State of Arkansas

Tax Reform Consulting Services

Table of Contents

August 10, 2017

Bureau of Legislative Research
500 Woodlane Street
State Capitol Building, Room 315
Little Rock, Arkansas 72201

On behalf of PFM Group Consulting LLC (PFM), I am pleased to submit this proposal to provide tax reform consulting services for the State of Arkansas Tax Relief and Reform Legislative Task Force. Inclusive of our affiliated companies in the PFM Group overall, our firm provides a broad range of finance, budget and management consulting services nationally, including the Arkansas Highway and Transportation Department, University of Arkansas and the Northwest Arkansas Regional Airport Authority. PFM's state management and budget consulting practice numbers over half the states among its clients, including current projects underway with the States of Delaware, Hawaii, Illinois, Kentucky, Oklahoma, Pennsylvania, Virginia and Washington.

Given our current and past projects related to tax systems, tax reform, and commissions charged with similar duties and responsibilities, we are excited about this opportunity. In our past efforts, we have taken multiple approaches to evaluating tax structures - including assessment of the responsiveness of a state's tax code to changes in the current economy and the identification of options to improve competitiveness and create jobs within a state while also conforming to key tax principles, including horizontal and vertical equity. These past efforts directly align with the objectives identified in the State's RFP.

In the context of the current economic environment, forming this Tax Reform and Relief Task Force demonstrates strong leadership and foresight, and we commend the Legislature for its creation – and also for seeking third party assistance with the Task Force's deliberations. PFM is dedicated to providing independent, objective research, analysis and recommendations to our clients, and we are committed to a very high standard of excellence in all that we do.

As a firm, PFM works to assist state and local governments in becoming the best managed organizations in the country. PFM's previous revenue studies, transformational, analytical and results-driven work with clients such as the States of Oklahoma, Pennsylvania, and Tennessee and the cities of Baltimore, Pittsburgh, and St. Louis, provide our team with the experience and expertise to conduct this analysis and support the work of the Task Force.

The Core Engagement Team will be led by PFM professionals who have broad state government experience both as government practitioners and in working with states across the country. As the President of PFM Group Consulting LLC, I will oversee the engagement and ensure that the necessary resources are devoted to fully meet the needs of the State. The senior leadership team will be headed on a day-to-day basis by Randall Bauer, a former state budget director who has led numerous tax and revenue-related studies for PFM.

We are pleased to be joined on this proposal by two highly qualified partners. TXP, Inc. is an economics policy consulting firm based in Austin, Texas. PFM is currently partnering with TXP on projects with the State of Oklahoma and Montgomery County, Maryland. TXP

provides great expertise related to analyzing economic impacts stemming from changes in tax and revenue structures. We are also joined by a highly experienced state tax subject matter expert, Andrew Sidamon-Eristoff. Most recently, Andrew served as the Treasurer for the State of New Jersey. Prior to that, he served as Tax Commissioner for the State of New York as well as the Finance Commissioner for New York City.

As you will read in our proposal, PFM and our partners have a proven track record of hundreds of successful client partnerships that have resulted in actionable and practical recommendations. Our deeply embedded principle of assisting effective governance, combined with our strong public sector experience and world-class quantitative tools will lead to a productive resource for the Task Force.

Thank you for providing us the opportunity to present our team and proposal. We look forward to additional discussions related to this most important project.

Sincerely,

Michael Nadol
President
PFM Group Consulting LLC

Introduction/Executive Summary

5.1 Vendor Profile

Business Profile:
PFM Group Consulting LLC
1735 Market Street
43rd Floor
Philadelphia, PA 19103
Telephone: 215-567-6100
www.pfm.com
FEIN: 81-1642478

Primary Contact:
Michael Nadol, President and Managing Director
PFM Group Consulting LLC
1735 Market Street
43rd Floor
Philadelphia, PA 19103
Telephone: 215-557-1433
Fax: 215-567-4180
Email address: nadolm@pfm.com

The PFM Group was founded in 1975 on the principle of providing sound independent and fiduciary financial advice to government and nonprofit entities. It is comprised of seven affiliates that are indirect, wholly owned subsidiaries of a holding company known as PFM I, LLC, 100% owned by its 86 Managing Directors, who set the firm's strategic direction. Today, the PFM Group comprises more than 600 employees across 40 professional locations nationwide.

The firms that make up the PFM Group have three primary business activities, and multiple related services:

- Management and Budget Consulting: offering workforce, operating, and capital budget advice as the national leaders in public sector long-range financial and management planning, related to all aspects of state and local government operations.
- Financial Advisory Services: managing transactions related to debt issuance; PFM Financial Advisors LLC has been the top-ranked independent financial advisor to state and local governments, based on par amount of bonds sold or issuances, for nearly two decades, according to annual rankings compiled by Thompson-Reuters.
- Investment Management: providing investment advice and portfolio management for working capital and bond proceeds; PFM Asset Management LLC manages over $100 billion in assets.

Primary services for this engagement would be delivered by PFM Group Consulting LLC, the PFM Group affiliate for the firm's Management and Budget Consulting practice.

PFM Group Consulting LLC works at the intersection of policy, operations and budgeting to help solve our clients' toughest problems. Our experienced consultants focus on the complex challenges faced by public sector leaders, and deliver in-depth analysis and creative ideas that can truly make a difference.

As can be expected from a firm with our background and experience, there are literally hundreds of PFM projects that have contained the type of economic and programmatic research and analysis on which this project is predicated. PFM's Management and Budget Consulting practice has also worked on complex financial issues with many of the largest and most sophisticated state and local governments in the country.

PFM provides services in all 50 states and literally thousands of jurisdictions. For the purposes of this disclosure, the following is a list of PFM's Management and Budget Consulting practice's state and local government clients for the current and prior two years as well as the nature of the work performed. Those projects with particular relevance to this RFP are bolded.

Client	Year	Service(s)
Albany, NY	2016	Multi-year financial plan
Albuquerque, NM	2016-2017	Fiscal review
Allentown, PA	2015-2016	Support for budget and finance operations
Anne Arundel County, MD	2016-2017	Collective bargaining support, interest arbitration
Atlantic City, NJ	2016	City recovery plan
Austin, TX	2017	Public safety compensation analysis
Baltimore, MD	2015-2017	**Tax study implementation**, ten-year financial plan and implementation support, analysis of pension system, support for privatization of management of public golf courses
Berks County, PA	2015-2016	Organizational assessment
Broward County, FL	2015	Multi-year financial plan for school district
Cincinnati, OH	2015-2017	City fleet study, fleet study implementation, **review of city income tax processes**
Coral Gables, FL	2015	Analysis of retirement finances
Coral Springs, FL	2016	Fee study
Daly City, CA	2016	**Review of tax alternatives**, fee study, financial position
Derry Township, PA	2016	Development of a capital improvement plan
Dover, DE	2015	Police labor arbitration
El Dorado County, CA	2016-2017	Organizational study, strategic plan, budget model
Fairfax County, VA	2015-2016	Study of organization of county police
Hialeah, CA	2015-2016	Multi-year financial planning modeling
U.S. Department of Housing and Urban Development (HUD)	2015-2017	National Resource Network assistance for distressed cities – Baltimore, Cleveland Heights, Compton, East Providence, Fall River, Hartford, Lake Charles, Miami, Miami Gardens, New Bedford, Passaic, Providence, Richmond, Salinas, Waco
Hamilton County, TN	2015	P3 for correctional facility
Houston, TX	2016-2017	Ten-year financial plan
Long Beach, CA	2016	Review of RFP processes
Long Island Regional Planning Council, NY	2017	**Study of income and sales tax alternatives to the local property tax**
Los Altos, CA	2015-2017	Long-term financial plan
Luzerne, PA	2015-2016	Multi-year financial plan, Court-appointed arbitration support
Lynn, MA	2017	Community compact assistance
Manassas, MA	2017	Fee study
Memphis, TN	2016	De-annexation best practices

Client	Year	Service(s)
Miami Beach, FL	2015	Collective bargaining support
Mobile, AL	2015	Analysis of waiver of transit subsidy
Montgomery County, MD	2015-2017	Collective bargaining support, executive pay study, analysis of privatization alternatives, public safety management study, study of economic impacts from increase to the minimum wage
Montgomery County, PA	2015	Consolidation of human services agencies
Nassau, NY BOCES	2017	School district transportation bid support
New Castle County, DE	2015-2016	Labor negotiations support for paramedics
New Orleans, LA	2015-2017	City budget development support, sales tax audit, transportation funding alternatives, **revenue study**, consent decree implementation
New York City, NY	2015-2017	Labor negotiation, support for city interest arbitration
New York MTA	2016-2017	Employee compensation analysis
Ocean City, NJ	2015	Development of a budget model, analyze jail staffing schedule
Petersburg, VA	2016	Multi-year financial plan
Philadelphia, PA	2015-2017	Support for labor negotiations
Philadelphia Department of Human Services	2015-2017	Assessment of Office of Finance, Federal Title IV regulatory compliance
Philadelphia School District	2015	Analysis of transportation, custodial services costs
Prince George's County, MD	2015	Workforce consulting
Prince William County, MD	2017	Fire and police organization and compensation analysis
Providence, RI	2015-2017	Multi-year financial plan, budgeting for outcomes
Rancho Cordova, CA	2015	Fee review
Roseville, CA	2015	Financial analysis
Sacramento, CA	2016-2017	Labor model
San Antonio, TX	2015-2017	Public safety compensation analysis, annexation review
San Francisco, CA	2017	Taxi medallion study
St. Augustine, FL	2016	Development of budget model, **analyze revenue enhancement alternatives**
St. John's County FL	2015-2016	Parking analysis
St. Louis, MO	2015	Multi-year financial plan
St. Louis Development Corporation	2015-2017	**Study of performance of city economic development incentives, options for property tax relief**
Southeast Pennsylvania Transportation Authority	2016	Employee compensation analysis
Springfield, OH	2016-2017	Financial analysis
State of Colorado Department of Human Services	2016	Assessment of child welfare system staffing
State of Delaware Office of Management and Budget	2015-2017	Support for the State Expenditure Review Commission, **support for the State-County Finance Working Group,** support for bargaining with State Police, Port Authority interest arbitration

Client	Year	Service(s)
State of Hawaii Tax Review Commission	2017	**Study of state tax issues related to tax burden, regressivity and alternatives to the current structure**
State of Illinois	2016-2017	Study of fleet system alternatives, support for RFP for private management of fleet
State of Kansas	2016	**Analysis of additional revenue alternatives**
State of Kentucky	2016-2017	Financial analysis of state pension systems
State of Massachusetts	2016-2017	Support for the State Resource Network for distressed local governments
State of New Jersey Economic Development Authority	2015-2016	Project management for federal financial support for damage from Superstorm Sandy
New Jersey Department of Human Services	2015	Drug rebate collection program
State of New Jersey Transportation Authority	2015	Collective bargaining support
State of New York	2015	Executive compensation study
State of Ohio Auditor	2015	Recovery plan support for East Cleveland
State of Oklahoma Incentive Evaluation Commission	2016-2017	**Support of Commission responsible for evaluation of all state business tax incentives**
State of Oregon Department of Administration	2016	Assessment of internal state IT operations, new billing model for IT services
State of Pennsylvania Department of Administration	2015-2017	Support for labor negotiations with Department of Corrections employees and State Troopers, park rangers, Capitol Police
State of Pennsylvania Department of Community and Economic Development	2015-2017	Multi-year financial plans for distressed cities – New Castle, Parma, Pittsburgh, Reading. Early intervention program support for Wilkes-Barre
State of Pennsylvania Department of Education	2015-2017	Financial analysis of school funding formula changes, cyber charters, support for distressed school districts
State of Pennsylvania Department of Human Services	2015-2017	Financial analysis, technical assistance with federal regulations and reporting, organizational assessment
State of Virginia Department of Behavioral Health and Developmental Services	2015-2016	Financial modeling for state costs associated with changes to state-local service delivery structure under federal consent decree
State of Virginia Finance Secretary	2017	Analysis of state approaches to distressed cities
State of Washington Department of Agriculture	2016-2017	Financial review, **multi-year revenue and expenditure model**
State of Washington Department of Transportation	2016	Recruitment and retention of high-skilled employees
State of Washington Joint Transportation Committee	2016	Analysis of recruitment and retention strategies for State Troopers
Tallahassee, FL	2016	Study of city reserves, sustainability study

Client	Year	Service(s)
Upland, CA	2015-2016	Update of budget model
Washington, DC	2015-2016	Capital program planning, fee study
Wilmington, DE	2015-2017	Finance operations study, review of Public Works, support for labor negotiations
Yuba City, CA	2015-2017	Financial analysis

Within the category of current "contracts to supply tax reform consulting services" the following generally apply:

- State of Delaware State County Finances Working Group. PFM has been retained by the Office of Management and Budget to assist a Working Group considering changes to the funding (and taxing) relationship between the State and its Counties.

- State of Hawaii 2017 Tax Review Commission. PFM has been retained to deliver studies of the current state tax structure related to tax burden and regressivity as well as revenue-raising alternatives.

- State of Oklahoma Incentive Evaluation Commission. PFM and TXP were retained in 2016 to support the Commission's evaluations of 11 incentives, which were delivered on time in November 2016. As a result, PFM and TXP were retained again in 2017 to evaluate an additional 12 incentives. That evaluation is underway.

- Long Island Regional Planning Council. PFM was retained in 2017 to analyze alternatives to the property tax for funding local government programs. The Planning Council represents Nassau and Suffolk Counties as well as the local governments (cities, towns, villages, school districts and authorities) within the two counties.

5.2 General Information

PFM's Management and Budget Consulting practice features a highly experienced and qualified team. Its senior leaders have all served at senior levels in state and local government. They will all be available, as needed, to provide guidance and assistance on the project. The Management and Budget team is unique in its ability to provide qualified expertise and experience from both the public and private sector perspective. The following are the leaders of the Management and Budget Consulting practice:

- **Michael Nadol, Managing Director.** Has over 17 years of experience with PFM. Prior to joining PFM, was Deputy Mayor and Finance Director for the City of Philadelphia.

- **Dean Kaplan, Managing Director.** Has over 17 years of experience with PFM. Prior to joining PFM, was Budget Director for the City of Philadelphia; also served as legislative director for a Pennsylvania member of Congress.

- **David Eichenthal, Managing Director.** Has over 5 years of experience with PFM. Prior to joining PFM, was Finance Director for the City of Chattanooga and chief of staff to the New York City public advocate, the City's second-highest elected official. He also served as the assistant inspector general of the New York City School Construction Authority and assistant

deputy comptroller and counsel for special projects in the Office of the New York City Comptroller.

For this project, the Task Force will require a highly experienced consulting firm with the capabilities and capacity to do its work in 'the public eye' and with a short timeline. PFM has been able to deliver in this type of situation in the past on similarly complex state projects. The following are four examples:

- In September 2015, Delaware Governor Jack Markell issued an executive order creating the Delaware Expenditure Review Committee, which was charged with reviewing state government operations and identifying opportunities to generate efficiencies and provide state services in a more cost-effective manner. PFM was hired by the State Office of Management and Budget to provide subject matter expertise and staffing support for the Committee. Over a four-month period, the Committee met on a bi-weekly basis, and the PFM team (co-led by Randall Bauer) provided background research and presented its analysis at each Committee meeting, which were generally devoted to a specific area of state government. At the Committee's final meetings in December, PFM facilitated group discussion of recommendations, provided additional financial analysis of the options and provided a draft report to the Committee. After discussion and changes were voted upon by the Committee, PFM provided a final report, which was approved by the Committee and submitted to the Governor and Legislature in January 2016 – on time and significantly under budget.

- In May 2016, PFM was retained by the State of Illinois Central Management Services (CMS) to conduct a study of its fleet management and operations. This was in response to an RFP issued in 2015. As originally proposed, the project was to be a six-month study. However, because of the delay in selecting the vendor, the State requested that the project be completed in four months. The PFM project team, led by Randall Bauer and including Deanna Yocco, was able to modify the original project plan and accelerate its timeline. As a result, PFM completed the project within the State's accelerated timeframe – on time and on budget.

- The State of Pennsylvania sought to increase its capacity to analyze alternate methods of providing state school aid funding, particularly via a 'weighted student funding' (WSF) approach. PFM was retained on December 12, 2011 to develop funding models that would support that analysis, as well as to provide background research on the use of WSF in other states. Because the Department of Education and the Governor's Budget Office wanted to use the model to analyze WSF funding options in the on-going legislative session, it was necessary to have an operational version of the model by mid-January, with a fully working version by mid-February. To accomplish this, a PFM team, co-led by Randall Bauer, met on multiple occasions with Department leadership and staff to understand requirements, necessary reports and system functionality. PFM then built and demonstrated the model for subject matter experts in week three and worked with them to enhance functionality through multiple iterations of the model. PFM met every project milestone and completed the project on time and under budget.

- In 2012, the State of Virginia entered into a settlement agreement with the US Department of Justice (DOJ) that created significant new programmatic and financial requirements and milestones for the Department of Behavioral Health and Developmental Services. At that time, there was concern that existing fiscal management processes and staff were not sufficient to monitor and ensure progress against the settlement agreement and provide estimates of necessary costs for compliance purposes. PFM was hired to assess current systems and processes, identify fiscal risks associated with current operations and the Department's ability to comply with the settlement agreement. Because of the critical nature of this analysis, the

project had just seven weeks from start to finish. To comply with this, PFM organized a senior team (managed by Randall Bauer) and put that team on the ground the first week of the project. PFM returned for additional meetings and interviews, developed high level project findings in week three and presented them, along with preliminary recommendations in week four. PFM also briefed the Secretary of Finance on recommendations and analyzed some of the high level findings in greater depth. PFM made detailed recommendations related to staffing complement, structure, roles and responsibilities, most of which were adopted.

5.3 Disclosure of Litigation

There are no findings or pleas, convictions or adjudications of guilt in a state or federal court for any felony or any other criminal offense other than a traffic violation committed by the persons identified as management, supervisory or key personnel.

There have been no bankruptcies, insolvencies or pending litigation involving PFM. PFM has, on occasion, purchased other firms throughout its history.

As previously noted, PFM affiliated companies provides financial advisory services for other governmental entities in Arkansas. We do not believe that these create material conflicts of interest. These types of relationships also exist in all of the states where we have done this type of work, and there have been no concerns raised that PFM analysis or recommendations were impacted by financial advisory relationships with other governments.

5.4 Executive Summary

The PFM project team is a highly experienced and skilled team that will be supported as needed by the resources of the overall PFM Group's 600 professionals in offices around the country. PFM regularly delivers complex financial modeling as part of many of its engagements, and its subcontractor firm, TXP, does the same for economic impact analysis. The firms have worked together on numerous successful projects, both past and present.

The key to every engagement is developing a solid foundation and understanding of client needs, goals and objectives. The following are key 'building blocks' for project success:

- **Identified 'measures of success.'** The PFM project team will initially engage the key project sponsors/stakeholders in identifying their definition of a successful project outcome.
- **Regular communication about project management.** The PFM project manager will establish a regular method of communicating project activities and plans.
- **A rolling list of activities for analysis or commentary.** The project team will continually update its 'to-do' list and timelines.
- **Regular written progress reports.** Generally bi-weekly written reports will provide requested information and updates on project activities, issues needing resolution and the project calendar.
- **Project guarantee.** PFM stands behind all of its projects. In short, if you, as the client, are not satisfied, we will do whatever is necessary to provide you the in-scope analysis or deliverables that meet your expectations – no ifs, ands or buts.

Chronologically, the following are the key activities, with a description of the responsibilities and their fit within the project timeline. We understand that the initial draft report is due by December 1 and are prepared to meet that project deadline (assuming, of course, that the State is timely in making its contract approval and award in mid-September 2017 and can provide reasonable assistance with key aspects of the project). The following timeline is focused on that draft report; the timeline for the final report will be better developed as the project unfolds – but PFM stipulates that it can meet that deadline (September 1, 2018) as well.

Please note that these are suggested timeframes within the project. They may well vary as the project unfolds due to a variety of circumstances. However, PFM will modify its staffing if needed to keep the project on track to a December 1, 2017 deadline. As the previously cited project examples show, PFM has great experience working with hard and fast deadlines and can do so here as well.

- **Analysis of the 'as is' state tax structure and system (September 18 through September 29).** PFM will use multiple data collection methods to be fully informed of the current system and provide a brief memorandum supporting that analysis.
- **Research and analysis related to key tax data and metrics**. **(Ongoing throughout project commencing on September 15).** PFM and its subcontractor TXP will develop and use models (assuming that the State already has a microsimulation tax model that it will use as part of the analysis) and common data sources to provide data and information as needed to analyze tax reform options.
- **Benchmarking of relevant peer state tax structures (September 18 through October 6).** PFM research assistants, under the direction of the senior analyst, will conduct benchmarking of other states to inform on tax options and opportunities related to economic competitiveness. PFM will provide a summary memo of that research and also include it in the draft report.
- **Best practices research (September 25 through October 13).** PFM will review all relevant tax actions by other state legislatures over the past two years. Much of this research has already been conducted for prior projects, and this will also ensure that the Task Force is familiar with all recent developments. PFM will provide a summary memo of that research and also include it in the draft report.
- **Economic impact analysis (Commencing on the completion of the background research through October 2017).** Based on findings and information from prior activities, TXP will conduct economic impact analysis for identified options and opportunities. These will become a key component of the draft report.
- **Scenario development and testing (Through October 2017).** Options and opportunities will be modeled for financial impact as well. These models will be developed under the direction of the senior analyst and, in conjunction with the economic impact analysis, will be key inputs for decision-making. Those results will be shared with the Task Force as requested and will also be an input into the final draft report.
- **Task force facilitation and support (Ongoing).** Project team representatives will appear in person for all Task Force public meetings – most likely the project manager and others as needed.
- **Written reporting (November 2017).** Based on the gathered and analyzed information and the financial and economic impact models, PFM will prepare a detailed written report for the Task Force and deliver it by the December 1, 2017 due date. The report will include appendices that detail all model methodologies and other assumptions as well as a detailed discussion of all areas that were reviewed for the final report and recommendations.

5.5 Vendor's Qualifications

PFM and its partners will make our full team of professionals available to the State, drawing from over 600 employees nationally with specialized expertise in nearly every area of state and local finances. PFM's Management and Budget Consulting Practice has been engaged in analysis of tax reform and related issues for over a decade.

The following individuals are expected to be among those assigned to the State, under the direction of Michael Nadol, leader of our Management and Budget Consulting practice nationally and a partner within the firm.

- **Michael Nadol, Managing Director**, will serve as Engagement Director for this project, ensuring client satisfaction and quality control. Mr. Nadol leads PFM's management and budget consulting practice nationally, and has played a key role in long-range financial planning, turnaround consulting and performance improvement programs for major cities, counties, states and federal agencies. He has worked with numerous state-level clients, including the States of Delaware, Kentucky, New York, Pennsylvania, and Tennessee, and has led focused tax policy studies for clients including the Cities of Baltimore and Philadelphia.

  Prior to joining PFM, Mr. Nadol served the City of Philadelphia in positions including Deputy Mayor, Director of Finance, and Director of Labor Negotiations. He teaches on the adjunct faculty of the University of Pennsylvania's Master of Public Administration program, serves as an appointed adviser to the Government Finance Officers Association (GFOA) Committee on Governmental Budgeting and Fiscal Policy, and is a member of the Governing Board for the National Resource Network, an initiative of the U.S. Department of Housing and Urban Development. Mr. Nadol earned a Master of Governmental Administration degree from the University of Pennsylvania, and a Bachelor's degree, Summa Cum Laude, from Yale University.

- **Randall Bauer, Director,** will serve as day-to-day Project Manager and as a subject matter expert. He leads the state practice in PFM's Management and Budget group. His clients have included the States of Delaware, Georgia, Hawaii, Illinois, Kansas, Minnesota, Nebraska, New Jersey, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Washington and Virginia as well as the cities of Aurora, Baltimore, Cincinnati, Colorado Springs, St. Louis and the Long Island Regional Planning Council.

  Mr. Bauer's areas of specialty include analyzing and developing revenue structures, economic incentives related to tax structures and long term financial and strategic planning. Among his current projects, Mr. Bauer is leading a project team providing analytical support for the 2017 Hawaii Tax Review Commission; leading a project analyzing alternatives to the property tax (primarily forms of local income or sales and use taxes) for the Long Island Regional Planning Council; and he is leading a project team (that includes TXP, Inc.) that is assisting the Oklahoma Incentive Evaluation Commission with analysis and evaluation of 12 existing state tax credits, rebates and incentives. Among recent projects, he assisted the State of Washington Department of Agriculture with analyzing and determining appropriate fee and revenue structures for its fruit and vegetable inspection program, and has assisted the State of Oregon with reorganizing its IT operations, including its methods for charging for services. Past projects have included managing the study of the Hawaii tax system for the 2012 Tax Review Commission, making recommendations for changes to the administrative and revenue estimating processes for the

Pennsylvania Department of Revenue and analyzing revenue alternatives for the State of Kansas.

At the local level, Mr. Bauer has assisted the Cities of New Orleans, Pittsburgh and Portsmouth with their revenue estimating efforts. He has also managed studies of the revenue structure and proposed changes for the City of St. Louis, the long-term capacity of the revenue structure for the City of Aurora, Colorado; and the income tax collection process for the City of Cincinnati, Ohio. He has also served as a subject matter expert for the Mayor's Blue Ribbon Tax Commission in Baltimore, Maryland; and the Sustainable Funding Committee in Colorado Springs, Colorado. Finally, he has also led a study of the city economic development tax incentives for the City of St. Louis.

Prior to joining PFM, Mr. Bauer served for nearly seven years as Budget Director for the State of Iowa and was the Governor's chief adviser for the State's $12 billion budget as well as a senior adviser on tax and public finance issues. In that capacity, he was the Governor's appointee to the Legislature's Study of Property Tax Reform and also chaired the Governor's 2002 review of State tax policy. He also guided the Department of Management staff responsible for developing the Executive Branch revenue projections for the State's revenue estimating conference. Prior to his work as State Budget Director, Mr. Bauer served for over ten years as a senior legislative analyst for the Iowa Senate with primary responsibilities on tax, budget and economic development issues.

Mr. Bauer regularly provides subject matter expertise related to budget, finance and tax public policy issues. He has presented on these topics at meetings and conferences conducted by the Association for Public Policy Analysis and Management, the Association for Educational Finance and Policy, the Center on Budget and Policy Priorities, the Council of Development Finance Agencies, the Federal Reserve Bank of Chicago, Governing Magazine, the National Association of Chief Information Officers, the National Association of State Budget Officers, the National Intergovernmental Audit Forum and the US Census Bureau. He has also served as an external reviewer of papers and research by the National Association of State Budget Officers and the Pew Charitable Trust. He has also served as President of the Iowa Society of Certified Public Managers and is a life member of the National Association of State Budget Officers, where he served on its Executive Committee.

Mr. Bauer earned a BA from Coe College, the Certified Public Manager designation from Drake University, and was a Fannie Mae Foundation Fellow at Harvard University's program for senior executives in state and local government.

- **John Cape** will serve as a subject matter expert for this engagement. A recently retired partner with PFM's Management and Budget Consulting practice, Mr. Cape is a national expert on public sector budgets and tax policy, with over 40 years' experience in government. Since joining PFM in 2007, he has participated in dozens of projects in over 15 states ranging from privatization of State-operated alcoholic beverage systems in five states to reforming the work of child welfare agencies from Los Angeles to Philadelphia. He has also worked to reform tax policies for the State of Hawaii and Medicaid policy for the State of Delaware, to implement a Federal de-institutionalization Consent Decree in Virginia and to streamline operations and staffing for the Illinois Department of Natural Resources.

Prior to joining PFM, Mr. Cape served as the Director of the Budget for New York State. As Director, he was New York's chief financial officer and the principal fiscal advisor to the Governor,

heading the Division of the Budget, whose 350 staff members oversee a $113 billion operating budget and $50 billion debt portfolio.

Mr. Cape began his State career in 1973, working as a Municipal Management Consultant and Federal program manager before joining the Division of the Budget in 1980. During the following 26 years, he had the opportunity to oversee funding for virtually every State program area. He headed the Division's Local and Federal Relations office, working with organizations including the National Governors Association advocating for changes and enhancements to Federal programs including Medicaid, Welfare and Transportation as well as New York state municipal associations in intergovernmental fiscal issues such as the State cap on county Medicaid expenditures. The author of major budget reform and debt reform statutes, in 2000 he was promoted to Deputy Director, overseeing statewide budget planning, development, negotiation and execution, advancing to First Deputy in 2002 and Director in 2004. He also served as Chairman of the State's Public Authority Control Board and a Director of the Local Government Assistance Corporation.

A nationally known speaker on state fiscal and policy issues, and a recognized advocate for fiscal integrity and transparency, Mr. Cape also serves as a Senior Fellow of the Rockefeller Institute of Government, is a former Fellow of the State Academy of Public Administrators, and has served on the Executive Board of the National Association of State Budget Officers. He is the 2006 recipient of the Center for Technology in Government's Rudolph W. Giuliani Leadership Award, and recipient of the American Society for Public Administration's Charles Evans Hughes Award.

Mr. Cape received his Bachelor of Arts in economics degree from the State University of New York Empire State College and pursued graduate study at the Rockefeller College of Public Affairs.

- **Andrew Sidamon-Eristoff** will serve as a key subject matter expert related to revenue systems, system administration and overall tax policy. He has served in senior leadership roles related to revenue structures and administration for over 20 years. Mr. Sidamon-Eristoff most recently was Treasurer for the State of New Jersey, a cabinet-level appointee of the Governor. He was responsible for planning and executing New Jersey's $33 billion annual budget; tax and revenue administration; asset management; public finance; and debt management. Mr. Sidamon-Eristoff played a leading role in key administration initiatives, including a $2.3 billion/five-year business tax reduction package; reduced growth in bonded debt and elimination of the State's $4.2 billion exposure to derivatives; and five balanced budgets with a reduced reliance on one-time revenue sources.

  Prior to serving as Treasurer, Mr. Sidamon-Eristoff was Tax Commissioner for the State of New York, where he oversaw development and deployment of pioneering systems application that used data analytics and predictive modeling to identify and prevent tax fraud and was a national leader in promoting innovative data sharing with the IRS and other state tax administrations. Prior to that, he served as the Finance Commissioner for New York City.

  Mr. Sidamon-Eristoff earned his BA cum laude from Princeton University and his JD cum laude from Georgetown University. He has also been certified in the use of the Tax Administration Diagnostic Assessment Tool from the IMF.

- **Jon Hockenyos** is the President of TXP, Inc. Jon and TXP will provide economic impact analysis related to changes to the State's tax structure. Jon has had a life-long interest in economics and

public policy. Following stints as an aide to a member of the British Parliament and work on a Senatorial campaign in his home state of Illinois, Mr. Hockenyos founded TXP while attending the LBJ School of Public Affairs at the University of Texas at Austin in 1987. Since then, TXP has successfully completed hundreds of projects for a wide variety of clients, with a strong record of on-time, on-budget delivery. Along with serving as President of the firm, Mr. Hockenyos makes numerous public presentations and speeches, has served as a resource witness on a variety of issues for a large number of city councils, state legislatures, and the U.S. Congress, and is widely quoted by both print and electronic media.

Mr. Hockenyos received a BA degree from the University of Illinois and Masters of Public Affairs degree from the LBJ School of Public Affairs, where he has taught as an Adjunct Professor. He also served on the interim Board of Directors for Capital Metro (the Austin area transit authority) during the summer of 1997, is the current President of the Board of Directors of Hyde Park Theatre in Austin, and is a member of the Advisory Board of American Bank of Commerce and the Finance Committee of the Seton Family of Hospitals.

▪ **Travis D. James** is a Vice President at TXP, Inc. Travis brings nearly 20 years of experience in economic analysis, strategic planning, and policy development. Currently, Mr. James leads the firm's efforts in economic impact studies, statistical analysis, and strategic planning. While at TXP, Mr. James has conducted over 200 economic and tax revenue impact studies for projects located in California, Florida, Louisiana, Maryland, New York, Pennsylvania, South Carolina, and Texas. He specializes in sub-regional analysis that requires blending economic analysis, land planning, GIS tools, and long-term forecasting.

Prior to joining TXP, Mr. James worked at ExxonMobil in the global information systems technology division in Washington, D.C. His duties required lengthy international travel to South America, Europe, and Asia in order to develop and support large-scale global systems solutions. Mr. James also spent five years as a project manager at a national economic development consulting firm where he worked on numerous studies throughout the United States.

Mr. James holds a Bachelor of Arts degree in Economics from the University of Texas at Austin. He also received a Bachelor of Science in Computer Science from Texas State University. Mr. James earned an MBA from St. Edward's University.

▪ **Deanna Yocco, Senior Analyst**, will serve as the primary analyst for the project. Deanna is based in PFM's Philadelphia office. Deanna provides quantitative, analytical, and research support for governmental performance improvement. Ms. Yocco's recent projects include a study of the State of Hawaii's tax structure, an analysis of the use and impacts of economic development incentives for the State of Oklahoma, a property tax alternatives study for Long Island, and a fleet and employee business transportation efficiency study for the State of Illinois.

Prior to joining PFM, Ms. Yocco was a Budget Analyst with the School of Arts and Sciences at the University of Pennsylvania, where she prepared analyses for school resource planning and collaborated with school leadership to achieve sustained economic viability and growth. Projects included preparation of quarterly school-wide forecasts and profit/loss analyses, enrollment and revenue estimates, and the completion of annual five-year budget projections.
Previously, she served as a Budget and Management Analyst for the State of Ohio's Office of Budget and Management. Her responsibilities included monitoring and analyzing financial matters affecting state agencies, boards and commissions. She was also responsible for the

preparation of the Governor's Monthly Financial Report, detailing the State's economic forecast, revenues, and preliminary monthly disbursements.

Ms. Yocco holds a Bachelor of Arts degree, cum laude from Xavier University and a Master of Public Administration degree from Northern Kentucky University.

- **Seth Williams, Senior Managing Consultant**, will serve as an additional subject matter expert resource for the project. Since joining PFM's MBC practice, Mr. Williams has supported state and local government clients on projects involving transformation/operational review, workforce and organizational structure analysis, and financial improvement initiatives. He has worked for a diverse set of clients – a sample that includes the States of Hawaii, Pennsylvania and Virginia; Cuyahoga County, Ohio; City of Baltimore, Maryland; City/County of Philadelphia, Pennsylvania; New Castle County, Delaware; Ocean County, New Jersey; and Cherry Hill Fire Department, New Jersey.

Prior to joining PFM, Mr. Williams worked for the Office of the New Jersey Governor as Cabinet Liaison and a Deputy Director of Management and Operations. He was the primary point of contact in the Governor's Office on operations, budget preparation, organizational management issues, and tactical activities for 12 cabinet departments and sub-cabinet agencies. In this role, his responsibilities included administration of workforce planning/personnel management initiatives, serving as the principal staff member responsible for candidate recruitment, vetting, and selection for high-level, Gubernatorial-appointed positions, and acting as the lead staff member to the New Jersey Commission on Government Efficiency and Reform (NJ GEAR); a high-profile Commission appointed by the Governor.

Mr. Williams earned a Master's degree in Government Administration from the University of Pennsylvania, Fels Institute of Government, and a Bachelor of Arts degree in Political Science from Muhlenberg College, Allentown, PA.

A list of current accounts was provided in 5.1.

The following details the organizational chart for the project team:

PFM Project Organizational Chart
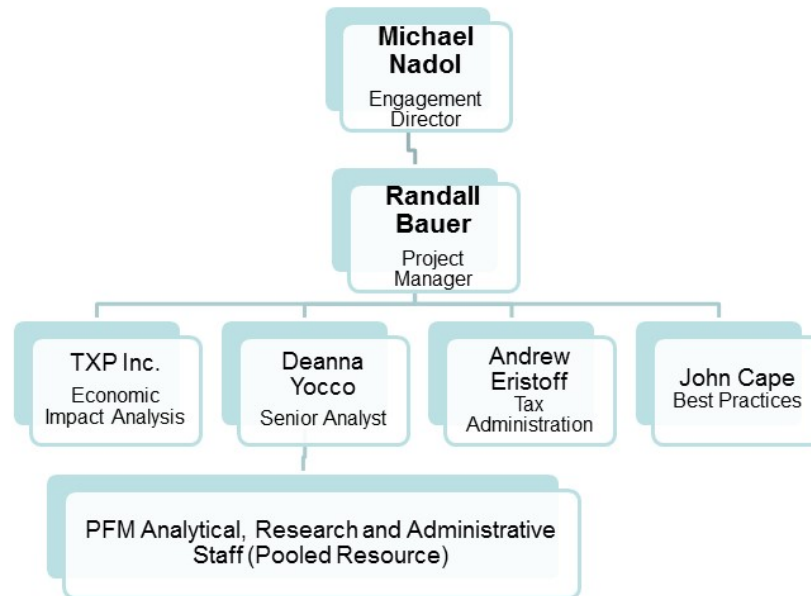
The following summarizes relevant experience related to tax reform assessment, research and reporting, and identifies proposed project team members who had a significant role in each prior project:

State Projects:

- **Hawaii Tax Review Commission, 2012.** Analyzed the Hawaii tax system related to key principles of taxation (equity, efficiency, sufficiency, stability, etc.) and made recommendations for changes that conform to these tax principles and provide the revenue necessary to meet state expenditure needs as determined by a long-range forecast. (Bauer, project manager; Williams, senior analyst; Cape, engagement director)
- **Hawaii Tax Review Commission, 2017.** Assisting current Commission by analyzing existing tax burden and identifying alternatives to reduce regressivity and provide additional revenue alternatives. (Bauer, project manager; Yocco, senior analyst; Cape, engagement director)
- **Kansas, 2016-2017.** Analysis of tax and revenue options to balance the state budget. (Bauer, project manager; Yocco, senior analyst)
- **New York Division of the Budget, 2008-2009.** Analysis of the likely revenue performance related to a Racino at Aqueduct Racetrack. (Bauer, project manager; Nadol, engagement director)
- **Ohio Office of Budget and Management, 2012.** Analysis of revenue generating opportunities from a State public private partnership (Bauer, project manager; Cape, engagement director)

- **Oklahoma Incentive Evaluation Commission, 2016-2017.** As part of a four-year process, assisting the Commission with evaluating the revenue and economic impact and effectiveness of (to date) half of the State's major economic incentives (primarily tax credits, exemptions and rebates). (Bauer, project manager; Yocco, senior analyst; Nadol and Cape, engagement directors)
- **Pennsylvania Department of Revenue, 2012.** Study and recommendations to improve revenue administration, collection and revenue estimating processes. (Bauer, project manager; Cape, engagement director)
- **Pennsylvania Governor's Budget Office, 2012.** Development of a financial and revenue impact model related to changes in tax and expenditures related to modifications to the state school finance formula. (Bauer, project manager; Cape, engagement director)
- **Washington Department of Agriculture, 2016-2017.** Development of a financial model and assumptions related to revenue and expenditure forecasts for State fruit and vegetable and grain inspection programs. (Bauer, project manager; Nadol and Cape, engagement directors)

Local Government Projects:

- **Aurora, Colorado, 2006.** Revenue study based on both short, medium and long-term financial outlooks, identifying possible revenue alternatives and their impact on the budget and local economy. (Bauer, project manager)
- **Baltimore, Maryland, 2007, 2011, 2014-2015.** Analytical and facilitation support for a Mayor's Blue Ribbon Task Force focused on reducing the city's property taxes. Support for implementation of recommendations. (Bauer, subject matter expert; Nadol 2014-2015 project manager)
- **Cincinnati, Ohio, 2011, 2017.** Review of City income tax collection processes, update to the earlier study. (Bauer, project manager; Yocco, senior analyst for 2017 study; Nadol, engagement director)
- **Colorado Springs, 2008.** Staffing support for a City Council-appointed Committee to develop a long-range sustainable funding plan for the City. (Bauer, project manager)
- **Hamilton County, Ohio, 2007.** Analysis of 'sin tax' alternatives and likely revenue impacts. (Bauer, project manager)
- **Long Island Regional Planning Council, New York, 2017.** Revenue analysis of alternatives (primarily income tax or sales tax) to the local property tax. (Bauer, project manager; Yocco, senior analyst; Cape and Nadol, engagement directors)
- **New Orleans, Louisiana, 2009.** Assistance with establishing City revenue projections after Hurricane Katrina. (Bauer, subject matter expert; Nadol, engagement director)
- **New Orleans, Louisiana, 2012.** Study related to enhancing revenue collections. (Bauer, subject matter expert)
- **Philadelphia, Pennsylvania, 2003.** Analysis of tax reduction funding strategies for a Charter-established Tax Reform Commission (Nadol, subject matter expert)
- **Pittsburgh, Pennsylvania, 2005-2017.** State-appointed financial coordinator. Provided revenue estimating assistance, city work-out plan that included restructuring the City tax and revenue structure (Bauer, subject matter expert; Nadol, subject matter expert)
- **Portsmouth, Virginia, 2008.** Analysis of alternatives to raise additional city revenue. (Bauer, project manager)
- **Providence, Rhode Island, 2007.** Analytical support for a city tax policy working group. (Bauer, subject matter expert)
- **St. Louis, Missouri, 2010-2011.** Study of City revenue structure and alternatives, including diversifying and reducing reliance on the City income tax. (Bauer, project manager; Nadol engagement director)

- **St. Louis Development Corporation, 2014-2016.** Economic and financial impact analysis of City tax incentives. Review of options for City property tax relief. (Bauer, project manager; Cape, engagement director)

Beyond direct PFM resources, TXP has been involved in literally hundreds of economic impact analyses related to the types of issues that the Task Force will encounter. Most recently, they have provided all of the impact analysis related to the Oklahoma Incentive Evaluation Commission work.

Project Methodology

In the dozens of prior projects where PFM and the project team have been engaged by state and large local governments to do this type of analysis, there are several general themes that run through the work. It should be noted that the exact methodology will depend on the specific needs of the Task Force – they are not specifically outlined in the RFP.

However, based on our past experience, we would identify the following as key tasks and activities. The general methodology used to complete the tasks and activities associated with them are explained, as well as the PFM project approach for them.

- **Analysis of the 'as is' state tax structure and system.** PFM will first use a detailed information request (primarily consisting of state budget, finance and tax data) as well as review of relevant information related to the state economy and tax structure. PFM subject matter experts will also conduct structured interviews/meetings with key state subject matter experts and stakeholders to gain a full understanding of the current system and its ramifications.
- **Research and analysis related to key tax data and metrics**. The tax structure is, of course, an important component of state government operations (in its role of providing the resources to run it), but it also is an important component of the state's economy and how it interacts with and impacts citizens and businesses. PFM will use a variety of commonly accessed data sources (such as the US Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, the Federal Reserve Banks and others) to identify key issues, such as how the revenue structure impacts on the overall economy, how it performs in differing parts of the business cycle and how it will likely perform in the future based on current expectations related to economic, social and demographic trends.
- **Benchmarking of relevant peer state tax structures.** PFM will provide an analysis of how Arkansas compares to other competing tax structures. This will be a form of a SWOT (strengths, weaknesses, opportunities and threats) analysis of internal and external issues compared to its peer states. PFM also maintains a database of all state tax law changes and will reference it as needed during discussions of possible tax reform alternatives.
- **Best practices research.** The project team will provide research and analysis on the opportunities to align the Arkansas economy and related social and demographic issues with its tax structure in a way that maximizes its performance. This will also include options and opportunities to use non-tax revenue alternatives and high-performing administrative functions to ensure that taxes are collected fairly and efficiently to maximize taxpayer compliance and minimize the costs associated with properly paying taxes.
- **Economic impact analysis.** The project team (primarily TXP) will use standard input/output models (such as IMPLAN, REMI or RIMS II) to calculate likely economic impact from tax law changes. These models serve a useful purpose, but they must also be tempered with case-by-case judgment of issues that may alter their findings. The project team has the knowledge,

expertise and experience to make those judgments and adjust accordingly. This is real world experience that is sometimes lacking in more academic analyses.

- **Scenario development and testing.** The project team, based on its analysis of the output from the prior activities, will develop and/or test scenarios using the tools presented in the preceding bulleted steps. This will include a written analysis of the advantages and disadvantages (and possible modifications or iterations) of each proposal.
- **Task Force facilitation and support.** The project team has successfully facilitated or supported multiple state and local tax-related projects in the past. The project team will provide required resources, reports and meeting agendas (as appropriate) for the Task Force.
- **Written reporting.** Ultimately, the Task Force will require written support for the analysis, findings or recommendations provided by the project team. PFM has served similar organizations and studies in multiple ways – from actually writing reports to providing specific content on subjects of a report and all possible options in between. Regardless, PFM is adept at writing reports that are accessible to the average reader while not sacrificing the technical precision necessary for a nuanced topic.

Plan to Assist the Task Force

PFM is, above all else, focused on customer service. Through the variety of task forces, blue ribbon commissions and similar organizations that PFM has assisted, there are some key guiding principles that have served us well in nearly all projects. These would be the key components of the plan to support this Task Force:

- **Identified 'measures of success.'** Early on in the project, PFM would propose having individual or collective meetings with Task Force members or other project sponsors to identify the factors that will lead to 'project success' and how to measure them.
- **Regular communication about project management.** Our general approach for this sort of Task Force support would be a call with the Chair (and, if helpful, others in leadership positions) on a weekly basis. These should be regularly scheduled calls with an agenda provided at least 24 hours prior to the call by the PFM project manager. While they do not need to be long calls (often no more than 15-30 minutes), they provide a regular opportunity to check in and get feedback and plan, as needed for coming events.
- **A rolling list of activities for analysis or commentary.** One of the 'sticking points' for these types of committees or task forces can be tracking and following up on all issues or requested tasks that arise. Accordingly, our practice is to maintain a written list of all requested activities or studies by the Commission or Task Force members. This list is updated regularly (usually as part of written bi-weekly project management reports) with progress detailed within those reports.
- **Regular written progress reports.** PFM generally recommends written project reports on the 1st and 16th of each month. These reports cover activities completed during the reporting period, planned or scheduled activities for the next reporting period, issues that require assistance for resolution by the client project sponsor or manager (and the expected level of impact on the project should the issue not be resolved), and both the original project calendar and any proposed changes to that timeline.
- **Project guarantee.** PFM stands behind all of its projects. In short, if you, as the client, are not satisfied, we will do whatever is necessary to provide you the in-scope analysis or deliverables that meet your expectations.

Scheduling

PFM develops autonomous self-directed work teams for its projects; it is typical for PFM senior professionals to be engaged on multiple projects at any particular point in time. This is possible because PFM forms each project team taking into consideration each team member's other project activities, and also because there is a strong professional support network of analysts, research assistants and other PFM team members dedicated as needed to support each project.

With that caveat, the projects that are currently being conducted by key members of the proposed PFM team are scheduled for completion or substantial completion in periods that will not interfere with this study. For example, the Hawaii Tax Review Commission draft was submitted in early August and a final report due in early September. The draft report on alternatives to the property tax for the Long Island Regional Planning Council was delivered on July 31st. Finally, the evaluations for the Oklahoma Incentive Evaluation Commission are scheduled for release in August and September. In short, for key members of the PFM team (Randall Bauer, Deanna Yocco, John Cape), there are no significant conflicts with the period of primary activity for this proposed project and contract.

Time to Start and Timeframe

PFM is flexible on start times – usually no more than five business days is necessary to get a project started. The PFM project team is willing to use the proposed project timelines included in the RFP to guide its work in meeting the Task Force goals and objectives and is confident that it can do so.

Comparable Contracts – PFM Case Studies

Case Study #1: State of Oklahoma Office of Management and Enterprise Services
Development of a System for Evaluation of State Business Incentives

Description of Engagement

In 2015, the State enacted legislation creating an Oklahoma Incentive Evaluation Commission to annually review and evaluate the effectiveness of Oklahoma's business tax incentives. As directed by statute, the Oklahoma Office of Management and Enterprise Services issued a request for proposal and, based on that process, hired PFM to serve as the independent evaluator for the Commission of the 11 incentives scheduled for review in 2016.

Because of the time required to start up the Commission and create a brand-new methodology for evaluation, the PFM project team only had five months to conduct its research and analysis and present its written evaluations to the Commission. During that expedited timeframe (in future years, these activities take place in 11 months), the project team gathered financial and economic performance data related to the incentives, interviewed state government stakeholders as well as those in impacted businesses and industries, conducted benchmarking research on peer state programs and created financial and economic impact models. PFM handled financial models related to incentives' impact on the state and local budgets, and its subcontractor firm, TXP Inc., conducted the economic impact modeling.

It is notable that many tasks performed in the first year of the evaluation process were foundational business decisions that will have applicability for future year evaluations, including determining the specific criteria to be used for evaluation, creating the full four year schedule of the incentives for review each year, creating the format to be used for each written evaluation, and facilitating Commission members' discussions of how

they would conduct their business, how they would review the incentives and how they would establish the mechanisms for public hearings and their report to the Governor and State Legislature.

Through regular communication with the client, establishing internal working groups for each incentive and a series of prototypes and drafts of the evaluations, the project team met all required project deadlines for conducting its analysis and providing its written evaluations to the Commission. Throughout, it regularly appeared before the Commission – Randall Bauer, the PFM project manager attended every Commission meeting and others from the project team were also present as needed - and advised it of its work. As required by statute, the Commission voted on each of the evaluations and passed them along to the Governor and Legislature for their consideration. Based on the successful completion of the first-year evaluations, the State has re-hired PFM to conduct 12 evaluations of additional business incentives in 2017.

Recommendations / Results

As required by statute, each of the 11 evaluations considered effectiveness of the incentives related to the following criteria:

- Economic and fiscal impact
- Assess whether adequate State financial protections are in place (future incentive growth)
- Evaluate whether the incentive is being administered effectively
- Assess whether the incentive is achieving its goals
- Recommend whether incentive should be retained, reconfigured or repealed
- Recommendations for changes to allow the incentive to be more easily or conclusively evaluated in the future

The final evaluations contained multiple detailed recommendations for each of the incentives. Of particular the note, one incentive, a production tax credit for electricity generated by renewable sources (primarily wind turbines) was determined, based on the financial and economic impact modeling, to be a significant financial threat to the State budget without a strong state return on investment. As a result, the project team recommended that it be either capped or its sunset accelerated. It is notable that the Legislature has done just that – accelerating its sunset to July 1, 2017 – and the Governor has signed the bill. This single recommendation will provide a net benefit to the State of approximately $100 million in the next fiscal year.

The Oklahoma process has been praised by independent evaluators. For example, a recent report by the Pew Charitable Trusts listed Oklahoma as one of the 10 states that are national leaders in evaluating incentives. Their report noted that:

"*In the first year of evaluations, 2016, the commission selected 11 incentives for review that collectively cost $110 million. To study the programs, it hired a consulting firm using a request for proposal process. This approach resulted in detailed evaluations with thoughtful discussions of each incentive. One strength of the evaluations was their assessments of whether each incentive has adequate protections to ensure that its costs do not increase quickly and unexpectedly—a particularly relevant consideration for Oklahoma, which has faced budget challenges in recent years because of certain incentives. The evaluations also presented clear, well-supported policy options. In some cases they proposed wholesale overhauls of incentives, while in others they suggested more subtle changes, such as collecting better data. Even if those recommendations do not end all disagreements over incentives, they should provide a common starting point for discussions of how Oklahoma can strengthen its economy most effectively.*"

The first round of evaluations was completed on time and on budget. PFM was re-hired by the Commission to do the second year of evaluations. Notably, PFM worked with the Commission to accelerate the timeline for providing the written evaluations to the Commission. While the statute requires them by November 1st, PFM has agreed to complete them by October 1st, which will give the Commission an additional month to assimilate the information prior to making their recommendations to the legislature and governor.

Deliverables

- Criteria for evaluation for each of the 11 incentives under evaluation
- Background data set for use by the Commission for each of the 11 incentives
- Detailed draft and final written evaluations, including financial and impact analysis, for each of the 11 incentives
- Follow-on commentary from points raised at the public hearings related to the incentive recommendations

Client Reference #1	
Bidder:	The PFM Group
Client Firm:	Oklahoma Office of Management and Enterprise Services
Engagement Start Date:	May 2016
Engagement End Date:	Present
FTEs Involved:	5.5
Client Contact:	Denise Northrup, Chief Operating Officer (405) 521-4023 Denise.northrup@omes.ok.gov
Alternate Client Contact:	Lyle Roggow, Chair, Incentive Evaluation Commission (580) 255-9675 lyle@ok-duncan.com

Case Study #2: State of Hawaii Department of Taxation, Tax Review Commission Study of the Hawaii Tax System

Description of Engagement

The Hawaii State Constitution requires that a Tax Review Commission, with members appointed by the Governor, be convened every five years. In 2012, PFM was retained by the Commission to conduct a systematic study of the State's tax structure, with particular emphasis on answering two key questions:

1. Will the current tax system provide sufficient revenues to meet near and long term future needs for the 21st Century?
2. Are there alternate tax structures that could improve Hawaii's ability to generate sufficient revenues?

To conduct the study, PFM obtained and analyzed state revenue and expenditure data and forecasts, conducted extensive interviews with stakeholders inside and outside of state government, benchmarked Hawaii with other states, and reviewed numerous prior reports, including studies from past Commissions. PFM also conducted best practices research and analysis related to tax structure and tax principles. To assist with its analysis, PFM developed a multi-year financial model using historic data and assumptions

on revenue and expenditure performance going forward. PFM vetted its analysis with key stakeholders, including the Governor and key legislative leaders and submitted a final report in September 2012.

The PFM final report analyzed the State tax structure in terms of its relationship and impact on the Hawaii economy, its strengths and weaknesses in relationship to best practices principles of taxation and its performance related to changes in demographics, consumer choice and the business cycle. This included analyzing specific taxes as well as tax expenditures and economic development incentives and conducting a return-on-investment analysis to determine their impact and efficacy.

Given that the PFM multi-year model suggested a growing structural imbalance – mostly related to pension, retiree health care benefits and commitments to education and health care funding – PFM also analyzed multiple changes to Hawaii's tax structure and made over twenty recommendations for changes to erase the structural imbalance, including recommendations to modify or discontinue certain tax incentives and tax expenditures. The PFM report was used by the Tax Review Commission in submitting its findings (including the report) to the Governor and Legislature.

Recommendations / Results

At the request of the Hawaii Department of Budget and Finance, PFM entered into a licensing agreement with the State and provided it the long-range budget model that it created for this project. PFM also trained the Department's staff on its use.

Multiple recommendations from the PFM study were adopted/enacted by the Legislature and the Governor, including structural changes to its major revenue sources, the General Excise Tax and the Individual Income Tax.

It is notable that PFM has been re-hired by the State to assist the 2017 version of the tax review commission.

Project Completion

The project was completed on time and on budget.

Deliverables

- Multiple presentations to the Tax Review Commission
- Project high level findings
- Draft report and, based on Commission and public comments, a final report
- Multi-year financial planning model

Client Reference #2	
Bidder:	The PFM Group
Client Firm:	Hawaii Department of Taxation, Tax Review Commission
Engagement Start Date:	February 2012
Engagement End Date:	September 2012 (since re-hired and currently engaged)
FTEs Involved:	7
Client Contact:	Dr. Donald Rousslang, Department of Taxation 808-587-1440 Donald.J.Rousslang@hawaii.gov

Client Reference #2	
Alternate Client Contact:	Titin Sakata, Department of Taxation (808) 587-1521 Titin.L.Sakata@hawaii.gov

Case Study #3: St. Louis Development Corporation
Review of City Economic Development Incentives

Description of Engagement

In 2015, the St. Louis Development Corporation retained PFM to provide services related to a review and analysis of economic development incentives available to encourage growth within the City. The study focused on two separate but related areas: how have existing economic development incentives performed related to typical goals of improving neighborhoods, creating jobs and fostering city development; and are there opportunities to improve on current performance by modifying existing or creating new forms of economic development incentives?

To address these needs, PFM partnered with St. Louis University (SLU) and the University of Missouri-St. Louis (UMSL) to conduct research and analysis for the report. The project team worked in tandem on most issues, with SLU and UMSL taking the lead on issues of quantifying past incentive performance and PFM taking the lead on national benchmarking and best practices research, opportunities to improve on current performance and writing the final report.

At the outset, the project team conducted an extensive review of historic data, including actual incentive applications and awards, city property valuation and other economic and demographic data and city and other economic development studies and reports. The project team spent considerable time 'cleaning' the available data to ensure comparability in a number of key areas. Besides data work, the project team also conducted in-depth interviews with internal and external stakeholders and subject matter experts, convened focus groups around existing incentives and benchmarked peer cities nationally and in the St. Louis metropolitan area.

The project team also did a rigorous analysis of the resulting data, including mapping and modeling past incentives within city regions and neighborhoods, determining impacts on property assessed values and other economic impacts and identifying trends over time. Throughout the course of the analysis, the project team met regularly with City staff to validate and corroborate on data and other project findings.

The project team then drafted a detailed project report that discussed the current status of city programs, the benchmarking and best practices research from national and in-state peer cities, the gap analysis related to current project and findings and recommendations. The project team held multiple working sessions with City staff to refine the analysis and recommendations and then issued a final report. The project team also collaborated with the City on its progress in implementing selected recommendations.

Based on the work done on this project, in 2017 the SLDC again hired PFM, this year to do a study of options for property tax relief in areas with major increases in assessed valuation over a short period of time.

Recommendations/Results

The SLDC has used the PFM report to augment some of its data and reporting requirements related to City tax incentives. The report has also spurred significant discussion – and the City's Board of Aldermen has already acted on some of the recommendations made by the project team.

Project Completion

The project was completed on time and on budget.

Deliverables

- Draft and final reports
- Data set and GIS maps related to the project

Client Reference #3	
Bidder:	The PFM Group
Client Firm:	St. Louis Development Corporation
Engagement Start Date:	February 2015
Engagement End Date:	May 2016
FTEs Involved:	5
Client Contact:	Otis Williams, Executive Director, SLDC (314) 657-3700 williamsot@stlouis-mo.gov
Alternate Client Contact:	Dale Ruthsatz, Deputy Director, SLDC (314) 657-3700 ruthsatzd@stlouis-mo.gov

Work Samples

Attached to the proposal is one of the evaluations conducted for the Oklahoma Incentive Evaluation Commission in 2017, as well as a document on high level findings presented by Randall Bauer to the Hawaii Tax Review Commission at their meeting on July 6, 2017. Both of the documents were primarily written by Randall Bauer and John Cape (Oklahoma) and Randall Bauer and Deanna Yocco (Hawaii).

References

Three relevant references are provided in the Case Studies. Please note that while the Hawaii Tax Review Commission case study relates to the work PFM did with the Commission in 2012, PFM is currently engaged by the Commission again, for its review and report to the Governor and Legislature in 2017. Both of the provided references are engaged with PFM on the current project and can provide insight on our past and present work for and with the Commission.

Similar Services Over the Last Three Years:

State Projects:
- **Hawaii Tax Review Commission, 2017.** Assisting current Commission by analyzing existing tax burden and identifying alternatives to reduce regressivity and provide additional revenue alternatives.
- **Kansas, 2016-2017.** Analysis of tax and revenue options to balance the state budget.
- **Oklahoma Incentive Evaluation Commission, 2016-2017.** As part of a four-year process, assisting the Commission with evaluating the revenue and economic impact and effectiveness of (to date) half of the State's major economic incentives (primarily tax credits, exemptions and rebates).
- **Washington Department of Agriculture, 2016-2017.** Development of a financial model and assumptions related to revenue and expenditure forecasts for State fruit and vegetable and grain inspection programs.

Local Government Projects:
- **Cincinnati, Ohio, current.** Review of City income tax collection processes, which is an update to an earlier project.
- **Long Island Regional Planning Council, New York, current.** Revenue analysis of alternatives (primarily income tax or sales tax) to the local property tax.
- **Pittsburgh, Pennsylvania, current.** State-appointed financial coordinator. Provided revenue estimating assistance, work-out plan that included restructuring the City tax and revenue structure.
- **St. Louis Development Corporation, 2015-2016.** Economic and financial impact analysis of City tax incentives. Review of options for City property tax relief.

Other Information Related to Vendor Experience

Over the years PFM has delivered highly successful results in engagements with states and major local governments across the country. These engagements have been successful because of the unique combination of skills and attributes PFM brings to its work. These are important factors in the success of high profile, high impact projects such as this one. The following are key attributes that set PFM apart from other consulting firms:

- **Broad-based state and local government experience.** PFM's committed project staff for the State of Arkansas project have served in cabinet-level positions in both state and local government – and also both the Executive and Legislative branches of government.
- **Experience and expertise in key public sector service areas.** PFM has devoted practice areas in Finance, Education, Human Services, Workforce, Transportation, Public Safety and Administrative Services with experience in both the public sector and public-sector consulting. While tax reform may seem like a limited area of expertise, a broad understanding of how tax policy impacts on key areas of state government is critical to a successful outcome.
- **Specialized modeling capability.** PFM has specialized modeling tools that are tailored to individual project needs. PFM has a dedicated group of model developers (the Quantitative Strategy Group) that do nothing but build and support complex financial models. PFM models support some of the most complex financial transactions in the public sector and are second to none in this field.

- **Hands-on involvement.** PFM is committed to direct project engagement by its senior leaders on all projects. PFM's project work consistently represents our collective best effort by the most highly qualified members of our team. The State of Arkansas will get PFM's best on a daily basis. As demonstrated in our case studies, PFM is familiar (and adept) at working with Commissions and Task Forces – we understand the dynamics involved and the specific needs for this type of working environment. We have successfully delivered in the past – and will do so for the State of Arkansas.

Lost Contracts

PFM has many long-time clients, but most of the client relationships for PFM Group Consulting LLC are on a project-by-project basis. In these cases, clients are not 'lost' and in some cases (such as the Hawaii Tax Review Commission) several years may pass before another opportunity to work with a client presents itself. That said, the project team is not aware of any contracts that were lost because of a material failure on the part of the PFM project team.

5.6 Subcontractor Identification

PFM intends to use TXP, Inc., John Cape, and Andrew Sidamon-Eristoff as subcontractors for the work sought by this RFP. It is not expected that Mr. Cape's nor Mr. Sidamon-Eristoff's portion of the project will exceed 10 percent.

It is expected that TXP's portion will exceed 10 percent, and they will be responsible for all economic impact modeling as well as general involvement on tax issues where their economic policy perspective will be useful.

TXP, Inc. is an economic analysis and public policy consulting firm founded 30 years ago in Austin, Texas. Since then, the TXP has become a team of professionals whose diverse backgrounds allow the firm to craft customized solutions to challenging client problems. In addition to drawing on the expertise of its firm members, TXP regularly partners with public finance, urban planning, engineering, and public policy firms – as well as Ph.Ds. in varying disciplines – to put together teams, analysis, and strategies that best suit clients' needs.

While the firm's roots are in Texas, TXP consults on a range of projects across the country. During the 1990s electricity deregulation crisis in California, for example, TXP led the team hired by the California State Auditor's Office to determine the underlying causes of the problem and recommend solutions. When Chattanooga, Tennessee wanted to grow its music industry, TPX developed the plan. For a number of years, TXP provided an analysis of regional economic trends for the Wall Street Journal's New England, Texas, and Pacific Northwest editions. More recently, TXP partnered with PFM to advise the State of Oklahoma on its economic development tax incentive structure, measuring the impacts and recommending policy changes. In fact, after the success of the first year of that effort, PFM and TXP were re-hired by the State to conduct a similar analysis of additional business incentives in 2017.

TXP has extensive experience analytically supporting policy development for state and local government. In many cases, the process involves projecting a baseline set of conditions, creating alternative forecasts predicated on the proposed policy change, and then using the comparison to inform the policy conversation. This is the process the PFM/TXP team is presently engaged with in Montgomery County, MD, where the

County has tasked the team with measuring the economic and fiscal implications of a schedule that proposes to raise the local hourly minimum wage from $10.75 to $15 by 2020.

Likewise, TXP employed a similar broad approach to measuring the impact of reinstating a tax credit for research and development in Texas, an effort that was successful legislatively. In that regard, the TXP team understands that our work takes place in a broader context, and that success ultimately is measured by policy outcomes. Among TXP's long term clients is the City of Austin, Texas. TXP has an ongoing relationship where it provides the City external support to senior staff and council on strategy, forecasting (including tax revenue), impact analysis and policy development related to the economic and fiscal implications of City action.

TXP's firm information:
TXP, Inc.
1310 South 1st Street, Suite 105
Austin, TX 78704
512-328-8300
www.txp.com
FEIN: 74-2454341

Point of contact: Jon Hockenyos, President or Travis James, Vice President