<u>CONSULTANT SERVICES AGREEMENT</u>

This Services Agreement (the "Agreement") is between PFM Group Consulting, LLC ("PFM"), located at 1735 Market Street, 43rd Floor, Philadelphia, Pennsylvania, 19103, and the Bureau of Legislative Research ("BLR"), located in the State Capitol Building, Room 315, 500 Woodlane Street, Little Rock, Arkansas 72201. PFM provides a broad range of finance, budget, and management consulting services. The BLR desires to hire PFM to provide detailed and accurate information concerning the current state of tax laws in the State of Arkansas, as well as recommendations regarding potential reform within the tax laws, as set forth in RFP No. BLR-170002 and PFM's response to the RFP (the "Services"), for the use and information of the Tax Reform and Relief Legislative Task Force (the "Task Force") and the members of the Arkansas General Assembly.

PFM and the BLR hereby agree as follows:

1. **<u>Services to be performed.</u>** The BLR hereby retains PFM to perform the Services as set forth in RFP No. BLR-170002 (the "RFP") and PFM's Proposal in response to the RFP, including PFM's Official Proposal Price Sheet (the "Proposal"). Any and all assumptions stated by PFM in the Proposal shall not be considered part of this Agreement. The RFP and the Proposal are attached hereto and incorporated into this agreement by reference as <u>Attachment A</u>.

2. **<u>Data Required by PFM.</u>** In order to perform the Services, PFM may require information that is held by various entities other than the BLR, including without limitation the Arkansas Department of Finance and Administration. The parties acknowledge that such data and information is in the possession of third parties; that PFM must rely on these third parties to cooperate in providing this data and information; and that the data and information may be subject to laws restraining or preventing their release or dissemination. BLR authorizes PFM to contact the various entities holding the information that PFM requires in order to perform the Services under this Agreement. BLR Staff will be available to help to facilitate the contact with these entities upon request from PFM. BLR acknowledges and agrees that while PFM is relying on this data and information from such third parties in connection with its provision of the services under this Agreement, PFM makes no representation with respect to and shall not be responsible for the accuracy or completeness of such data and information.

3. **<u>Deliverables.</u>** In connection with the services to be provided under the RFP, PFM will prepare various documents, including without limitation reports and draft legislation (the "Deliverables") to be provided to the BLR for use by the Task Force and the Arkansas General Assembly. The Deliverables shall include: regular reporting to the Task Force via written reports and in-person meetings with the Task Force or Task Force Chairs; draft recommendations and legislation; a written preliminary report of the Task Force to meet the December 1, 2017 deadline established by Act 79 of 2017; a written final report of the Task Force to meet the September 1, 2018 deadline established by Act 79 of 2017; and attendance at other legislative committee meetings, as authorized by the Task Force Chairs.
   Except for the following, the BLR will own the Deliverables: (a) working papers of PFM; (b) pre-existing PFM materials or studies used in the provision of the Services and the Deliverables; (c) PFM know-how and processes used in the provision of the Services and Deliverables as well as any and all intellectual property owned by PFM that may be employed in providing the Services and Deliverables. PFM is providing the Services and Deliverables

for the use and benefit of the Task Force and the Arkansas General Assembly. The Services and Deliverables are not for a third party's use, benefit or reliance, other than members of the General Assembly and as authorized by the Task Force Chairs. Except as described in Section 10 of this Agreement, PFM shall not discuss the Services or disclose the Deliverables until such time that the BLR provides PFM notice that the BLR has disclosed the Services and Deliverables to third parties.

4. **Term and Termination.** The term of this Agreement will commence on September 15, 2017, and terminate on December 31, 2018, with an option to renew for an additional six (6) month period upon mutual agreement of the parties if the need of the Task Force or the Arkansas General Assembly merits an extension.

   Either party may terminate the Agreement by giving ten (10) days prior written notice.

5. **Fees and Expenses.** The Fees and Expenses related to this Agreement are outlined in the Official Proposal Price Sheet that is part of the Proposal and incorporated in this Agreement by reference. The maximum amount BLR will pay to PFM for the provision of the Services is Three Hundred Twelve Thousand Seven Hundred Fifty Dollars ($312,750.00). On a monthly basis (*e.g.* October 15, 2017, November 15, 2017, December 15, 2017) PFM shall submit itemized invoices to the BLR, per the requirements set forth in the RFP, based upon the per unit and per hour pricing set forth in PFM's response to the RFP. The monthly invoices will include reimbursements for travel related to the field work being performed by PFM. All mileage amounts will be calculated per Mapquest and copies of the Mapquest routes will be provided to the BLR with the monthly invoices, as well as copies of receipts for reimbursement of actual travel expenses.

6. **Governing Law.** This Agreement shall be governed by the laws of the State of Arkansas, without regard to Arkansas's conflict of law principles. PFM agrees that any claims against the BLR, whether arising in tort or in contract, shall be brought before the Arkansas Claims Commission, as provided by Arkansas law, and shall be governed accordingly. Nothing in this Agreement shall be construed as a waiver of sovereign immunity of the BLR, the Task Force, or the Arkansas General Assembly.

7. **Assignment.** This Agreement may not be assigned without the prior written consent of both parties, which either party may withhold for any reason. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

8. **Subcontractors.** PFM has stated that it will utilize TXP, Inc. as a subcontractor to assist with the provision of Services under this Agreement. If at any point during the contract term PFM finds it necessary to use another subcontractor, PFM shall seek prior approval of the Task Force before further contracting any party of the work to be performed under this Agreement. The Task Force shall have the right to require replacement of any subcontractor found to be unacceptable by the Task Force.

9. **Amendment.** This Agreement may be amended upon agreement of both parties to the Agreement and the approval of the Task Force and the Arkansas Legislative Council. Any amendment to this Agreement must be in writing and signed by both parties.

10. **Confidentiality.** "Confidential Information" under this Agreement means non-public information that a party marks as "confidential" or "proprietary" or that otherwise should be understood by a reasonable person to be confidential in nature. Confidential information does not include any information which is (a) rightfully known to the recipient prior to its disclosure; (b) released to any other person or entity (including governmental agencies) without restriction; (c) independently developed by the recipient without use of or reliance on Confidential Information; or (d) or later becomes publicly available without violation of this Agreement or may be lawfully obtained by a party from a non-party.

Each party will protect the confidentiality of Confidential Information that it receives under the Agreement except as required by applicable law, rule, regulation, or professional standard, without the other party's prior written consent. Due to the BLR being a public entity within the State of Arkansas, all terms of this Agreement, including but not limited to fee and expense structure, are subject to disclosure under the Freedom of Information Act of 1967, Ark. Code Ann. § 25-19-101, *et seq*.

If disclosure of PFM's Confidential Information is required by law, rule, regulation, or professional standard, (including any subpoena or other similar form of process), the BLR shall provide PFM with prior prompt written notice thereof.

In consideration of PFM's and BLR's agreement to provide one another with access to their respective Confidential Information, PFM and BLR each agrees to maintain in confidence all Confidential Information of the other. Except as provided in this Agreement, neither PFM nor BLR shall in any manner disclose any Confidential Information of the other to any person, entity, firm or company whatsoever, without the express written consent of the other. PFM and BLR shall each take all steps necessary to ensure that their respective affiliates, officers, employees, independent contractors, agents and other representatives (collectively "Representatives") maintain the Confidential Information in confidence.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, PFM and BLR have executed this Agreement this 15th day of September, 2017.

PFM Group Consulting, LLC: ______________________________

Signature

____

Printed Name

____

Title

____

Date

BUREAU OF LEGISLATIVE RESEARCH: ______________________________

Marty Garrity, Director

____

Date

ATTACHMENT A

RFP No. BLR-170002

and

PFM Group Consulting, LLC's Proposal in Response, including the Official Proposal Price Sheet

Attachment A

State of Arkansas
Bureau of
Legislative Research

Marty Garrity, Director
Kevin Anderson, Assistant Director for Fiscal Services
Matthew Miller, Assistant Director for Legal Services
Richard Wilson, Assistant Director for Research Services

REQUEST FOR PROPOSAL

RFP Number: BLR-170002	
Commodity: **Tax Reform Consulting Services**	Proposal Opening Date: **August 10, 2017**
Date: **July 13, 2017**	Proposal Opening Time: **4:30 P.M. CDT**

PROPOSALS SHALL BE SUBMITTED IN HARD COPY AND ELECTRONIC FORMAT AND WILL BE ACCEPTED UNTIL THE TIME AND DATE SPECIFIED ABOVE. THE PROPOSAL ENVELOPE MUST BE SEALED AND SHOULD BE PROPERLY MARKED WITH THE PROPOSAL NUMBER, DATE AND HOUR OF PROPOSAL OPENING, AND VENDOR'S RETURN ADDRESS. THE ELECTRONIC SUBMISSIONS SHOULD BE CLEARLY MARKED AS A PROPOSAL IN RESPONSE TO RFP NO. BLR-170002. IT IS NOT NECESSARY TO RETURN "NO BIDS" TO THE BUREAU OF LEGISLATIVE RESEARCH.

Vendors are responsible for delivery of their proposal documents to the Bureau of Legislative Research prior to the scheduled time for opening of the particular proposal. When appropriate, Vendors should consult with delivery providers to determine whether the proposal documents will be delivered to the Bureau of Legislative Research office street address prior to the scheduled time for proposal opening. Delivery providers, USPS, UPS, FedEx, and DHL, deliver mail to our street address, State Capitol Building, Room 315, Little Rock, Arkansas 72201, on a schedule determined by each individual provider. These providers will deliver to our offices based solely on our street address.

MAILING ADDRESS: 500 Woodlane Street State Capitol Building, Room 315 Little Rock, Arkansas 72201 E-MAIL: thayerj@blr.arkansas.gov TELEPHONE: (501) 682-1937	PROPOSAL OPENING LOCATION: Bureau of Legislative Research Director's Office State Capitol Building, Room 315

Company Name: ______________________

Name (type or print): ______________________

Title: ______________________

Address: ______________________

Telephone Number: ______________________

Fax Number: ______________________

E-Mail Address: ______________________

Signature: ______________________

USE INK ONLY; UNSIGNED PROPOSALS WILL NOT BE CONSIDERED

Identification:

Federal Employer ID Number	Social Security Number

FAILURE TO PROVIDE TAXPAYER IDENTIFICATION NUMBER MAY RESULT IN PROPOSAL REJECTION

Business Designation (check one):	Individual [ ]	Sole Proprietorship [ ]	Public Service Corp [ ]
	Partnership [ ]	Corporation [ ]	Government/ Nonprofit [ ]

GENERAL DESCRIPTION:	Tax Reform Consulting Services
TYPE OF CONTRACT:	Term

MINORITY BUSINESS POLICY

Participation by minority businesses is encouraged in procurements by state agencies, and although it is not required, the Bureau of Legislative Research ("BLR") supports that policy. "Minority" is defined at Arkansas Code Annotated § 15-4-303 as "a lawful permanent resident of this state who is: (A) African American; (B) Hispanic American; (C) American Indian; (D) Asian American; (E) Pacific Islander American; or (F) A service-disabled veteran as designated by the United States Department of Veteran Affairs". "Minority business enterprise" is defined at Arkansas Code Annotated § 15-4-303 as "a business that is at least fifty-one percent (51%) owned by one (1) or more minority persons". The Arkansas Economic Development Commission conducts a certification process for minority businesses. Vendors unable to include minority-owned businesses as subcontractors may explain the circumstances preventing minority inclusion.

EQUAL EMPLOYMENT OPPORTUNITY POLICY

The Vendor shall submit a copy of the Vendor's Equal Opportunity Policy. EO Policies shall be submitted in hard copy and electronic format to the Director of the Bureau of Legislative Research accompanying the solicitation response. The Bureau of Legislative Research will maintain a file of all Vendor EO policies submitted in response to solicitations issued by the Bureau of Legislative Research. The submission is a one-time requirement, but Vendors are responsible for providing updates or changes to their respective policies.

EMPLOYMENT OF ILLEGAL IMMIGRANTS

The Vendor must certify prior to award of the contract that it does not employ or contract with any illegal immigrants in its contract with the Bureau of Legislative Research. Vendors shall certify online at https://www.ark.org/dfa/immigrant/index.php/disclosure/submit/new . Any subcontractors used by the Vendor at the time of the Vendor's certification shall also certify that they do not employ or contract with any illegal immigrant. Certification by the subcontractors shall be submitted within thirty (30) days after contract execution.

DISCLOSURE FORMS

Completion of the EO-98-04 Governor's Executive Order contract disclosure forms located at http://www.dfa.arkansas.gov/offices/procurement/Documents/contgrantform.pdf is required as a condition of obtaining a contract with the Bureau of Legislative Research and must be submitted with the Vendor's response.

SECTION I. GENERAL INFORMATION

1.0 INTRODUCTION

The purpose of this Request For Proposal ("RFP") issued by the Bureau of Legislative Research ("BLR") is to invite responses ("Proposals") from Vendors desiring to provide tax reform consulting services for the Tax Relief and Reform Legislative Task Force (the "Task Force"). The Task Force intends to execute one contract as a result of this procurement ("the Contract"), if any contract is issued at all, encompassing all of the products and services contemplated in this RFP, and Proposals shall be evaluated accordingly. All Vendors must fully acquaint themselves with the Task Force's needs and requirements and obtain all necessary information to develop an appropriate solution and to submit responsive and effective Proposals.

1.1 ISSUING AGENCY

This RFP is issued by the BLR for the Task Force. The BLR is the sole point of contact in the state for the selection process. Vendor questions regarding RFP-related matters should be made in writing (via e-mail) through the Director of the BLR's Legal Counsel, Jillian Thayer, thayerj@blr.arkansas.gov. Questions regarding technical information or clarification should be addressed in the same manner.

1.2 SCHEDULE OF EVENTS

• Release RFP	July 13, 2017
• Deadline for submission of questions	August 3, 2017
• Closing for receipt of proposals and opening of proposals	August 10, 2017 at 4:30 p.m. CDT
• Evaluation of proposals by BLR	Between Aug. 10, 2017 and Aug. 24, 2017
• Proposals released to Task Force	August 24, 2017
• Selection of Vendors to make Oral Presentations	August 31, 2017 meeting of the Task Force
• Oral Presentations/Intent to Award	September 7, 2017, meeting of the Task Force
• Approval of draft contract by Task Force Chairs	Within 1 week after intent to award
• Approval of draft contract by the Policy Making Subcommittee of the Legislative Council	September 14, 2017
• Approval of contract by Legislative Council	September 15, 2017
• Contract Execution/Contract Start Date	Upon approval of the Legislative Council
• Preliminary Report Due	December 1, 2017
• Final Report Due	September 1, 2018

Proposals are due no later than the date and time listed on Page 1 of the RFP.

1.3 CAUTION TO VENDORS

- During the time between the proposal opening and contract award, any contact concerning this RFP will be initiated by the issuing office or requesting entity and not the Vendor. Specifically, the Bureau of Legislative Research will initiate all contact.

- **Vendors are requested to respond to each numbered paragraph of the RFP.**

- Vendors must submit one (1) signed original hard copy of the proposal on or before the date specified on page one of this RFP. In addition, the Vendor should submit, on or before the date specified on page one of this RFP, two (2) electronic versions of the proposal (one (1) redacted electronic version and one (1) unredacted electronic version), preferably in MS Word/Excel format, on CD, flash drive, or via e-mail. **Do NOT include any pricing from the Official Proposal Price Sheet on the copies, including on the CD, flash drive, or in the e-mail. Pricing from the Official Proposal Price Sheet, attached as Attachment A, must be separately sealed and submitted from the proposal response and clearly marked as pricing information. The electronic version of the Official Proposal Price Sheet must also be sealed and submitted separately from the electronic version of the proposal and, if submitted via e-mail, the e-mail must clearly state that the attachment contains pricing information.** Failure to submit the required number of copies with the proposal may be cause for rejection.

- For a proposal to be considered, an official authorized to bind the Vendor to a resultant contract must have signed the proposal **and** the Official Proposal Price Sheet.

- All official documents shall be included as part of the resultant Contract.

- The Task Force reserves the right to award a contract or reject a proposal for any or all line items of a proposal received as a result of this RFP, if it is in the best interest of the Task Force to do so. Proposals will be rejected for one or more reasons not limited to the following:
  a. Failure of the Vendor to submit his or her proposal(s) on or before the deadline established by the issuing office;
  b. Failure of the Vendor to respond to a requirement for oral/written clarification, presentation, or demonstration;
  c. Failure to supply Vendor references;
  d. Failure to sign an Official RFP Document;
  e. Failure to complete the Official Proposal Price Sheet(s) and include them sealed separately from the rest of the proposal;
  f. Any wording by the Vendor in their response to this RFP, or in subsequent correspondence, which conflicts with or takes exception to a requirement in the RFP; or
  g. Failure of any proposed services to meet or exceed the specifications.

1.4 RFP FORMAT

Any statement in this document that contains the word **"must"** or **"shall"** means that compliance with the intent of the statement is mandatory, and failure by the Vendor to satisfy that intent will cause the proposal to be rejected. It is recommended that Vendors respond to each item or paragraph of the RFP in sequence. Items not needing a specific vendor statement may be responded to by concurrence or acknowledgement; a failure to provide a response will be interpreted as an affirmative response or agreement to the BLR conditions. Reference to handbooks or other technical materials as part of a response must not constitute the entire response, and Vendor must identify the specific page and paragraph being referenced.

1.5 ALTERATION OF ORIGINAL RFP DOCUMENTS

The original written or electronic language of the RFP shall not be changed or altered except by approved written addendum issued by the Bureau of Legislative Research. This does not eliminate a Vendor from taking exception(s) to these documents, but it does clarify that the Vendor cannot change the original document's written or electronic language. If the Vendor wishes to make exception(s) to any of the original language, it must be submitted by the Vendor in separate written or electronic language in a manner that clearly explains the exception(s). If Vendor's submittal is discovered to contain alterations/changes to the original written or electronic documents, the Vendor's response may be declared non-responsive, and the response shall not be considered.

1.6 REQUIREMENT OF AMENDMENT

THIS RFP MAY BE MODIFIED ONLY BY AMENDMENTS WRITTEN AND AUTHORIZED BY THE BUREAU OF LEGISLATIVE RESEARCH. Vendors are cautioned to ensure that they have received or obtained and responded to any and all amendments to the RFP prior to submission.

1.7 RFP QUESTIONS

Any questions regarding the contents and requirements of the RFP and the format of responses to the RFP should be directed to Jillian Thayer via email only at thayerj@blr.arkansas.gov. Questions must be submitted by the deadline set forth in Section 1.2, Schedule of Events. Questions submitted by Vendors and answers to questions, as provided by the Bureau of Legislative Research, will be made public.

1.8 SEALED PRICES/COST

The Official Proposal Price Sheet submitted in response to this RFP must be submitted separately sealed from the proposal response or submitted in a separate e-mail. ***Vendors must include all pricing information on the Official Proposal Price Sheet and any attachments thereto and* must clearly mark said page(s) and e-mail as pricing information. The electronic version of the Official Proposal Price Sheet must also be sealed separately from the electronic version of the proposal and submitted on CD, flash drive, or in a separate e-mail.** Official Proposal Price Sheets may be reproduced as needed. Vendors may expand items to identify all proposed services and costs. A separate listing, which must include pricing, may be submitted with summary pricing.

All charges included on the Official Proposal Price Sheet, must be valid for one hundred eighty (180) days following proposal opening, and shall be included in the cost evaluation. The pricing must include all associated costs for the service being bid.

The BLR will not be obligated to pay any costs not identified on the Official Proposal Price Sheet. Any cost not identified by the Vendor but subsequently incurred in order to achieve successful operation will be borne by the Vendor.

The total maximum amount of the bid listed on the Official Proposal Price Sheet will be the maximum amount that may be paid out under any resulting Contract. The amount paid by the BLR to the Successful Vendor will be based on billing for actual hours worked and documented in the hourly rates set forth in the Official Proposal Price Sheet, as well as reimbursements for actual expenses, documented by receipts, up to the maximum contract amount.

1.9 PROPRIETARY INFORMATION

Proposals and documents pertaining to the RFP become the property of the BLR, and after release to the Task Force shall be open to public inspection pursuant to the Arkansas Freedom of Information Act, § 25-19-101, *et seq*. It is the responsibility of the Vendor to identify all proprietary information by providing a redacted copy of the proposal, as discussed below, and to seal such information in a separate envelope or e-mail marked as confidential and proprietary.

The Vendor must submit one (1) complete electronic copy of the proposal from which any proprietary information has been removed, *i.e.*, a redacted copy. The redacted copy should reflect the same pagination as the original, show the empty space from which information was redacted, and be submitted on a CD, a flash drive, or in a separate e-mail. Except for the redacted information, the electronic copy must be identical to the original hard copy. The Vendor is responsible for ensuring the redacted copy on CD, flash drive, or submitted via e-mail is protected against restoration of redacted data.

1.10 DELIVERY OF RESPONSE DOCUMENTS

It is the responsibility of vendors to submit proposals at the place and on or before the date and time set in the RFP solicitation documents. Proposal documents received at the Bureau of Legislative Research Offices after the date and time designated for proposal opening are considered late proposals and shall not be considered. Proposal documents that are to be returned may be opened to verify which RFP the submission is for. Proposals may be submitted via e-mail to Jillian Thayer, Legal Counsel to the Director, at thayerj@blr.arkansas.gov.

1.11 BID EVALUATION

The Task Force will evaluate all proposals to ensure all requirements are met. The Contract will be awarded on the basis of the proposal that most thoroughly satisfies the relevant criteria as determined by the Task Force.

1.12 ORAL AND/OR WRITTEN PRESENTATIONS/DEMONSTRATIONS

The Task Force will select a small group of Vendors from among the proposals submitted to attend the September 7, 2017 meeting of the Task Force to answer questions and to make oral and/or written presentations to the Task Force. All presentations are subject to be recorded.

All expenses of the Vendor associated with attending the September 7, 2017 Task Force meeting will be borne by the Vendor.

The Successful Vendor selected by the Task Force shall attend the September 14, 2017 meeting of the Policy Making Subcommittee of the Legislative Council and the September 15, 2017 meeting of the Legislative Council, and actual expenses of the Vendor in attending these meetings will be reimbursed under the contract.

1.13 INTENT TO AWARD

After complete evaluation of the proposal, the intent to award will be announced at the September 7, 2017, meeting of the Task Force. The purpose of the announcement is to establish a specific time in which vendors and agencies are aware of the intent to award. The Task Force reserves the right to waive this policy, The Intent to Award, when it is in the best interest of the state.

1.14 APPEALS

A Vendor who is aggrieved in connection with the award of a contract may protest to the Executive Subcommittee of the Legislative Council. The protest shall be submitted in writing within five (5) calendar days after the intent to award is announced. After reasonable notice to the protestor involved and reasonable opportunity for the protestor to respond to the protest issues cited by the Executive Subcommittee, the Arkansas Legislative Council, or the Joint Budget Committee if the Arkansas General Assembly is in session, shall promptly issue a decision in writing that states the reasons for the action taken. The Arkansas Legislative Council's or the Joint Budget Committee's decision is final and conclusive. In the event of a timely protest, the Bureau of Legislative Research shall not proceed further with the solicitation or with the award of the contract unless the co-chairs of the Arkansas Legislative Council or the Joint Budget Committee make a written determination that the award of the contract without delay is necessary to protect substantial interests of the state.

1.15 PAST PERFORMANCE

A Vendor's past performance may be used in the evaluation of any offer made in response to this solicitation. The past performance should not be greater than three (3) years old and must be supported by written documentation submitted to the Bureau of Legislative Research with the Vendor's RFP response. Documentation shall be in the form of a report, memo, file, or any other appropriate authenticated notation of performance to the vendor files.

1.16 TYPE OF CONTRACT

This will be a term contract commencing on the date of execution of the Contract and terminating on December 31, 2018, with an option for one (1) renewal of up to six (6) months. The BLR will have the option to renegotiate at time of renewal.

1.17 PAYMENT AND INVOICE PROVISIONS

All invoices shall be delivered to the BLR and must show an itemized list of charges. The Invoice, Invoice Remit, and Summary must be delivered via email to Jillian Thayer, Legal Counsel to the Director, at thayerj@blr.arkansas.gov .

The BLR shall have no responsibility whatsoever for the payment of any federal, state, or local taxes that become payable by the Successful Vendor or its subcontractors, agents, officers, or employees. The Successful Vendor shall pay and discharge all such taxes when due.

Payment will be made in accordance with applicable State of Arkansas accounting procedures upon acceptance by the BLR. The BLR may not be invoiced in advance of delivery and acceptance of any services. Payment will be made only after the Successful Vendor has successfully satisfied the BLR as to the reliability and effectiveness of the services as a whole. Purchase Order Number and/or Contract Number should be referenced on each invoice.

The Successful Vendor shall be required to maintain all pertinent financial and accounting records and evidence pertaining to the Contract in accordance with generally accepted principles of accounting and other procedures specified by the BLR. Access will be granted to state or federal government entities or any of their duly authorized representatives upon request.

Financial and accounting records shall be made available, upon request, to the BLR's designee(s) at any time during the contract period and any extension thereof and for five (5) years from expiration date and final payment on the Contract or extension thereof.

1.18 PRIME CONTRACTOR RESPONSIBILITY

The Successful Vendor will be required to assume prime contractor responsibility for the Contract and will be the sole point of contact.

The Task Force reserves the right to interview the key personnel assigned by the Successful Vendor to this project and to recommend or require reassignment of personnel deemed unsatisfactory by the Task Force.

The Task Force reserves the right to approve subcontractors for this project and require primary contractors to replace subcontractors that are found to be unacceptable.

If any part of the work is to be subcontracted, the Vendor must disclose the same information for the subcontractor as for itself. Responses to this RFP must include a list of subcontractors, including firm name and address, contact person, complete description of work to be subcontracted, and descriptive information concerning subcontractor's business organization.

1.19 DELEGATION AND/OR ASSIGNMENT

The Vendor shall not assign the Contract in whole or in part or any payment arising therefrom without the prior written consent of the BLR, as approved by the Task Force. The Vendor shall not delegate any duties under the Contract to a subcontractor unless the BLR, as approved by the Task Force, has given written consent to the delegation.

1.20 CONDITIONS OF CONTRACT

The Successful Vendor shall at all times observe and comply with federal and state laws, local laws, ordinances, orders, and regulations existing at the time of or enacted subsequent to the execution of the Contract which in any manner affect the completion of the work. The Successful Vendor shall indemnify and save harmless the BLR, the Task Force, the Arkansas General Assembly, and the State of Arkansas and all of their officers, representatives, agents, and employees against any claim or liability arising from or based upon the violation of any such law, ordinance, regulation, order, or decree by an employee, representative, or subcontractor of the Successful Vendor.

1.21 STATEMENT OF LIABILITY

The BLR and the Task Force will demonstrate reasonable care but shall not be liable in the event of loss, destruction, or theft of contractor-owned technical literature to be delivered or to be used in the installation of deliverables. The Vendor is required to retain total liability for technical literature until the deliverables have been accepted by the authorized BLR official. At no time will the BLR or the Task Force be responsible for or accept liability for any Vendor-owned items.

The Successful Vendor shall indemnify and hold harmless the Task Force and its members, the BLR and its officers, directors, agents, retailers, and employees, and the State of Arkansas from and against any and all suits, damages, expenses, losses, liabilities, claims of any kind, costs or expenses of any nature or kind, including, with limitation, court costs, attorneys' fees, and other damages, arising out of, in connection with, or resulting from the development, possession, license, modification, disclosure, or use of any copyrighted or non-copyrighted materials, trademark, service mark, secure process, invention, process or idea (whether patented or not), trade secret, confidential information, article, or appliance furnished or used by a vendor in the performance of the Contract.

The resulting Contract shall be governed by the laws of the State of Arkansas, without regard for Arkansas' conflict of law principles. Any claims against the Bureau of Legislative Research, the Task Force, or the Arkansas General Assembly, whether arising in tort or in contract, shall be brought before the Arkansas State Claims Commission as provided by Arkansas law, and shall be governed accordingly. Nothing in this RFP or the resulting contract shall be construed as a waiver of sovereign immunity.

1.22 AWARD RESPONSIBILITY

The BLR will be responsible for award and administration of any resulting contract(s).

1.23 INDEPENDENT PRICE DETERMINATION

By submission of this proposal, the Vendor certifies, and in the case of a joint proposal, each party thereto certifies as to its own organization, that in connection with this proposal:

- The prices in the proposal have been arrived at independently, without collusion, and that no prior information concerning these prices has been received from or given to a competitive company; and
- If there is sufficient evidence of collusion to warrant consideration of this proposal by the Office of the Attorney General, all Vendors shall understand that this paragraph may be used as a basis for litigation.

1.24 PUBLICITY

News release(s), media interviews, or other publicity by a Vendor pertaining to this RFP or any portion of the project shall not be made without prior written approval of the BLR, as authorized by the Task Force chairs. Failure to comply with this requirement is deemed to be a valid reason for disqualification of the Vendor's proposal.

The Successful Vendor agrees not to use the BLR's, the Task Force's, or the Arkansas General Assembly's names, trademarks, service marks, logos, images, or any data arising or resulting from this RFP or the Contract as part of any commercial advertising or proposal without the express prior written consent of the BLR and the Task Force in each instance.

1.25 CONFIDENTIALITY

The Successful Vendor shall be bound to confidentiality of any confidential information that its employees may become aware of during the course of performance of contracted services. Consistent and/or uncorrected breaches of confidentiality may constitute grounds for cancellation of the Contract.

The Successful Vendor shall represent and warrant that its performance under the Contract will not infringe any patent, copyright, trademark, service mark, or other intellectual property rights of any other person or entity and that it will not constitute the unauthorized use or disclosure of any trade secret of any other person or entity.

1.26 PROPOSAL TENURE

All Proposals shall remain valid for one hundred eighty (180) calendar days from the Proposal due date referenced on Page 1 of the RFP.

1.27 WARRANTIES

- The Successful Vendor shall warrant that it currently is, and will at all times remain, lawfully organized and constituted under all federal, state, and local law, ordinances, and other authorities of its domicile and that it currently is, and will at all times remain, in full compliance with all legal requirements of its domicile and the State of Arkansas.

- The Successful Vendor shall warrant and agree that all services provided pursuant to this RFP and the Contract have been and shall be prepared or done in a workman-like manner consistent with the highest standards of the industry in which the services are normally performed. The Successful Vendor further represents and warrants that all computer programs implemented for performance under the Contract shall meet the performance standards required thereunder and shall correctly and accurately perform their intended functions.

- The Successful Vendor shall warrant that it is qualified to do business in the State of Arkansas and shall file appropriate tax returns as provided by the laws of this State.

1.28 CONTRACT TERMINATION

Subsequent to award and execution of the Contract, either party may terminate the Contract by providing ten (10) days prior written notice.

1.29 VENDOR QUALIFICATIONS

The Successful Vendor must, upon request of the Task Force, furnish satisfactory evidence of its ability to furnish products or services in accordance with the terms and conditions of this proposal. The Task Force reserves the right to make the final determination as to the Vendor's ability to provide the services requested herein.

The Vendor must demonstrate that it possesses the capabilities and qualifications described in Sections 3 and 5, including without limitation the following:

- Be capable of providing the services required by the Task Force;
- Be authorized to do business in this State; and
- Complete the Official Proposal Price Sheet in Attachment A.

1.30 NEGOTIATIONS

As provided in this RFP, discussions may be conducted by the BLR with a responsible Vendor who submits proposals determined to be reasonably susceptible of being selected for award for the purpose of obtaining clarification of proposal responses and negotiation for best and final offers.

1.31 LICENSES AND PERMITS

During the term of the Contract, the Vendor shall be responsible for obtaining, and maintaining in good standing, all licenses (including professional licenses, if any), permits, inspections, and related fees for each or any such licenses, permits, and/or inspections required by the state, county, city, or other government entity or unit to accomplish the work specified in this solicitation and the contract.

1.32 OWNERSHIP OF DATA & MATERIALS

All data, material, and documentation prepared for the Task Force pursuant to the Contract shall belong exclusively to the BLR, for the use of the Task Force and other committees of the Arkansas General Assembly, as authorized by the Task Force.

SECTION 2. OVERVIEW

2.0 TAX REFORM AND RELIEF ACT OF 2017 OVERVIEW

The Tax Reform and Relief Act of 2017 (the "Act"), enacted by the 91st General Assembly of the State of Arkansas, created the Tax Reform and Relief Legislative Task Force in order to "examine and identify areas of potential reform within the tax laws of the State of Arkansas and to recommend legislation.".

2.1 OBJECTIVES

It is the objective of the Task Force, by entering into a Contract for consultant services, to provide to the members of the Arkansas General Assembly detailed and accurate information concerning the current state of tax laws and their impact in the State of Arkansas, as well as recommendations for legislative changes in order to:

- Modernize and simplify the Arkansas tax code;
- Make the Arkansas tax laws competitive with other states in order to attract businesses to the State;
- Create jobs within the State; and
- Ensure fairness to all individuals and entities impacted by the tax laws of the State of Arkansas.

The Vendor shall provide this information in a timely manner to the Task Force in order to assist the Task Force in compiling its preliminary report due December 1, 2017 and a final report due September 1, 2018. This information will allow the Task Force to adequately assess the needs in the state in order achieve the requirements of the Act.

This Request for Proposal is designed to obtain a Contract to provide tax reform consulting services to the Task Force. All responses to this RFP shall reflect the overall goals and objectives stated herein. The Vendor shall bill the BLR on an hourly basis for the services provided.

SECTION 3. TAX REFORM CONSULTING SERVICES

3.0 SCOPE OF WORK/SPECIFICATIONS

It will be the responsibility of the Vendor to provide the Task Force and, ultimately, the members of the Arkansas General Assembly with accurate and detailed reports, including information set forth in Section 2, above.

In addition to preparation of a final report, the Successful Vendor will provide:

- Monthly status updates on the project, which will require monthly attendance at meetings of the Task Force to answer questions regarding the status updates;
- Answers to research requests or data inquiries by members of the Task Force, as authorized by the Task Force Co-chairs; and
- Assistance with draft legislation based on recommendations adopted by the Task Force.

  The Successful Vendor will also need to be available to attend other meetings of the Task Force and other legislative committees, as requested and authorized by the Task Force Co-Chairs.

In the event that services in addition to those described in this Section 3.0 Scope of Work/Specifications are required during the term of the Contract, the Co-chairs of the Arkansas Legislative Council shall have the power to approve the additional services and an additional fee for those services in an amount not to exceed ten percent (10%) of the Vendor's total maximum amount of the bid as submitted in the Official Proposal Price Sheet and agreed upon in the Contract, upon recommendation of the Task Force.

The Vendor may find it necessary and prudent to pull data from existing studies recently undertaken by other consultants or state agencies. In the event that the Vendor utilizes any information from other reports or studies, the Vendor shall first verify the methodology employed in compiling the data in the reports and the accuracy of the data therein. Documentation of this verification process shall be provided in the reports of the Vendor to the Task Force.

3.1 TAX REFORM CONSULTING
The tax reform consulting services provided by the Successful Vendor pursuant to this Request for Proposal must address the stated specifications and requirements. These services will be provided to the Task Force.

As requested by the Task Force, the Vendor must attend various meetings of the Task Force and other legislative committees of the Arkansas General Assembly. Hourly compensation will be paid for meeting times in addition to reimbursement of actual travel expenses. The Vendor shall explain any anticipated limitations in its ability to attend meetings of the Task Force in its response to this RFP.

All projects shall be paid pursuant to the fee schedule, as stated in the Official Proposal Price Sheet and any attachments thereto. The Vendor shall submit itemized invoices to the BLR, which will pay the invoices on a monthly basis.

The Task Force does not grant the Vendor exclusive rights to all tax reform consulting services contemplated under this RFP. In the event the Task Force decides that the acquisition of these services by another Vendor is in the Task Force's best interest, the Task Force reserves the right to contract and purchase tax reform consulting services from a different source outside of the contract resulting from this RFP, and the Task Force's action to procure services outside of the Contract does not infringe upon, nor terminate, the contract resulting from this Request For Proposal.

3.2 PROCUREMENT OF GOODS AND SERVICES
If the Vendor anticipates the need to procure additional goods or services in order to provide the tax reform consulting services requested in this RFP, the Vendor must identify the goods and/or services that may be procured, the reason the procurement is necessary, the name of the vendor from whom the goods or services are to be procured, and the anticipated cost of the goods and/or services to be procured.

A Vendor does not need to restate each item listed in this Section 3.2 but will be bound by all applicable specifications. Information relating to these matters should be incorporated into the Proposal. A Vendor must provide in detail any limitations in meeting the requirements stated in Section 3.

SECTION 4. COST PROPOSAL

4.0 COMPENSATION
Compensation for tax reform consulting services shall be paid based upon the work performed as specified in this RFP. The budget is subject to approval by the Task Force. A Vendor seeking consideration shall submit a compensation proposal as required below for tax reform consulting services as provided throughout the RFP.

The fee schedule, as set forth on the Official Proposal Price Sheet, will cover the time spent in the completion of the requested task or project, as well as other administrative costs (including, but not limited to, secretarial, bookkeeping, budget preparation, monitoring and auditing services, etc.) The fee schedule will cover any and all travel expenses anticipated in relation to conducting the work required under this RFP and resulting Contract. The fee schedule will cover the time expended inclusive of all overhead or any other costs associated with the particular individuals who may be performing the services.

4.1 PAYMENT SCHEDULE
The BLR shall pay the Vendor based on the hours expended for approved projects on a monthly basis or as otherwise may be agreed to in writing by the parties. The BLR may request and the Vendor shall provide timesheets or other documentation as may be directed by the BLR prior to the payment for any services rendered. Failure to provide appropriate and satisfactory documentation will be sufficient grounds to withold payment for the disputed amount, but other nondisputed amounts must be paid in a timely manner.

4.2 TRAVEL, LODGING, AND MEALS

The Successful Vendor may submit invoices and receive reimbursement for travel expenses allowed by law related to attending meetings of the Task Force and other legislative committeess of the Arkansas General Assembly. Reimbursement of travel expenses will be included in the total maximum contract amount.

Estimates of expenses as allowed by law for travel related to field work required by the Contract and this RFP should be included by the Vendor in the fee schedule, as required by Section 4.0.

SECTION 5. ADDITIONAL VENDOR REQUIREMENTS

5.0 COMPREHENSIVE VENDOR INFORMATION

All proposals should be complete and carefully worded and should convey all of the information requested by the Task Force. If significant errors are found in the Vendor's proposal, or if the proposal fails to conform to the essential requirements of the RFP, the Task Force will be the sole judge as to whether that variance is significant enough to reject the proposal. Proposals should be prepared simply and economically, providing a straightforward, concise description of the Vendor's capabilities to satisfy the requirements of the RFP. Emphasis should be on completeness and clarity of the content. Proposals that include either modifications to any of the contractual requirements of the RFP or a Vendor's standard terms and conditions may be deemed non-responsive and therefore not considered for award.

5.1 VENDOR PROFILE

In addition to information requested in other sections of the RFP, the Vendor shall submit the following:

- Business Name;
- Business Address;
- Alternate Business Address;
- Primary Contact Name, Title, Telephone, Fax, and E-mail Address;
- How many years this company has been in this type of business;
- Proof that the Vendor is qualified to do business in the State of Arkansas;
- A disclosure of the Vendor's name and address and, as applicable, the names and addresses of the following: If the Vendor is a corporation, the officers, directors, and each stockholder of more than a ten percent (10%) interest in the corporation. However, in the case of owners of equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to own beneficially five percent (5%) or more of the securities need be disclosed; if the Vendor is a trust, the trustee and all persons entitled to receive income or benefits from the trust; if the Vendor is an association, the members, officers, and directors; and if the Vendor is a partnership or joint venture, all of the general partners, limited partners, or joint venturers;
- A disclosure of all the states and jurisdictions in which the Vendor does business and the nature of the business for each state or jurisdiction;
- A disclosure of all the states and jurisdictions in which the Vendor has contracts to supply tax reform consulting services and the nature of the goods or services involved for each state or jurisdiction;
- A disclosure of the details of any finding or plea, conviction, or adjudication of guilt in a state or federal court of the Vendor for any felony or any other criminal offense other than a traffic violation committed by the persons identified as management, supervisory, or key personnel;
- A disclosure of the details of any bankruptcy, insolvency, reorganization, or corporate or individual purchase or takeover of another corporation, including without limitation bonded indebtedness, and any pending litigation of the Vendor;

- A disclosure of any conflicts of interest on the part of the Vendor or its personnel that will be working on this project, especially regarding financial interests that would be impacted depending on the recommendations ultimately made by the Task Force.

- Additional disclosures and information that the Task Force may determine to be appropriate for the procurement involved.

5.2 GENERAL INFORMATION

Vendor shall submit any additional information for consideration such as specialized services, staffs available, or other pertinent information the Vendor may wish to include.

5.3 DISCLOSURE OF LITIGATION

A Vendor must include in its Proposal a complete disclosure of any civil or criminal litigation or indictment involving such Vendor. A Vendor must also disclose any civil or criminal litigation or indictment involving any of its joint ventures, strategic partners, prime contractor team members, and subcontractors. This disclosure requirement is a continuing obligation, and any litigation commenced after a Vendor has submitted a Proposal under this RFP must be disclosed to the BLR in writing within five (5) days after the litigation is commenced.

5.4 EXECUTIVE SUMMARY

A Vendor must provide a summary overview and an implementation plan for the entire project being proposed. The intent of this requirement is to provide the Task Force with a concise but functional summary of the discussion of each phase of the Vendor's plan in the order of progression. While the Task Force expects a Vendor to provide full details in each of the sections in other areas of the RFP relating to its plan, the Executive Summary will provide a "map" for the Task Force to use while reviewing the Proposal.

Each area summarized must be listed in chronological order, beginning with the date of Contract execution, to provide a clear indication of the flow and duration of the project. A Vendor may use graphics, charts, pre-printed reports, or other enhancements as a part of this section to support the chronology or add to the presentation. Any such materials must be included in the original and each copy of the Proposal.

5.5 VENDOR'S QUALIFICATIONS

A Vendor shall provide resumes or short biographies and qualifications of all management, supervisory, and key personnel to be involved in performing the services contemplated under this RFP. The resumes shall present the personnel in sufficient detail to provide the Task Force with evidence that the personnel involved can perform the work specified in the RFP. A Vendor shall provide a brief history of its company, to include the name and location of the company and any parent/subsidiary affiliation with other entities. If a Vendor is utilizing the services of a subcontractor(s) for any of the service components listed, the Vendor shall include in its proposal response a brief history of the subcontractor's company to include the information requested herein.

A Vendor shall provide:

- A brief professional history, including the number of years of experience in tax reform consulting or related experience and any professional affiliations and trade affiliations.
- A listing of current accounts and the longevity of those accounts.
- An organizational chart highlighting the names/positions that will be involved in the contract, including the individual who will be primarily responsible for managing the account on a day-to-day basis.
- An outline of the Vendor's or employees' experience in tax reform assessment, research, and reporting.
- A full explanation of staffing, functions, and methodology to be used in areas of tax reform assessment and account management, identifying specifically the personnel that will be assigned to the account. All such personnel are subject to Task Force approval. Describe any staff functions that are considered unique to the account.
- A detailed description of the plan for assisting the Task Force in meeting its goals and objectives, including how the requirements will be met and what assurances of efficiency and success the proposed approach will provide.

- An indication of how soon after the contract award the personnel named would be available and indicate any possible scheduling conflicts that might exist during the period of the contract. Any other limitations on the availability to perform under this RFP or to attend meetings must be fully explained.
- An indication of the timeframe the Vendor would require to assist the Task Force in meeting its goals and objectives.
- A detailed, narrative statement listing the three (3) most recent, comparable contracts (including contact information) that the Vendor has performed and the general history and experience of its organization.
- At least two (2) samples of the Vendor's work on comparable projects.
- At least three (3) references from entities that have recent (within the last three (3) years) contract experience with the Vendor and are able to attest to the Vendor's work experience and qualifications relevant to this RFP.
- A list of every business for which Vendor has performed, at any time during the past three (3) years, services substantially similar to those sought with this solicitation. Err on the side of inclusion; by submitting an offer, Vendor represents that the list is complete.
- List of failed projects, suspensions, debarments, and significant litigation.
- An outline or other information relating to why the Vendor's experience qualifies in meeting the specifications stated in Section 3 of this RFP.

The Vendor should demonstrate the work the Vendor has done for clients during the past three (3) years and indicate which individual on its staff was responsible for the work. Referenced work should provide a clear indication of the types of tax reform consulting services that can be obtained for the Task Force.

A Vendor shall provide information on any conflict of interest with the objectives and goals of the Task Force that could result from other projects in which the Vendor is involved. Failure to disclose any such conflict may be cause for Contract termination or disqualification of the response.

A Vendor or its subcontractor(s) must list all clients that were lost between January 2014 and the present and the reason for the loss. The Task Force reserves the right to contact any accounts listed in this section. A Vendor must describe any contract disputes involving an amount of thirty-five thousand dollars ($35,000) or more that the Vendor, or its subcontractor(s), has been involved in within the past two (2) years. Please indicate if the dispute(s) have been successfully resolved.

5.5.1 BACKGROUND INVESTIGATION

Vendors must allow the BLR to perform an investigation of the financial responsibility, security, and integrity of a Vendor submitting a bid, if required by the Task Force.

5.6 SUBCONTRACTOR IDENTIFICATION

If Vendor intends to subcontract with another business for any portion of the work and that portion exceeds ten percent (10%) of the Proposal price, Vendor's offer must identify that business and the portion of work that they are to perform. Identify potential subcontractors by providing the business's name, address, phone, taxpayer identification number, and point of contact. In determining Vendor's responsibility, the Task Force may evaluate Vendor's proposed subcontractors.

SECTION 6. EVALUATION CRITERIA FOR SELECTION

6.0 GENERALLY

The Vendor should address each item listed in this RFP to be guaranteed a complete evaluation. After initial qualification of proposals, selection of the Successful Vendor will be determined in a meeting of the Task Force by evaluation of several factors.

The Task Force has developed evaluation criteria that will be used by the Task Force and that is incorporated in Section 6.1 of this RFP. Other agents of the Task Force may also examine documents.

The Task Force requires that the tax reform consulting services requested under this RFP be available for use by the Task Force the day after the Contract Execution Date. Submission of a proposal implies Vendor acceptance of the evaluation technique and Vendor recognition that subjective judgments must be made by the Task Force during the evaluation of the proposals.

The Task Force reserves, and a Vendor by submitting a Proposal grants to the Task Force, the right to obtain any information from any lawful source regarding the past business history, practices, and abilities of Vendor, its officers, directors, employees, owners, team members, partners, and/or subcontractors.

6.1 EVALUATION CRITERIA

The following evaluation criteria are listed according to their relative importance; however, the difference between the importance assigned to any one criterion and the criteria immediately preceding and following is small:

Directly related experience;
Price, including individual amounts and total maximum amount;
Plan for providing services;
Availability to perform work and attend meetings;
Proposed schedule for providing services;
Proposed personnel and the credentials of those assigned;
Compliance with the requirements of the RFP; and
Past performance.

ATTACHMENT A

<u>OFFICIAL PROPOSAL PRICE SHEET</u>

Note: The Official Proposal Price Sheet must be submitted in a separate envelope or e-mail and not part of the technical evaluation. Any reference to pricing in the technical proposal shall be cause for disqualification from further considerations for award.

1. Any cost not identified on this schedule but subsequently incurred will be the responsibility of the Vendor.

2. Bids should provide at least a 180-day acceptance period.

3. By submission of a proposal, the proposer certifies the following:
   A. Prices in this proposal have been arrived at independently, without consultation, communication, or agreement for the purpose of restricting competition;
   B. No attempt has been made nor will be by the proposer to induce any other person or firm to submit a proposal for the purpose of restricting competition;
   C. The person signing this proposal is authorized to represent the company and is legally responsible for the decision as to the price and supporting documentation provided as a result of this RFP; and
   D. Prices in this proposal have not been knowingly disclosed by the proposer and will not be prior to award to any other proposer.

The Official Price Proposal Sheet must be submitted in the following form, allowing for the inclusion of specific information regarding positions, goods, services, etc., and signed by an official authorized to bind the Vendor to a resultant contract.

DESCRIPTION	PRICE PER HOUR	NUMBER OF POSITIONS
Supervisor		
Other Professional Staff (List by Position)		
Support Staff		
DESCRIPTION	**PRICE PER UNIT (if applicable)**	**TOTAL PRICE**
Subcontractors (if any)		
Travel		
Any Additional Goods & Services (List Individually)		
TOTAL MAXIMUM AMOUNT OF BID:		

Attachment A

State of Arkansas

Tax Reform Consulting Services

PFM Group
Consulting LLC

1735 Market Street
43rd Floor
Philadelphia, PA 19103

215.567.6100
www.pfm.com

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pfm

1735 Market Street
43rd Floor
Philadelphia, PA 19103
215.567.6100

pfm.com

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.

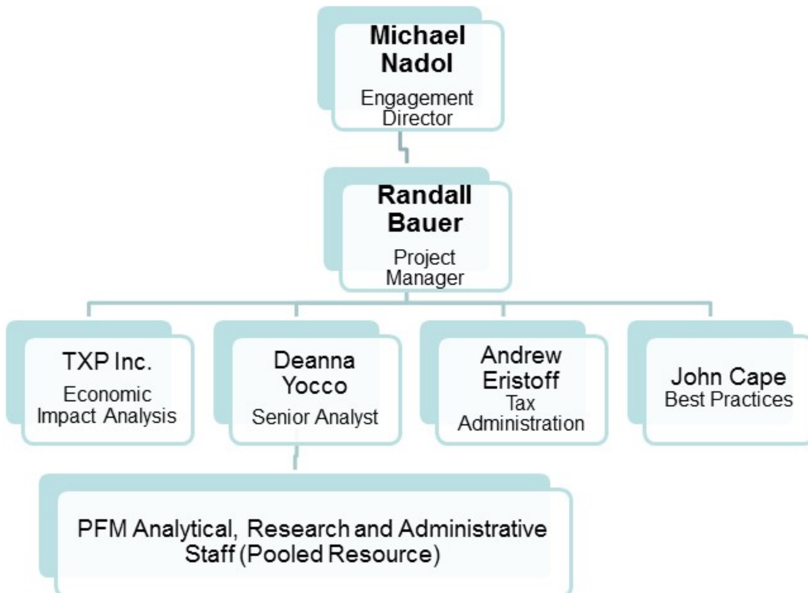
  Prior to joining PFM, Mr. Williams worked for the Office of the New Jersey Governor as Cabinet Liaison and a Deputy Director of Management and Operations. He was the primary point of contact in the Governor's Office on operations, budget preparation, organizational management issues, and tactical activities 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.*"

Project Completion

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

Forms

Attachment A

State of Arkansas
Bureau of Legislative Research

Marty Garrity, Director
Kevin Anderson, Assistant Director for Fiscal Services
Matthew Miller, Assistant Director for Legal Services
Richard Wilson, Assistant Director for Research Services

REQUEST FOR PROPOSAL

RFP Number: BLR-170002	
Commodity: **Tax Reform Consulting Services**	Proposal Opening Date: **August 10, 2017**
Date: **July 13, 2017**	Proposal Opening Time: **4:30 P.M. CDT**

PROPOSALS SHALL BE SUBMITTED IN HARD COPY AND ELECTRONIC FORMAT AND WILL BE ACCEPTED UNTIL THE TIME AND DATE SPECIFIED ABOVE. THE PROPOSAL ENVELOPE MUST BE SEALED AND SHOULD BE PROPERLY MARKED WITH THE PROPOSAL NUMBER, DATE AND HOUR OF PROPOSAL OPENING, AND VENDOR'S RETURN ADDRESS. THE ELECTRONIC SUBMISSIONS SHOULD BE CLEARLY MARKED AS A PROPOSAL IN RESPONSE TO RFP NO. BLR-170002. IT IS NOT NECESSARY TO RETURN "NO BIDS" TO THE BUREAU OF LEGISLATIVE RESEARCH.

Vendors are responsible for delivery of their proposal documents to the Bureau of Legislative Research prior to the scheduled time for opening of the particular proposal. When appropriate, Vendors should consult with delivery providers to determine whether the proposal documents will be delivered to the Bureau of Legislative Research office street address prior to the scheduled time for proposal opening. Delivery providers, USPS, UPS, FedEx, and DHL, deliver mail to our street address, State Capitol Building, Room 315, Little Rock, Arkansas 72201, on a schedule determined by each individual provider. These providers will deliver to our offices based solely on our street address.

MAILING ADDRESS: 500 Woodlane Street State Capitol Building, Room 315 Little Rock, Arkansas 72201 E-MAIL: thayerj@blr.arkansas.gov TELEPHONE: (501) 682-1937	PROPOSAL OPENING LOCATION: Bureau of Legislative Research Director's Office State Capitol Building, Room 315

Company Name: PFM GROUP CONSULTING LLC

Name (type or print): MICHAEL NADOL

Title: PRESIDENT

Address: 1735 MARKET STREET 43RD FLOOR PHILADELPHIA, PA 19103

Telephone Number: 251.567.6100

Fax Number: 215.567.4180

E-Mail Address: NADOLM@PFM.COM

Signature:

USE INK ONLY; UNSIGNED PROPOSALS WILL NOT BE CONSIDERED

Identification: 81-1642478	
Federal Employer ID Number	Social Security Number

FAILURE TO PROVIDE TAXPAYER IDENTIFICATION NUMBER MAY RESULT IN PROPOSAL REJECTION

Business Designation (check one):	Individual [ ]	Sole Proprietorship [ ]	Public Service Corp [ ]
	Partnership [ ]	Corporation [ ]	Government/ Nonprofit [ ]

[X] LIMITED LIABILITY COMPANY - PARTNERSHIP

GENERAL DESCRIPTION:	Tax Reform Consulting Services
TYPE OF CONTRACT:	Term

MINORITY BUSINESS POLICY

Participation by minority businesses is encouraged in procurements by state agencies, and although it is not required, the Bureau of Legislative Research ("BLR") supports that policy. "Minority" is defined at Arkansas Code Annotated § 15-4-303 as "a lawful permanent resident of this state who is: (A) African American; (B) Hispanic American; (C) American Indian; (D) Asian American; (E) Pacific Islander American; or (F) A service-disabled veteran as designated by the United States Department of Veteran Affairs". "Minority business enterprise" is defined at Arkansas Code Annotated § 15-4-303 as "a business that is at least fifty-one percent (51%) owned by one (1) or more minority persons". The Arkansas Economic Development Commission conducts a certification process for minority businesses. Vendors unable to include minority-owned businesses as subcontractors may explain the circumstances preventing minority inclusion.

EQUAL EMPLOYMENT OPPORTUNITY POLICY

The Vendor shall submit a copy of the Vendor's Equal Opportunity Policy. EO Policies shall be submitted in hard copy and electronic format to the Director of the Bureau of Legislative Research accompanying the solicitation response. The Bureau of Legislative Research will maintain a file of all Vendor EO policies submitted in response to solicitations issued by the Bureau of Legislative Research. The submission is a one-time requirement, but Vendors are responsible for providing updates or changes to their respective policies.

EMPLOYMENT OF ILLEGAL IMMIGRANTS

The Vendor must certify prior to award of the contract that it does not employ or contract with any illegal immigrants in its contract with the Bureau of Legislative Research. Vendors shall certify online at https://www.ark.org/dfa/immigrant/index.php/disclosure/submit/new . Any subcontractors used by the Vendor at the time of the Vendor's certification shall also certify that they do not employ or contract with any illegal immigrant. Certification by the subcontractors shall be submitted within thirty (30) days after contract execution.

DISCLOSURE FORMS

Completion of the EO-98-04 Governor's Executive Order contract disclosure forms located at http://www.dfa.arkansas.gov/offices/procurement/Documents/contgrantform.pdf is required as a condition of obtaining a contract with the Bureau of Legislative Research and must be submitted with the Vendor's response.

Attachment A

Equal Employment Opportunity - Affirmative Action Policy Statement

PFM, including PFM Asset Management LLC, PFM Financial Advisors LLC, PFM Group Consulting LLC, PFM Solutions LLC, PFM Swap Advisors LLC and Public Financial Management Inc., recognizes the value of a diverse workforce and welcomes each employee with his/her special skills and contributions. In addition to PFM's recognition of and commitment to diversity in its workforce, Equal Employment Opportunity (EEO) is the law.

The law, as well as PFM's policy, prohibits discrimination against applicants and employees on the basis of race, color, creed, religion, citizenship status, national origin, sexual orientation, disability, age, marital or civil union status or status with regard to public assistance.

The Chief Executive Officer of PFM and its Senior Management are committed to the policy and practice of EEO and Workforce Diversity. Each manager, at every level, is charged with the responsibility of carrying out this policy and fostering this practice.

PFM has developed an Affirmative Action Program and takes specific action to ensure that its EEO policy is practiced in all personnel transactions, including recruitment, hiring, training, promotion, demotion, compensation, benefits, transfers, termination, tuition assistance, as well as social and recreational programs.

Management and supervisory personnel are responsible for the implementation and effectiveness of EEO and Affirmative Action within the areas of their responsibilities. All employees of PFM are required to adhere to this policy and to cooperate in its implementation.

PFM has appointed Mike Aileo to manage the EEO and Affirmative Action Policies. His responsibilities will include monitoring all Equal Employment Opportunity activities and reporting the effectiveness of this Affirmative Action Program, as required by Federal, State and Local agencies. The Chief Executive Officer of PFM will receive and review reports on the progress of the program.

DIVERSITY PRACTICES ADDITIONAL STATEMENT

PFM Group Consulting LLC regularly works with minority partners on financial and operational consulting projects, both because minority participation is required on may competitively bid projects and because we have developed a group of reliable MBE subcontractors who we have worked with repeatedly, are familiar with our approach, standards and timelines, and do great work for our clients.

PFM also has an internal Diversity & Inclusion program with the direct, ongoing leadership and participation of the firm's Chief Executive Officer. Employees at all levels participate on the firmwide Diversity & Inclusion Council.

Attachment A

Colette Powell

From:	Illegal Immigrant Form <AASIS-OSP@dfa.arkansas.gov>
Sent:	Friday, July 28, 2017 2:19 PM
To:	MBC Vendor Registration
Subject:	Illegal Immigrant Form

DFA Illegal Immigrant Contractor Disclosure Certification

Illegal Immigrant Form

Vendor:	PFM GROUP CONSULTING LLC
Tax ID:	2478
Disclosure Statement:	I certify that I **DO NOT** employ or contract with an illegal immigrant.
Contact E-mail:	mbcvendreg@pfm.com
Submitted on:	07-28-17
Valid through:	07-27-18

Attachment A

CONTRACT AND GRANT DISCLOSURE AND CERTIFICATION FORM

Failure to complete all of the following information may result in a delay in obtaining a contract, lease, purchase agreement, or grant award with any Arkansas State Agency.

SUBCONTRACTOR: ☐ Yes ☐ No

SUBCONTRACTOR NAME:

TAXPAYER ID NAME: PFM GROUP CONSULTING LLC

IS THIS FOR: ☐ Goods? ☒ Services? ☐ Both?

YOUR LAST NAME: NADOL

FIRST NAME: MICHAEL

M.I.:

ADDRESS: 1735 MARKET STREET 43RD FLOOR

CITY: PHILADELPHIA

STATE: PA

ZIP CODE: 19103

COUNTRY: USA

AS A CONDITION OF OBTAINING, EXTENDING, AMENDING, OR RENEWING A CONTRACT, LEASE, PURCHASE AGREEMENT, OR GRANT AWARD WITH ANY ARKANSAS STATE AGENCY, THE FOLLOWING INFORMATION MUST BE DISCLOSED:

FOR INDIVIDUALS*

Indicate below if: you, your spouse or the brother, sister, parent, or child of you or your spouse *is* a current or former: member of the General Assembly, Constitutional Officer, State Board or Commission Member, or State Employee:

Position Held	Mark (√)		Name of Position of Job Held [senator, representative, name of board/ commission, data entry, etc.]	For How Long?		What is the person(s) name and how are they related to you? [i.e., Jane Q. Public, spouse, John Q. Public, Jr., child, etc.]	
	Current	Former		From MM/YY	To MM/YY	Person's Name(s)	Relation
General Assembly							
Constitutional Officer							
State Board or Commission Member							
State Employee							

☐ **None of the above applies**

FOR AN ENTITY (BUSINESS)*

Indicate below if any of the following persons, current or former, hold any position of control or hold any ownership interest of 10% or greater in the entity: member of the General Assembly, Constitutional Officer, State Board or Commission Member, State Employee, or the spouse, brother, sister, parent, or child of a member of the General Assembly, Constitutional Officer, State Board or Commission Member, or State Employee. Position of control means the power to direct the purchasing policies or influence the management of the entity.

Position Held	Mark (√)		Name of Position of Job Held [senator, representative, name of board/commission, data entry, etc.]	For How Long?		What is the person(s) name and what is his/her % of ownership interest and/or what is his/her position of control?		
	Current	Former		From MM/YY	To MM/YY	Person's Name(s)	Ownership Interest (%)	Position of Control
General Assembly								
Constitutional Officer								
State Board or Commission Member								
State Employee								

☒ **None of the above applies**

Attachment A

Contract and Grant Disclosure and Certification Form

Failure to make any disclosure required by Governor's Executive Order 98-04, or any violation of any rule, regulation, or policy adopted pursuant to that Order, shall be a material breach of the terms of this contract. Any contractor, whether an individual or entity, who fails to make the required disclosure or who violates any rule, regulation, or policy shall be subject to all legal remedies available to the agency.

As an additional condition of obtaining, extending, amending, or renewing a contract with a *state agency* I agree as follows:

1. Prior to entering into any agreement with any subcontractor, prior or subsequent to the contract date, I will require the subcontractor to complete a **CONTRACT AND GRANT DISCLOSURE AND CERTIFICATION FORM**. Subcontractor shall mean any person or entity with whom I enter an agreement whereby I assign or otherwise delegate to the person or entity, for consideration, all, or any part, of the performance required of me under the terms of my contract with the state agency.

2. I will include the following language as a part of any agreement with a subcontractor:

   Failure to make any disclosure required by Governor's Executive Order 98-04, or any violation of any rule, regulation, or policy adopted pursuant to that Order, shall be a material breach of the terms of this subcontract. The party who fails to make the required disclosure or who violates any rule, regulation, or policy shall be subject to all legal remedies available to the contractor.

3. No later than ten (10) days after entering into any agreement with a subcontractor, whether prior or subsequent to the contract date, I will mail a copy of the **CONTRACT AND GRANT DISCLOSURE AND CERTIFICATION FORM** completed by the subcontractor and a statement containing the dollar amount of the subcontract to the state agency.

I certify under penalty of perjury, to the best of my knowledge and belief, all of the above information is true and correct and that I agree to the subcontractor disclosure conditions stated herein.

Signature Michael Nadol Title PRESIDENT Date 08/08/2017

Vendor Contact Person MICHAEL NADOL Title PRESIDENT Phone No. 215.567.6100

Agency use only

Agency Number______ Agency Name____________________ Agency Contact Person________________ Contact Phone No.____________ Contract or Grant No.______

Work Samples

July 5, 2017

Memorandum

To: Chair Colleen Takamura, Tax Review Commission
Vice Chair Vaughn Cook, Tax Review Commission
Ray Blouin, Tax Review Commission
Nalani Kaina, Tax Review Commission
John Knox, Tax Review Commission
Dawn Lippert, Tax Review Commission
Billy Pieper, Tax Review Commission
Titin Sakata, Hawaii Department of Taxation

From: Randall Bauer, PFM

Re: State of Hawaii Tax Study High Level Findings

Introduction

PFM Group Consulting LLC (PFM) was retained by the Tax Review Commission (Commission) to study three specific (and often inter-connected) areas of interest for Hawaii tax policy: who bears the burden of Hawaii's taxes; options to reform Hawaii's taxes to make them less regressive; and the best ways to generate more revenue through new and existing sources and through improved compliance with Hawaii's tax laws.

To conduct these studies, the PFM project team held numerous meetings with key Hawaii stakeholders, including elected officials, state government leadership and subject matter experts, all members of the Commission and members of the business and academic communities. PFM also benchmarked and reviewed state taxation trends and best practices around the country and gathered and analyzed economic, demographic and revenue and expenditure data for Hawaii.

As part of the project plan, PFM provides high level findings to assist the Commission in its deliberations and to provide a general perspective on how PFM will shape its final report and recommendations to the Commission. These findings are also made available to assist the Commission in providing feedback on the direction of the PFM final report, which will be provided in approximately one month.

High level findings are primarily findings of fact or supportable conclusions. They do not generally make recommendations or even suggest conclusions. They are also, of course, subject to modification as additional information and analysis is conducted through the remaining weeks of the project.

The findings are organized into the three basic study areas undertaken by the PFM project team:

1. Who bears the burden of Hawaii's taxes?
2. What are ways to reform Hawaii's taxes to make them less regressive?
3. What are ways to generate more revenue through new and existing sources and through improved compliance with Hawaii's tax laws?

Who Bears the Burden of Hawaii's Taxes?

Tax burden is an important consideration, as it impacts on key principles of taxation, particularly equity (both horizontal and vertical) and economic competitiveness. Principles of taxation were discussed at length in the PFM report to the 2012 Commission.

For the following analysis, PFM used State of Hawaii tax data from 2014-2015. It is notable that the higher marginal tax rates that were in place for tax years 2009 to 2015 were allowed to expire for 2016 and 2017. Therefore, the tax burden analysis reflects these higher rates. During the 2017 session, the Legislature reinstated these higher rates for following tax years. As a result, the effective rates and share of Hawaii incomes taxes paid by high income taxpayers would be lower than what is shown, should the Governor not sign those tax changes into law. This will be a settled issue by the time the final report is written. PFM will, where appropriate, discuss the likely impact of those changes in the final report.

According to a national tax burden analysis, Hawaii's middle and upper income taxpayers have relatively lower tax burdens.[1]

For tax burden comparison purposes, PFM has used data from an annual study conducted by the Chief Financial Officer for Washington DC.[2] This study compares the tax burden for the District of Columbia and each of the largest cities in all 50 states. It uses a family of three at different income levels for its analysis. The study is useful because it provides a national point of comparison of state and local taxes. PFM has used this study as a starting point in multiple state and local tax projects, including the study for the 2012 Commission.

According to the most recent annual tax rate and tax burden study, Honolulu households with incomes above $50,000 have low tax burdens relative to most other large cities in the US. Households with incomes between $50,000 and $150,000 (the highest income cohort included in the study) on average have tax burdens between 6.1 and 7.5 percent of income – ranking in the lowest 20 percent nationwide, as shown in Table 1.

Table 1: Honolulu, Hawaii National Tax Burden Ranking, 2015

	Taxes					Tax Burden	
Income Level	Sales	Income	Property	Auto	Total	Percent	Rank (of 51)
$50,000	$823	$1,293	$692	$251	**$3,059**	6.1%	46
$75,000	$1,105	$2,443	$1,178	$434	**$5,160**	6.9%	43
$100,000	$1,354	$3,758	$1,664	$555	**$7,331**	7.3%	41
$150,000	$1,653	$6,437	$2,636	$537	**$11,263**	7.5%	40

Source: Washington DC Tax Rates and Tax Burdens 2015

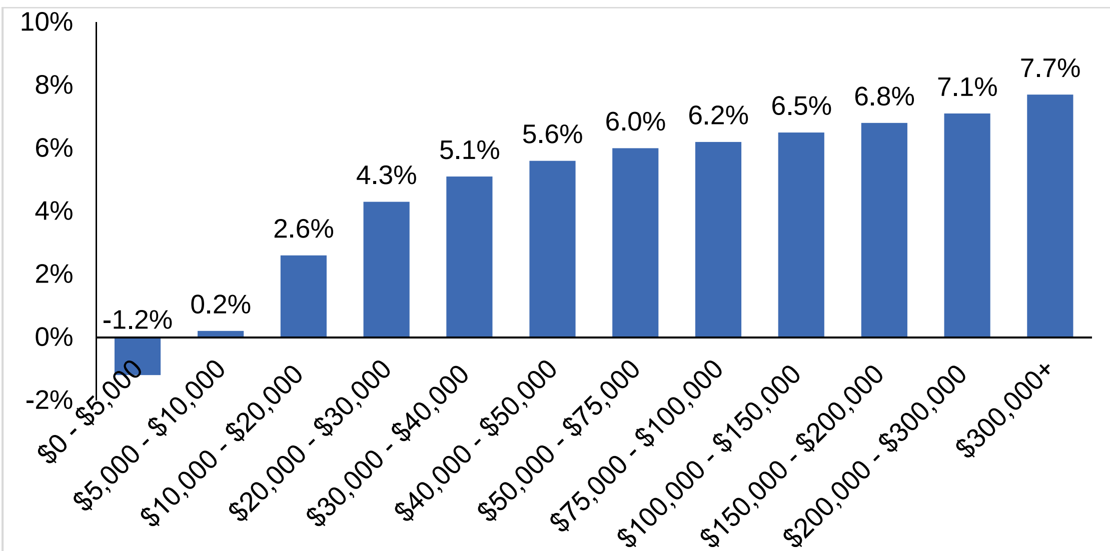
[1] In the study, tax burden attributed to property tax is higher for those at $25,000 than other households because it is calculated off an assumed rent for a 3-person family rather than off the assumed assessed value of a home. The median rent in Hawaii is approximately 56 percent above the national average, resulting in higher assumed property taxes paid through rent. However, property taxes in Hawaii are relatively low – the median paid residential property tax in Hawaii was over 1/3 below the national average in 2015. Therefore, the project team believes a 20 percent of rent assumption is highly inflated, and therefore that income cohort is not included in this analysis.
[2] Washington DC Tax Rates and Tax Burdens 2015 – A Nationwide Comparison. Issued December 2016.

Attachment A

Hawaii's income tax structure is broadly progressive.

The most significant marginal increases in effective tax rates occur between $0 and $40,000. Between $40,000 and $200,000, marginal increases are consistent but modest. A more significant rise in the effective tax rate occurs between $300,000 and $300,000 and more. Households making over $300,000 and filing as a head of household pay 11 cents on the marginal dollar, one of the nation's highest marginal tax rates for upper income earners. The very wealthy pay at a significantly higher effective rate than other taxpayers.

Figure 1: Effective Hawaii Income Tax Rate by Adjusted Gross Income Range, 2014

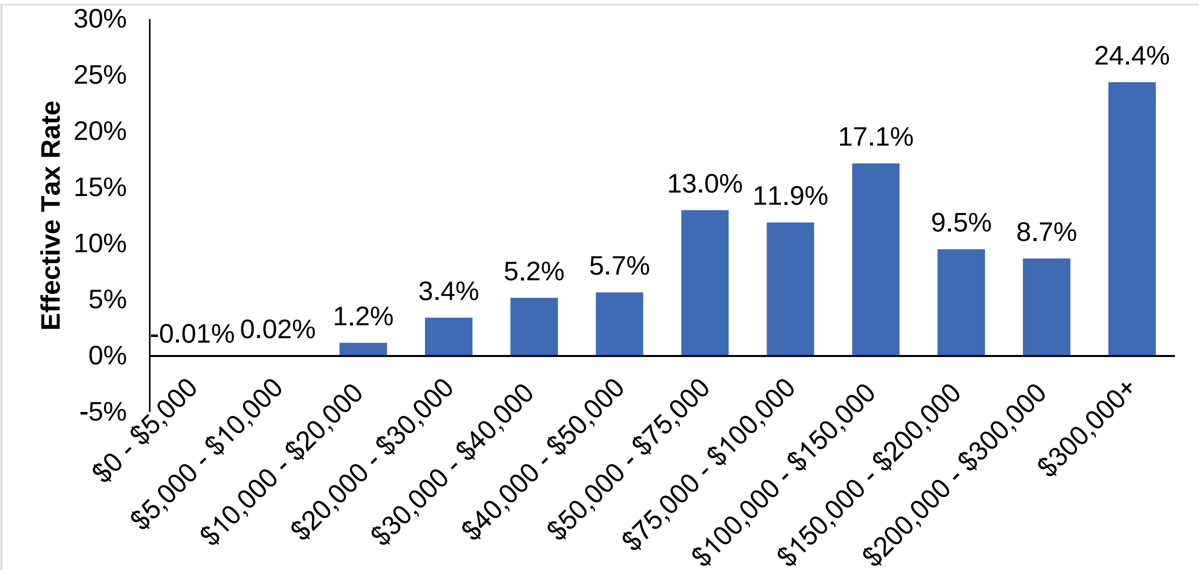


Source: Hawaii Department of Taxation, Hawaii Income Tax Statistics Tax Year 2014

Upper income households pay most of the Hawaii income tax.

Households making over $100,000 pay approximately 60 percent of all Hawaii income taxes. Those making $300,000 and over pay nearly a quarter of all taxes, despite accounting for only 1.4 percent of all taxpayers. Middle income taxpayers ($50,000 - $100,000) pay approximately another quarter. Lower income households shoulder a relatively small percentage of the burden at roughly 10 percent.

Figure 2: Share of Total Resident Hawaii Income Tax Liability by Adjusted Gross Income Range, 2014



Source: Hawaii Department of Taxation, Hawaii Income Tax Statistics Tax Year 2014

Compared to other states, property taxes in Hawaii are relatively low.

Hawaii has the 19th lowest median property taxes and the lowest property taxes in the nation when measured against home values. When measured against homeowner incomes, the property tax burden in Hawaii is the 6th lowest of any state. For detailed property tax ranking charts by state, please see **Appendix A.**

Table 2: Hawaii Property Taxes, 2015

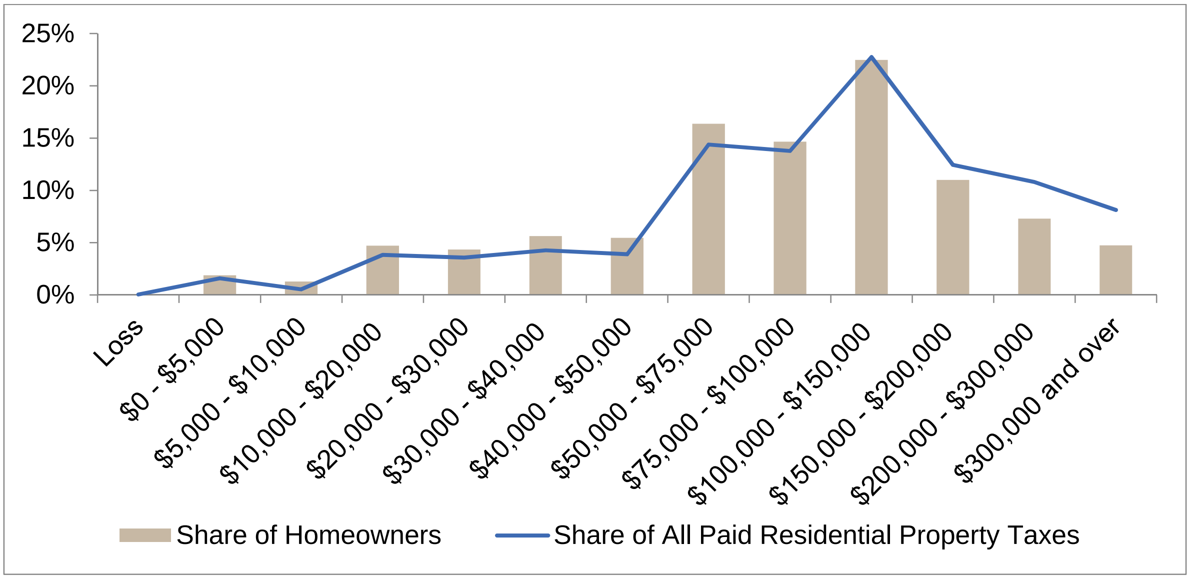
	Median Property Taxes Paid	Property Tax to Home Value Ratio	Median Property Taxes to Homeowner Median Income Ratio
Hawaii	$1,482	0.3%	1.6%
Rank	19	1	6

Source: US Census Bureau, American Community Survey 1-Year Estimates

The residential property tax burden is roughly apportioned by income range.

Homeowners making over $50,000 account for 82.3 percent of all residential property taxes. This share of the property tax burden closely mirrors the share of homeowners by income range. No particular income class bears a disproportionate burden relative to its share of homeowners, as shown in Figure 3.

Figure 3: Share of Homeowners and All Paid Residential Property Taxes by Income Range, 2015

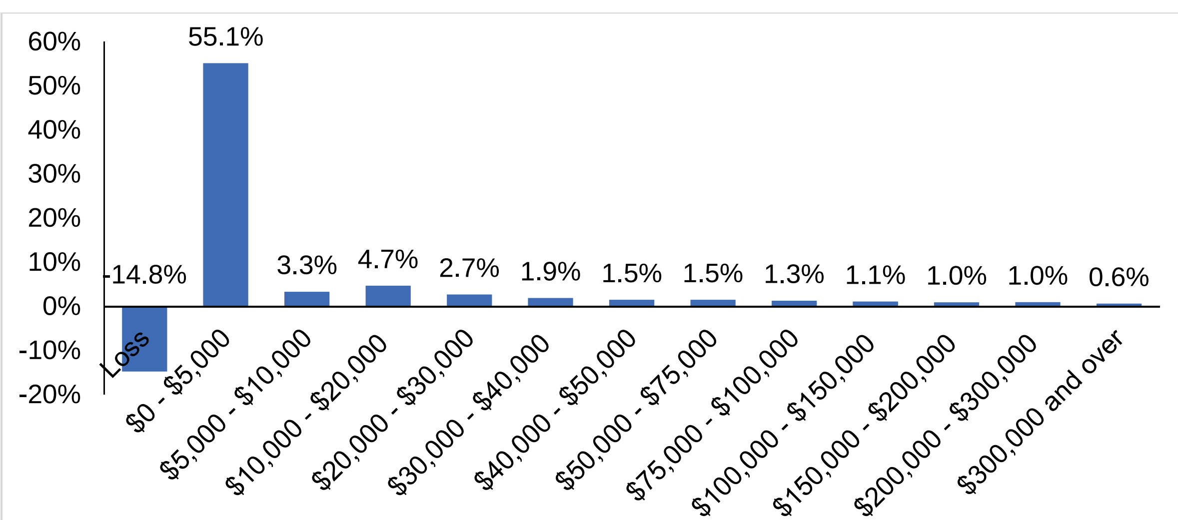


Source: US Census Bureau, American Community Survey 2015 Public Use Microdata Sample (PUMS)

As a percentage of income, property taxes in Hawaii are clearly regressive.

The ratio of property taxes to income steadily declines as incomes rise. Although comprising a very small segment of the population, homeowners making below $5,000 pay an especially large portion of their incomes in property taxes.

Figure 4: Paid Property Taxes as a Percentage of Homeowner Income by Income Range, 2015



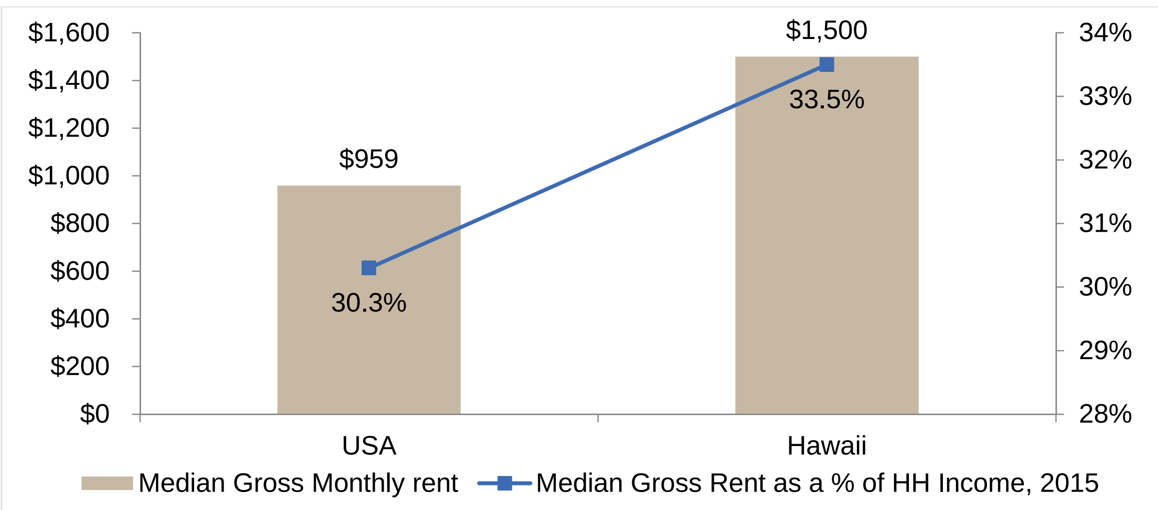
Source: US Census Bureau, American Community Survey 2015 Public Use Microdata Sample (PUMS)

Renter housing affordability is a challenge in Hawaii.

Property taxes are generally considered to be a component of overall residential housing costs for home owners. However, affordability issues related to rental housing should also be considered. Rental housing in Hawaii is very expensive; Hawaii's median gross rent (including utilities) at $1,500 is more than 56 percent above the national median. The State's median gross rent-to-household income ratio, a measure of general rent affordability, is over three percentage points above the US average. Renter housing affordability is a particularly severe challenge in Hawaii.

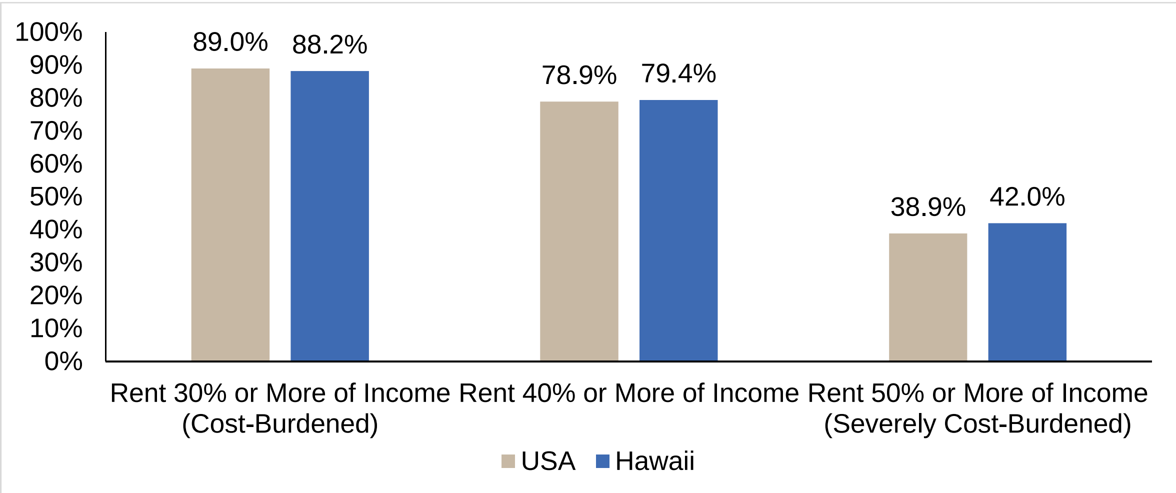
However, for low income households, the challenges are even worse. Nearly nine in ten renter households making less than $20,000 are rent cost-burdened, paying 30 percent or more of income in gross rent. Although this is slightly lower than the national average, Hawaii has a larger share of such households with ***severe*** rent burdens (50 percent or more of income) than is the national norm. Hawaii has a tax credit for low income renters; however, it is limited to $50 per exemption.

Figure 5: Median Gross Monthly Rent, 2015



Source: US Census Bureau, 2015 American Community Survey 1-Year Estimates

Figure 6: Percent Rent Cost Burdened, Renter Households Making Less than $20,000, 2015

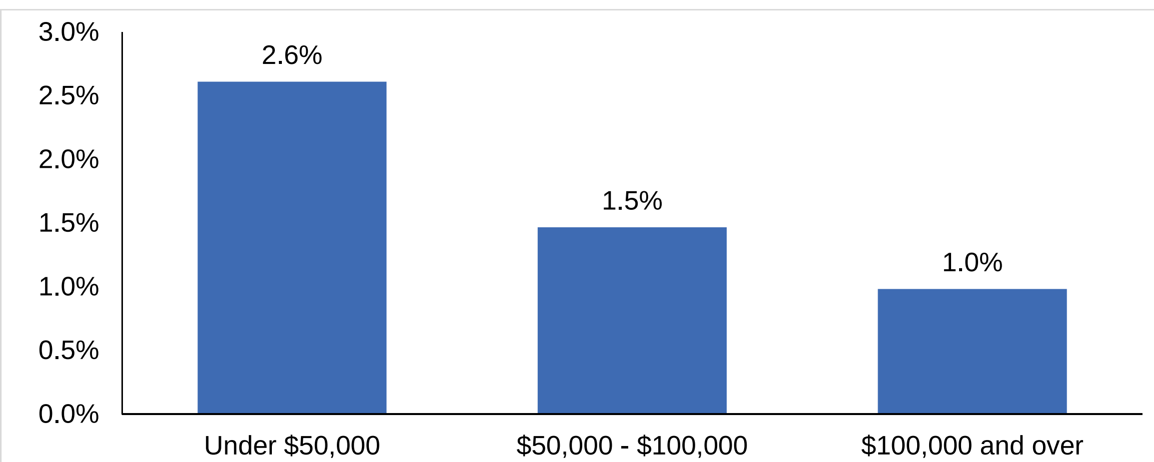


Source: US Census Bureau, 2015 American Community Survey 1-Year Estimates

The general excise tax (GET) is regressive, with the percentage of income paid as GET steadily rising as incomes decline.

Hawaii households making less than $50,000 pay roughly three cents per dollar earned in excise taxes, while those making $100,000 or more pay about one cent on the dollar. This is largely because lower income households spend more of their income on consumption expenditures subject to the GET.

Figure 7: Ratio of Excise Taxes to Household Income by Income Range, 2014

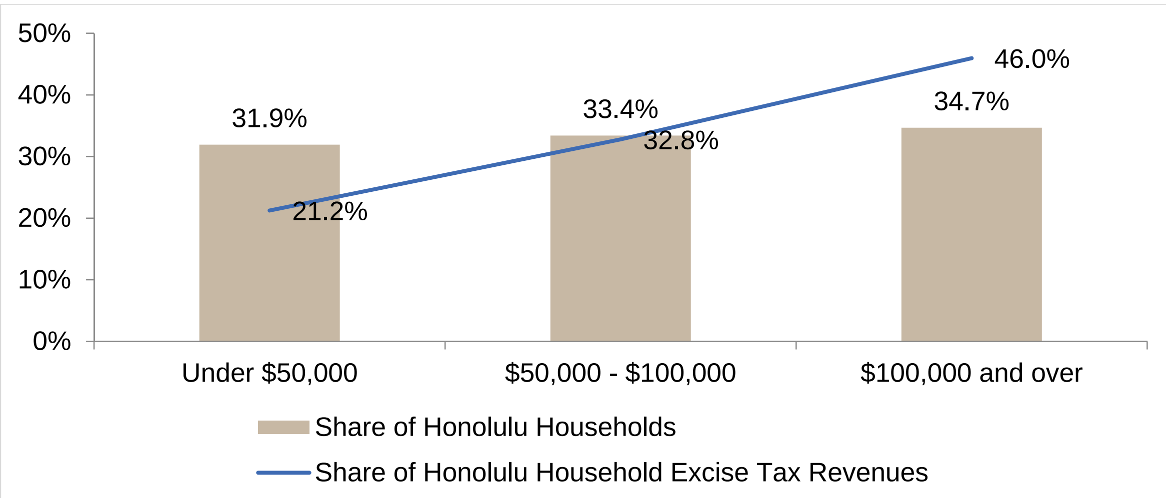


Sources: Hawaii Department of Business, Economic Development & Tourism. Honolulu Consumer Spending: 2013-2014. April 2016; US Bureau of Labor Statistics, 2015 Consumer Expenditure Survey. August 2016; US Census Bureau, American Community Survey 2014 1 Year Estimates.

In the aggregate, upper income taxpayers pay a disproportionate share of general excise taxes.

Honolulu households making under $50,000; between $50,000 and $100,000; and $100,000 and over represent nearly equal shares of Honolulu households. Those making $100,000 or more pay approximately 46 percent of the GET. This is because these households tend to spend more money ***in the aggregate*** on goods and services subject to the GET.

Figure 8: Share of Honolulu Households and Total GET Revenues by Income Range, 2013-2014



Sources: Hawaii Department of Business, Economic Development & Tourism. Honolulu Consumer Spending: 2013-2014. April 2016; US Bureau of Labor Statistics, 2015 Consumer Expenditure Survey. August 2016; US Census Bureau, American Community Survey 2014 1 Year Estimates.

A previous study done for the Commission showed that when viewed over a typical taxpayer's lifecycle, Hawaii's general excise tax structure appears less regressive.[3] This occurs because middle-aged adults tend to spend less on consumption than young adults and senior citizens, as they save for retirement. Likewise, many young adults are, because of borrowing, consuming more than their annual income and many seniors are using accumulated savings for consumption. While it's true that there are cases where a lifetime incidence analysis will show a less regressive picture, there are also many highly stressed households (and households who will be living in poverty throughout their lifetime) where, in many years, the regressive nature of the GET is very real.

Ways to Reform Hawaii's Taxes to Make Them Less Regressive

Regressivity is a key tax equity (and tax construction) issue, and it is closely linked with the previous discussion of tax burden. Tax structures and/or individual taxes are often described as being progressive, regressive or proportional. A progressive tax is one that takes a larger percentage of income from high income groups than from low income groups. A proportional tax is one that takes the same percentage of income from all income groups. A regressive tax is one that takes a larger percentage of income from low income groups than from high income groups. In practice, very few

[3] William Fox (2006). Hawaii's General Excise Tax: Should the Base be Changed? Tax Review Commission 2005-2007.

(perhaps no) taxes are designed to impose rates that increase as income decreases (which would mean there are no purely regressive taxes on their face). In practice, however, various taxes are regressive, because a greater proportion of a lower income individual's income is dedicated to paying the tax. For example, it is generally accepted that lower income individuals spend a greater percentage of their income on the tangible goods and services that are subject to the GET. As a result, the GET is considered to be a regressive tax (although the extent of that regressivity is subject to some debate). It is also notable that an overall tax structure can be regressive while some of its components are progressive – which is the case for Hawaii.

State tax structures are often viewed in combination with local taxes. This helps for comparison purposes, as States have made differing determinations of how certain services (such as K-12 education) will be provided and who (state or local governments and taxes) will pay for them. Hawaii is notable in that it is the only state that assumes nearly all the costs of K-12 education at the state level. In other states, this is generally more of a shared state and local funding responsibility.

Recent changes made by the Hawaii legislature make the State's tax structure more progressive.

Across the country, the tax that is most frequently identified as a progressive tax is the individual income tax. Most states have a progressive individual income tax, with higher marginal tax rates applying as income increases.

The individual income tax is also often used as a method to ameliorate regressive features of the overall state tax structure. That is the case in Hawaii, where a refundable credit is available to individual income taxpayers who are renters and/or pay the GET.

HB209, currently awaiting Governor Ige's signature, enacts changes to income tax rates after December 31, 2017 that increase the rate for high income taxpayers. This, of course, makes the Hawaii individual income tax more progressive and raises additional tax revenue. Additionally, the bill establishes a state earned income tax credit and repeals the sunset date for amendments made to the refundable food/excise tax credit. These are also progressive features, which are essentially paid for by the higher income tax rates for high income taxpayers.

***Changes to the GET that generally increase revenue would mostly be considered regressive*.**

In general, excise taxes apply without regard to the taxpayer's ability to pay the tax. Additionally, the GET is broader based than many similar types of excise taxes (which, for state sales and use taxes, often exempt 'necessities' like food, utility payments and medical services that are taxed by the GET). Of course, part of the reason that the GET has been kept at relatively low rates (compared, again to other state sales and use taxes) is because the base is so broad.

Other possible measures to raise revenue are considered in the following section, in terms of their impact on regressivity.

Ways to Generate More Revenue through New and Existing Sources, and through Improved Compliance with Hawaii's Tax Laws

In general there are four ways to raise additional tax revenue:

1. Create a new tax
2. Expand the base of an existing tax
3. Increase the rate of an existing tax
4. Increase taxpayer compliance of an existing tax

There are advantages and disadvantages to each approach. From a tax burden/regressivity perspective, the final approach (increased compliance) has the benefit of not imposing an additional tax or increasing an existing tax's base. On the other hand, compliance rates on most major taxes are already relatively high (and further increases can be costly from an administrative perspective). As a result, tax policy changes usually focus on the first three alternatives.

The additional revenue required to fund the annual required contribution to the Employer-Union Benefits Trust Fund (EUTF) is $535 million in 2019, growing to $703 million by 2023.

In July 2013, Act 268 was signed into law. In addition to establishing the EUTF Task Force to examine further steps to address unfunded liability, the law requires the State to pay additional amounts toward reducing the unfunded liability until 2019, when 100 percent of the annual required contribution must be paid. Commencing in 2019, GET revenues will be used to fund any difference between the annual required contribution (ARC) and the payment made by the State.[4]

With this change in mind, the project team's charge, as outlined in the scope of the project, is to determine:

"how much revenue will be needed to maintain the current level of government services (tax adequacy), including unfunded or underfunded liabilities for pension and health care benefits for retired state workers…the study can take as a goal raising enough additional revenue to fund the annual required contribution (ARC) to the Employer-Union Benefits Trust Fund."

The State's 2017-2019 budget includes estimated payments of $555.9 million each year from 2017-2021.[5] Assuming that amount would have been held flat through 2023 had Act 268 not been signed into law, the additional revenue required is $535 million in 2019, increasing to more than $700 million by 2023, as shown in Table 3.

Table 3: EUTF Retiree Health Care Plan Annual Required Contribution (in Millions)

	2019	2020	2021	2022	2023
Annual Required Contribution	$1,091.0	$1,128.7	$1,173.7	$1,215.2	$1,258.5
Budgeted Contribution	$555.9	$555.9	$555.9	$555.9	$555.9
Additional Revenue Required	**$535.1**	**$572.8**	**$617.8**	**$659.3**	**$702.6**

Sources: July 1 Actuarial Valuation, State of Hawaii Budget

[4] State of Hawaii 2016 CAFR
[5] Per 2017-2019 Pension and Other Post-Employment Benefits Liability Table (Budget Appendix 6)

The project team's proposed revenue initiatives generally align with the goal of making the State's tax structure less regressive.

An oft-quoted explanation of tax policy was provided by the former French Finance Minister, Jean-Baptiste Colbert: "The art of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing." It goes without saying that any additional tax revenue is going to come with a 'deadweight loss' that will have some negative economic impacts.

As previously noted, some taxes in their application may be regressive while the structure as a whole is progressive or proportional. A well-balanced tax structure applies a variety of taxes based on consumption, income and wealth. This helps create a more stable structure than one that relies on only one primary tax source or one type of tax. It also spreads the impact throughout the economy.

The following are possible revenue raising measures, with a brief description of their overall impact on general tax policy and state tax structure. All revenue estimates are preliminary and subject to revision.

In many instances, the following alternatives were also explored in PFM's report to the 2012 Commission. However, the project team has also chosen to not analyze some of the 2012 alternatives, primarily because of concerns about regressivity.

Excise Tax Alternatives

- **Increase cigarette/tobacco tax** to $4.00 per pack (currently $3.20). This is an excise tax that is applied in all 50 states. It is considered regressive but is also a 'user tax' that has been shown to decrease consumption, particularly among younger smokers. Estimated annual impact: $20-25 million.
- **Increase beer/spirits/wine tax** by 10 percent. This is an excise tax applied in all states with a licensed retail market system. It is considered regressive as generally applied (as a tax on volume) but is also a 'user tax' that has been shown to decrease consumption. Estimated annual impact: $5 million.
- **Increase car rental tax** to $4.00 per day (currently $3.00). This is an excise tax applied in all 50 states. A significant portion of the tax is exported to visitors. Estimated annual impact: $18 million.[6]
- **Sugary beverage tax** of $0.02 per ounce.[7] This is an excise tax applied in only a few jurisdictions, most notably the City of Philadelphia (1.5 cents per ounce). It is considered a regressive tax but may have health benefits, which is currently a subject of debate. Estimated annual impact: $50 million.
- **Tax medical marijuana** at 15 percent. This is an excise tax and considered somewhat regressive. Estimated annual impact: $8-12 million.[8]
- **Institute a carbon tax**. No state has instituted this form of tax, and there is some debate as to whether it is a significantly regressive tax. However, there are positive environmental impacts. Estimated annual impact: up to $365 million, depending on the nature and extent of the tax.
- **Institute a vapor/e-cigarette tax.** Seven states and Washington DC currently impose a tax on e-cigarettes, and more than 20 others have contemplated legislation. Estimated annual impact: Less than $5 million.

[6] Revenues from car rental taxes are deposited into a special revenue fund.
[7] Estimate includes a non-compliance adjustment of 20 percent.
[8] Estimate is incremental revenue resulting from taxation at 15 percent instead of 4.5 percent.

Transient Accommodations and Timeshare Occupancy Tax Alternatives

- **Increase the TAT** to 10.0 percent (currently 9.25 percent after expiration of reduction in 2015). An opportunity to export additional revenue. Estimated annual impact: $20-25 million.
- **Begin collecting TAT on resort fees**. An opportunity to export additional revenue. Estimated annual impact: $20-30 million.
- **Begin imposing TOT on Airbnb rentals.** An opportunity to export additional revenue. Estimated annual impact: $5-10 million.

Income Tax Alternatives

- **Move to a single 9 percent corporate net income tax rate**. Who pays corporate income tax is a subject of considerable debate. The following corporate income tax initiatives all raise revenue, but the question of who pays for them is subject to debate. Estimated annual impact: $30 million.
- **Increase corporate net income taxes** by 50 percent. Estimated annual impact: $42 million.
- **Increase corporate net gains capital rate** to 5.0 percent (currently 4.0 percent). Estimated annual impact: $5 million.
- **Eliminate exemption for pension income** over $25,000. Most states provide for some taxation of pension income; with the provision to exempt the first $25,000 of pension income, this would be considered a progressive tax feature. Estimated annual impact: $46 million.
- **Eliminate exemption for <u>foreign</u> pension income** over $25,000. Most states provide for some taxation of pension income; with the provision to exempt the first $25,000 of foreign (out of state) pension income, this would be considered a progressive tax feature. Estimated annual impact: TBD.
- **Implement a personal income tax rate recapture.** This would implement a top-rate recapture mechanism for high income taxpayers. In this approach, for taxpayers with taxable income above a certain level, which could be $100,000, the benefit of lower brackets would be phased out, and when income reaches $150,000, the taxpayer would pay the top rate on the first dollar of income. This would be a highly progressive feature. Estimated annual impact: TBD.

Property Tax Alternatives

- **Eliminate the Real Estate Tax Deduction.** This effectively reduces property tax burden by providing a deduction against income taxes. To the extent the property tax is regressive, this would increase regressivity. However, for individuals with no state income tax liability (or who do not itemize), there would be no additional tax implications from this change. As a result, it would likely be a progressive feature. Estimated annual impact: $30 million.
- **Shift certain K-12 education expenses to property taxes to lower State costs**. Because the State Constitution prohibits a state property tax, the only mechanism to increase the use of this tax (and thus reduce the use of other major taxes) would be to shift expenditures from the state to local governments. As mentioned previously, Hawaii is the only state that fully assumes the operational costs of K-12 education at the state level. Of course, any shift to property tax from more progressive taxes (such as the income tax) would be regressive – however, it would be possible to ameliorate some of these impacts through expanding refundable credits such as the GET/renter's credit. Under this initiative, the State could select specific expenditures to shift. As an example, it could shift the DOE's Public Libraries general fund operating costs to property taxes. Estimated annual impact: $35 million.

Compliance Alternatives

Compliance initiatives are important, because they can increase voluntary compliance and create greater confidence in the system by those taxpayers (who are the vast majority of Hawaiians) who pay their taxes in full and on time.

There are notable instances across the country where taxpayer compliance can be a significant issue for the amount of tax revenue that can be generated. There are taxes where 'black markets' are fostered because of taxes owed on specific products, such as cigarettes. More recently, concerns about payment of sales and use taxes owed because of online purchases has become a prominent issue for States – and also for Hawaii as it relates to the GET.

- **Increase collection of taxes related to e-commerce/online retail taxes.** This is not a new tax – it is a method of enhancing collection of an existing tax. An area with significant legislative action across the country, although the constitutionality of some recently enacted state laws is being challenged in several state and federal court cases. Estimated annual impact: $30-40 million.

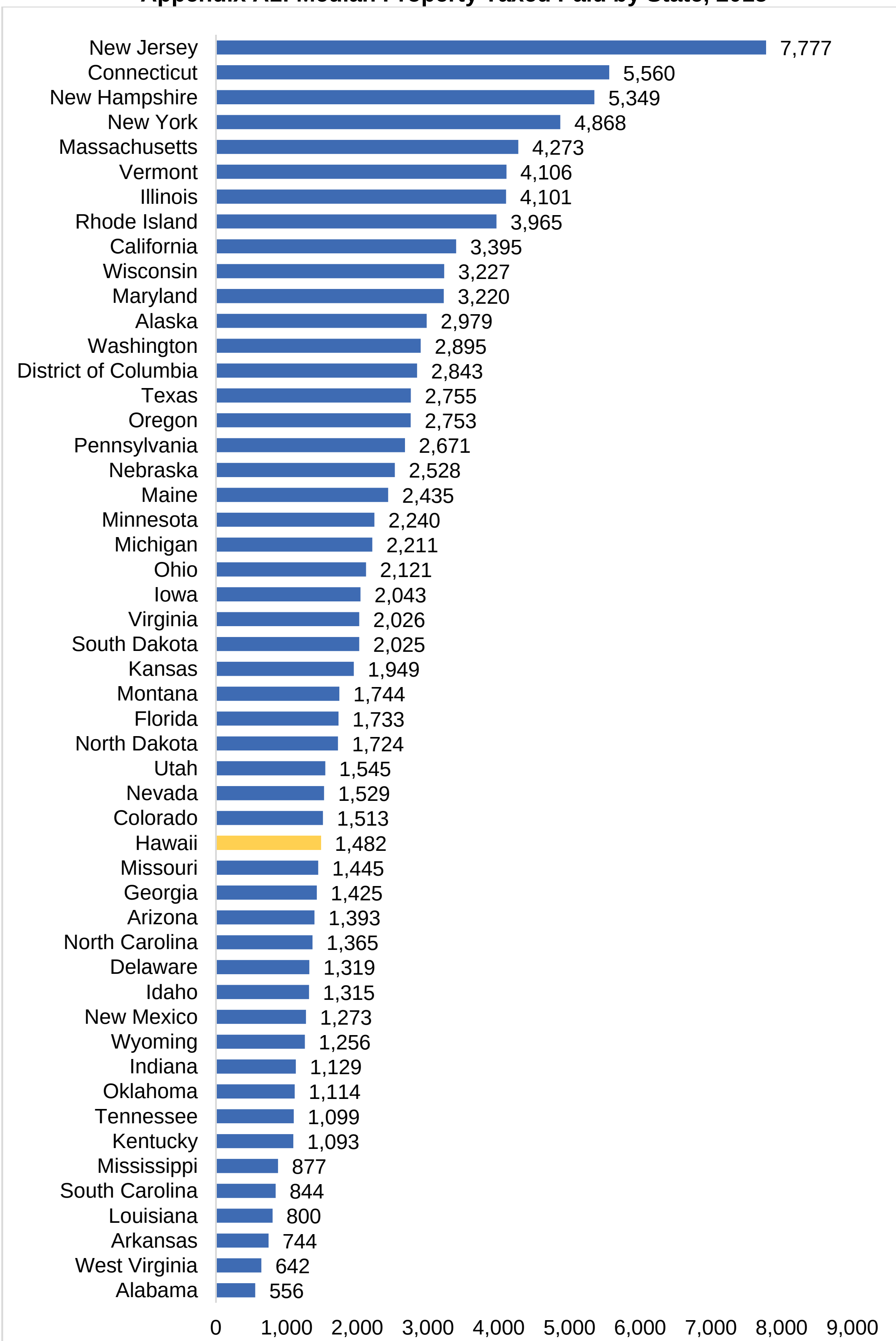
The State is in the process of implementing a data warehouse; in other states, this has provided opportunities to improve compliance and collect additional revenue. These include:

- **Tax gap programs.** Several states have increased revenue collections through use of sophisticated software connected with a fully functional data warehouse.
- **Additional audit programs.** Most studies suggest that additional audit staff is cost effective, both in finding additional tax revenue and in spurring additional voluntary compliance.

Summary

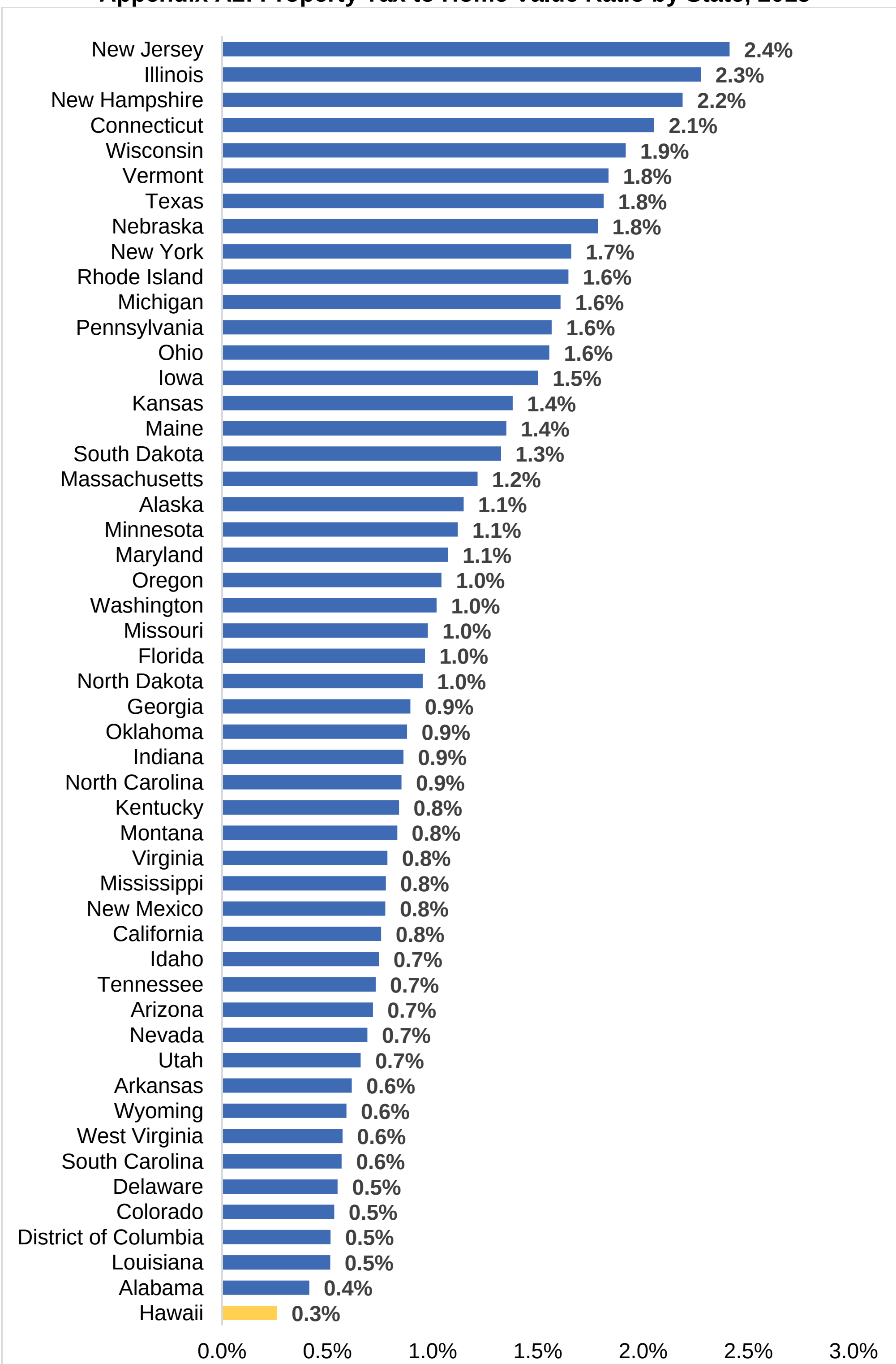
PFM looks forward to discussing these high level findings with the Commission. The PFM project team is beginning the process of creating the final report detailed outline and refining analysis of the revenue measures that are under discussion. The project team is prepared to complete the analysis and provide the written draft report within the timeframe provided to the Commission.

Appendix A1: Median Property Taxed Paid by State, 2015

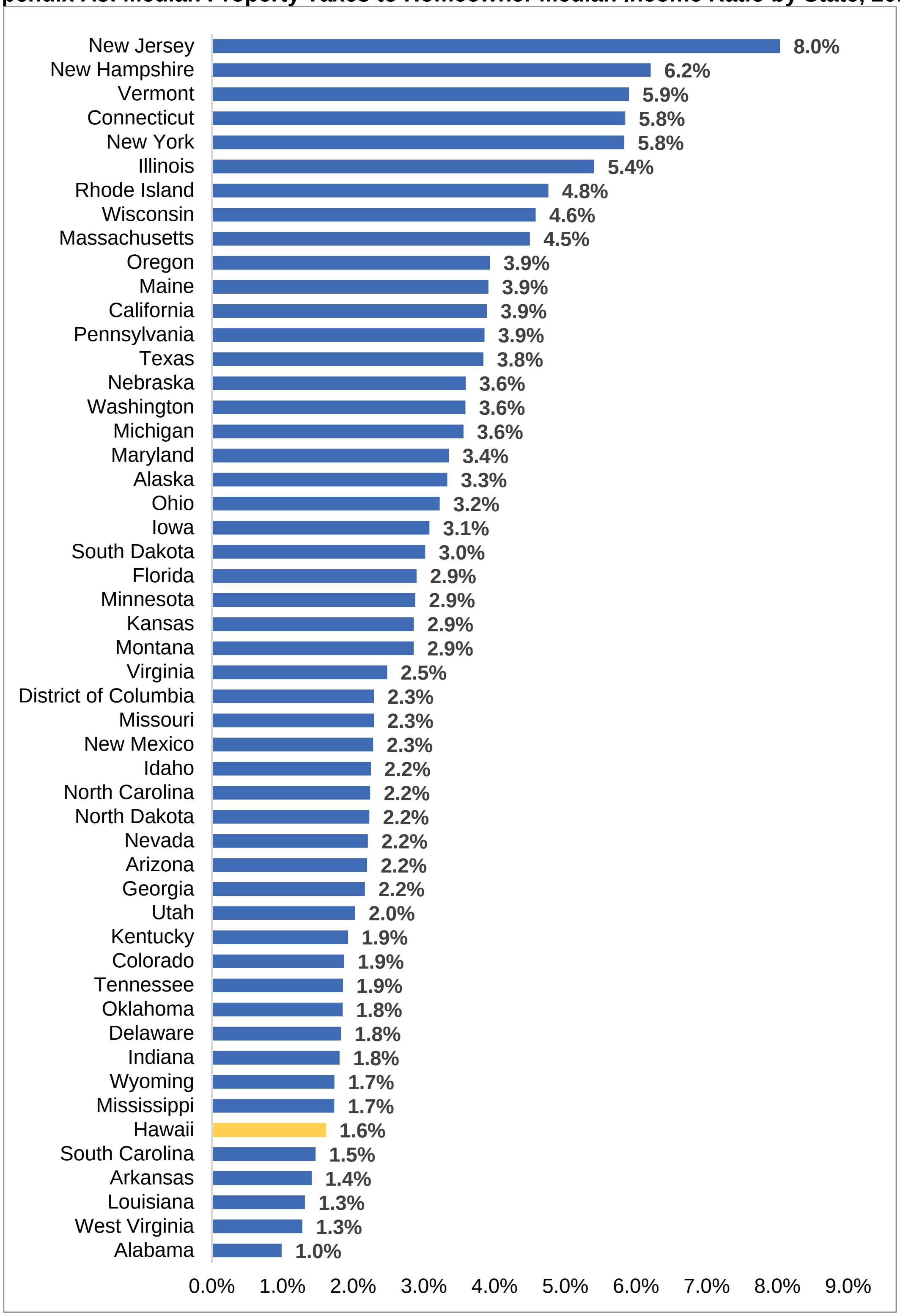


Attachment A

Appendix A2: Property Tax to Home Value Ratio by State, 2015



Appendix A3: Median Property Taxes to Homeowner Median Income Ratio by State, 2015



Attachment A

State of Oklahoma
Incentive Evaluation Commission
Tax Credit for Zero Emission Facilities
Final Report

November 28, 2016

Prepared by

The PFM Group
Financial & Investment Advisors

txp

Attachment A

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Attachment A

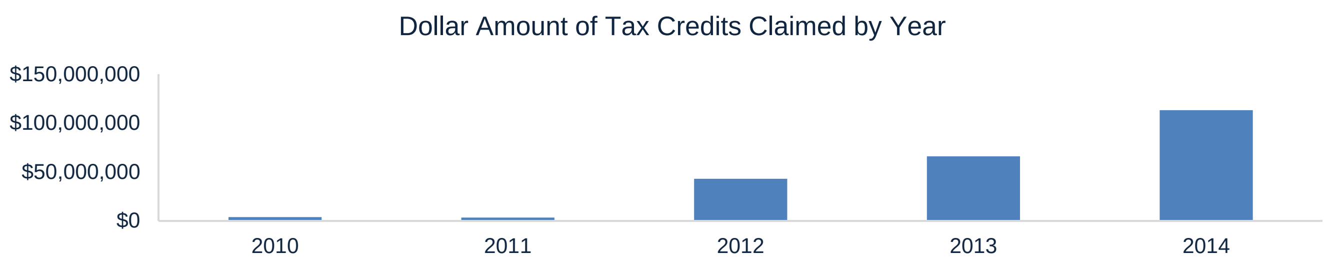
At a Glance: Tax Credit for Zero Emission Facilities (68 O.S. Section 2357.32A)

Program Goals

- Increase state share of electricity generated by renewable energy sources to 15 percent by 2015
- Create capital investment, jobs and income associated with increased numbers of zero emission facilities

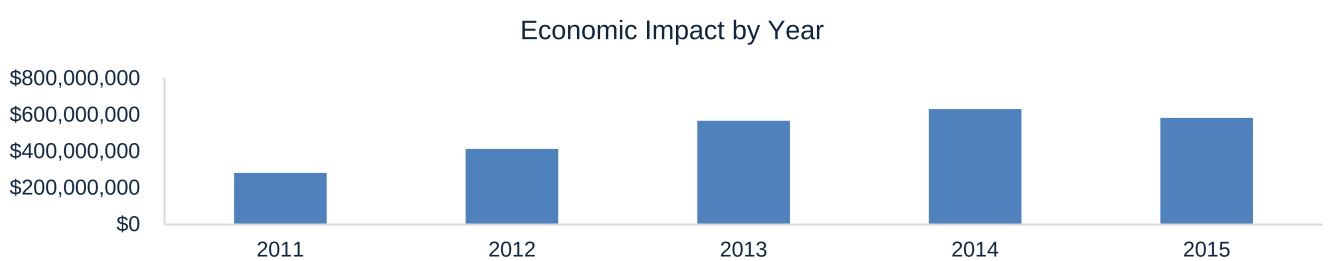
Fiscal Impact

	2010	2011	2012	2013	2014
Dollar Amount	$3,698,962	$3,128,895	$42,910,343	$65,993,892	$113,236,509
Claimants	60	38	114	191	154



Economic Impact

	2011	2012	2013	2014	2015
Output	$281,533,595	$412,348,832	$566,620,892	$630,743,636	$582,208,433
Labor Income	$37,928,411	$55,551,935	$76,335,580	$84,974,243	$78,435,545
Employment	658	964	1,324	1,474	1,361
Total Tax Revenue	$8,496,298	$12,261,948	$17,219,629	$18,630,857	$17,172,783



Adequate Protections for Future Fiscal Impact?

- There has been a significant increase in use of the credit, which may accelerate further in coming years
- While the credit will be closed to new recipients in 2021, the additional possible eligible facilities (and the 10 years of credits for each) create a significant threat to the State budget
- There are not current adequate protections (such as caps) to deal with possible future fiscal impact

Effective Administration?

- Current program administration is straight-forward because of the type of credit
- However, there is concern that the credit reporting is not sufficient for revenue estimating purposes

Achieving its Goals?

- There has been a significant increase in zero emission (particularly wind generating) facilities, and this has assisted the State with reaching its renewable energy goal
- The industry continues to grow (and future expansion is promising), suggesting that the program has achieved its primary goals
- However, the costs associated with achieving these goals are significant – and probably too high

Retain, Reconfigure, Repeal?

- Reconfigure the program to cap program credits or accelerate the closing of the program window (currently January 1, 2021) to January 1, 2018
- Allow non-wind generating zero emission facilities to continue to claim the credit until January 1, 2021

Changes to Improve Future Evaluation?

- Increase reporting requirements related to expected energy generation and use of state credits

Executive Summary

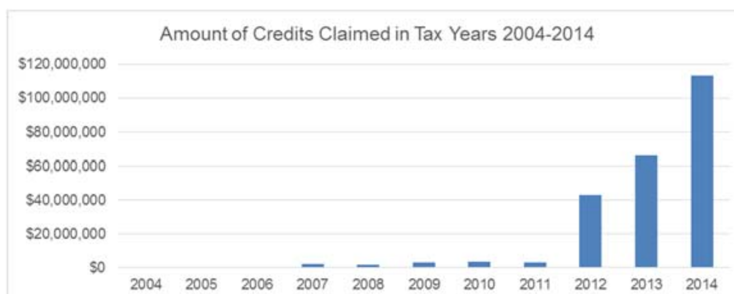
Introduction

Production tax credits have been part of American energy policy for decades. The Federal Production Tax Credit (PTC) began in 1992, and many states have implemented their own incentives to help the capital-intensive renewable energy industry develop within their borders. In 2003, Oklahoma created its version of a PTC for energy generated by zero-emission facilities, which encompass wind, geothermal, solar and hydropower. As with most states, Oklahoma's PTC for electricity generated by zero-emission facilities is provided on a per kilowatt-hour basis. The credits are valid for a 10 year period following the date the facility is placed in operation. In 2013, an end date of December 31, 2020 for facilities to come on-line and qualify for the credit was added to the statute.

The PTC coincided with other State efforts to expand the use of renewable energy sources. In 2011, the Legislature set a renewable energy goal for the year 2015 that 15 percent of electricity generated within the State be generated by renewable energy sources. That goals was attained, and today, electricity from renewable sources accounts for over 19 percent of all electricity generated in Oklahoma, with approximately 90 percent of it coming from wind.

Program Background and Benchmarking

Since its inception, the use of the State PTC has increased significantly. For example, the capacity of facilities eligible for the credit in 2003 was 176 megawatt hours. In the first year the credits were claimed (2005), those credits totaled $2.7 million. Six years later, in 2009, eligible facilities had rated capacity of 1,130 megawatt hours, and the claimed credits totaled $8.8 million. By 2014, eligible facilities had rated capacity of 3,780 megawatt hours, and claimed credits totaled $113 million.[1] The graph at right illustrates the dramatic increase in the use of the credit.



According to the US Energy Information Administration, Oklahoma is one of the 10 highest producing states that, in 2015, accounted for 73 percent of the nation's wind energy. In fact, Oklahoma trailed just Texas and Iowa in generation of megawatt hours of electricity from wind. Among the top 10 wind producing states, Oklahoma is the only state with a PTC program that is still accepting new facilities. Five of the six top producing states with PTCs have some form of a program cap in place.

Fiscal Impact

The fiscal impact from the PTC is substantial, and its potential impact in the coming years is also significant. Even with program changes that close the window for new facilities to qualify for the PTC after December 31, 2020, there is significant exposure for the State based on the opportunity for facilities

[1] Claimed credits includes credits generated in the tax year, as well as any credits carried forward from previous tax years

to be placed in service during the remainder of 2016 through the end of calendar year 2020. Given plans for major new transmission lines that can transport Oklahoma wind-generated electricity to out-of-state locations, it is quite possible (perhaps even probable) that the credits per year associated with zero emission wind facilities will approach $100 million a year by the time the program window closes – and those facilities' payments will continue for up to 10 years.

Economic Impact

There are a variety of economic impacts associated with the construction and operation of the zero emission facilities. To determine these, the project team developed an input-output model using IMPLAN, which assisted in analyzing direct, indirect and induced effects. These multiple economic impacts are then summed to determine overall economic impact. It is notable that economic impact does not directly translate into state tax revenue, and an adjustment must be made to determine how economic impacts translate into revenue.

Some of the economic impacts associated with this credit include the initial construction of the facilities, their operations and maintenance, and lease payments to landowners on which the facilities are constructed. While these are all substantial and important, they do not (in terms of other state revenue that they generate) come close to the State's foregone revenue from the PTC.

Outcomes

While the cost-benefit analysis associated with state revenue is an important consideration, there are other outcomes that should also be considered. These include:

- Development and growth of the renewable energy industry
- Increased property valuation
- Reduced costs of electricity

Without a doubt, there has been impressive development and growth in the renewable energy industry within the State of Oklahoma. However, the legislatively enacted goal, renewable energy comprising at least 15 percent of the state portfolio of electricity generation, has been achieved (and exceeded). Given this fact, it is unclear as to whether there is a need to expend additional resources on this priority.

A valid positive outcome related to this incentive is the increase in local property tax valuation associated with the zero emission facilities. Wind turbines are capital intensive facilities, and this increases the overall property tax base for schools and other local governments in Oklahoma. While local schools may benefit from this outcome, it does not replace state finance formula appropriations for these schools so does not improve the State's budget position. For other local governments, additional assessed valuation may simply reallocate property tax burden rather than increase local tax revenue. To be sure, there is some additional local revenue from leases, but this has been taken into consideration in the economic impact calculations.

Finally, there is evidence that Oklahoma benefits from lower electricity prices in relationship to average prices in the rest of the country. While wind energy may contribute to this factor, it is still a relatively small cohort of the overall mix of sources for electricity within the State. It is likely that plentiful (and relatively cheap) natural gas is still a more important factor in these calculations. To the extent this is an important factor, it is notable that a significant portion of the expected new development in wind facilities is to provide energy for transmission to users in other states. In this case, there is no real benefit for Oklahoma consumers in subsidizing the generation of this electricity.

It is also notable that the State also provides an incentive (related to the Ad Valorem Exemption for Manufacturing Facilities) for these same zero emission facilities. While this eligibility window closes on January 1, 2017, some of the economic and revenue benefit of these facilities must be reduced factoring in this substantial state benefit (which has averaged over $30 million a year over the past three years) as well.

Recommendations

Given the substantial cost associated with this program, the lack of a PTC cap (as exists in all other major wind energy producing states with this credit) and the very real possibility that the obligation associated with this incentive will continue to increase substantially in coming years, the project team recommends that **the program be reconfigured to either establish a program cap or accelerate closing the window for eligibility.** The project team suggests that this cap and/or accelerated date to close the program should primarily apply to wind facilities; it makes sense to allow other zero emission facilities (such as those that use solar energy) to continue to access the credit through the current statutory close of the program.

The project team also recommends that facilities claiming a credit be required to provide monthly data related to generated energy and projections related to use of the credit.

Introduction

Overview

The Oklahoma Incentive Evaluation Commission (the Commission) was established in HB2182, which was enacted and became law in 2015. It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Tax Credit for Electricity Generated by Zero-Emission Facilities is one of the incentives reviewed in 2016 by the Commission with recommendations to the Governor and the State Legislature.

Introduction

Production tax credits have been part of American energy policy for decades. The Federal Production Tax Credit (PTC) began in 1992,[2] and many states have implemented their own incentives to help the capital-intensive renewable energy industry develop within their borders. In 2003, Oklahoma created its version of a PTC for energy generated by zero-emission facilities, which encompass wind, geothermal, solar and hydropower. That year, the State's first utility-scale wind facility began production. Today, electricity from renewable sources accounts for over 19 percent of all electricity generated in Oklahoma, with approximately 90 percent of it coming from wind.[3]

Oklahoma's PTC for electricity generated by zero-emission facilities is provided on a per kilowatt-hour basis. Facilities placed into operation after June 4, 2001 are eligible for the credit if the facility has a rated production capacity of one megawatt or greater. The Department of Environmental Quality must determine that the construction and operation of the facility will result in no pollution or emissions harmful to the environment. The credits may be claimed in tax years beginning on or after January 1, 2003. The credits are valid for a 10 year period following the date the facility is placed in operation.[4]

The incentive was originally structured with the credit gradually declining from $0.0075 to $0.0025 per kilowatt-hour. While the rationale for the reduction over time was not provided in the originating legislation, there are various examples around the country where the value of a credit declines over time.[5]

In 2006, the program was amended and a one-half cent ($0.005) per kilowatt-hour credit was established for facilities placed in operation on or after January 1, 2007. This credit schedule is still in place today. In

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[2] The federal production tax credit is a per-kilowatt-hour tax (kWh) credit for electricity generated using qualified energy resources. The credit can be claimed for a 10-year period once a qualifying facility is placed in service. The maximum credit amount for 2013, 2014, and 2015 is 2.3 cents per kWh. The maximum credit rate, set at 1.5 cents per kWh in statute, has been adjusted annually for inflation. See Congressional Research Service, "The Renewable Electricity Production Tax," Molly F. Sherlock, July 14, 2015, accessed electronically at http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R43453.pdf

[3] EIA, Electric Power Industry Generation by Primary Energy Source Back to 1990, Oklahoma

[4] 68 O.S. Section 2357.32A

[5] For example, it may be argued that early entrants have greater costs of entry, as capital and suppliers may not be as readily available. In other instances, it may be expected that economies of scale will reduce capital or operating costs for later entrants.

2013, an end date of December 31, 2020 for facilities to come on-line and qualify for the credit was added to the statute.

The following table describes the existing credit:

For Facilities Placed in Operation on or after Jan 1, 2003 and before Jan 1, 2007	
Electricity Generated Between	Credit per kilowatt-hour
Jan 1 2003 – Dec 31 2003	$0.0075
Jan 1 2004 – Dec 31 2006	$0.005
Jan 1 2007 – Dec 31 2011	$0.0025
Facilities placed in operation on or after Jan 1, 2007 and before Jan 1, 2021	
Electricity Generated Between	Credit per kilowatt-hour
On or After Jan 1 2007	$0.005

Credits generated prior to Jan 1, 2014 may be carried forward for up to 10 years.[6] Credits generated on or after Jan 1, 2014 are refundable at 85 percent of the face amount of the credit.[7] Nontaxable entities may transfer or sell earned credits to any individual or corporate taxable entity.[8]

Participation in the program has grown rapidly over the last five years. According to data from the Oklahoma Tax Commission, the amount claimed for the 2014 tax year was over $113.0 million, compared to over $3.0 million in 2010.[9]

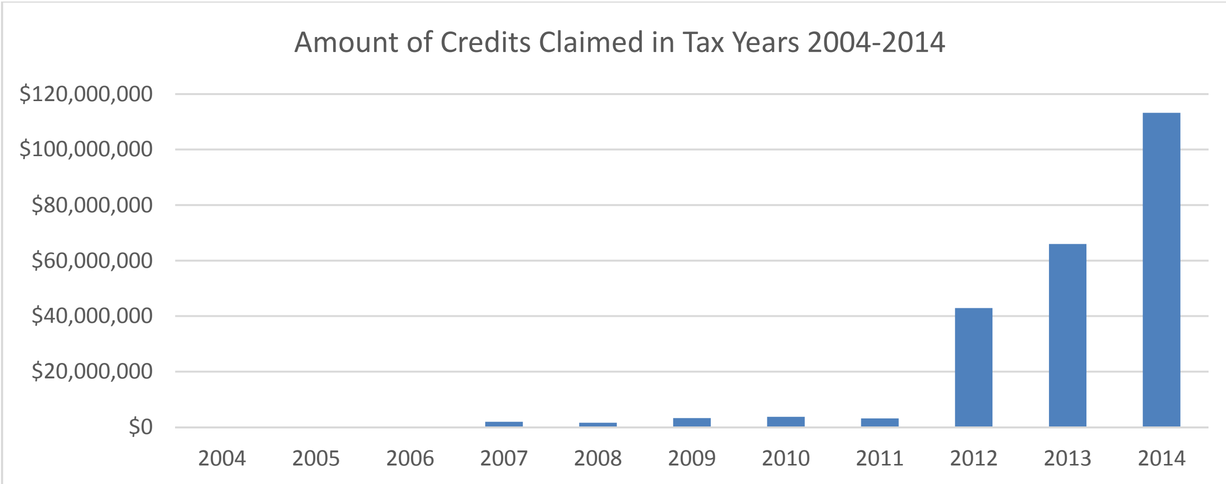
The following graph illustrates the dramatic increase in tax credits claimed in recent years:

[6] In other words, if the owner of a facility does not have sufficient income tax liability to offset the entirety of the earned production credit, they may apply that remaining credit to income tax liability for up to 10 additional tax years.

[7] A refundable credit is one where the dollar value of the credit is paid (refunded) to the taxpayer even if they have no income tax liability. In this case, only 85 percent of the value of any refunded credit would be remitted.

[8] Transferred or sold credits are usually subject to a discount, which will vary depending on factors such as supply and demand. According to one recent general discussion of transferable state tax credits, 'Typically, sellers will receive 85 to 90 cents on the dollar for their credit. However, it is quite possible for sellers to receive less.' Journal of Multistate Taxation and Incentives, March/April 2015, "The Transferability and Monetization of State Tax Credits."

[9] Claimed amount includes credits generated during the tax year and credits carried forward from previous tax years



Development plans suggest the impact of this incentive will remain high as more wind energy infrastructure is constructed. The most anticipated project is the Plains and Eastern Clean Line, a proposed 700-mile, 3,500 megawatt transmission line that will connect wind energy generated in the Oklahoma panhandle to consumers in the Memphis, Tennessee area. Construction is expected to start on this project in 2017.[10] With this added infrastructure and its ability to connect producers to more consumers (and thus heightening demand), investment in new and existing wind energy facilities should continue to grow.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this credit, the specific goals were not included in the legislation that established it. However, related public policy goals have been articulated. In 2011, the Legislature set a renewable energy goal for the year 2015 that 15 percent of electricity generated within the State be generated by renewable energy sources.[11] As a result, it is logical to determine whether the credit has helped the State in accomplishing this goal.

In addition to this goal, there are other criteria that may be used to evaluate this incentive program. To assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- A comparison to the period prior to the credit of renewable energy and wind's share of renewable energy

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[10]Details of the project may be found on the website of the Center for Rural Affairs at http://www.cfra.org/plains-and-eastern and the US Department of Energy, Office of Electricity Delivery & Energy Reliability at http://energy.gov/oe/services/electricity-policy-coordination-and-implementation/transmission-planning/section-1222-0

[11] 17 O.S. 2011, Section 801.4, Section C. It is notable that the identified renewable energy sources include wind, solar, photovoltaic, hydropower, hydrogen, geothermal, biomass and steam.

- A comparison to the period prior to the credit of renewable energy kilowatt hours generated versus all kilowatt hours generated in the state
- Income generated within the State by eligible projects
- Jobs generated within the state by eligible projects
- Connection with other related business incentives
- State return on investment
- Lease revenue generated by zero-emission facilities
- Change in average price of electricity before and after the tax credit

The criteria focus on what are generally considered goals of incentives programs (such as creating jobs and capital investment in the state) as well as more specific objectives related to this program (greater use of renewable energy within the state and maintaining affordable energy prices). Ultimately, incentive programs have to weigh both the benefits (outcomes related to achieving policy goals and objectives) and the costs, and that is also a criteria for evaluation (State return on investment). These will be discussed throughout the balance of the evaluation.

Program Background and Benchmarking

Background

As noted in the previous section, since its inception in 2003, the use of the tax credit has increased significantly. For example, the capacity of facilities eligible for the credit in 2003 was 176 megawatt hours. In the first year the credits were claimed (2005), the credits totaled $2.7 million. Six years later, in 2009, eligible facilities had rated capacity of 1,130 megawatt hours, and claimed credits totaled $8.8 million. By 2015, eligible facilities had rated capacity of 4,346 megawatt hours, and claimed credits totaled $50.6 million. The following details this history of use:

Inputs	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Existing Wind Capacity in MW	176.0	176.0	474.0	594.0	689.0	708.0	1,130.0	1,480.0	1,810.8	3,132.9	3,132.9	3,779.5
Capacity in MWh	1,541,760	1,541,760	4,152,240	5,203,440	6,035,640	6,202,080	9,898,800	12,964,800	15,862,608	27,444,204	27,444,204	33,108,420
Actual MWh Generated	54,470	572,744	847,773	1,712,441	1,849,144	2,358,080	2,698,199	3,808,083	5,605,265	8,157,585	11,162,493	11,936,833
Capacity Factor	4%	37%	20%	33%	31%	38%	27%	29%	35%	30%	41%	36%
Credit Per kWh for Facilities in Operation Before Jan 1, 2007	$0.0075	$0.005	$0.005	$0.005	$0.0025	$0.0025	$0.0025	$0.0025	$0.0025	$0.0025	$0.0025	$0.0025
Credit per kWh for Facilities in Operation After Jan 1, 2007					$0.005	$0.005	$0.005	$0.005	$0.005	$0.005	$0.005	$0.005

This upward trend in wind energy production is expected to continue. As noted in the previous section, there are substantial new wind energy projects in varying stages of planning and execution. At the same time, the production costs associated with wind energy have fallen substantially, which has helped to make it a competitive energy source.

According to the US Department of Energy, when leveling costs among different methods of generating electricity[12] for plants entering service in 2018, the weighted average (in dollars per megawatt hour) for wind is among the lowest ($51.90), and the federal tax credit available to wind plants reduces the cost to $34.00. By comparison, conventional natural gas-fired plants are $48.70, and advanced combined cycle natural-gas fired plants are $48.00.[13]

Benchmarking

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.[14] These benchmarking realities must be taken into consideration when making

[12] 'Levelized cost' measures the per-kilowatt hour cost (in real dollars) of building and operating a generating plant over an assumed financial life and duty cycle. The inputs used to calculate this cost include capital, fuel, fixed and variable operations and maintenance and finance costs as well as an assumed utilization rate for each plant type. The assumptions used by the Department of Energy are given in the "Assumptions to the Annual Energy Output," available at http://www.eia.gov/forecasts/aeo/assumptions/.

[13] US Energy Information Administration, "Levelized Cost and Levelized Avoided Cost of New Generation Resources in the Annual Energy Outlook 2016," August 2016, p.

[14] The only real instances of exactly alike state incentive programs occurs when states choose to 'piggyback' onto federal programs.

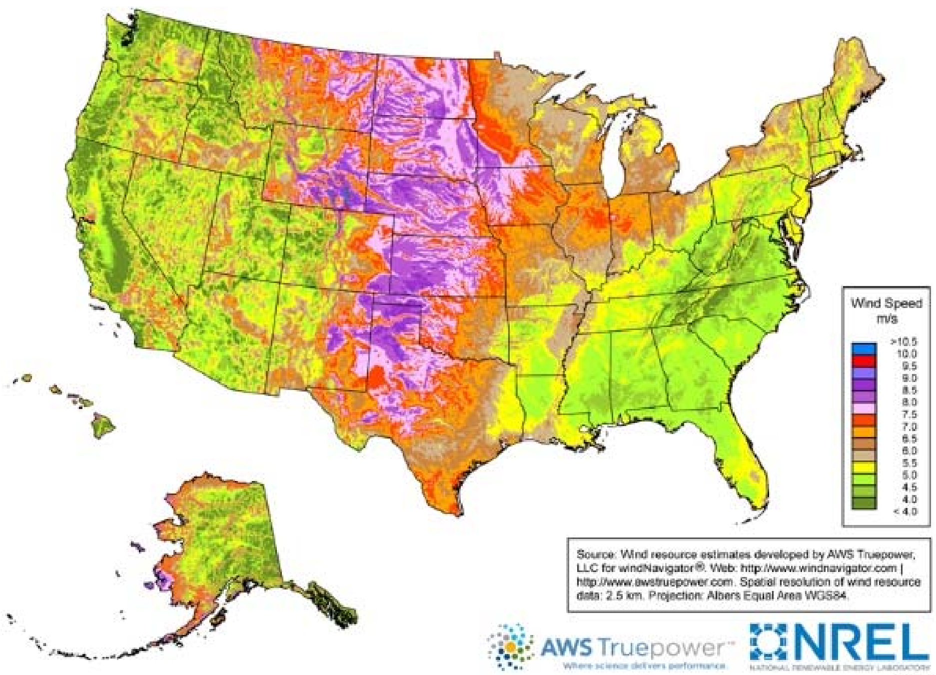
comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

However, the comparison group for certain incentives will be broader than just the neighboring states. In this case (as with several energy-related incentives), the industry the credit seeks to impact is natural resource driven, and the states Oklahoma competes with are those with similar available resources and infrastructure to support the industry.

Although geothermal, solar, and hydropower are also component parts of Oklahoma's renewable energy portfolio, wind was responsible for over 88% of the total renewable energy produced in the State in 2014.[15] Given that it makes up nearly 9/10ths of the existing industry, the following analysis will focus on it.

Many states have potential for wind energy production, but a limited number of states have emerged as the major contributors to production. The following map, which identifies the wind capacity around the country, helps explain why production is concentrated in certain states:[16]



[15] EIA, Electric Power Industry Generation by Primary Energy Source Back to 1990, Oklahoma
[16] US Department of Energy, accessed electronically at http://apps2.eere.energy.gov/wind/windexchange/wind_maps.asp

This map supports the claim that neighboring states are not necessarily the major competitors for an industry. In this case, the Great Plains States – from Texas to North Dakota -- are logical optimal placements for wind electrical generation facilities, while neighboring states to the East are less important.

According to the U.S. Energy Information Administration, the 10 highest producing states accounted for 73 percent of the nation's wind energy in 2015. Besides Oklahoma, the bordering states of Texas (ranked first), Kansas (fifth), and Colorado (seventh) are also in this 10-state cohort.[17]

Net Generation from Wind in 2015		
Rank	State	Megawatt-hours
1	Texas	4,464,000
2	Iowa	1,738,000
3	Oklahoma	1,423,000
4	Illinois	1,268,000
5	Kansas	1,062,000
6	Minnesota	911,000
7	Colorado	780,000
8	California	708,000
9	Indiana	656,000
10	North Dakota	565,000

Since most of the competitive states in this industry fall outside the core group of bordering states, the scope of the comparison group has been expanded to include notable programs in the top ten states.

A review of incentive programs in these states reveals that Oklahoma is the only state in the top 10 of wind energy production with a Production Tax Credit (PTC) program still accepting new applicants. Five of the six other states with PTCs for renewable energy have some form of program cap in place. The program caps range from $10.0 million in Florida to $40.0 million in New Mexico (New Mexico reached its cap in 2015). Among other states, Minnesota and Iowa have used PTCs to support the renewable

[17] "Electric Power Monthly, with Data for January 2016," US Energy Information Administration, March 2016, accessed electronically at http://www.eia.gov/electricity/monthly/current_year/march2016.pdf

energy industry. Minnesota's program, designed for wind facilities of 2 megawatt (MW) capacity or less, was closed to new applicants in 2005, with 225 MW of capacity enrolled, and made its final payments at the end of 2015. Iowa caps its program by total nameplate capacity enrolled in order to limit fiscal impact.[18] Iowa's program reached its cap in 2015.[19] Other states using a PTC include Arizona and Maryland.

Each program has similar features to Oklahoma's PTC. In each state, credits are awarded on a per kilowatt-hour basis. The duration of eligibility for the credit is 10 years following the start of production of the qualified facility in every comparison state (with the exception of Florida, where there is no limit in place).[20]

The following table provides summary data related to the incentive programs for the State of Oklahoma and states with similar programs. It is notable that several of what could be considered competing states for wind generation of electricity do not have similar incentive programs.

[18] It is notable that a dollar cap and cap on nameplate capacity enrolled are essentially the same mechanism expressed in a different way.
[19] "Database of State Incentives for Renewables and Efficiency," DSIRE, North Carolina Clean Energy Technology Center, accessed electronically at http://www.dsireusa.org/
[20] The 10-year duration is understandable, as there is a significant capital expense associated with facility construction.

Attachment A

State	Energy Sources	Capacity Requirements	Credit per kWh	Aggregate Cap	Duration	Transferrable?	Carry-forward?	Refundable?
Iowa (476B)	Wind	2 to 30 Megawatt (MW)	$0.01	50 MW of Nameplate Capacity	10 Years	Yes	Yes, 7 years, not to exceed the 10 year pay period	10 Years
Iowa (476C)	Wind, biogas recovery, biomass, methane gas recovery, solar, refuse	Max: 2.5 MW	$0.015	426 MW of Nameplate Capacity[21]	10 Years	Yes	Yes, 7 years, not to exceed the 10 year pay period	10 Years
New Mexico	Wind and biomass	Min:1 MW	$0.01	$20,000,000 per year	10 Years	No	Only credits earned prior to October 1st, 2007, 5 years	10 Years
	Solar	Min:1 MW	$0.027 (average)[22]	$20,000,000 per year				
Minnesota	Hydroelectric, biomass, and wind	Max: 2 MW	$0.02	No Cap	No Cap	Not Specified	Not Specified	Not Specified
Arizona	Wind and Biomass	Min: 5 MW	$0.01	$20,000,000 per year	10 Years	No	Yes, 5 years	No
	Solar	Min: 5 MW	$0.0275 (average)[23]					
Florida	Hydrogen, biomass, solar energy, geothermal energy, wind energy, ocean energy, waste heat, or hydroelectric power	None	$0.01	$10 Million per year	No Limit	In the event of a merger or acquisition	Yes, 5 years	No Limit
Maryland	Solar, Wind, Biomass, hydroelectric, municipal solid waste, landfill gas, tidal, wave, oxygen thermal, anaerobic digestion	None	$0.0085	$25 Million per year, removed in 2016	10 Years	No	No	Yes
Oklahoma	Wind, Moving Water, Solar, Geothermal	Min: 1 MW	$0.005[24]	No Cap	10 Years	Only credits earned prior to January 1st, 2014 are transferrable	Up to 10 years only for credits earned prior to January 1st, 2014	At 85% only for credits earned after January 1st, 2014

[21] 363 MW for wind and 63 MW for all other sources
[22] New Mexico's Solar Incentive Changes throughout the 10-Year pay period
[23] Arizona's solar incentive changes throughout the 10-year pay period
[24] This is the current rate for facilities placed in operation on or after 1/1/2007

Benchmarking Program Evaluations

Among the states with active incentive programs, there are three relevant studies that are useful for comparison. These studies were done by the States of Florida, Iowa and New Mexico. All three are among the states that allocate their credit based on the amount of energy generated. Of the three, the study by New Mexico comes closest to replicating the scope of analysis of the Oklahoma evaluations.

For New Mexico, the goal of its report was to 'comprehensively quantify the costs and benefits of energy tax subsidies and policies.' It is notable that the report recognizes the difficulty in disentangling factors that contribute to project development (what might be considered a 'but for' test of the value of incentives in spurring development), which can include location, renewable portfolio standards, permitting requirements, federal and state financial incentives, power sales opportunities, access to transmission, etc.[25]

One specific area for analysis within the report is the potential for future claims (New Mexico provides for a five-year carry forward of its PTC). The report applies the tax credit amount to production volumes, in Megawatt hours (MWh) of each certified facility's actual generation up to their eligible power generation cap. This 'potential tax expenditure' then is a proxy for the maximum annual tax liability for the State – which they estimate at about the same amount as is being claimed each fiscal year (realized tax expenditures during the period reviewed was $61.6 million, and potential tax expenditures in this same period were $121.6 million).

New Mexico also conducted an economic impact analysis, calculating direct, indirect and induced impacts. The State used an IMPLAN model to generate its estimates. These impacts were categorized related to project and operating expenditures – for both wind and solar facilities. Finally, the report also sought an estimation of the pollution impacts related to volumes and monetary value.[26]

The Iowa report provides more background discussion, which includes a history of the Iowa credit, the federal PTC as well as credits in other states and a review of the renewable energy industry. The report discusses factors related to the credits themselves, including the tax credit awards and transfers, the state of residence of awardees (Iowa residents accounted for 83 percent of the program's recipients and 52 percent of the dollar value of the tax credits awarded), the tax credit claims by tax type (because it is transferrable) and energy production statistics. The key findings focus on an economic analysis of the tax credits. Within that analysis, there were three key areas of analysis:

- **Limitations on the Analysis.** In particular, the report recognized the possible value of moving to renewable energy sources as a way to have a positive impact on global climate change and a reliance on fossil fuels; however, the report noted that this was beyond the scope of the study.

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[25] It is notable that New Mexico has a Renewable Portfolio Standard, which requires investor-owned utilities to produce 20 percent of electricity from renewable sources by 2020. This certainly suggests that some renewable energy projects would have to be undertaken even without the credit.
[26] State of New Mexico, "Economic Analysis of the New Mexico Renewable Energy Production Tax Credit, Final Report," February 2015, New Mexico Energy, Minerals and Natural Resources Department.

The study also did not attempt to assess the nature and extent of an 'economic ripple effect' from the credit throughout the Iowa economy.

- **Issues surrounding transferable tax credits.** The report found that 'nearly all tax credits awarded have been transferred.' Interestingly, that report references the State of Oklahoma's decision to shift from transferable credits to refundable (at 85 percent of value) credits. It is notable that the report also discussed the need for tax credits as part of an overall financing strategy to make projects work. The report accepted the premise that 'substantial upfront capital is generally required to finance renewable energy products and that tax credits are a critical source of investment capital for these projects.'

- **Property tax implications.** The report notes that these facilities result in increases in property tax revenues to local taxing jurisdictions. Based on estimates of acquisition costs (including the costs for turbines, towers, foundations, installation and connection), wind system acquisition costs totaled $1.65 million per megawatt in 2006 constant dollars and remained at that level at least through 2010. Based on these cost assumptions and the megawatt capacity of wind turbine systems entering service, it is estimated that the aggregate property tax for these facilities will reach $1.8 million by FY2021.[27]

Of the three, the State of Florida analysis is the least extensive. For purposes of analyzing impact, the report determined that the program supported the production of 1,000,000,000 kilowatt-hours of electricity in the 2015 production period, computed a state average price (10.64 cents per kilowatt-hours during the prior 24 months) and determined that this amounted to an estimated $106.4 million in revenue from the sale of electricity. This revenue was entered into the State's IMPLAN model. The study determined that the $10.0 million program investment produced an estimated total output contribution of $167.9 million, total value added contribution of $94.7 million and total labor income contribution of $34.0 million. It estimated the program supported or created nearly 120 direct jobs and 399 jobs in related or supporting industries. The study also estimated state and local taxes to total $15.2 million. The report used two forms of return on investment analysis that were both considered positive.[28]

[27] State of Iowa, "Wind Energy Production Tax Credit and Renewable Energy Tax Credit, Tax Credits Program Evaluation Study," December 2014, Anthony Girardi, PhD, Tax Research and Program Analysis Section, Iowa Department of Revenue.

[28] State of Florida, "2015 Analysis of the Economic Contribution of the Renewable Energy Tax Incentives," Florida Department of Agriculture and Consumer Services.

Fiscal Impact

For this evaluation, fiscal impact is considered to be the directly attributable impact of the credit on State revenues and expenditures. The evaluation will discuss but not quantify revenue and expenditure impacts on local governments. There is far less attenuation from these local impacts for a discussion of a state incentive program – for a variety of reasons (including the impact of local decision making outside the State's control on local revenues and expenditures and the widely divergent impacts throughout the State).

As has been noted, the fiscal impact from this tax credit (mostly because of reduced/refunded tax revenue) is substantial, and its potential impact in the coming years is also significant. Based on program changes adopted by the State Legislature in SB343 in 2013, to qualify for the credit, a facility must be placed in service by December 31, 2020 (at which point they would be able to generate the credits for 10 years – and have 10 years to carry forward and use those credits). However, given the recent levels of activity for this credit, there is significant exposure for the State based on the opportunity for facilities to be placed in service during the remainder of 2016 through the end of calendar year 2020.

The following table identifies the claimed and potentially claimed credits for this program, both historic and projected into the future, using historic growth rates and conservative assumptions for future growth rates:

Year	Capacity in Megawatts (MW)	Annual % Growth	Annual Added Capacity (MW)	Generation of New Capacity in Megawatt hours (MWh)	Added Per Year Cost	Cumulative Annual Cost
Actuals						
2003	176	-	-	-	-	-
2004	176	0%	-	-	-	-
2005	474	169%	298	532,988	$2,664,940	$2,664,940
2006	594	25%	120	345,948	$1,729,738	$4,394,679
2007	689	16%	95	254,962	$1,274,809	$3,472,148
2008	708	3%	19	63,282	$316,409	$3,788,557
2009	1,130	60%	422	1,007,646	$5,038,230	$8,826,787
2010	1,480	31%	350	900,560	$4,502,801	$13,329,588
2011	1,811	22%	331	1,023,979	$5,119,896	$18,449,485
2012	3,133	73%	1,322	3,442,543	$17,212,715	$35,662,200
2013	3,133	0%	-	-	-	$35,662,200
2014	3,780	21%	647	2,042,163	$8,679,194	$44,341,394
2015	4,346	15%	567	1,790,525	$7,609,731	$50,618,655
2016	4,998	15%	652	2,059,104	$8,751,191	$58,504,976
2017	5,748	15%	750	2,367,969	$10,063,869	$67,294,037
2018	6,610	15%	862	2,723,165	$11,573,450	$78,551,077
2019	7,271	10%	661	2,087,760	$8,872,978	$82,385,825
2020	7,999	10%	727	2,296,536	$9,760,276	$87,643,300
2021	7,999	0%	0	0	$0	$82,523,404

Year	Capacity in Megawatts (MW)	Annual % Growth	Annual Added Capacity (MW)	Generation of New Capacity in Megawatt hours (MWh)	Added Per Year Cost	Cumulative Annual Cost
2022	7,999	0%	0	0	$0	$65,310,689
2023	7,999	0%	0	0	$0	$65,310,689
2024	7,999	0%	0	0	$0	$56,631,495
2025	7,999	0%	0	0	$0	$49,021,764
2026	7,999	0%	0	0	$0	$40,270,573
2027	7,999	0%	0	0	$0	$30,206,704
2028	7,999	0%	0	0	$0	$18,633,254
2029	7,999	0%	0	0	$0	$9,760,276
2030	7,999	0%	0	0	$0	$0

As previously noted, there is also concern that new facilities associated with the Clean Line Project might add considerably to the financial projections for the impact in future years. The following table provides an estimate of this impact, which would significantly exceed historic growth rate assumptions:

Potential Clean Line Impact	
2014 Existing Wind Capacity	3,779.5
Capacity in MWh	33,108,420
Actual MWh Generated	11,936,833
2014 Capacity Factor	36%
Projected Added Capacity from Clean Line Project	3,500
Capacity in MWh	30,660,000
MWh Generated at 2014 Capacity Factor	11,054,085
Credit per kWh	$0.005
Total Credit Expense Per Year at Different Completion Percentages	
100%	**$55,270,427**
75%	**$41,452,820**
50%	**$27,635,213**
25%	**$13,817,607**

In short, the financial impacts associated with the generated tax credit are substantial and would impact the revenue structure for an additional 10 years thereafter. There is, of course, some additional revenue that would be generated from economic activity associated with this credit, and this will be discussed in the following chapter.

It is also possible that the various requirements for the Clean Line to become operational will not come to fruition prior to the tax credit trigger date of December 31, 2020. That said, there will be significant incentive for the power producers to get the facilities up and running by that point in time, given that the tax credit generated by the facilities stays in place for 10 years.

As previously discussed, these estimates do not take into consideration new local property (sometimes referred to as ad valorem) tax revenue. The significant capital investment associated with wind facilities increases the overall assessed value of property within a taxing jurisdiction, and in some cases the change is substantial. This provides for a broader base upon which the property tax levy is applied. However, the benefits of that expanded property tax base are primarily local, and, depending on local decisions related to budgets and levies, it may only redistribute the property tax burden rather than actually increase local tax revenue. Those decisions generally fall outside of the discussion of state policy (and are mostly beyond the control of state policymakers), at least related to this evaluation.

It has been suggested that this additional assessed value will increase property revenue for local schools – and, based on the way that state school funding is allocated among school districts, may also benefit school districts that do not have wind facilities within their district. This may well be the case, but it does not reduce the size of the State's appropriation to school aid – as with local property taxes, it may simply change how those state dollars are allocated among school districts. As a result, it is an issue with local rather that State budget impact.

As previously noted, Oklahoma is in the minority of large wind energy producing states in not having a cap on its credit. It could be argued that these other states have reached the conclusion that, when wind energy generation is already substantial and the industry has taken root, the financial risk to the state is larger than the economic benefit the incentive generates.

One of the requirements of HB2182 is that each evaluation should determine "whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase substantially beyond the state's expectations in future years."

Given the significant – and growing – share of the State energy portfolio and the risks associated with significant new wind energy generation, the project team concludes that, absent a compelling argument of economic impact that generates sufficient additional state revenue (or reduces expenditures), there are not adequate safeguards in place to balance the financial risk to the State from this incentive.

Economic Impact

Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are "Output" which describes total economic activity and is generally equivalent to a firm's gross sales; "Value Added" which equals gross output of an industry or a sector less its intermediate inputs; "Labor Income" which corresponds to wages and benefits; and "Employment" which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced:

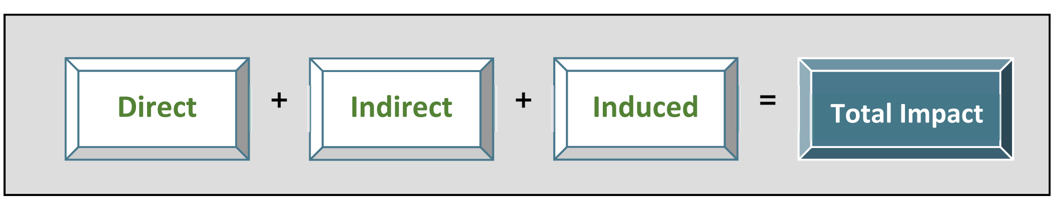
- Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

- Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

- Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every $1,000 injected into the economy, all other sectors produce an additional $400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

The Flow of Economic Impacts



For this analysis, the project team used the IMPLAN online economic impact model with the dataset for the State of Oklahoma (2014 Model).

State of Oklahoma Tax Revenue Estimate Methodology

To provide an "order of magnitude" estimate for state tax revenue attributable to the incentive being evaluated, the project team focused on the ratio of state government tax collections to Oklahoma Gross Domestic Product (GDP). Two datasets were used to derive the ratio: 1) U.S. Department of Commerce Bureau of Economic Analysis GDP estimates by state;[29] and 2) the Oklahoma Tax Commission's *Annual Report of the Oklahoma Tax Commission* reports.[30] Over the past ten years, the state tax revenue as a percent of state GDP was 5.5 percent.

State of Oklahoma Tax Revenue as a Percent of State GDP

Year	Oklahoma Tax Revenue*	Oklahoma GDP	Ratio
2005-06	$8,435,214,025	$136,804,000,000	6.2%
2006-07	$8,685,842,682	$144,171,000,000	6.0%
2007-08	$9,008,981,280	$155,015,000,000	5.8%
2008-09	$8,783,165,581	$143,380,000,000	6.1%
2009-10	$7,774,910,000	$151,318,000,000	5.1%
2010-11	$8,367,871,162	$165,278,000,000	5.1%
2011-12	$8,998,362,975	$173,911,000,000	5.2%
2012-13	$9,175,334,979	$182,447,000,000	5.0%
2013-14	$9,550,183,790	$190,171,000,000	5.0%
2014-15	$9,778,654,182	$180,425,000,000	5.4%
Average	$8,855,852,065	$162,292,000,000	5.5%

Source: U.S. Department of Commerce Bureau of Economic Analysis and Oklahoma Tax Commission

* Gross collections from state-levied taxes, licenses and fees, exclusive of city/county sales and use taxes and county lodging taxes

The value added of an industry, also referred to as gross domestic product (GDP)-by-industry, is the contribution of a private industry or government sector to overall GDP. The components of value added consist of compensation of employees, taxes on production and imports less subsidies, and gross operating surplus. Changes in value added components such as employee compensation have a direct impact on taxes such as income and sales tax. Other tax revenues such as alcoholic beverage and cigarette taxes are also positively correlated to changes in income.

Because of the highly correlated relationship between changes in the GDP by industry and most taxes collected by the state, the ratio of government tax collections to Oklahoma GDP forms the evaluation basis of the fiscal implications of different incentive programs offered by the State. The broader the basis of taxation (i.e., income and sales taxes) the stronger the correlation; with certain taxes on specific activity, such as the gross production (severance) tax, there may be some variation in the ratio year-to-year, although these fluctuations tend to smooth out over a period of several years. This ratio approach is

[29] http://www.bea.gov/regional/
[30] https://www.ok.gov/tax/Forms_&_Publications/Publications/Annual_Reports/index.html

somewhat standard practice, and is consistent with what IMPLAN and other economic modeling software programs use to estimate changes in tax revenue.

Data Collection, Model Inputs, and Other Issues

The project team performed the following steps to derive the economic and tax revenue impact:

1. The project team collected existing data and studies from State of Oklahoma agencies including the Oklahoma Tax Commission and Oklahoma Department of Commerce.

2. The project team collected and analyzed studies performed or commissioned by other organizations such as the State Chamber of Oklahoma and Economic Impact Group, LLC.

3. Data on Oklahoma annual wind capacity installed and generation was obtained from the U.S. Energy Information Administration (EIA) [31] for the years 2013 to 2015.

4. Retail and wholesale electric utility data for the State of Oklahoma and surrounding power regions were downloaded from the EIA website.

5. Based on EIA reported wind generation (not capacity) and estimates on the wholesale price charged by wind companies, it was possible to estimate the annual revenue of Oklahoma windfarms.

6. IMPLAN sector 45 Electric Power Generation – Wind was used to model the economic impact.

7. The National Renewable Energy Laboratory JEDI (Jobs and Economic Development Impact) Model[32] was utilized to compare and assess the IMPLAN results.

8. There was not sufficient detail available to model the economic impact of constructing and installing the windfarms. While some studies have made this calculation, there is a tremendous amount of variation between the impacts reported. For example, the JEDI model uses default assumptions regarding if input purchases are made within the region and state. Based on research and conversations with industry representatives, the project team determined that it was not possible to determine the level of instate input purchase. To accurately make this calculation, each windfarm developer would need to be surveyed regarding construction and equipment purchases. Therefore, the project team decided not to calculate the economic impact of construction.

[31] http://www.eia.gov/
[32] http://www.nrel.gov/analysis/jedi/about_jedi.html

9. According to employment data obtained from the Oklahoma Employment Security Commission[33] and US Bureau of Labor Statistic[34], State of Oklahoma sector NAICS 221115 – Wind Electric Power Generation employed 154 workers in 2015. These figures are consistent with the direct employment values derived from the IMPLAN model.

10. Based on existing studies and conversations, the wind industry pays land owners about $10,000 per year per turbine to lease the land. This additional household income is included was factored in to the economic impact analysis.

Annual Economic Impact of Wind Farm Operations in the State of Oklahoma

Year		Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue
2011	Direct Effect	$186,377,754	$118,695,707	$7,537,540	70	
	Indirect Effect	$72,130,053	$34,091,681	$23,274,852	414	
	Induced Effect	$23,025,788	$12,570,524	$7,116,019	174	
	Total Effect	$281,533,595	$165,357,912	$37,928,411	658	$8,496,298
2012	Direct Effect	$272,978,610	$173,847,942	$11,039,876	102	
	Indirect Effect	$105,645,449	$49,932,459	$34,089,566	606	
	Induced Effect	$33,724,774	$18,411,448	$10,422,494	255	
	Total Effect	$412,348,832	$242,191,849	$55,551,935	964	$12,261,948
2013	Direct Effect	$375,108,091	$238,889,669	$15,170,224	141	
	Indirect Effect	$145,170,578	$68,613,689	$46,843,494	833	
	Induced Effect	$46,342,222	$25,299,722	$14,321,861	351	
	Total Effect	$566,620,892	$332,803,080	$76,335,580	1,324	$17,219,629
2014	Direct Effect	$417,557,921	$265,924,078	$16,886,992	156	
	Indirect Effect	$161,599,086	$76,378,490	$52,144,628	927	
	Induced Effect	$51,586,629	$28,162,814	$15,942,622	390	
	Total Effect	$630,743,636	$370,465,381	$84,974,243	1,474	$18,630,857
2015	Direct Effect	$385,427,183	$245,461,439	$15,587,552	144	
	Indirect Effect	$149,164,169	$70,501,228	$48,132,142	856	
	Induced Effect	$47,617,081	$25,995,709	$14,715,851	360	
	Total Effect	$582,208,433	$341,958,375	$78,435,545	1,361	$17,172,783

Source: TXP, Inc.

This information is an important component part of the analysis related to several of the criteria for evaluation. First, it is evident that criteria related to employment and labor income associated with this incentive are relatively small. To date, the jobs associated with the credit in the last year with data available are less than 1,400, and the payroll less than $80 million. Second, the additional income generated by the credit (primarily through leases of the land for the wind turbine facilities) is useful but

[33] http://www.oesc.state.ok.us/lmi/QCEWHistorical/Default.aspx
[34] http://www.bls.gov/

not, in the context of the overall state economy, all that substantial, from an aggregate economic impact standpoint. These factors will be considered in the Outcomes chapter.

Technical and Administrative Issues

Overview

The general operation of this credit is relatively straightforward. There are essentially three components to overall program administration:

1. **Eligibility.** The facility must have a rated production capacity of one megawatt or greater and use wind, moving water, sun, or geothermal energy as its fuel source. It is notable that production capacity is largely a function of the size of the turbine rotor blades. The larger commercial grade blades generally have rotor diameter of 100 feet to more than 325 feet, with a hub height of 164 to more than 260 feet.

   The facility must also qualify as a 'Zero Emission Facility.' The Oklahoma Department of Environmental Quality must determine that the construction and operation of the facility will result in no pollution or emissions harmful to the environment.

   As amended in 2014, the facility must also be placed into operation by December 31, 2020.

2. **Determining the Credit.** The corporate entity claims the credit on its Oklahoma corporate income tax return, and the Tax Commission is responsible for determining the eligibility for the credit and, if, necessary, administering any refund based on that credit.[35]

3. **Reporting.** Once the tax year is completed and timely returns have been filed and processed, the Tax Commission is the source for data associated with the use of the tax credit.

Determining eligibility for each of these requirements is the responsibility of the taxpayer claiming the credit (with, as previously noted, a requirement that the Department of Environmental Quality ; ultimately, the Tax Commission is responsible for determining whether the facilities comply with the requirements for claiming the credit – and then claim the proper amount.

Reporting

There is no specific requirement for facility reporting related to the electricity generated that is eligible for the credit. As a result, the only information available for determining its use (or potential financial impact going forward) is from the filed tax returns.

This is complicated by the fact that the mechanisms for determining the amount and use of the credit have changed on more than one occasion. As noted in the introduction, the value of the credit has changed, as has the ability to either transfer the credit or claim a refund above the amount of tax owed.

[35] For tax year 2015, for example, those claiming the credit must also file form 511CR, which is Oklahoma's Other Credits Form. Line 15 of that form requires the taxpayer to enter three numbers: unused credit carried over from prior years, credit established during the current tax year, and total available credit.

The primary complication at present relates to the change in the credit for tax year 2014 and beyond compared to prior years. For credits earned prior to January 1, 2014 these credits may be transferred at any time during the 10 years following qualification of the facility to any taxpayer by filing a transfer agreement and getting acknowledgement by the Tax Commission of the credits earned. To obtain acknowledgement, the taxpayer would enclose a schedule showing the number of kilowatt hours of electricity generated during each month of the taxable year and the calculation of the credit.

Any credit generated, but not used, on or after January 1, 2014 may be partially refunded, at 85 percent of the value of the credit, by filing form 578. As a result, it is likely that the amount of credit generated in each tax year from 2014 onward is more readily estimated than to tax years prior to 2014.

There are also questions as to whether the extent of the use of the transferred credits is readily understood. While there is a requirement that the transfer be reported and the amount of the earned credit acknowledged, the actual use of the credit by the taxpayer who purchases it applies it against other taxes. As a result, the data reported on tax collections by type of tax is distorted by this transfer, and it is difficult to ascertain the amount of the zero emissions tax credit used (and remaining to be used) in any tax year. It is notable, of course, that this relates to use of credits earned prior to January 1, 2014, so it will be a declining issue in all succeeding years.

Administration

The legislation that created the credit did not provide for a significant State department role in the overall administration of the credit. As noted, other than determining that a facility has a rated capacity of over 1 megawatts and is a 'zero emission' facility, there are no up-front eligibility requirements. Likewise, determining the amount of the tax credit requires to only know the amount of the energy generated by the facility – there are no job, payroll, capital investment or other requirements. As a result, administration is not a material aspect of the existing program.

Outcomes

Overview

From the prior discussion, the following have been identified as key issues for evaluation of the Zero Emission Tax Credit:

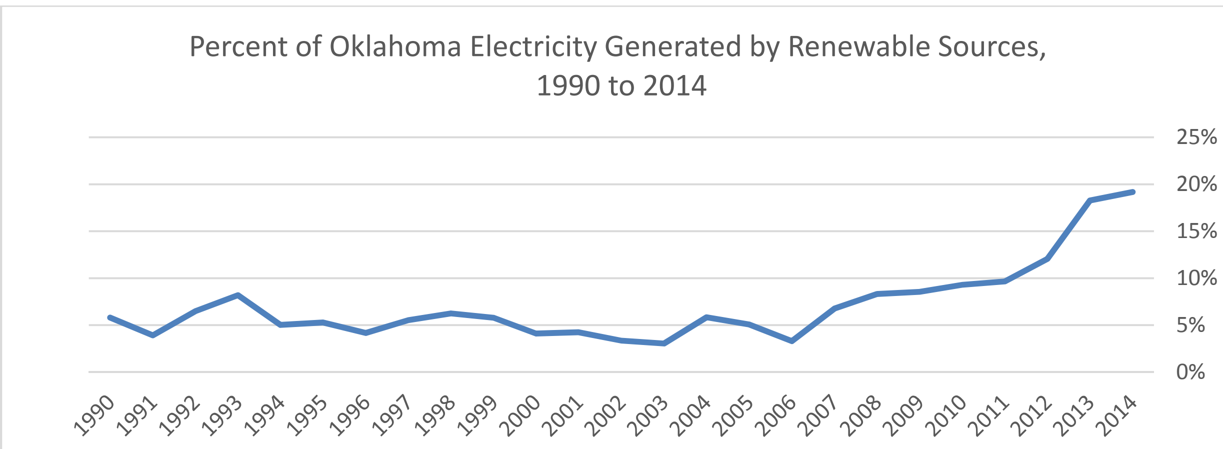
1. What has been the impact of the credit on identified goals?

2. How does Oklahoma's experience compare to the nation as a whole and other states?

3. How should the identified costs be weighed against the benefits (both quantitative and qualitative)?

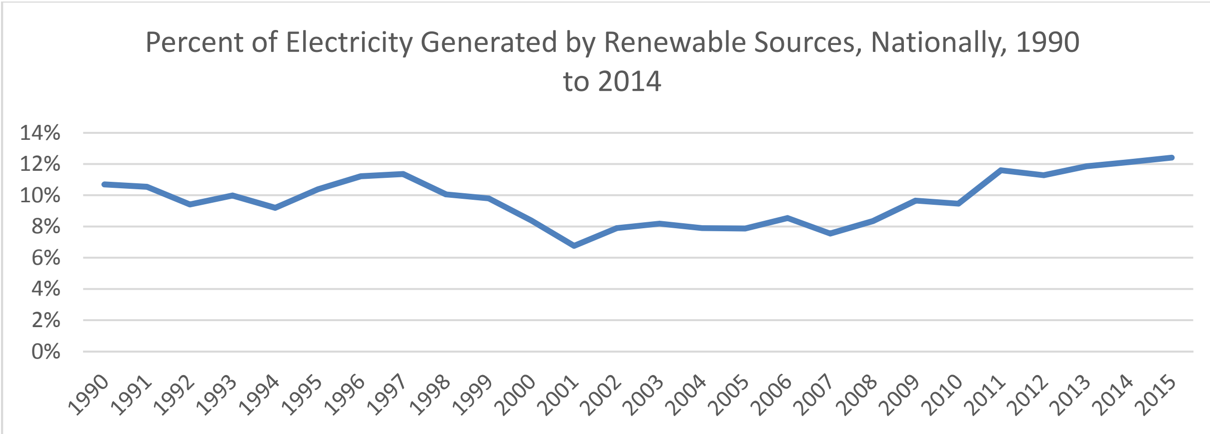
Impact on Identified Goals: Renewable Energy

As already noted, Oklahoma has made significant progress in renewable energy sources as a percent of total electricity generation. While the percentage remained relatively constant from 1990 to 2005, there has been significant positive change, particularly in the past few years. The following chart reflects the share of Oklahoma electricity generated by renewable sources since 1990:



	2010	2011	2012	2013	2014
Percent of Oklahoma Electricity Generated using Renewable Sources	9.29%	9.65%	12.06%	18.28%	19.18%

While this is an impressive improvement – and has helped the State achieve its goal of 15 percent of electricity generated by renewable sources – it (at least partially) mirrors trends across the country. There are a variety of differing energy alternatives that have regional applicability (such as hydroelectric power in some portions of the country as well as wind and solar in others), but nationally, the trend has been toward a greater portion of electricity generated by renewable sources:



Within the wind generation field, there has also been strong growth nationally, and most of that growth has been concentrated in a handful of states. In 2015, there was a surge of new wind power added nationally, totaling 8,598 Megawatts of new capacity. This brings the total for the US to nearly 74,000 Megawatts.[36] Texas added the most wind capacity (42 percent of total wind additions), followed by Oklahoma, Kansas, Iowa, and North Dakota. Notably, the wind power capacity installed in Iowa, South Dakota and Kansas supplied more than 31 percent, 25 percent and 24 percent, respectively, of all in-state electricity generation in 2015. A total of 12 states have achieved wind penetration levels of 10 percent or higher. All of these states are located in the central part of the country, where wind resources are most plentiful – new generation capacity in the interior region of the US over the last decade totaled 54 percent. In Texas, new wind power records are continuously being set.[37]

An important factor is the continued availability of the federal PTC. That credit, $0.023 per kilowatt hour, is far more substantial than any of the state PTCs. As a result, its impact on the determination of whether to go forward with an eligible project is likely far greater than for any of the state credits. This is important when noting that not all of the states within this region use state production tax credits – Texas is the most notable example of that, and it is the clear national leader in this industry. Texas has certain unique characteristics – including extremely strong winds in West Texas and a mostly self-contained power grid – but is certainly a counterpoint to the claim that PTCs are the primary factor in location of wind facilities.

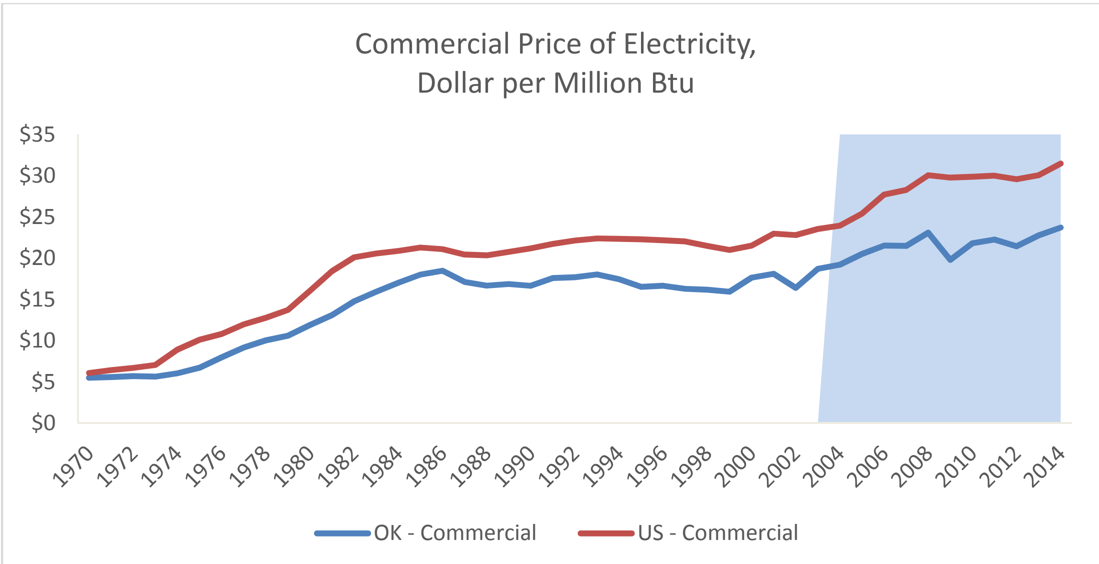
Impact on Identified Goals: Cost of Electricity

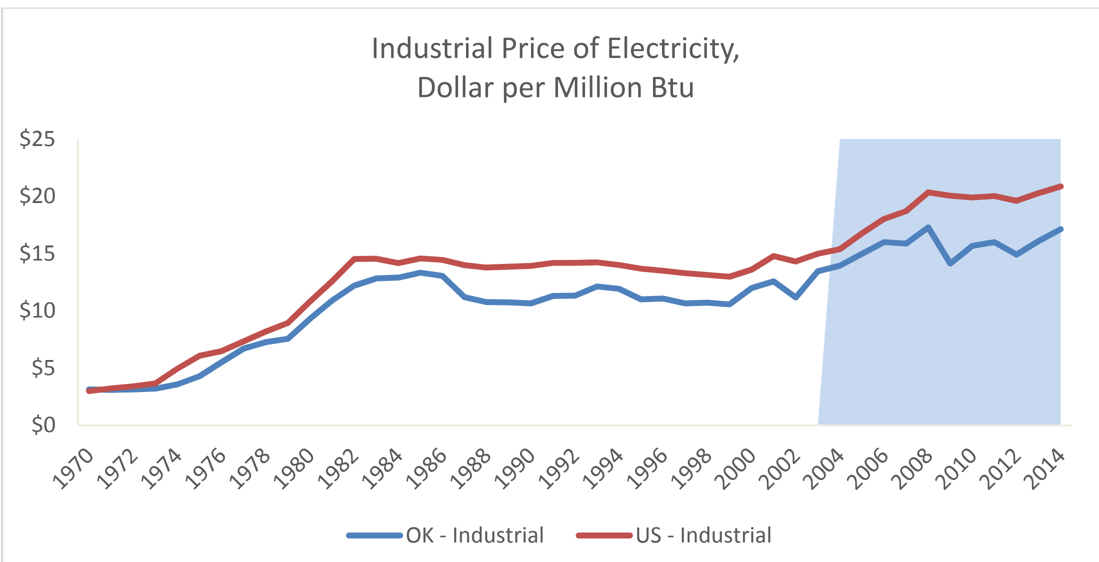
One of the outcomes identified from the growth in the use of renewable energy is its impact on the cost of electricity within the state. The general argument is that renewable sources have lower operating costs (including no or minimal fuel cost and being generally less labor-intensive than other types of facilities), and this lowers the average cost of electricity. It has been pointed out that Oklahoma has among the lowest costs for electricity in the country. In this regard, the State benefits both from its

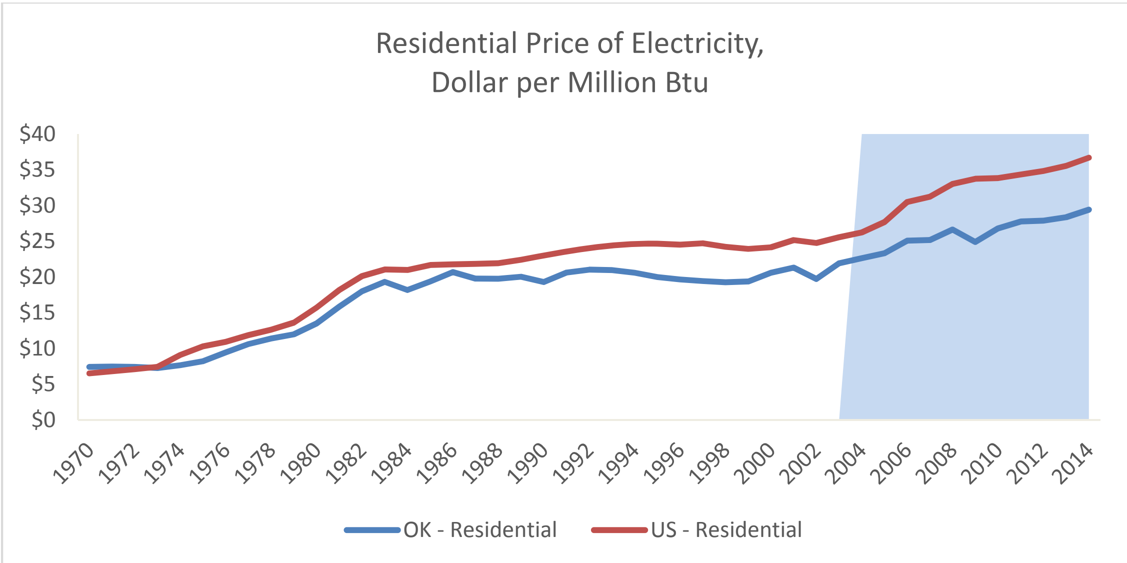
[36] "2015 Wind Technologies Market Report," US Department of Energy, August 2016, p. 3.
[37] Ibid., pp. 7-9.

wind/solar and its natural gas industries, as readily available natural gas is a perfect complement to wind/solar for when the wind isn't blowing and the sun isn't shining.

The following chart tracks the price of electricity in both Oklahoma and the nation as a whole for the years 1970 through 2014 for commercial, industrial and residential users:







The charts suggest that the price of electricity (for all three sectors) has generally been below the US average since the 1970s. There has been a gradual spread away from the average for the State – which in particular grew in the time around 2010. While this would appear to support the argument that renewable sources have contributed to this relative improvement versus the US as a whole, renewables are a much smaller share of the overall mix than the primary sources – particularly natural gas. In that respect, basic statistics suggests that natural gas (and its low price levels versus historic averages) is likely a larger factor in this recent growing spread.

One of the important considerations related to this industry and the cost of electricity relates to the projected development of the Clean Line: as discussed, that project will transport the generated power out of Oklahoma to the Memphis, Tennessee region. In essence, State tax credits will incent the production of electricity that does not benefit Oklahoma electricity consumers. In this case, these projects provide no spin-off benefit other than the capital investment, lease payments and any construction and ongoing operations and maintenance jobs related to these facilities.

Impact on Identified Goals: the 'But For' Test

An important factor in considering the efficacy of incentives is consideration of whether the incentive is necessary to spur the initial investment. In the theory of incentives, the 'but for' test refers to the argument that a project or a capital investment would not be made without the incentive ('but for the incentive' the zero emission facility would not be built in Oklahoma). In the case of many projects, the existence of incentives in other states can be cited as a need for the Oklahoma incentive – 'but for' the Oklahoma incentive, the project will occur in another state. In the case of this tax credit, there are arguments that this is not the case. Among them are the location of renewable power facilities in specific areas of the country, including in states (like Texas) that do not have similar state credits.

Another 'but for' argument relates to the significant capital costs associated with these facilities. It is generally agreed that the ongoing costs of zero emission facilities are lower than other sources of electricity, but the upfront capital costs are much higher. This is the crux of the argument for the need for a multi-year production credit. While it is likely that this has been the case, a case can be made that this dynamic is changing.

For example, wind turbine prices are well below prior year levels. While turbine prices were roughly $750 per kilowatt from 2000 to 2002, and then increased to approximately $1,500 per kilowatt by the end of 2008, they have dropped substantially, and current pricing is in the $850–$1,250 per kilowatt range. These price reductions, coupled with improved turbine technology, have exerted downward pressure on project costs and wind power prices. As a result, the installed project cost in a US Department of Energy sample averaged about $1,690 per kilowatt — down $640 per kilowatt from the peak in average reported costs in 2009 and 2010. It appears that costs in 2016 are about the same as for 2015.[38] It is also notable that for projects built in 2015, the (windy) Interior region of the country was the lowest-cost region, with a capacity-weighted average cost of $1,640 per kilowatt. This provides further evidence that there are factors (primarily wind-related) that are critical to the success of wind power projects in this region.

There is also an argument that can be made that the 'but for' test for wind power facilities will be impacted by exogenous variables. For example, wind power prices remain very low. After topping out at nearly $70 per megawatt for power purchase agreements (PPAs) executed in 2009, the national average level-through price of wind PPAs has dropped to around the $20 per megawatt level, inclusive of the federal PTC, though this latest nationwide average is admittedly focused on a sample of projects that largely hail from the lowest-priced Interior region of the country, where most of the new capacity built in recent years is located. Today's low PPA prices have been enabled by the combination of higher capacity factors, declining costs, and record-low interest rates.

As a result, the relative economic competitiveness of wind power declined in 2015 with the drop in wholesale power prices. A sharp drop in wholesale power prices in 2015 made it somewhat harder for wind power to compete, notwithstanding the low wind energy PPA prices available to purchasers. This is particularly true in light of the continued expansion of wind development in the Interior region of the U.S., where wholesale power prices are among the lowest in the nation.

Business Attraction

Incentives are frequently created and used to attract a specific industry (in this case the renewable energy industry) and related firms that may be suppliers to or customers of that industry. In the case of renewable fuels, there are major companies that are attracted to States with plentiful renewable energy resources. This claim was made by state economic development professionals, and, as corroboration, it has been cited by major firms as a component of their location decision making. While this provides support for maintaining the renewable energy industry, it could also be argued that the benefit of a strong renewable fuels presence in the State has been achieved with the use of the credits to date, and additional renewable energy may not be needed to make that case to firms considering locating in Oklahoma. This argument is buttressed by the fact that the Clean Line development would not supply the State with additional renewable energy but would transport that electricity to out-of-state users.

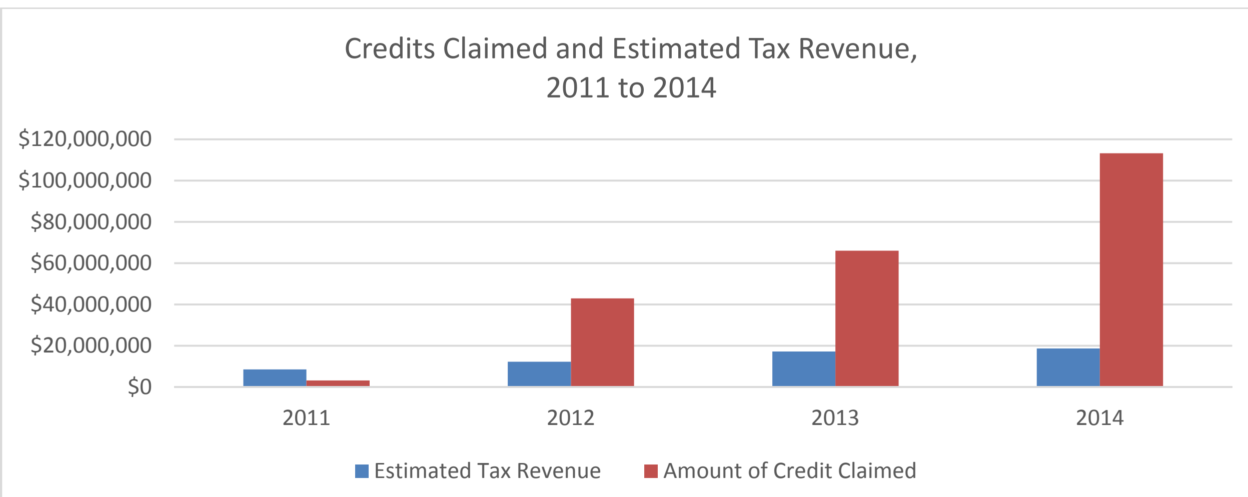
[38] Ibid., p. 9.

Connection with other State Incentive Programs

An important topic for discussion is how this program interacts with other State incentive programs. The program with the most intersection is the Ad Valorem Tax Exemption for Qualifying Manufacturing Concerns. Facilities that qualify for the Zero Emission PTC may also qualify for the Exemption for Qualifying Manufacturing Concerns.[39] Data from that program indicates that for 2012 through 2016, 213 exemptions under the program were granted, totaling $117.2 million in State appropriations to replace exempted local ad valorem taxes. While not included in the cost benefit analysis for this specific program, those additional costs should be taken into consideration when determining the fiscal costs and economic impact of both programs.

Cost Benefit Analysis

The financial analysis suggest that the costs of providing the Zero Emission Tax Credit are substantial, and likely to continue to grow in the near future. The economic impact analysis suggests that while there are positive economic impacts associated with the activity generated by the credit, it does not approach the level of the tax incentive. The following chart demonstrates the quantitative components of the cost benefit analysis:



Of course, these are aggregate impacts; there likely are counties in the State where the economic activity (such as the lease revenue) are vitally important for the local economy. However, when viewed from the perspective of the State as a whole, this is not the case.

Besides the quantitative measures as captured in the IMPLAN input-output model, there are factors – such as reduced cost of electricity – that should be taken into consideration as well. However, given the still relatively small portion of the overall energy supply provided by renewable sources, it is difficult to make the case that this is the significant driver in lower priced electricity. Even accepting that this benefit exists, it raises equity issues, as the benefit to large consumers of electricity may be borne by the larger

[39] Qualifying concerns receive a five-year ad valorem (property) tax exemption for all real and personal property.

share of overall state tax revenue shouldered by smaller residential consumers of electricity through personal income taxes.

Summary and Recommendations

Recommendation: Partially Repeal and Reconfigure

The renewable fuel industry in Oklahoma has made substantial gains in recent years. Most of the analysis has focused on the wind industry, as it makes up approximately 90 percent of the use of the tax credit for zero emission facilities – but other facilities, particularly solar facilities – should not be entirely overlooked, particularly for how the credit might function in the future.

Within the renewable fuel industry, there has been substantial new investment and new facilities in the years since the enactment of this credit. A reasonable case can be made that the credit has helped to spur the growth of the industry, and this has helped the State achieve its legislative goal of 15 percent of electricity generated from renewable sources.

There have been benefits to the State from the growth of the renewable energy industry: there are jobs and payroll associated with the facilities, as well as lease payments for owners of the land where the facilities are located. Beyond these direct benefits, there is the advantage of a more diversified energy portfolio for the State – although given its abundant energy resources, this may not be as substantial an issue as in some energy importing states. Finally, there may well be an impact on the overall costs for electricity in the State, although given its still relatively small share of the amount of electricity generated in Oklahoma, it certainly cannot be the primary reason for price competitiveness.

Of more substantial concern is the magnitude of the tax benefit. The financial analysis suggests that the impact of the tax credit will continue to grow – and, once facilities are in operation, those credits are available for 10 years. Given the substantial new projects under development (some of which will supply power only to out-of-state consumers), there is substantial risk of continuing the existing credit without some form of cap.

There are also concerns that the information available to state policymakers about the extent of the financial impact from the credit on a year-to-year basis (given the ability for credits earned prior to January 1, 2014 to be transferred to other taxpayers). It is difficult to determine exactly when those earned credits will be used, which complicates budget forecasting and planning.

Recommendations for the Commission:

- **Reconfigure the Existing Credit.**
  While the existing credit will not be available to facilities in operation after December 31, 2020, that currently provides over a three year window for additional facilities to be put into operation, including those that may become part of the Clean Line. Given the substantial cost – and less substantial State financial benefit - the project team recommends one of two approaches related to wind facilities and another recommendation for non-wind qualifying facilities. As it relates to wind, the State could cap the amount of new credits for these facilities that are operational after January 1, 2018 at an amount that is considered financially acceptable to the State; this would allow facilities that are currently under construction (and thus having an expectation of receiving credits) to be completed and receive the full benefit of the credit. Those facilities that will not be operational prior to January 1, 2018 are put on notice that they may not receive the full benefit of the existing credit. The alternative would be to accelerate the date where facilities are no

longer eligible for the credit – changing it from January 1, 2021 to January 1, 2018. This would still allow those facilities that are under construction to get into operation by January 1, 2018 (over one year), but would signal that the state credit will not be available to facilities that are operational after that date.

As it relates to other facilities, it may well be in the long-term interest of the State to continue to offer the credit for non-wind generating facilities up to the existing cut-off date of December 31, 2021. These industries (such as solar) are still in their formative stages, and this continued assistance may provide for further diversification of the State's energy sources.

- **Increase Reporting for the Credit.**
  The project team recommends that the statute also be revised to require that, if the credit is maintained, facilities that receive approval as a Zero Emission Facility (and thus eligible for the credit) be required to annually report to the Tax Commission on a schedule developed by the Tax Commission the energy generated by qualified facilities and subject to the credit by month for the tax year.

Attachment A

State of Arkansas

Tax Reform Consulting Services
Cost Proposal

PFM Group
Consulting LLC

1735 Market Street
43rd Floor
Philadelphia, PA 19103

215.567.6100
www.pfm.com

ATTACHMENT A

<u>OFFICIAL PROPOSAL PRICE SHEET</u>

Note: The Official Proposal Price Sheet must be submitted in a separate envelope or e-mail and not part of the technical evaluation. Any reference to pricing in the technical proposal shall be cause for disqualification from further considerations for award.

1. Any cost not identified on this schedule but subsequently incurred will be the responsibility of the Vendor.

2. Bids should provide at least a 180-day acceptance period.

3. By submission of a proposal, the proposer certifies the following:
   A. Prices in this proposal have been arrived at independently, without consultation, communication, or agreement for the purpose of restricting competition;
   B. No attempt has been made nor will be by the proposer to induce any other person or firm to submit a proposal for the purpose of restricting competition;
   C. The person signing this proposal is authorized to represent the company and is legally responsible for the decision as to the price and supporting documentation provided as a result of this RFP; and
   D. Prices in this proposal have not been knowingly disclosed by the proposer and will not be prior to award to any other proposer.

The Official Price Proposal Sheet must be submitted in the following form, allowing for the inclusion of specific information regarding positions, goods, services, etc., and signed by an official authorized to bind the Vendor to a resultant contract.

DESCRIPTION	PRICE PER HOUR	NUMBER OF POSITIONS
Supervisor (Managing Director and Director)	$300	3
Senior Managing Consultant/Senior Analyst	$250	2
Analyst	$225	2
Research Assistant	$125	3
Subcontractors	$250	4

DESCRIPTION	PRICE PER UNIT (if applicable)	TOTAL PRICE
Subcontractors (if any)		$85,000
Travel		$10,000
Any Additional Goods & Services (List Individually)		
TOTAL MAXIMUM AMOUNT OF BID:		**$312,750**

Attachment A

The preceding is taken from the RFP. To provide additional information related to price proposal, the following table splits the estimated costs into categories based on the proposed PFM project approach. Please note that in this table, the identified subcontractors (TXP and Andrew Eristoff) are billed at $250/hour.

PFM also proposes that the project will be billed at hourly rates for project activities with a cap of $302,750, plus normal and customary expenses (which would be capped at $10,000). As has been known to happen on PFM projects, the actual hours billed (and what we would invoice to you) may be less than this amount. Likewise, PFM proposes to bill for expenses (primarily travel, lodging and meals) in conformance with the State's policy for expense reimbursement. PFM does not 'mark up' these amounts and will provide full documentation for any claimed expenses.

Task	Activities		Hours by Staff Classifications				
			Managing Director/ Director $300/hour	Sr. Managing Consultant/ Sr. Analyst $250/hour	Analyst $250/hour	Research Assistant $125/hour	Total Cost Per Task
Background Data and Information Collection and Analysis							
	Analysis of 'as is' tax structure and system		20	20	20	10	
	Research and analysis on key tax data and metrics		20	20	20	40	
	Best practices research		10	10	20	40	
	Benchmarking of peer state tax structures		10	10	10	40	
		Task 1 Hours	60	60	70	130	
		Task 1 Price	$18,000	$15,000	$17,500	$16,250	$66,750
Financial and Economic Impact Modeling and Analysis							
	Financial model development and use		20	40	40		
	Economic impact analysis		20	40	40		
	Scenario development and testing		20	40	40		
		Task 2 Hours	60	120	120	0	
		Task 2 Price	$18,000	$30,000	$30,000	$0	$78,000
Written Reports and Associated Deliverables							
	Deliverables memoranda		20	40	40		
	Draft report		40	80	40		
	Final report		40	80	40		
		Task 3 Hours	100	200	120	0	
		Task 3 Price	$30,000	$50,000	$30,000	$0	$110,000
Project Management							
	Project Reporting		20	20	20		
	Task Force Participation		40	40	40		
		Task 4 Hours	60	60	60	0	
		Task 4 Price	$18,000	$15,000	$15,000	$0	$48,000
		Total Hours All Tasks	**280**	**440**	**370**	**130**	
		Cost Per Staff Classifications	**$84,000**	**$110,000**	**$92,500**	**$16,250**	
		Estimated Travel Expenses (Cap)	**$10,000**				
		In scope Project Budget Cap		**$312,750**			

Michael Nadol
President
PFM Group Consulting LLC