

State of Oklahoma

Incentive Evaluation Commission

Construction Materials Tax Exemption Draft Evaluation

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Key Findings and Recommendations



Incentive Overview

The Construction Materials Tax Exemption offers a full exemption from sales tax on purchases of tangible personal property by a qualified manufacturer that is used in the expansion or construction of a new manufacturing facility meeting new jobs and investment requirements.

Recommendation: Retain, with minor modifications

Key Findings:

- **From FY 2016 through FY 2025, only one manufacturer claimed the exemption, doing so in FY 2023.** This generated a total of \$580,725 in foregone state sales and use tax revenue. No activity was recorded in any other fiscal year.
- **State statute prohibits simultaneous use of the exemption and the Quality Jobs Program.** This is one explanation for the low-utilization, as at every qualifying construction cost threshold, the Quality Jobs Program combined with the Investment Tax Credit produces a substantially higher present-value benefit than the sales tax exemption alone.
- **Among the four peer states identified with comparable programs, Oklahoma's eligibility requirements are among the most restrictive.** Arkansas, Missouri, and Mississippi impose lower or no minimum investment thresholds and do not require a specific number of new jobs to qualify. South Carolina requires a \$100 million minimum investment but imposes no job creation requirement. Oklahoma's combination of high construction cost thresholds and mandatory new employment sustained for 36 months makes the incentive less appealing for manufacturers evaluating incentive packages in these other states.
- **There are significant administrative requirements associated with the incentive.** Claimants must compile and submit invoices indicating all state and local tax billed, individual vendor affidavits confirming that sales tax was collected and remitted to the OTC, and separate affidavits from each contractor or subcontractor making purchases on the manufacturer's behalf.
- **The program contains no fiscal impact protections.** There is no annual cap on foregone revenue, no sunset date, and no mechanism to notify state officials if program usage approaches a defined threshold. However, the risk of significant fiscal impacts to the state is low given the program's level of utilization and the likelihood that qualified projects would prefer the Quality Jobs and Investment Tax Credits.

Recommendations

- **Consider establishing a program sunset date.** The program has only been used once in the last two evaluation cycles, signaling this program may not be meeting its' intended use case. A sunset date would allow future legislators to establish a timeframe of discussions on the merits of continuing the program with more up-to-date data.



Introduction



Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created in 2015 via HB 2182. The Commission is directed to produce objective evaluations of the State of Oklahoma's wide array of business incentives. The Commission is comprised of five voting members, with each appointed by the Governor, President Pro Tempore of the Senate, Speaker of the House of Representatives, Oklahoma Economic Development Partnership, and the Oklahoma Accountancy Board. Representatives of the Department of Commerce, the Office of Management and Enterprise Services, and the Oklahoma Tax Commission serve as ex officio (non-voting) members.

Under the enabling legislation, each of the State's business incentives¹ must be evaluated once every four years² according to a formal set of general criteria, including (but not limited to) economic output, fiscal impact, return on investment, and effectiveness of administration, as well as criteria specific to each incentive.

Since the Commission's inception, it has contracted with PFM Group Consulting LLC (PFM) to serve as the independent evaluator of each incentive scheduled for review. PFM issues a final report on each incentive with recommendations as to how Oklahoma can most effectively achieve the incentive's goals, including recommendations on whether the incentive should be retained, reconfigured or repealed. The reports also generally include recommendations for any changes to State policy, rules or statutes that would allow the incentive to be more easily or conclusively evaluated in the future.

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – voting to retain, repeal or modify each incentive under review. It then submits a final report to the Governor and Legislature.

In April 2026, SB 1990 was signed by Governor Stitt. SB 1990 revised the Incentive Evaluation statute to include additional requirements for the incentive evaluations. Most notably, these were:

- Analyze whether a business receiving the incentive would likely have taken any action required to receive the incentive in the absence of the incentive;
- Broaden the comparison of results of the incentive to other state of Oklahoma incentives or economic development strategies to also include other states;
- An assessment of whether the incentive furthers a strategic economic goal or an industry within this state;
- An assessment of whether the incentive creates a competitive advantage for Oklahoma by evaluating the overall effectiveness of the incentive at a macroeconomic level.

The SB 1990 statutory changes took effect on August 13, 2026. The PFM project team has, to the extent possible, taken them into consideration during the 2026 evaluation process. They will be fully incorporated into the 2027 incentive evaluation process.

¹ The statute defines a business incentive as “a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma.”

² The statute provides the Commission the authority to set a threshold and choose to exempt from evaluation incentives that do not meet this threshold for foregone revenue or expenditures. That threshold is currently set at \$1.0 million.



Summary of 2023 Evaluation Findings and Recommendations

The Construction Materials Tax Exemption was last reviewed by the Commission in 2023.³ Significant findings and recommendations from PFM's evaluation of the program are:

Table 1: Summary of 2023 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	The exemption had been claimed once in the previous four fiscal years prior to the evaluation.
Fiscal and Economic Impact	The total output generated by the economic development of the program was estimated to be \$90.3 million.
Future Fiscal Impact Protections	No future fiscal impact protections noted.
Administrative Effectiveness	It was noted that the documentation process required to submit claims was quite burdensome given all the information needed.
Retain, Reconfigure or Repeal	Retain the program with modifications.
Other Recommendations	Expand the qualifications for the program beyond manufacturing companies.

Source: State of Oklahoma Incentive Evaluation Commission, Tax Incentive Evaluation Report 2023

The Commission voted 3-0 to retain the program with modifications.

2026 Criteria and Evaluation Approach

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 and as noted previously, the provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation.

In the case of the Construction Materials Tax Exemption, the purpose or goal of the incentive is to incent the creation of manufacturing jobs in the State of Oklahoma. The Commission has adopted the following criteria to assist in a determination of program effectiveness:

- Job creation associated with financed projects;
- Capital investment (facilities, machinery and equipment) associated with financed projects;
- Comparison of job creation and capital investment to similar cities/counties not participating in the program;
- Contributions to community development;
- State return on investment.

To conduct its 2026 review of the Construction Materials Tax Exemption, the PFM team undertook several project tasks, including (but not limited to) the following:

- Requested, reviewed, and analyzed data from the Oklahoma Tax Commission.
- Conducted subject matter expert and internal stakeholder interviews.

³ The 2023 Tax Incentive Evaluation Report is available on the Commission's website at <https://oklahoma.gov/content/dam/ok/en/omes/documents/iec/archive/support/2023/ConstructionMaterialsTaxExemptionEvaluation11172023.pdf>



- Met with leadership from the State, Oklahoma City, and Tulsa Chambers of Commerce, and interested industry representatives.
- Benchmarked Oklahoma to other states.



Incentive Usage and Administration



Incentive Characteristics

The Construction Materials Tax Exemption provides a sales tax exemption on tangible personal property, including building materials, machinery, and equipment, purchased for use in constructing or expanding qualifying manufacturing facilities in Oklahoma. Eligibility is structured around four tracks, each defined by a combination of minimum capital investment thresholds and new employment requirements sustained for at least thirty-six months, ranging from \$5 million in construction costs with 100 new employees to \$300 million for established large manufacturers.

The following table outlines the requirements for a qualified manufacturer's construction:

Table 2: Construction Materials Exemption Qualification Levels

Construction Cost	New Jobs ⁴	Combined Cost of Construction, material, machinery, equipment and other tangible personal property
\$5,000,000	100	No requirement
\$10,000,000	75	\$50,000,000
\$300,000,000	1,750 ⁵	No requirement

The program's statute was modified in 2005 to allow qualified general wholesale distributors of groceries to benefit from the exemption. In order to qualify for the exemption as a distributor, the facility had to have been constructed between July 1, 2005, and December 31, 2005 and have a total cost of construction exceeding \$40 million with 50 new employees. Aside from this brief window, only manufacturers have been eligible to claim the exemption.

Related Statutory Changes

No changes were noted in the statute since the incentive was evaluated in 2023.

Historic Use of the Credit

According to the Oklahoma Tax Commission (OTC), from FY 2016 through FY 2025, one manufacturer qualified for the sales tax exemption for constructions materials and took the exemption in 2023. Two likely reasons for this are the availability of more generous incentives and the potentially burdensome documentation associated with claiming the exemption.

Table 3: Construction Materials Exemption Detail

Fiscal Year	Sales Tax	Use Tax	Total
2021	\$0.00	\$0.00	\$0.00
2022	\$0.00	\$0.00	\$0.00
2023	\$349,303.28	\$231,421.34	\$580,724.62
2024	\$0.00	\$0.00	\$0.00
2025	\$0.00	\$0.00	\$0.00
Total	\$349,303.28	\$231,421.34	\$580,724.62

⁴ Per statute, new jobs must be maintained for at least 36 months.

⁵ For this construction cost level, statute requires that 1,750 jobs be maintained at the facility, but does not specifically require that they are new jobs.



Incentive Administration

The exemption applies to sales directly to the qualified manufacturer and to contractors or sub-contractors associated with the construction. Recipients of the exemption must file applications with the OTC. Both state and local sales taxes are exempt for qualified manufacturers, so the governing body of the municipality where the firm is located must approve a resolution in support of the construction project before any exemption is granted.

The exemption is administered as a refund of sales taxes on qualified purchases. Claims must be filed within 36 months of the date of the first purchase.

The following information is required to be provided to the OTC as part of all claims:

- Invoices indicating the amount of state and local tax billed;
- When a manufacturer makes a direct purchase, an affidavit of each vendor that sales tax charged has been collected by the vendor and remitted to the OTC; or
- Affidavit from the contractor or subcontractor making purchases stating that the sales tax refund claimed by the qualified manufacturer is based on state and local sales tax paid by the contractor or subcontractor on qualified purchases.

The OTC estimates the amount necessary to make refund payments and transfers that amount from sales tax collections into a separate account. All refunds are made from this separate account. Approved claims allow for a full refund of sales and use tax paid on qualified purchases.

Claimants also receive accrued interest associated with the principal refund amount, as determined by the amount earned as invested by the State Treasurer's Office. If at any time within 36 months of certification by the Oklahoma Employment Security Commission new jobs decline below the required amount, any sales and use tax and interest refunded to the taxpayer will be assessed against the taxpayer.

State statute prohibits the simultaneous use of the exemption and the Quality Jobs Program. When faced with a choice between the two programs, firms will likely choose the Quality Jobs Program based on the more generous benefits it offers. At each construction cost level, the Quality Jobs Program appears to offer a more generous benefit in present value terms. A potential benefit comparison is detailed in Table 4.

Table 2: Construction Materials Tax Exemption and Quality Jobs Program Estimated Benefits

	Scenario 1	Scenario 2	Scenario 3
Total Construction Cost	\$5,000,000	\$50,000,000	\$300,000,000
Median Total Sales Tax Rate ⁶	8.85%	8.85%	8.85%
Sales tax exemption savings	\$442,500	\$3,165,000	\$18,990,000
Potential Quality Jobs Benefit Rate	5.00%	5.00%	5.00%
New Jobs	100	75	1,750 ⁷
Wage of New Jobs ⁸	\$73,988	\$73,988	\$73,988
Total New Payroll	\$7,398,800	\$5,549,100	\$129,479,000
Potential Quality Jobs Annual Benefit	\$369,940	\$277,455	\$6,473,950
Investment Tax Credit %		2.00%	2.00%

⁶ Includes State, County and City tax rates as of January 2026

⁷ For this construction cost level, statute requires that 1,750 jobs be maintained at the facility but does not specifically require that they are new jobs.

⁸ This is the average annual pay in Oklahoma for manufacturing (NAICS code 31 through 33) according to the US Bureau of Labor Statistics.



	Scenario 1	Scenario 2	Scenario 3
Annual Investment Tax Credit⁹		\$1,000,000	\$6,000,000
Present Value of 10 Years of QJ Annual Benefit	\$2,090,244	\$1,567,683	\$36,579,261
Present Value of 5 Year Investment Tax Credit	N/A	\$3,604,776	\$21,628,657
Total Present Value of QJ+ITC	\$2,090,244	\$5,172,459	\$58,207,919
State Sales Tax Exemption Savings	\$442,500	\$3,165,000	\$18,990,000

This assumes a business discount rate of 12 percent, that the company pays the average annual pay in Oklahoma for manufacturing (NAICS codes 31 through 33, as of 2022) and received the Quality Jobs Program full benefit of 5 percent of new payroll. This analysis assumes the median total sales tax rate as of January 2026 in each scenario, but total sales tax rates range from 4.85 percent to 11.37 percent. Under the second and third scenarios, the manufacturer would qualify to combine the Quality Jobs Program with the Investment Tax Credit. Combining these incentives results in a greater benefit than the sales tax exemption for the manufacturer.

Another factor potentially discouraging participation in the program is the documentation required in order to claim the exemption. Statute requires the invoices of all state and local tax billed, affidavits from each vendor associated with purchases, as well as from contractors that make purchases on behalf of manufacturers.

Incentive Best Practices

The PFM Project Team has established a set of best practices that can apply broadly to incentive program designs. These are based on decades of experience evaluating programs as well as reviewing the associated academic literature and evaluations of programs by state agencies or departments. A program can then be judged to either fully adopt, partly adopt, or not adopt a given practice.

The prior section has identified some of the challenges posed by the program as it is currently constituted. From the project team's perspective, this is an example of a situation where incentives best practices come into conflict.¹⁰

This incentive seeks to provide a sales tax exemption in situations where eligible businesses make a substantial capital investment and create a significant number of new jobs. That is a reasonable expectation, given the extent of the sales and use tax exemption claimed by the one recent business that has used the incentive in recent years. Targeting incentives to high impact industries or projects is a best practice, as is leveraging significant private capital. At the same time, the practical difficulties of keeping records related to the exemptions (because they really act as a rebate and require significant documentation to be provided to the OTC to generate the repayment of the sales and use tax already paid) is substantial. Given that a business may not be certain that it will meet the statutory requirements, it is likely that they will choose other state programs instead. In this case, the program is far from simple, and that is an incentive best practice.

In the case of the Oklahoma construction materials tax exemption, best practices are partially adopted. The program's strongest alignment is centered on the leverage of private capital. Construction cost thresholds across all qualifying pathways, ranging from \$5 million to \$300 million depending on the category, ensure that private investment is a prerequisite for any public benefit. An accountability mechanism exists in the form of an employment-based clawback: if a qualifying company fails to maintain the required number of full-time-equivalent employees within thirty-six months of certification, the refund is assessed back. The exemption falls short of best practices in other areas. The program is formula-driven rather than discretionary, meaning any company that meets the statutory thresholds is entitled to the benefit regardless of whether the incentive was necessary to drive the investment decision. There are no public reporting requirements, no disclosure of

⁹ Companies qualify to combine an investment tax credit of 2% with the Quality Jobs Program if \$40 million of qualified depreciable property is invested. Qualified depreciable property includes machinery, fixtures, equipment, buildings, or substantial improvements thereto.

¹⁰ A discussion of business incentives best practices is found in Appendix D.



award recipients or values, and no cap on the total benefit any single company may receive. The program has no sunset date, and the benefit window during construction is not explicitly time limited. The four distinct qualifying pathways, each with different construction cost thresholds, employment requirements, and definitions of eligible costs, make the program complex and difficult to navigate without specialized expertise.

Table 5: Incentive Best Practice Alignment

Best Practice	
Targeted to specific companies or industries	○
Discretionary	○
Leverage significant private capital	●
Limited duration / front-loaded benefits to 1-3 years	○
State / Local conditions considered	○
Overcoming practical barriers to growth	○
Transparency	○
Accountability	○
Cap on value of awards	○
Simple and understandable	
Sunset on program duration	○

Legend: Dark adoption, Light adoption, limited

*circle = full
circle = partial
Empty circle = adoption*



Economic and Fiscal Impact



Economic and Fiscal Impact

For this analysis, PFM uses the IMPLAN economic impact software, a proprietary model. PFM has obtained a license for use of the IMPLAN model for these evaluations. IMPLAN uses Social Accounting Matrices (SAMs) to capture the actual dollar amounts of all business transactions taking place in a regional economy, as reported each year by businesses and government agencies. The IMPLAN model identifies three kinds of economic effects: direct, indirect, and induced. The project team then translates the combined economic effects into state tax revenue for comparison purposes. The methodology used to calculate the economic impact can be found in **Appendix B**.

The economic impact analysis is based on both jobs created by the manufacturer eligible to utilize the exemption as well as economic impacts from the construction of the manufacturing facility itself. The analysis was based on the assumption of 100 new jobs being created by the qualified manufacturer. Although no data was available on the specific company that utilized this exemption in 2023, the evaluation team is using the assumption these jobs were created in the aircraft component manufacturing space, a prominent economic sector of Oklahoma, as an illustrative example.

Based on the amount of tax exempted, the evaluation team assumed \$12.9 million in materials costs (total amount exempted ÷ 4.5% tax rate) and a total spend of \$32.25 million, based on the assumption of materials costs amounting to 40 percent of total project spend.

Table 6: Construction Materials Tax Exemption Economic Impact

Construction	Employment	Labor Income	Value Added	Output	State Tax Revenues
1 - Direct	165	\$10,327,593	\$14,916,311	\$32,250,000	
2 - Indirect	55	\$4,074,628	\$6,990,062	\$14,512,425	
3 - Induced	56	\$3,046,029	\$5,917,040	\$10,282,621	
	277	\$17,448,250	\$27,823,412	\$57,045,045	\$1,054,501
Employment	Employment	Labor Income	Value Added	Output	
1 - Direct	100	\$11,648,761	\$10,005,412	\$50,444,388	
2 - Indirect	23	\$1,478,799	\$2,148,461	\$4,266,335	
3 - Induced	50	\$2,753,480	\$5,349,607	\$9,295,119	
	173	\$15,881,040	\$17,503,480	\$64,005,843	\$694,296
Total	Employment	Labor Income	Value Added	Output	
1 - Direct	265	\$21,976,354	\$24,921,723	\$82,694,388	
2 - Indirect	78	\$5,553,428	\$9,138,523	\$18,778,760	
3 - Induced	106	\$5,799,509	\$11,266,647	\$19,577,740	
	450	\$33,329,291	\$45,326,892	\$121,050,888	\$1,748,797

**All activity assumed to take place in 2023*

The total output generated by the economic impact of this program is estimated to be \$121.1 million, with 450 total jobs created and \$33.3 million of labor income. Total state tax revenue associated with the program is projected to be \$1.7 million.

Effect on Business Behavior



As previously noted, SB 1990 requires the incentive evaluations to consider “the extent to which the incentive changes business behavior, including whether the business receiving the incentive would likely have taken any action required to receive the incentive in the absence of such incentive.”

Business location, hiring and investment decisions rely on a combination of considerations, including market factors, worker availability, infrastructure, access to suppliers and customers, and a reasonable cost structure, which can include taxes. Incentives that lower costs, provide capital, or offer services are one factor among many that can influence business behavior.

The extent to which an incentive changes an individual business’s behavior has been widely debated. Since incentives are just one factor among many influencing any given business decision, incentives rarely, if ever, are 100 percent responsible for a given investment. At the same time, it is unlikely that an incentive had absolutely no impact at all.

Based on a review of 30 different studies, Timothy J. Bartik of the W.E. Upjohn Institute estimated incentives probably affect between 2 percent and 25 percent of incented firms making business location, expansion, or job retention decisions.¹¹ However, a discretionary incentive that includes a robust application and review process and requires regular reporting on milestone achievement is likely to affect behavior differently than a statutory tax break with few accountability mechanisms. Incentive programs with these design features may have a greater effect on investment decisions.¹² While it is difficult to quantify the impact of an incentive to an individual firm’s decision making, evidence does suggest that certain factors do influence both business choice and incentive effectiveness. Nevertheless, Bartik concluded, “Overall, the research literature on incentives’ “but for” effects is not as rigorous as one might hope.”¹³

Given the challenges of determining the specific extent to which an individual incentive changes individual business behavior, the evaluations consider the factors that are most likely to indicate that the incentive influenced business decisions. These include:

- **Features of the incentive offer.** The relative size of the incentive benefit affects its impact^{14,15} as do the incentive type and structure, leverage generated, timing of the application, and whether a firm is a first-time or repeat incentive recipient.^{16,17}
- **Firm attributes.** Cost-sensitive or efficiency-seeking operations (such as manufacturing, call centers, and distribution centers) and foreign investors have also been found to be more likely to be influenced by the availability of incentives, as are companies for whom the incentive meets a specified need, such as project financing or support services.¹⁸
- **Details obtained in the application process or built into project eligibility requirements** that indicate need for or value of the incentive to the individual business.

¹¹ Bartik, Timothy J. “‘But For’ Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?” W.E. Upjohn Institute for Employment Research. 2018.

¹² “Michigan Business Development Program Effectiveness Study.” W.E. Upjohn Institute and Center for Regional and Economic Competitiveness. January 2019.

¹³ Bartik, 2018.

¹⁴ James, 2013.

¹⁵ Bartik, Timothy J. “Who Benefits from Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy.” W.E. Upjohn Institute Technical Report No. 18-034. 2018.

¹⁶ Foley, 1992.

¹⁷ Lenihan, et al. “Developing an Evaluative Framework for Industrial Policy in Ireland: Fulfilling the Audit Trail or an Aid to Policy Development.” Quarterly Economic Commentary. 2005.

¹⁸ Tavares-Lehmann, 2016.



- **Consideration of multiple investment locations.** Companies that have credibly considered multiple locations that are able to meet their operational needs or have functions that are mobile (that is, they do not need to locate in a specific place in order to meet their operational needs) are more likely to value state and local incentives in their decision process.^{19,20,21}
- **Changes in desired outcomes documented by compliance and evaluation procedures.**

These factors indicate but do not definitively determine whether a business receiving the incentive would likely have taken any action required to receive the incentive in the absence of such incentive. When data availability allows, the Fiscal and Economic Impact Analysis for each evaluation also estimates a breakeven level at which the total benefits from the incentive program would have to be attributable to the incentive in order for the State to break even on its investment. In the case of the Construction Materials Tax Exemption, there was insufficient data to determine a breakeven estimate.

Applying But for Considerations on the Construction Materials Tax Exemption

- **Features of the Incentive Offer:** The exemption's benefit is consistently smaller in present-value terms than the Quality Jobs Program, and statute prohibits claiming both. Firms weighing the two are likely to choose the more generous option, limiting this incentive's independent influence.
- **Firm Attributes:** Manufacturing is a cost-sensitive, capital-intensive industry generally responsive to incentives. One manufacturer has claimed the exemption in ten years, making it difficult to draw broader conclusions about firm responsiveness.
- **Details Obtained in the Application Process:** The exemption is claimed retroactively as a refund, with eligibility based solely on meeting statutory thresholds. No documentation is required to show the incentive was necessary to the investment decision.
- **Consideration of Multiple Investment Locations:** Facilities of this scale are often mobile, and comparable exemptions exist in Arkansas, Missouri, South Carolina, and Mississippi. Without firm-level data, it's unclear whether the exemption specifically influenced the one Oklahoma claimant's location decision.
- **Changes in Desired Outcomes Documented by Compliance Procedures:** A clawback requires repayment if job levels aren't sustained for 36 months, providing some compliance verification. With only one claimant on record, however, there isn't yet enough history to assess the incentive's effect over time.

¹⁹ James, Sebastian. "Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications." Investment Climate Advisory Services of the World Bank Group. 2013.

²⁰ Jensen, Nathan M. "Exit Options in Firm-Government Negotiations: An Evaluation of the Texas Chapter 313 Program." Washington Center for Equitable Growth Working Paper series. 2017.

²¹ Tavares-Lehmann, et al. "Rethinking Investment Incentives: Trends and Policy Options." 2016.



Goals, Strategy, and Competitive Considerations



Strategic Plan Alignment

The Construction Materials Tax Exemption connects to Commerce's 2025 Strategic Plan for Community and Economic Development primarily through the "Regional Industry Targeting" and "Relevant Incentives" pillars. The exemption is narrowly tailored to manufacturing, one of the seven statewide key industries the strategic plan identifies for continued recruitment and retention, and its tiered eligibility structure (requiring construction costs ranging from \$5 million to \$300 million alongside sustained new employment) reflects the plan's emphasis on targeting incentives to high-impact projects rather than offering broad-based relief. The program also nominally supports the "Encourage New Private Investment" and "Direct New Jobs" goals, given that qualification requires substantial capital investment paired with job creation sustained for at least 36 months.

However, the program's actual usage undercuts a stronger finding of alignment. From FY 2016 through FY 2025, only one manufacturer has claimed the exemption, generating a total of \$580,725 in sales and use tax refunds in FY 2023 alone, with no other activity in the preceding or following years. This minimal utilization suggests the incentive is not presently an effective lever for the strategic plan's job creation and investment goals, regardless of how well its statutory design aligns with those priorities on paper. The evaluation's benefit comparison offers a likely explanation: because state statute prohibits combining the exemption with the Quality Jobs Program, and because Quality Jobs (particularly when paired with the Investment Tax Credit) offers a substantially larger benefit in present-value terms at every construction-cost tier examined, manufacturers have a clear financial incentive to select Quality Jobs instead.

Macroeconomic Impacts and Competitive Advantage

The program's design includes several features associated with sound incentive structure, but its practical effectiveness at a macroeconomic level appears limited by both low utilization and competition from the state's other manufacturing incentives. The exemption's core strength lies in its leverage of private capital: construction cost thresholds ranging from \$5 million to \$300 million ensure that any public benefit is contingent on substantial private investment, and an employment-based clawback requires repayment if a qualifying company fails to maintain required job levels for 36 months. These features support the state's broader goal of ensuring incentives protect taxpayer dollars while rewarding genuine economic activity.

At the same time, the program's formula-driven, non-discretionary structure means any manufacturer meeting the statutory thresholds is entitled to the exemption regardless of whether it was the deciding factor in the investment decision, and there are no public reporting requirements, award caps, or sunset provisions to support ongoing accountability. Benchmarking against comparable programs in Arkansas, Missouri, South Carolina, and Mississippi shows that other states generally impose lower or no minimum investment thresholds, suggesting Oklahoma's tiered structure may be comparatively difficult to access. Given that the exemption has been claimed only once in a decade, and that the state's own Quality Jobs Program offers manufacturers a more generous alternative at every investment level modeled, the Construction Materials Tax Exemption does not currently appear to generate an independent competitive advantage for Oklahoma at the macroeconomic level. While its statutory design targets a strategically important industry, the incentive itself is largely dormant in practice.



Incentive Benchmarking



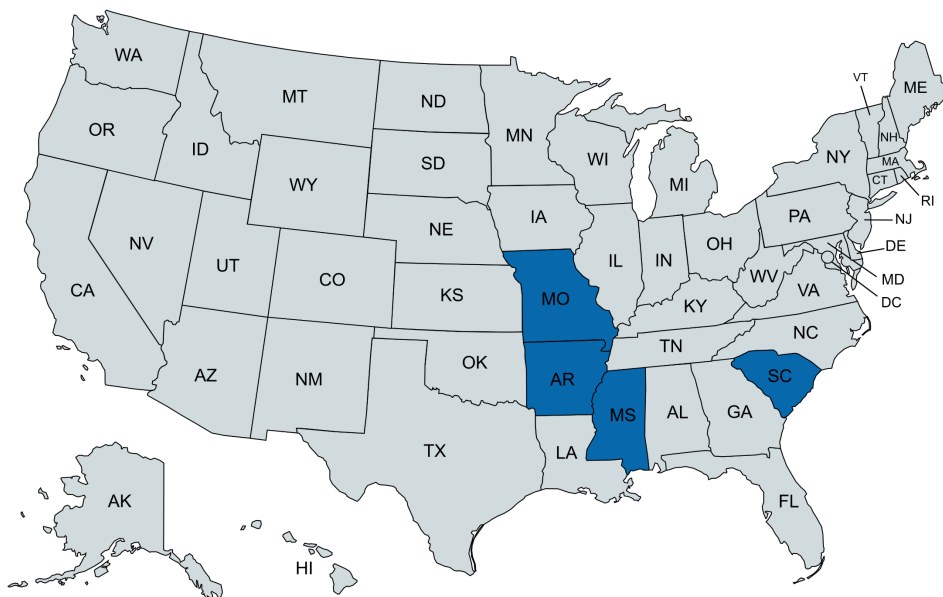
Benchmarking

A detailed description of comparable state programs can be found in Appendix B.

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.²² These benchmarking realities must be taken into consideration when making 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. In the case of the Construction Materials Tax Exemption, Arkansas and Missouri were found to have similar programs, in addition to Mississippi and South Carolina. A brief description of each state’s program is shown in Table 6.

Figure 1: States with Comparable Programs



Created with mapchart.net

²² The primary instances of exactly alike state incentive programs occur when states choose to ‘piggyback’ onto federal programs.



Table 7: Overview of Comparable State Programs

State	Name	Incentive Type	Eligible Facilities	Qualifying Purchases	Minimum Investment Threshold
Oklahoma	Construction Materials Sales and Use Tax Exemption	Exemption	Manufacturing; distribution (limited)	Building materials; construction costs; engineering and architectural fees	\$5M (Tier 1); \$10M (Tier 2); \$300M (Tier 3)
Arkansas	Tax Back Program	Refund	Manufacturing	Building materials; machinery and equipment	\$100,000 (varies by county)
Missouri	Manufacturing Machinery and Equipment Sales and Use Tax Exemption	Exemption	Manufacturing; mining; fabricating	Machinery; equipment; materials and supplies; construction materials (certain scenarios)	None
South Carolina	Construction Materials Sales Tax Exemption	Exemption	Manufacturing; distribution	Building materials; computer equipment	\$100M at a single site within 18 months
Mississippi	Sales and Use Tax Exemption for Construction or Expansion	Exemption (full or partial)	Manufacturing; custom processing; data/technology-intensive	Building materials; machinery and equipment	None



Appendices



Appendix A: 68 O.S. § 1359 (7) – Construction Materials Tax Exemption

§68-1359 (7). Exemptions - Manufacturing.

7. Except as otherwise provided by subsection I of [Section 3658](#) of this title pursuant to which the exemption authorized by this paragraph may not be claimed, sales of tangible personal property to a qualified manufacturer or distributor to be consumed or incorporated in a new manufacturing or distribution facility or to expand an existing manufacturing or distribution facility. For purposes of this paragraph, sales made to a contractor or subcontractor that has previously entered into a contractual relationship with a qualified manufacturer or distributor for construction or expansion of a manufacturing or distribution facility shall be considered sales made to a qualified manufacturer or distributor. For the purposes of this paragraph, "qualified manufacturer or distributor" means:

- a. any manufacturing enterprise whose total cost of construction of a new or expanded facility exceeds the sum of Five Million Dollars (\$5,000,000.00) and in which at least one hundred (100) new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, are added and maintained for a period of at least thirty-six (36) months as a direct result of the new or expanded facility,
- b. any manufacturing enterprise whose total cost of construction of a new or expanded facility exceeds the sum of Ten Million Dollars (\$10,000,000.00) and the combined cost of construction material, machinery, equipment and other tangible personal property exempt from sales tax under the provisions of this paragraph exceeds the sum of Fifty Million Dollars (\$50,000,000.00) and in which at least seventy-five (75) new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, are added and maintained for a period of at least thirty-six (36) months as a direct result of the new or expanded facility,
- c. any manufacturing enterprise whose total cost of construction of an expanded facility exceeds the sum of Three Hundred Million Dollars (\$300,000,000.00) and in which the manufacturer has and maintains an average employment level of at least one thousand seven hundred fifty (1,750) full-time-equivalent employees, as certified by the Employment Security Commission, or
- d. any enterprise primarily engaged in the general wholesale distribution of groceries defined or classified in the North American Industry Classification System (NAICS) Manual under Industry Groups No. 4244 and 4245 and which has at least seventy-five percent (75%) of its total sales to in-state customers or buyers and whose total cost of construction of a new or expanded facility exceeds the sum of Forty Million Dollars (\$40,000,000.00) with such construction commencing on or after July 1, 2005, and before December 31, 2005, and which at least fifty new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, are added and maintained for a period of at least thirty-six (36) months as a direct result of the new or expanded facility.

For purposes of this paragraph, the total cost of construction shall include building and construction material and engineering and architectural fees or charges directly associated with the construction of a new or expanded facility. The total cost of construction shall not include attorney fees. For purposes of subparagraph c of this paragraph, the total cost of construction shall also include the cost of qualified depreciable property as defined in [Section 2357.4](#) of this title and labor services performed in the construction of an expanded facility. For the purpose of subparagraph d of this paragraph, the total cost of construction shall also include the cost of all parking, security and dock structures or facilities necessary to manage, process or secure vehicles used to receive and/or distribute groceries through such a facility. The employment requirement of this paragraph can be satisfied by the employment of a portion of the required number of new full-time-equivalent employees at a manufacturing or distribution facility that is related to or supported by the new or expanded manufacturing or distribution facility as long as both facilities are owned by one person or business entity. For purposes of this section, "manufacturing facility" shall mean building and land improvements used in manufacturing as defined in Section 1352 of this title and shall also mean building and land improvements used for the purpose of packing, repackaging, labeling or assembling for distribution to market, products at least seventy percent (70%) of which are made in Oklahoma by the same company but at an off-site, in-state manufacturing or distribution facility or facilities. It shall not include a retail outlet unless the retail outlet is



operated in conjunction with and on the same site or premises as the manufacturing facility. Up to ten percent (10%) of the square feet of a manufacturing or distribution facility building may be devoted to office space used to provide clerical support for the manufacturing operation. Such ten percent (10%) may be in a separate building as long as it is part of the same contiguous tract of property on which the manufacturing or distribution facility is located. Only sales of tangible personal property made after June 1, 1988, shall be eligible for the exemption provided by this paragraph. The exemption authorized pursuant to subparagraph d of this paragraph shall only become effective when the governing body of the municipality in which the enterprise is located approves a resolution expressing the municipality's support for the construction for such new or expanded facility. Upon approval by the municipality, the municipality shall forward a copy of such resolution to the Oklahoma Tax Commission;



Appendix B: IMPLAN Economic Impact Methodology

The economic impact software used to determine the multiplier effects is IMPLAN (**IM**portant **AN**alysis for **PL**anning), a proprietary model; PFM has obtained a license for use of the IMPLAN model for these evaluations.

Overview

IMPLAN uses Social Accounting Matrices (SAMs) to capture the actual dollar amounts of all business transactions taking place in a regional economy, as reported each year by businesses and government agencies. SAM accounts are a better measure of economic flow than traditional input-output accounts, because they include “non-market” transactions. Examples of these transactions include taxes and unemployment benefits.

Multiplier Models

SAMs can be constructed to show the effects of a given change on the economy. These are called Multiplier Models. Multiplier Models study the impacts of a user-specified change in the chosen economy for 440 different industries. Because the Multiplier Models are built directly from the region-specific SAMs, they will reflect the region's unique structure and trade situation.

Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects within the economy: direct, indirect, and induced.

- **Direct effects** are one or more production changes or expenditures made by producers/consumers as a result of an activity or policy.
- **Indirect effects** are the business to business purchases in the supply chain taking place in the region that stem from the initial industry input purchases. Typically, they are additional purchases to produce additional output..

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. The induced effects are generated by the spending of the employees within the business' supply chain.

Figure 2: The Flow of Economic Impacts



Each of these steps takes into consideration leakage from the economic study region spent on purchases outside of the defined area. Eventually, these leakages will stop the cycle.

Fiscal Impacts

The IMPLAN tax impact report identifies all tax revenue in the study area, across all levels of government that exist in that study area, for the specific industries and institutions affected by an event or group of events. Tax Impact results are based on the collected and reported taxes within the region for the given data year. IMPLAN taxes shown (and collected) are industry and geographically specific.



The IMPLAN tax impact report splits the tax impacts into the various tax categories based on the region's economy. There is no industry-specific profile for taxes paid by tax category, so the distribution across tax categories is an all-industry average. While this is a limitation of the IMPLAN fiscal reporting, the IMPLAN tax report serves as an appropriate measure of jurisdictional tax results in the aggregate. Tax results cannot be added to any summary or detailed results, as they are already included as a portion of Output. State taxes do not include taxes or district assessments levied by federal, county, sub-county, city or township governments.

Taxes paid include payments from businesses and households. Personal income and employment taxes paid by the employer are included in the tax results and allocated according to the taxing jurisdiction. In detailed IMPLAN analyses, all payroll taxes typically paid at the place of employment are shown as household payments. Property tax and personal property tax reflects a combination of property and personal property taxes paid by both businesses and households.



Appendix C: Comparable State Programs

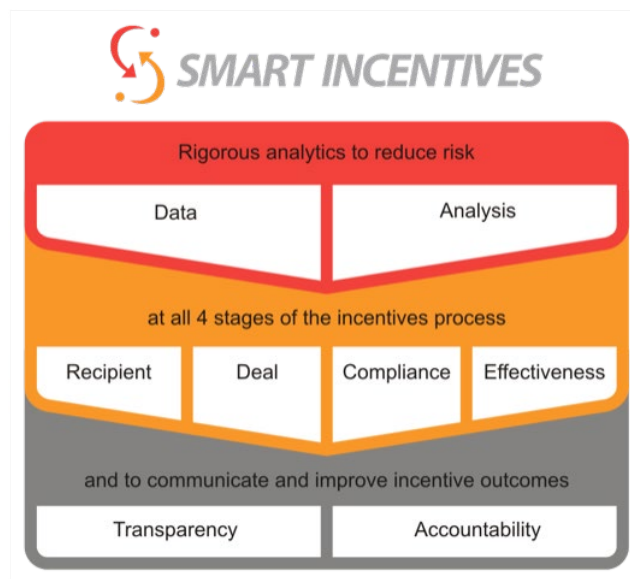
Construction Materials Sales and Use Tax Exemption			
State	Program Name	Incentive Details	Eligibility
Oklahoma	Construction Materials Sales and Use Tax Exemption	Refunds sales taxes paid on construction materials for new or expanding manufacturing facilities.	Eligible manufacturing facilities include: • Facilities with construction costs exceeding \$5 million which create 100 new manufacturing jobs and are maintained for a minimum of 36 months. Construction costs include building and construction costs, and engineering and architectural fees, but not legal fees. • Facilities with construction costs exceeding \$10 million, and with combined total costs of material, construction, and machinery exceeding \$50 million, which add 75 new employees who are retained for 36 months. • Facilities with construction costs exceeding Three Hundred Million Dollars (\$300,000,000) which maintain an employment level of a least 1,750 full time equivalent employees.
Arkansas	Tax Back Program (Sales and Use Tax Refund)	Refund of sales and use taxes paid on purchases of building materials, machinery, and equipment for construction, expansion, or facility modernization projects. Refund amount is 5.5% (out of state rate of 6.5%).	Eligibility includes: • Minimum investment of \$100,000 (varies by county) • New full-time jobs at or above county hourly wage threshold (job requirement varies by investment amount) • Must obtain an endorsement resolution from local governing authority to authorize refund of local taxes.
Missouri	Manufacturing Machinery and Equipment Sales and Use Tax Exemption	Tax exemption on machinery, equipment, materials, and supplies used to establish a new or expand an existing manufacturing, mining, or fabricating plant.	Eligibility includes: • Manufacturing, mining, or fabricating businesses producing products ultimately intended for sale for final use or consumption • No stated minimum capital investment or job creation threshold • Equipment must be used directly in manufacturing a product for sale, and construction materials quality only when solely required for installation/construction of exempt manufacturing equipment.
South Carolina	Construction Materials Sales Tax Exemption	Exemption on construction materials used in construction of a single manufacturing or distribution facility, as well as computer equipment at qualifying facilities.	Eligibility includes: • Minimum capital investment of \$100 million in real and personal property at a single site within an 18-month period. • No stated minimum job creation requirement.
Mississippi	Sales and Use Tax Exemption for Construction or Expansion	Exemption on component building materials, machinery, and equipment for new or expanded facilities. Exemption amounts vary by county development tier, as designated annually by the Mississippi Department of Revenue.	Eligibility includes: • Any manufacturing, custom processing, or data/technology-intensive facilities • No stated minimum investment or job threshold for base eligibility, however, locations in a less-developed (Tier 1) county qualifies for the full exemption; all other areas receive a half exemption • Full exemption covers the standard 7 percent sales tax on building materials and equipment, and the 1.5% tax on manufacturing machinery.



Appendix D: Business Incentives Best Practices

There has been extensive writing around what constitute business incentives best practices. From the project team's review of many sources,²³ it has identified 10 important best practices and sought to incorporate them into the analysis and discussion of this incentive.

As a starting point, business incentives should be viewed as a process, not an event. The award of an incentive and the incentive features are part of that process, and many of the identified best practices reflect that. The process itself should take into consideration each of these factors, which PFM's subcontractor, Smart Incentives, demonstrates in the following illustration:



While the project team believes this is a strong set of best practices, there may well be others that are as (or more applicable) in specific situations. It is also likely that some of the best practices will come into conflict in some situations. For example, application and reporting requirements may reduce the simplicity of business compliance. As a result, these will always be subject to analysis on a case-by-case basis.

The 10 best practices are:

1. **For maximum impact, incentives should be targeted.** Examples of useful targeting include companies or industries that export their goods or services out-of-state; high economic impact companies or industries – such as those with higher wages and benefits, significant job creation, or significant capital investment.

²³ Three resources in particular were relied upon on putting together the list of best practices. They are "What Factors Influence the Effectiveness of Business Incentives?" The Pew Charitable Trusts, April 4, 2019, accessed electronically at <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/what-factors-influence-the-effectiveness-of-business-incentives>; "Improving Economic Development Incentives," Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, 2018, accessed electronically at https://research.upjohn.org/cgi/viewcontent.cgi?article=1000&context=up_policybriefs; "Best Practices for the Design and Evaluation of State Tax Incentives Programs for Economic Development," Matthew N. Murray and Donald J. Bruce, January 2017, included within another evaluation at https://media.al.com/news_mobile_impact/other/AL%20ENTERTAIN%20NEWMKTS%203%209%2017.pdf



2. **Incentives should be discretionary.** In most instances, an application process enables the state government to require company disclosure of information related to eligibility criteria and enables the state to reject applications that do not meet its standards.
3. **Incentives should leverage significant private capital.** Ideally, the incentive should leverage private investment that is at least several multiples of the state investment.
4. **Incentives should provide most of the benefit within 1-3 years and have a limited duration.** Company discount rates are much higher than for the state, and businesses will significantly devalue incentive payments in later years.
5. **Incentives should take into consideration state and/or local as well as industry economic conditions.** Incentives that are provided in high performing areas or for stable and profitable businesses or industries will likely fail the ‘but for test’ – meaning the activity would likely occur without the state incentive.
6. **‘Smart’ incentives help businesses overcome practical barriers to growth.** In particular, customized assistance for locally owned, small and medium-sized businesses can have significant impact.
7. **Incentives should be transparent.** The incentive purpose should be clearly articulated, as are eligibility requirements, and regular, detailed reporting should be required from all program recipients.
8. **Incentives should require accountability.** When upfront financial incentives are offered in return for job creation, retention, or capital investment, there should be contract language in place that allows the state to ‘claw back’ state resources should the company not meet performance requirements.
9. **Incentives should have caps.** To ensure the state’s financial health, program dollar caps or limits should be in place. Incentive programs should also have a limited duration, with sunsets in place to require regular review of incentive performance.
10. **Incentives should be simple and understandable.** The state should be able to easily and effectively administer the incentive, and users should be able to readily comply with its requirements.