii] For the Legislative Division of Post Audit's review, see Report 17-15, *Kansas Tax Revenues: Reviewing How Other States Inventory and Evaluate Tax Credits and Exemptions*.

[iii] For more on how states can ensure their evaluation offices have adequate information, see Pew's 2018 report *How States Can Gather Better Data for Evaluating Tax Incentives*.

[iv] The evaluation office has helped Washington lawmakers by offering a detailed guide on how to draft these statements. For the guidance, see Washington Joint Legislative Audit and Review Committee, *Re: Legislative Auditor's Report on Guidance for Tax Preference Performance Statements*.

[v] For more on how states study the design of new incentives before they go into effect, see Pew's 2019 report *How States Can Consider and Design Effective Tax Incentives*.