



Oklahoma Incentive Evaluation Commission

Incentive Evaluation Update

August 28, 2025

PFM Group Consulting LLC.

1735 Market Street
43rd Floor
Philadelphia, PA 19103

(215) 567-6100



Today's Agenda

- Discussion of activities since the last Commission meeting.
- Observations from the incentive evaluation working drafts.
- Timeline for the incentive evaluation process.
- Next steps.



Introduction

- The following are the incentives under review in 2025:
 - Home Office Insurance Premium Tax Credit.
 - Quality Jobs Program.
 - 21st Century Quality Jobs Program.
 - Small Employer Quality Jobs Program.
 - Aerospace Employee and Employer Tax Credits.
 - Cybersecurity Employee Tax Credit.
 - Investment / New Jobs Tax Credits.
 - Excise Tax Exemption on Aircraft Sales.
 - Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemptions.
 - Aircraft Maintenance Facilities Sales Tax Exemption on Aircraft and Parts.
 - Aircraft Repairs and Modifications Sales Tax Exemption.
- Groupings this year are Employment and Capital Investment, and Aviation/Aerospace incentives.



Activities since the March Commission meeting

- Data and information request was submitted to the internal administering agencies in early April.
- Worked with the administering agencies to complete the data request. There are a few remaining follow-on items, but they are progressing and nearly all complete.
- On-site internal stakeholder meetings were held April 9th, which included meeting with Quality Jobs program recipients, and June 10th.
- External stakeholder MS-Teams virtual meetings with the State Chamber and local Chambers of Commerce were held on July 8th.



2024 Incentive Evaluation Working Drafts

- Non-public working drafts were provided to the Commission members on August 15th and 18th.
- Working drafts contain no findings or recommendations, and they do not include an economic impact analysis.
- They typically contain about two-thirds of the final content of the draft evaluations, which are public and due on or before October 1, 2025.
- The working drafts provide another opportunity for the Commission members to familiarize themselves with each incentive prior to the evaluations arriving *en masse* on October 1st.
- Working drafts have been provided by the project team for several years but was not required by statute. The 2023 statutory revisions made a working draft part of the Commission consultant's required deliverables.



Incentive Evaluation Project Team Observations

- Home Office Insurance Premium Tax Credit:
 - The cost of the credit per employee is generally decreasing as reported employment has been increasing since 2019. The previous review of this program in 2021 saw only minor increases in employment in the near-term and an overall pattern of declining employment from 2015 to 2019.
 - Since 2015, the amount of credit used is down 29.1 percent while the number of claimed employees has increased by 12.5 percent.
 - Colorado recently repealed its Regional Home Office Tax Credit program during a special session aimed at addressing the State's budget gap. State leaders noted some insurers have reduced jobs in the state supported by the program. The savings were projected at \$44 million this fiscal year.
- Quality Jobs Program
 - From 2011 to 2022, Quality Jobs use has shifted from many, good paying jobs to fewer, higher-paying jobs. These positions now offer significant wage premiums – averaging more than \$40,000 per year more than the state average wage.
 - Use is still highly concentrated in professional services firms located in Oklahoma County.
 - Despite admirable ease of administration, nearly 60 percent of contracts do not attain their 10-year full value. The biggest reason for withdrawal or dismissal is not being able to meet the payroll threshold.



Incentive Evaluation Project Team Observations (continued)

- 21st Century Quality Jobs Program:
 - Between 2011 and 2022, total rebates have increased significantly from just over \$300,000 to more than \$9 million. The rebates peaked in 2019 at over \$14 million.
 - 10 firms have participated over the 2011 to 2022 period. No new firms agreed to contracts in 2024.
 - Use is highly concentrated in the Aerospace and Defense industry at 94.5 percent of all rebates generated.
- Small Employer Quality Jobs Program:
 - Program use has been uneven over the 13 years studied for evaluation.
 - Program commenced with 13 firms, 541 jobs, and \$938,000 in rebates.
 - Its low in 2014 was 4 firms, 72 jobs, and \$172,000 in rebates.
 - By 2023, it was back up to 8 firms, 266 jobs, and \$686,000 in rebates.
 - 21 firms have participated in the program over that period, mostly in the Manufacturing industry, and with a much broader geographic range than the other two Quality Jobs programs. Nine different counties receive at least 5 percent of total rebates.



Incentive Evaluation Project Team Observations (continued)

- Aerospace Employee and Employer Tax Credits:
 - Oklahoma is doing well when compared to the nation in terms of aerospace engineer employment.
 - Given that the credit is targeted at aerospace engineers, that suggests it has been effective.
 - Oklahoma has lost some ground on competitiveness, as measured by employment and wage growth, compared to other states with significant aerospace engineer employment.
 - The current credits are not targeted at these factors.
- Cybersecurity Employee Tax Credit:
 - This shares some design characteristics with the Aerospace Employee Tax Credit.
 - Cybersecurity employment is increasing in Oklahoma, but wages significantly trail the national average and neighboring states.
 - Use of the credit has increased significantly, from 46 returns with credits totaling \$95,995 in 2020, to 939 returns establishing \$2.2 million in credits in 2023.
 - Some of this is attributable to repeat claimants, as the credit is available for up to seven years.



Incentive Evaluation Project Team Observations (continued)

- Investment / New Jobs Tax Credit:
 - The amount of credit established and used has significantly declined since 2020, as well as the total amount of capital investment associated with the program.
 - According to the Department of Commerce, since 2020 capital investment in the state has been growing, which suggests that claimants making large capital investments are opting instead for the Quality Jobs Program credits.
 - The new jobs component of the program continues to represent a very small fraction of total incentive usage.
- Remaining Four Incentives Target the Aviation Industry:
 - Excise Tax Exemption on Aircraft Sales.
 - Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemption.
 - Aircraft Maintenance Facilities Sales Tax Exemption on Aircraft and Parts.
 - Aircraft Repairs and Modifications Sales Tax Exemption.



Specifics of the Aircraft Excise and Sales Tax Exemptions

| Incentive | Statute Citation | Taxpayer Entity/Type | Benefit Summary | Incentive Usage |
|--|---------------------------|---|--|---|
| Aircraft Excise Tax Exemption | O.S. § 68-6003. | Individuals and entities completing qualified transactions. | Certain categories of aircraft/aircraft transactions are exempt from the 3.25% excise tax. | Total usage unknown due to lack of data |
| Aircraft Facilities Sales Tax Exemption on Aircraft Parts | 68 O.S. § 1357 [20] | Individuals and entities completing qualified transactions at a qualified aircraft maintenance facility. | Certain transactions of aircraft and aircraft parts are exempt from sales tax provided they occur at a qualified aircraft maintenance facility. | No usage data – last five fiscal years |
| Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemption | 68 O.S. § 1357 [16], [17] | Qualified aircraft maintenance <u>facility</u> : Contractor or subcontractor who has <u>entered into a contractual relationship</u> with a qualified aircraft maintenance facility. | Sales of computers, data processing equipment, tangible personal property consumed or incorporated into the construction or expansion of qualified aircraft maintenance facilities are exempt from Oklahoma sales tax. | One applicant - did not complete application. |
| Aircraft Repairs and Modifications Sales Tax Exemption | 68 O.S. § 1357 [28] | Entities and individuals purchasing aircraft engine repairs, modification and replacement parts. | Certain sales of aircraft engine repairs, modification and replacement parts, other aircraft modification services and parts purchased are exempt from Oklahoma sales tax. | Per Tax Expenditure Report: \$3,248,000 in FY2024 |



Incentive Evaluation Project Team Observations (continued)

- Excise Tax Exemption on Aircraft Sales:
 - The aircraft excise tax exemption supports the state's aircraft manufacturing sector by exempting locally manufactured aircraft and by facilitating the transfer and sale of aircraft throughout Oklahoma.
 - Aircraft excise tax collections have grown by a compound annual growth rate (CAGR) of nearly 10 percent from 2019-2024 (\$4.6 million to \$8 million).
 - Due to a lack of data around number and price of exempt aircraft sold, it is difficult to determine overall economic and fiscal impacts to Oklahoma.
- Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemption:
 - This exemption has not been used in at least the last five fiscal years.
 - No economic or fiscal impact can be attributed to the state sales tax exemptions – no reported activity with the exemption.
 - This incentive is scheduled for expedited review.



Incentive Evaluation Project Team Observations (continued)

- Aircraft Maintenance Facilities Sales Tax Exemption on Aircraft and Parts:
 - Civil aviation maintenance industry employment has grown by a CAGR of 2.5 percent between 2019 and 2025, slightly below the national average of 2.7 percent.
 - Civil aviation maintenance industry economic impact in Oklahoma has grown by a CAGR of nearly 12 percent between 2019 and 2025, putting Oklahoma fourth among the top 10 states for maintenance, recovery, and overhaul (MRO) economic activity. Oklahoma's MRO economic impact of \$3 billion is 4.5% of the nation-wide MRO economic impact of \$69 billion.
 - There is no available data around incentive usage within the last five fiscal years, so total overall economic and fiscal impact is difficult to determine.
- Aircraft Repairs and Modifications Sales Tax Exemption:
 - Private aerospace and parts manufacturing employment in Oklahoma has increased by a CAGR of nearly 7 percent between 2014 and 2024, far outpacing Oklahoma's neighboring states (second highest growth is in Arkansas at nearly 3 percent)
 - Oklahoma ranks 5th nationwide in total aircraft registrations, and 2nd among neighboring states by aircraft registrations per 100,000 residents at 151 (below Kansas at 184).
 - The Oklahoma Tax Expenditure Report estimated the repairs and modifications sales tax exemption has grown from \$2.5 million in 2016 to \$3.2 million in 2024 (a CAGR of 3.4 percent).



Next Steps

- The project team is available to answer any questions or comments from the Commission members related to the submitted working drafts.
- The draft evaluations will be provided to the Commission by October 1st (which is a Wednesday).
- PFM will present the findings and recommendations from the draft evaluations at the Commission meeting on October 9th.
- As in past years, PFM will be present at the public hearing (October 23rd).
- PFM will then provide final evaluations to the Commission.
- PFM will be available to answer questions/make comments at the Commission's decision-making meeting on November 13th.
- PFM will also prepare the draft report on changes to incentives resulting from Commission recommendations, on December 4th.



Next Steps (continued)

- The December 4th meeting contents were impacted by 2023's passage of SB 745.
- As with the past two years, there is a requirement that, by December 15th, the Commission provide to the Legislature and Governor 'a review of prior Commission recommendations, and changes to statute or incentive administration related to incentive evaluation recommendations . . .'
- This requires reviewing statutes and administrative processes, which PFM will do as we did last year.



Questions and Discussion