



# State of Arkansas Tax Relief and Reform Legislative Task Force

## Tax Reform Consulting Services Interview

September 7, 2017

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Consulting LLC.

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## Presenters

### **Randall Bauer, Project Manager**

Randall Bauer joined PFM in 2005, where he has led numerous state and local government finance and revenue-related projects. These project clients have included the States of Delaware, Hawaii, Illinois, Kansas, New York, Oklahoma, Pennsylvania and Washington as well as the Cities of Baltimore, Cincinnati, Colorado Springs, St. Louis, and Washington DC. Prior to joining PFM, Mr. Bauer served for nearly 7 years as Budget Director for the State of Iowa and 11 years in senior tax and budget staff roles for the Iowa Senate.



### **John Cape, Subject Matter Expert**

John F. Cape is a national expert on public policy, with over 35 years experience in the public sector. At PFM, he served as the Engagement Director for project clients that included the States of Colorado, Georgia, New Jersey, New Mexico, Oregon, Pennsylvania and Virginia. Prior to joining PFM, Mr. Cape was the Director of the Budget for New York State. Mr. Cape serves as a Senior Fellow of the Rockefeller Institute of Government and is a Fellow of the State Academy of Public Administrators.





## Additional Project Team Members (via phone)

- **Deanna Yocco, Senior Analyst**

Deanna Yocco joined PFM in 2015 and is based in PFM's Philadelphia office. She provides quantitative, analytical, and research support for governmental performance improvement projects. Ms. Yocco has served as the lead analyst for projects with the States of Hawaii, Illinois and Oklahoma as well as the City of Cincinnati and the Long Island Regional Planning Council. Prior to joining PFM, Ms. Yocco was a Budget Analyst for the Ohio Office of Budget and Management, where she was responsible for the preparation of the Governor's Monthly Financial Report, detailing the State's economic forecast, revenues, and preliminary monthly disbursements.

- **Andrew Sidamon-Eristoff, Subject Matter Expert**

Andrew Sidamon-Eristoff has over 30 years of experience in tax policy and administration. Among his experience is serving as New Jersey State Treasurer, Commissioner of the New York State Department of Taxation and Finance, Commissioner of the New York City Department of Finance and as a Senior Tax Advisor to the USAID Business Climate Reform Project. Mr. Sidamon-Eristoff also served as a Council Member on the New York City Council. He served on the Board of the Federation of Tax Administrators and is also certified in the use of the IMF Tax Administration's Diagnostic Assessment Tool.



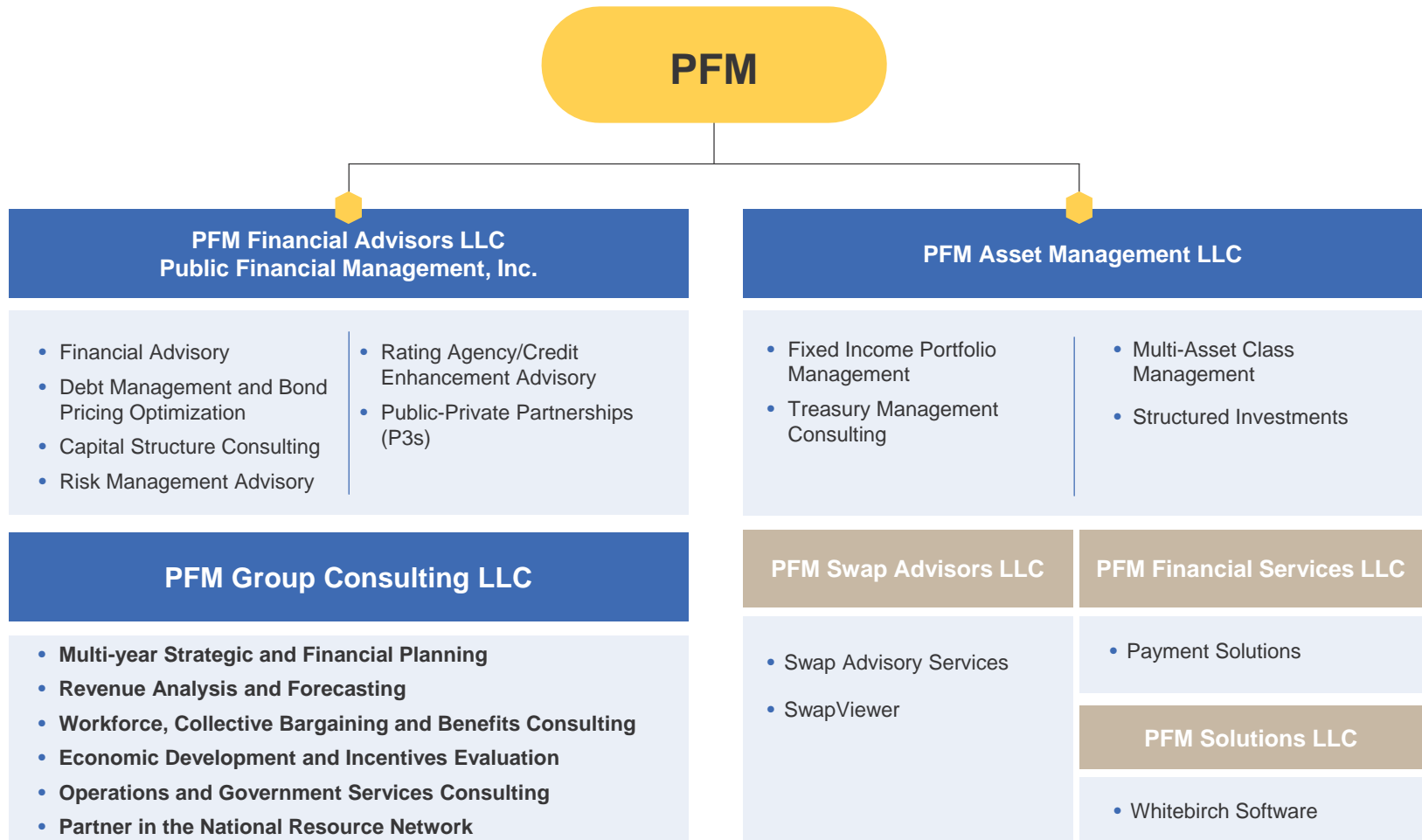
# Agenda

- PFM Overview.
- PFM Project Team.
- Relevant Project Knowledge and Experience.
- Project Plan.
- Past Performance.
- Questions and Discussion.





# PFM Services for State and Local Governments





## **PFM Project Team, Senior Leadership**

- Michael Nadol, Managing Director, Engagement Director. President of PFM Group Solutions, 17 years with PFM. Former Finance Director, City of Philadelphia.
- Randall Bauer, Director, Project Manager. Successfully managed over 20 relevant state and local revenue-related projects. Former State of Iowa Budget Director and Senior Staff, Iowa State Senate.
- John Cape, Subject Matter Expert. PFM Managing Director for 10 years, former Budget Director, State of New York. Senior Fellow, Rockefeller Institute of Government.
- Andrew Eristoff, Subject Matter Expert. Former Revenue Director for New York State and New York City; Treasurer, State of New Jersey.
- Deanna Yocco, Senior Analyst. Lead analyst for multiple state projects. Former Budget and Management Analyst for the Ohio Office of Budget and Management.



## Observation on Task Force Needs

- The Task Force requires a consultant team with complementary skills and expertise.
- Knowledge and Experience with Tax and Revenue Structures – Preferably as Government Practitioners.
- Understanding (and ability to evaluate) the Role of Economic Development and Tax Incentives.
- Real World Experience Modeling and Estimating Tax and Revenue Impacts.
- Experience Supporting a Multi-member Task Force/Commission.
- Independent, Sound Third Party Advice.





# Relevant PFM Past/Current Projects

## ■ Tax and Revenue Structures:

- Delaware options for changes to the State/County finance relationship (current).
- Hawaii review of state revenue structure including sufficiency, equity and efficiency.
- Hawaii review of state revenue structure including ability to export revenue, collections processes and systems (current).
- Kansas options to increase the capture of non-tax revenue.
- Pennsylvania review of revenue estimating and administrative processes.
- Washington review of existing fee structure to determine sufficiency.
- Long Island Regional Planning Council study of alternatives to the property tax (current).
- Aurora review of tax sufficiency and revisions to City tax and revenue structure.
- Colorado Springs analyze existing revenue structure for long-term sufficiency
- Pittsburgh recommendations for revisions to City tax structure and internal processes.
- Providence analysis of alternatives to existing tax and revenue structure.
- St. Louis recommendations for revisions to City tax and revenue structure.



# Relevant PFM Past/Current Projects

## ■ **Economic Development and Incentives:**

- Oklahoma evaluation of incentives efficacy, financial and economic impact (current).
- Hawaii evaluation of incentives financial and economic impact.
- New York evaluation of financial incentives and economic impact from specific projects.
- Pennsylvania evaluation of financial incentives and economic impact from a specific project.
- Kansas City review of City tax incentives and economic and financial impact.
- St. Louis review of City tax incentives and economic and financial impact.

## ■ **Revenue Estimating:**

- Pennsylvania revenue estimating processes and peer benchmarking.
- New Orleans establishing processes after Hurricane Katrina.
- Pittsburgh vetting City revenue estimates.
- Portsmouth identifying areas of concern with current City revenue estimates.



## Relevant PFM Past/Current Projects

### ■ Task Force/Commission Facilitation and Assistance:

- Oklahoma Incentives Evaluation Commission (current).
- Delaware State/County Finance Legislative Working Group (current).
- Hawaii Tax Review Commission, 2012 and 2017 (current).
- Delaware State Expenditure Review Commission.
- Oregon Governor's Budget Working Groups.
- Pennsylvania Convention Center Authority Working Group.
- Virginia House Appropriations Committee.
- Baltimore Mayor's Blue Ribbon Commission on Property Tax Reform.
- Colorado Springs City Council Sustainable Funding Committee.
- Providence Tax Policy Working Group.



## **PFM: Independent, Sound Third-Party Advice**

- PFM has Provided Financial and Management Services to All 50 States.
- PFM Does Not Lobby, Does Not Do Studies for Special Interest Groups, Does Not Support A Particular Political Ideology.
- PFM is Hired by States Across the Political Spectrum.
  - Oklahoma: Republican Governor, Republican control of both chambers.
  - Hawaii: Democrat Governor, Democrat control of both chambers.
  - Illinois: Republican Governor, Democrat control of both chambers (Republican Administration is the client).
  - Virginia: Democrat Governor, Republican control of both chambers (Democratic Administration is the client).



# Project Plan

- **Starting Point: Sound Project Foundation.**
  - Understand and identify project ‘measures of success’ and specific written information needs.
  - Catalogue and analyze existing internal and external data related to the State’s finances and demographics.
  - Benchmark peer states related to tax, finance, economic and demographic metrics.
  - Consult existing data (from PFM past projects) and conduct additional best practices research.
- **Conduct on-site interviews/meetings with project leadership, relevant internal and external stakeholders.**
  - Clarify/get ‘meeting of the minds’ on key principles to drive analysis.
  - Fill in gaps related to existing data and information.
- **Develop, as needed, financial and economic impact analytical models.**
  - Identify, with Task Force input, the scenarios to be tested for financial and economic impact.
  - Assist Task Force with determining additional alternate scenarios for testing.



# Project Plan – Task Force Support

## ■ Task Force Meetings

- PFM will attend all regularly-scheduled Task Force meetings.
- PFM will be prepared to discuss all project-related activities and output.
- PFM senior leadership will be available to attend additional meetings and events to communicate project efforts and/or research findings.

## ■ Written Materials

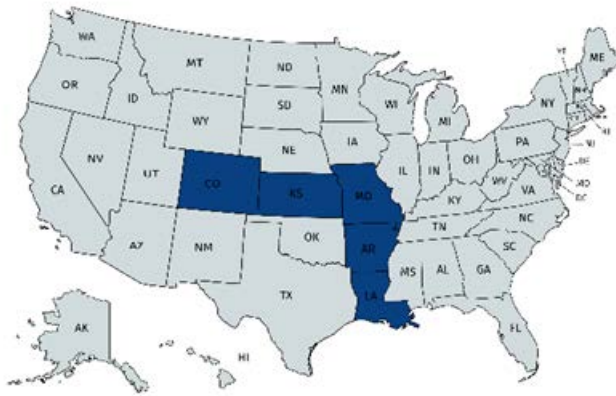
- PFM can, with Task Force direction, provide written Memoranda detailing tax and revenue alternatives, use in other states and advantages and disadvantages.
- PFM can, with Task Force direction, conduct additional project research and analysis.
- PFM will, as provided in the project plan, deliver a written report on the identified issues and analysis to the Task Force by December 1, 2017.
- PFM will provide regular written project management reports to the Task Force identifying completed and planned project activities, issues needing to be resolved, project calendar and progress to completion.
- PFM has extensive experience with meeting ‘hard and fast’ (and tight) project deadlines for written reports, findings and recommendations.



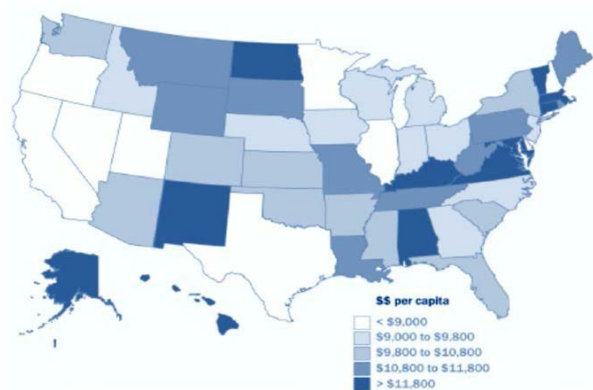
# Examples from Prior Projects

- Benchmarking comparable states and programs

Surrounding States Offering Similar Incentives



Spending by State



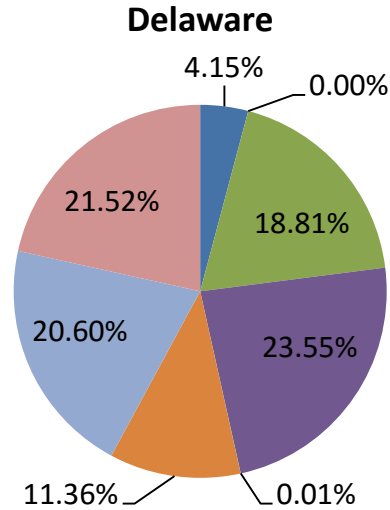
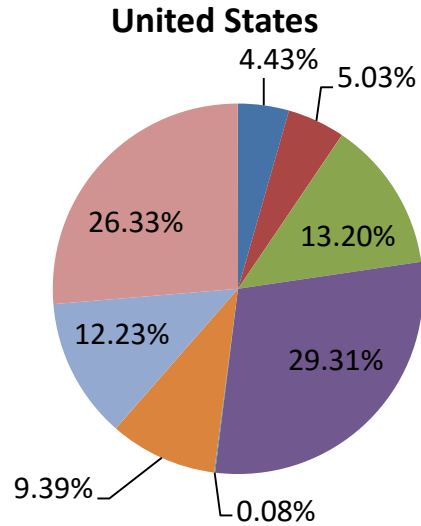
Program Characteristics/ROI

State	Company/Organization Reviewing the Program and Date of the Study	Return on Investment of State Film Industry Incentive Program
Alaska*	Legislative Budget & Audit Committee (2012)	\$0.07
Arizona*	Arizona Department of Commerce (2009)	\$0.28
California	Legislative Analyst Office (2014)	\$0.65
Connecticut	Department of Economic and Community Development (2008)	\$0.07
Florida	Florida Office of Economic and Demographic Research (2015)	\$0.43
Louisiana	Louisiana Department of Economic Development (2015)	\$0.23
Maryland	Department of Legislative Services (2015)	\$0.06
Massachusetts	Massachusetts Department of Revenue (2013)	\$0.13
Michigan*	Michigan Senate Fiscal Agency (2010)	\$0.11
Mississippi	Joint Legislative Committee on Performance Evaluation and Expenditure Review (2015)	\$0.49
New Jersey*	New Jersey Economic Development Authority (2011)	\$0.55
New Mexico	Department of Finance & Administration (2014)	\$0.33
North Carolina	North Carolina General Assembly's Fiscal Research Division (2014)	\$0.46
Pennsylvania	Independent Fiscal Office	\$0.14
Rhode Island	Department of Revenue (2008)	\$0.28

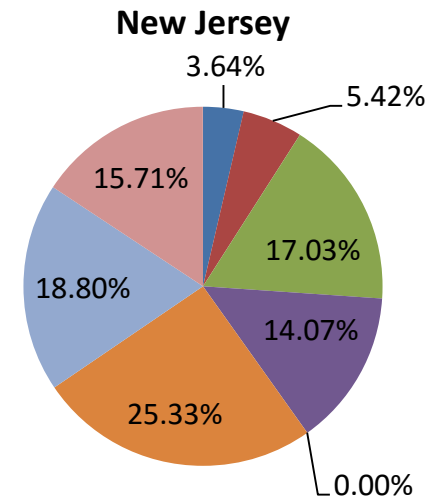
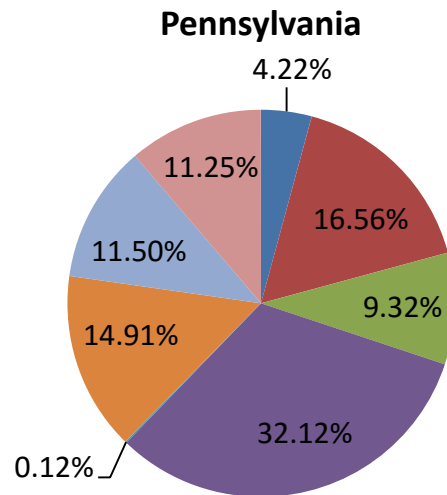
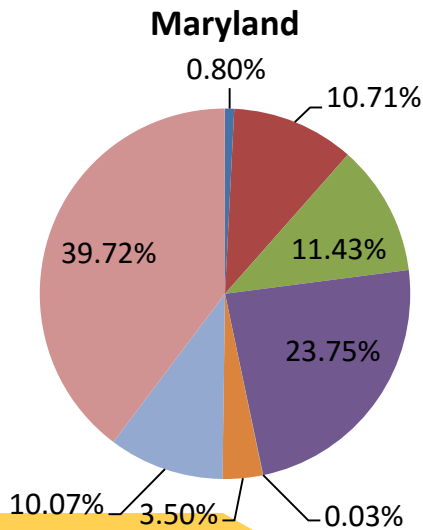
\* These states have recently cancelled their incentive programs



# Benchmarking States



- Alcoholic Beverages Sales Tax
- Amusements Sales Tax
- Insurance Premiums Sales Tax
- Motor Fuels Sales Tax
- Pari-mutuels Sales Tax
- Public Utilities Sales Tax
- Tobacco Products Sales Tax
- Other Selective Sales and Gross Receipts Taxes



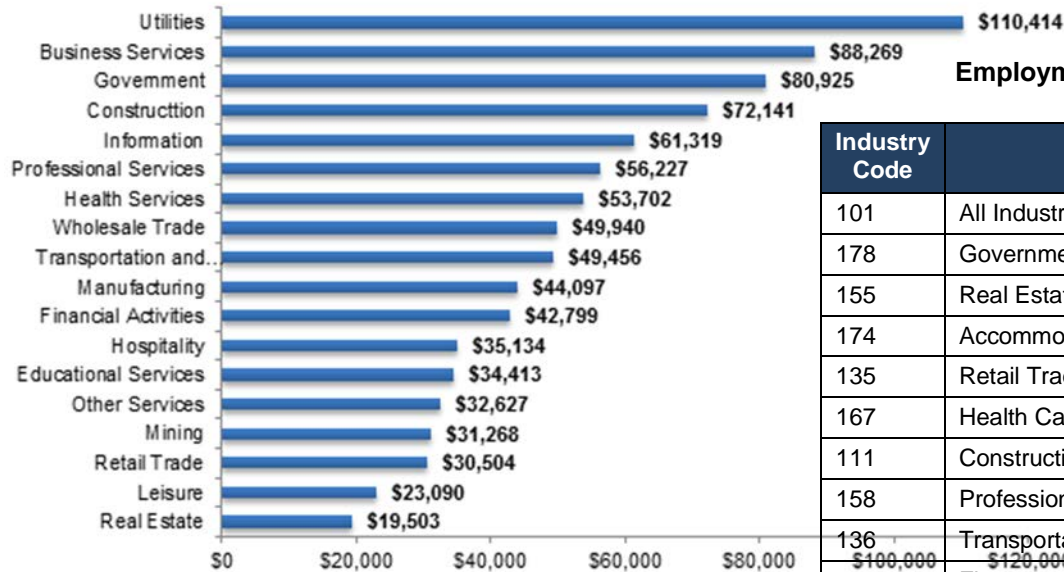




# Examples from Prior Projects

- State Metrics

State Employment Average Yearly Earnings by Industry



Employment Industry by Share of GDP, State of Hawaii

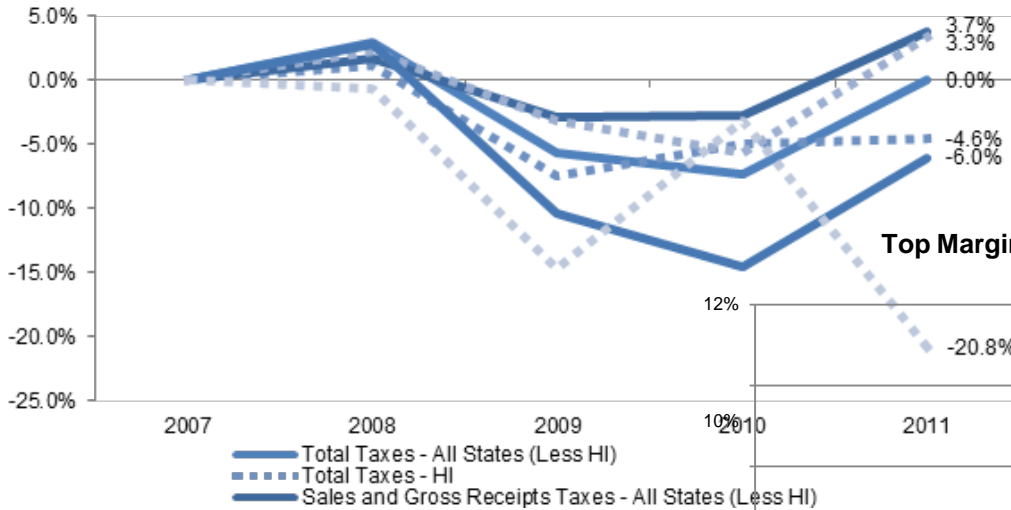
Industry Code	Employment Industry	2011	Percent
101	All Industry Total	66,991	
178	Government	16,548	24.7%
155	Real Estate/Rental/Leasing	10,940	16.3%
174	Accommodation/Food Service	5,416	8.1%
135	Retail Trade	4,649	6.9%
167	Health Care and Social Assistance	4,499	6.7%
111	Construction	3,738	5.6%
158	Professional, Scientific and Technical Services	3,250	4.9%
136	Transportation and Warehousing	2,611	3.9%
150	Finance and Insurance	2,424	3.6%
163	Administrative and Waste Management Services	2,131	3.2%
134	Wholesale Trade	1,986	3.0%
177	Other Services (Ex Gov't)	1,735	2.6%
110	Utilities	1,557	2.3%
145	Information	1,547	2.3%
112	Manufacturing	1,368	2.0%
162	Management of Companies and Enterprises	743	1.1%



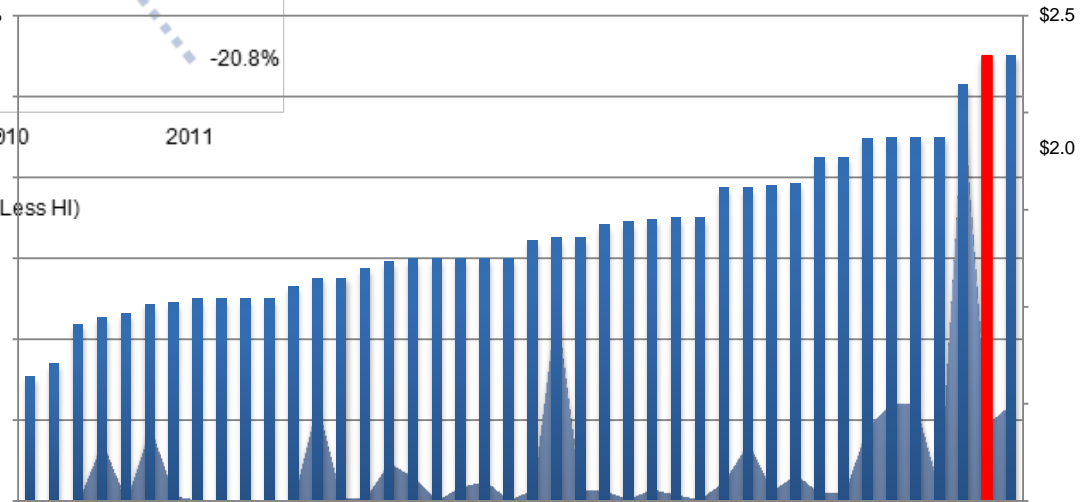
# Examples from Prior Projects

- State Tax Structure Metrics

**Major Tax Revenue Sources – All Funds  
US State Experiences (Less HI) vs. Hawaii Experiences  
2007 - 2011**



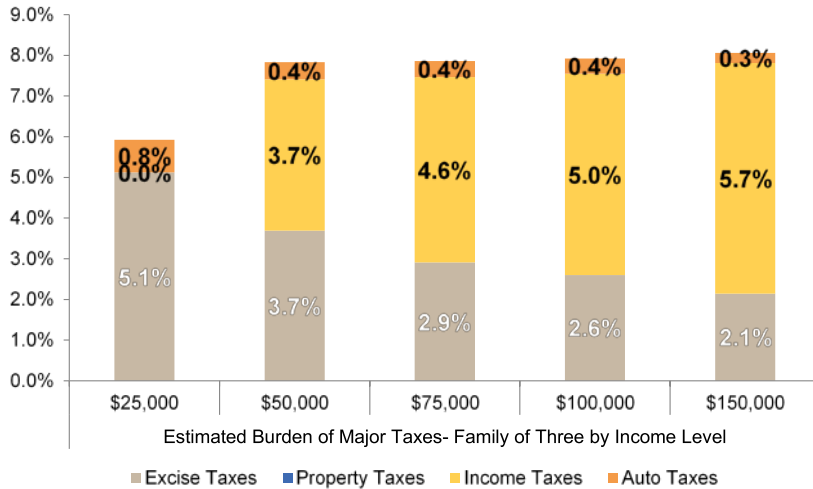
**Top Marginal Rate and Tax Brackets: 2011 Individual Income Tax**





# State Specific Analysis

State Tax Burden as a % of Income



Total Tax Burden as % of Income

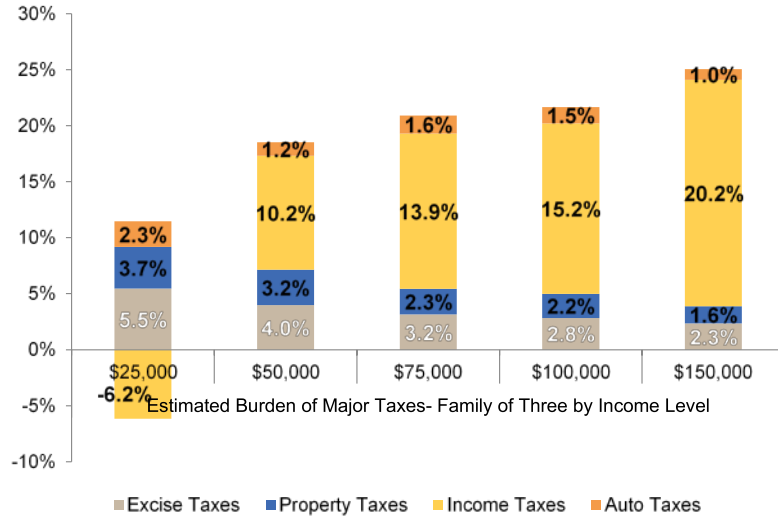


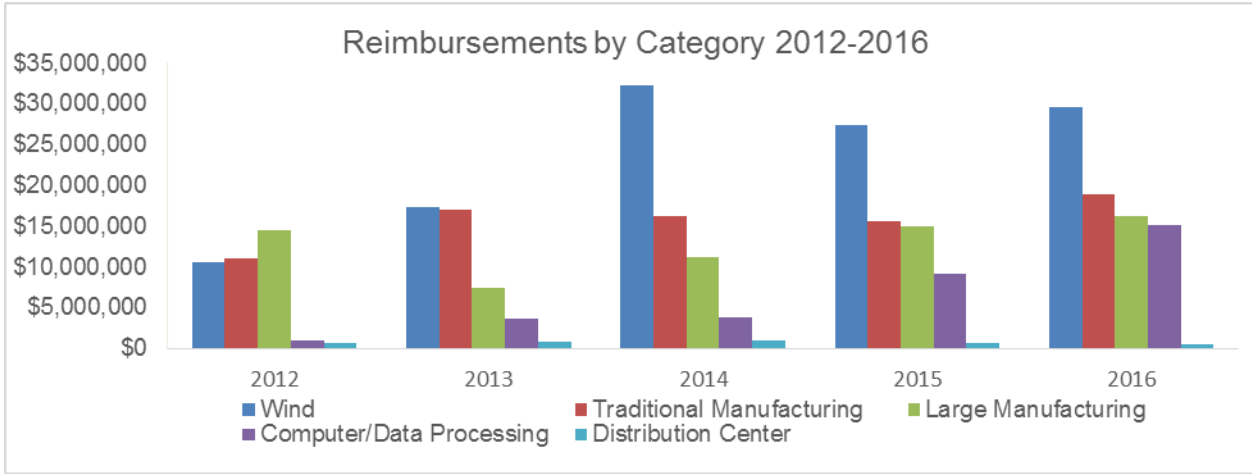
Table 1: Estimated Burden of Major State Taxes - Family of Three by Income Level

	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
<b>Consumption Taxes</b>	<b>\$1,281</b>	<b>\$1,847</b>	<b>\$2,184</b>	<b>\$2,598</b>	<b>\$3,219</b>
% of Income	5.12%	3.69%	2.91%	2.60%	2.15%
<b>Property Taxes</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
% of Income	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Income Taxes</b>	<b>\$0</b>	<b>\$1,858</b>	<b>\$3,413</b>	<b>\$4,951</b>	<b>\$8,499</b>
% of Income	0.00%	3.72%	4.55%	4.95%	5.67%
<b>Auto Taxes</b>	<b>\$200</b>	<b>\$210</b>	<b>\$295</b>	<b>\$372</b>	<b>\$375</b>
% of Income	0.80%	0.42%	0.39%	0.37%	0.25%
<b>Total Tax Burden</b>	<b>\$1,481</b>	<b>\$3,915</b>	<b>\$5,892</b>	<b>\$7,921</b>	<b>\$12,094</b>
<b>Tax Burden as % of Income</b>	<b>5.9%</b>	<b>7.8%</b>	<b>7.9%</b>	<b>7.9%</b>	<b>8.1%</b>

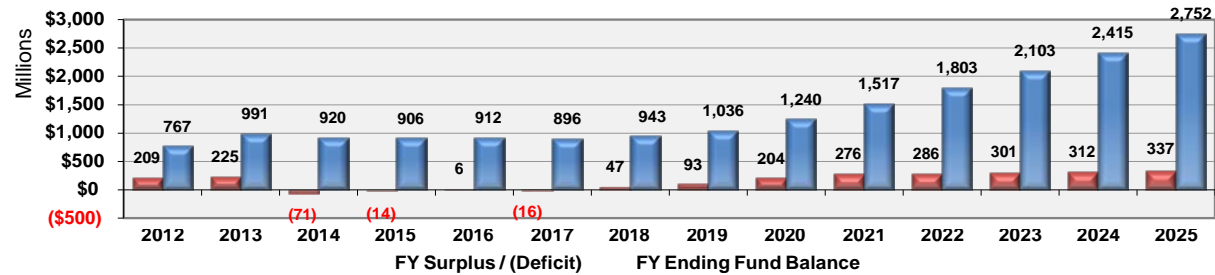


# Examples from Prior Projects

- Financial Analysis



## Baseline Projection with Full Implementation of Recommendations





# Past Project Performance: Stakeholder Commentary

*"The [PFM] report has done the State's taxpayers a favor by taking the debate beyond the realm of the philosophical to the practical question of how efficiently the work is done and if consumers and the State's interests could be served better in a private system."*

*Pittsburgh Post-Dispatch  
Editorial  
October 27, 2011*

*"This is the second time ... [PFM] was hired by the state and relayed a pointed conclusion no government official wants to hear: There's not enough revenue coming in and, almost certainly, too much going out. This go-around, it would be wise for state officials to implement more of what the consultants suggest."*

*Honolulu Star-Advertiser  
Editorial  
August 1, 2017*

*"The City helped start the debate with a [PFM] report it commissioned last year that put the value of the tax breaks over 15 years at \$709 million."*

*St. Louis Post-Dispatch  
June 10, 2016*

*"PFM's analysis is the most comprehensive and detailed look at the many factors that contributed to the massive unfunded pension liabilities crippling our state," stated John Chilton, Kentucky's State Budget Director. "It is important that we fully examine the facts of how the state got into this mess so we can establish guideposts to take the necessary steps to address the pension crisis facing the Commonwealth."*

*Northern Kentucky Tribune  
May 23, 2017*

*"Otis Williams, executive director of the St. Louis Development Corporation, said his agency is implementing some of those [PFM] recommendations, including working on a way to better scrutinize developers' requests for incentives and recommending shorter tax abatements or none at all in established neighborhoods. "We are looking at beginning a planning process to get a strategic economic development plan for the city," Williams said.."*

*St. Louis Post-Dispatch  
August 17, 2016*



## Past Performance: Oklahoma Incentives Evaluation

### Pew Charitable Trust Report (2017):

*“Oklahoma has hired a private consulting firm with experienced former state officials on its staff to evaluate incentives.”*

*“The first round of evaluations, published in 2016, included **thoughtful analysis of 11 incentives** that collectively cost \$110 million.”*

*“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.**”*





## Summary

- Thank You for Providing Us the Opportunity to Present Our Team, Qualifications and Approach.
- PFM is Excited about the Opportunity to Participate on this Important Public Policy Initiative.
- The Needed Skills and Experience Align with PFM Core Competencies.
- The Proposed Project Team is PFM's "First Team" – and Will be Dedicated for the Entirety of the Project.



# Questions and Discussion