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**Testimony of Mirielle Burgoyne
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Good morning Chairwoman Lynn and members of the committee. Thank you very much for this invitation. My name is Mirielle Burgoyne and I'm a Senior Associate with The Pew Charitable Trusts' economic development tax incentives project. For those of you unfamiliar with the organization, Pew is a public charity that provides research and technical assistance to governments at the local, state, and federal levels. Working with partners and donors, Pew conducts evidence-based research and rigorous analysis to improve policy and inform the public. Our work is broad, ranging from food safety to criminal justice reform to children's dental health and – most relevant to you all today – state fiscal and economic issues.

The project I work on at Pew helps states and cities make reforms to their economic development tax incentives. Lawmakers across the country are looking for ways to create jobs, raise wages, and help the local economy thrive long-term, and tax incentives are one of the primary tools that states and cities use to try to achieve those goals. They also cost governments many billions of dollars. Economist Tim Bartik of the Upjohn Institute – one of the leading national authorities on business incentives – recently estimated that incentives cost states and localities \$45 billion a year. In order to make sound decisions about how to target those dollars in the long run, it is crucial that policymakers have access to reliable information about whether those investments are working.

To determine whether incentives are accomplishing their intended goals, one of the most important steps a state can take is to set up a process for regular evaluation of economic development tax incentives. Evaluations can provide valuable information about the fiscal and economic impact of tax incentives, including whether they are successfully influencing business behavior. These studies can also uncover flaws in the design or administration of incentives, and can recommend improvements.

Earlier this year, we released a national assessment of tax incentive evaluation processes, a topic that my colleagues at Pew have been studying since 2012. What we found was that many more states are now evaluating incentives than were doing so just a few years earlier. The resulting information is helping states identify incentives that are working well, and reform those that are not. But the important data that evaluations provide has not always been available. In fact, until recently lawmakers across the country have often lacked any high-quality information on the results of incentives. In many



states, incentives have been evaluated inconsistently or superficially, if they have been studied at all. One reason for this is that in many states, incentives do not need to be reconsidered with each new budget. Instead, many were created as permanent parts of state code. So while lawmakers regularly debate spending for education, health care, transportation, and other government functions, incentives often have not been part of the conversation.

Thankfully, that's changing. Since the start of 2012, more than 20 states have enacted laws either requiring evaluation of tax incentives or improving existing evaluation requirements. In 2015 and 2016 alone, 13 states approved such laws. This progress has come about largely because lawmakers are demanding better information. In almost every case, evaluation legislation has received strong bipartisan support. These bills have brought together both supporters and skeptics of incentives, who agree on the need for better information.

Here in the state of Kansas, there is no evaluation law or regular process in place currently. However, I want to commend Kansas' Legislative Division of Post Audit (LPA) for its work on the recent performance audit released in October, entitled *Kansas Tax Revenues: Reviewing How Other States Inventory and Evaluate Tax Credits and Exemptions*. I also want to commend Kansas lawmakers – including all of you here today – for your interest in this topic. As requested, LPA assessed how Kansas' process for inventorying and evaluating tax credits and exemptions compares to processes in other states. The audit found that Kansas does not have a formal process in place to ensure that lawmakers consider the results of tax incentives, whereas several other states including Kansas' neighbors do have formal processes. LPA concluded the report with a three-part recommendation that mirrors best practices Pew has identified. I am here today to add my voice in support of the LPA report's recommendations, and to speak in more depth about the promising practices that our research supports.

In our recent report, *How States Are Improving Tax Incentives for Jobs and Growth*, we gathered and analyzed tax incentive evaluations and other state documents, and we interviewed state officials from all 50 states and the District of Columbia. We found that there were 10 states that were leading the way – meaning that they had well-designed plans for regular reviews, experience producing quality evaluations, and a process for informing policy choices. We found that an additional 17 states and D.C. are making progress in this area. Many of these states have approved laws requiring evaluation recently and are working on implementation. Even since we released our report earlier this year, additional states have made improvements that led us to rank them more highly as a result – Connecticut and Virginia became our 11th and 12th leading states, and Pennsylvania is now among the 17 states making progress.

Despite the impressive efforts states have made over the last five years, all states still have room to improve. At the same time, even states that are trailing behind the leaders have taken some initial steps toward regular, rigorous evaluation of tax incentives such as collecting and reporting data on incentives and conducting one-time evaluations. Here in Kansas, LPA has produced a number of one-time

evaluations – even though they’re not being produced on a regular schedule, LPA has provided a great deal of valuable information and analysis over the years.

Based on our research, we have identified key considerations and promising practices for evaluating tax incentives effectively. Broadly, there are three steps that states can take, that together make it more likely that lawmakers will have consistent high-quality information on the results of their tax incentives, and that they’ll use that information to improve the effectiveness of those programs.

The first step is to make a plan. Lawmakers need to put processes in place to regularly evaluate the results of major tax incentives. The second step is to measure the impact of incentives. High-quality evaluations carefully assess the results of incentives for the state’s budget and economy. Finally, the third step is to inform policy choices. Lawmakers are more likely to use evaluations to improve incentives when states have a formal process that ensure lawmakers will consider the results.

The process looks different in every state, but I’d like to discuss in more detail each of the three steps I mentioned and give you some examples of how states have implemented them.

First, when making a plan for evaluation, one key decision that must be made is which programs will be scrutinized. The state laws that require evaluation of tax incentives also typically include mandates about the details of the process. At a minimum, states should evaluate all major economic development tax incentives. For example, Alabama’s evaluation law focuses specifically on economic development tax incentives. Whereas, Oklahoma’s evaluation law also mandates evaluation of cash incentives such as grants and loans.

Lawmakers also need to set a review schedule. Many evaluation laws ensure that incentives will be studied on a rotating multi-year cycle, with different groups of incentives reviewed each year. Evaluating all major economic development incentives every three to six years is typical. Using this approach, both evaluators and legislators can study a subset of incentives in detail each year. Often, the schedules are organized around the goals of incentives. A state might examine all of its incentives that are intended to help distressed areas in the same year, for example. That way, policymakers can consider which approaches are most effective.

States such as Oregon and Washington have also ensured that incentives are evaluated prior to “sunset dates,” or statutory expiration dates. That way, when lawmakers have to make a decision on whether incentives will continue and in what form, they will have objective information to help guide their actions

Next, it’s important to determine who will conduct the analysis. The ideal evaluation office has several key traits: it has a non-partisan independent perspective, relevant expertise, and the authority to make recommendations about policy.

The most common approach is to use legislative program evaluation or audit options. There are also other alternatives. Indiana uses legislative fiscal staff. Oklahoma has had success contracting with a private consulting firm to perform the evaluations. Mississippi evaluations are conducted by a university research center. Evaluation processes succeed when lawmakers choose evaluators with both the capacity to produce good evaluations and the needed independent perspective.

Once a plan is in place, the next step is for the evaluations themselves to measure the impact of incentives. Evaluations typically include information on the results of incentives for both states' budgets and economies. High-quality evaluations don't stop at crunching numbers – they explain the findings and place them in context. If an incentive is proving to be an ineffective tool for job creation, for example, the program could be poorly designed or poorly administered. By carefully examining the design and administration of incentive programs along with the economic results, states have drawn valuable conclusions about what is and isn't working.

Once those conclusions are drawn, the final step is to connect the findings to the policymaking process. Tools and approaches for accomplishing this goal include: legislative hearings, sunset dates, and executive recommendations. A common approach among states that regularly evaluate incentives is to designate a specific legislative committee to hold hearings, during which the committee discusses the results of evaluations, receives input from stakeholders, and determines whether policy changes are needed.

For example, a policy change resulted from an evaluation in North Dakota, when an interim committee was tasked with evaluating incentives in 2015. In the first round of evaluations, the committee found that some incentives were working well, allowing lawmakers to invest in those programs with confidence. But the panel also uncovered what lawmakers saw as a serious flaw in the state's Angel Fund Investment Tax Credit: program rules had allowed angel funds to invest in out-of-state companies, many of which have no economic impact in North Dakota. To fix this problem, lawmakers added new protections to encourage in-state investments.

As these examples show, in state after state, lawmakers are using the findings of high-quality evaluations to improve the effectiveness of economic development tax incentives. As a result, evaluations are helping states achieve better outcomes for their budgets, businesses, and workers.

Thank you so much for your time and attention. I'm happy to answer any questions.