

SESSION OF 2018

SUPPLEMENTAL NOTE ON SENATE BILL NO. 448

As Amended by Senate Committee on
Commerce

Brief*

SB 448, as amended, would authorize the Post Auditor to conduct scheduled evaluations of “economic development initiatives,” which would be defined to mean state programs, policies, or tax expenditures intended to encourage or facilitate economic development; incentivize businesses to locate, expand, invest, or remain; or hire or retain employees in Kansas. Evaluations would be performed with the same duty of confidentiality as provided by the Legislative Post Audit Act. To the extent possible, evaluations would include:

- A description of the history of the incentive and its goals;
- A literature review of the effectiveness of this type of incentive, including an inventory of similar incentives in other states;
- An estimate of the economic and fiscal impact of the incentive, which could take into account:
 - The extent to which the incentive changes business behavior;
 - The results of the incentive for the Kansas economy, including direct and indirect impacts and any negative effects on Kansas businesses; and

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

- A comparison to the results of other incentives or economic development strategies with similar goals;
- An assessment of whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase beyond the State's means or future expectations;
- An assessment of the administrative effectiveness of the incentive;
- An assessment of whether the incentive is achieving its goals;
- Recommendations to more effectively achieve incentive goals;
- Recommendations for any changes to law or state policy that would allow for the incentive to be more easily or conclusively evaluated in the future; and
- And other information the Post Auditor would deem necessary.

By July 1, 2019, the Post Auditor would be required to complete a one-time study of state incentives, which would include the purpose of each incentive, the data available, and a description of additional information that may be necessary to conduct an evaluation. The Post Auditor would report the inventory to the Senate Committee on Commerce and House Committee on Commerce, Labor and Economic Development. The standing committees would be required to meet jointly to receive the study and use it to develop an inventory, which would be updated annually. The joint committee would develop a schedule for the evaluations to be conducted by the Post Auditor. Economic development initiatives would be evaluated at least once every five years.

The joint committee would:

- Provide additional criteria and guidance to the Post Auditor;
- Accept reports from the Post Auditor and hold public hearings on each evaluation;
- Prepare a written report to the Legislature following the hearings, which could include recommendations and comments;
- Direct the Post Auditor to conduct further investigations, if necessary;
- Develop policy guidelines, eligibility requirements, and criteria for enacting specific individual sales tax exemptions requested by persons; and
- Introduce legislation incorporating the joint committee's recommendations, if applicable.

The joint committee would meet during the 2019 Legislative Session and in subsequent regular sessions on the call of the chairperson. In odd-numbered years, the chairperson and vice-chairperson of the joint committee would be chairperson of the House Committee on Commerce, Labor and Economic Development and the chairperson of the Senate Committee on Commerce, respectively. In even-numbered years, the roles of chairperson and vice-chairperson would alternate. Quorum for the joint committee would equal the combined quorum of the two standing committees. Actions of the joint committee would require a majority of the members present.

Background

During the 2017 Legislative Interim, the Special Committee on Commerce concluded the State of Kansas must establish a process to determine whether economic initiatives and incentives, including tax expenditures, are accomplishing their intended goals. The Special Committee

provided an outline for proposed legislation. The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Lynn.

During the hearing before the Senate Committee on Commerce, a representative from the Pew Charitable Trusts spoke in support of the bill. The conferee said regular evaluations are necessary for better outcomes for businesses, workers, and the state. A representative for the Kansas Center for Economic Growth provided written-only testimony in support of the bill, citing a recent study conducted by the Pew Charitable Trusts that outlined three steps state governments should take to evaluate incentives (*i.e.*, make a plan, measure the impact, and inform policy choices).

The Interim Post Auditor provided neutral testimony, explaining the steps the Legislative Division of Post Audit (LPA) would take to implement the bill if it became law. The conferee observed the bill conformed with the best practices identified in an LPA report released in October 2017.

There was no opponent testimony.

The Senate Committee amended the bill to delete the creation of a new joint economic development initiatives review committee and replace it with a joint committee consisting of the Senate Committee on Commerce and the House Committee on Commerce, Labor and Economic Development.

According to the fiscal note prepared by the Division of the Budget, the bill, as introduced, would cost \$169,405 from the State General Fund (SGF) and 1.0 FTE position in FY 2019. LPA proposes to implement the provisions of the bill over two years by creating a new evaluation team. For FY 2019, LPA would request 1.0 FTE position and \$90,000 for salary and benefits and \$3,000 for other operating expenditures. For FY 2020, LPA would request an additional 2.0 FTE positions and \$150,000 from the SGF for salaries

and benefits. LPA conducts ten to 12 performance audits annually. If a new audit team was not funded, LPA would be required to reduce the number of annual audits by three or four. Legislative Administrative Services estimates expenditures would cost \$76,405 from the SGF in FY 2019 for legislator pay (\$23,854), a committee assistant and related expenses (\$2,551), and professional services (\$50,000). Any fiscal effect associated with the bill is not reflected in *The FY 2019 Governor's Budget Report*.