MEMORANDUM

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TO: Members, Senate Commerce
FROM: Justin Stowe, Legislative Post Auditor
DATE: Wednesday, March 13
SUBJECT: Neutral Testimony Regarding House Bill 2006

I appreciate the opportunity to provide neutral testimony regarding House Bill 2006, which would have the Legislative Post Audit Committee oversee regular evaluations of the state's economic development incentives conducted by our office.

Our office is neutral on this bill because it is a legislative policy decision.

Background

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 business 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 lacks a formal process to systematically evaluate its major tax incentives. The ad-hoc evaluations currently conducted in Kansas do not always address the cost or economic impact of the incentives, and the state lacks a consistent process 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.

Important Provisions

Although we are neutral on HB 2006, we want to highlight several provisions of the bill that would affect our office. HB 2006 would:

- **Require us to evaluate the state's economic development incentives on a three-year cycle at the direction of the Post Audit Committee.** Those evaluations must include a description of each incentive, an assessment of the program's design and administration, an estimate of the economic and fiscal impact of the incentive, and a return on investment calcualtion. Many of these requirements are consistent with best practices we identified in our 2017 audit.

- **Require us to provide certain information we collect on the incentives we evalute to the Secretary of Commerce, if it is not already available to the Secretary.** That information could include the names and addresses of people recieivng program benefits, the annual amount of incentives claimed and distributed to each recipient, and the program cost and return on investment.

We would be glad to provide input on any of the other provisions of HB 2006 to the best of our ability.

Fiscal Impact

The fiscal impact of HB 2006 will vary depending on how the work is structured, as described below. Regardless of the approach used, the provisions of HB 2006 will require us to reduce the number of other performance audits we perform unless additional staff is added.

Short-term—fiscal years 2019 and 2020—our office could handle the initial work required by the bill with existing staff and within our current budget.

Long-term—fiscal year 2021 and beyond—we would need additional funding to contract with economists and other specialists to assist us with the evaluations described in the bill. Moreover, unless the Post Audit Committee is willing to have existing staff work on tax incentive evaluations—which would reduce the number of other performance audits we could complete each year—we will need a couple of additional staff positions to handle this work. We estimate the total long-term fiscal impact of this bill would be between $100,000 and $240,000 annually, depending on how the Post Audit Committee decides it would like to handle staffing.