State Of Oklahoma

Incentive Evaluation Commission

Tax Incentive Evaluation Report

2019

STATE OF OKLAHOMA

INCENTIVE EVALUATION COMMISSION

The Honorable Governor J. Kevin Stitt, President Pro Tempore Treat and Speaker McCall:

We would like to thank each of you for the opportunity to serve as members on the Incentive Evaluation Commission. As five voting members with diverse backgrounds and qualifications, we have taken our duties and responsibilities very seriously as Commissioners.

In our fourth year, IEC reviewed 10 incentives during this evaluation process. We have continued our contractual relationship with Public Financial Management Inc., who won the bid in 2016. They are a nationally recognized firm specializing in public sector finances. IEC members received four of the draft evaluation reports on facts and findings on Sept. 27 and the remaining six on Sept. 30, 2019, with a formal presentation to the Commission Meeting on Oct. 3, 2019. As required in statute, a public hearing meeting took place on Oct. 31, 2019, to receive public comments regarding the consultant’s recommendations.

The commission took into consideration all public comments received at the Nov. 11 meeting before deciding the final vote to approve, disapprove or modify incentives under review. It is in hope that our votes, based on public comments and PFM’s facts and findings, help in assisting each of you and the Legislature in making imperative decisions. This year, PFM made alternative recommendations for improvement on all incentives if IEC chose to not follow the final PFM report.

Pursuant to the Incentive Evaluation Act of 2015, 32 O.S. § 7001-7005, the commission is providing the honorable governor, president pro tempore and speaker with the 2019, year four report. The report will also be made publicly available on the Oklahoma Department of Commerce website and at documents.ok.gov.

Enclosed in the packet is a commission action summation chart immediately following the letter and the compiled reports of PFM.

We hope the information provided you is helpful during the upcoming 2nd Session of the 57th Legislature.

Respectfully,

The Oklahoma Incentive Evaluation Commission

INCENTIVE EVALUATION COMMISSION ACTIONS

INCENTIVE	EVALUATION RECOMMENDATION	COMMISSION ACTION
Aircraft Facilities Sales Tax Exemption	**Reconfigure:** 1. Consider the policy goals of the exemption and modify them accordingly; 2. Explore the adoption of targeted tax preferences employed in other states, including Georgia, Indiana, Michigan, Missouri and North Carolina.	1. 4-0 to **approve** PFM's recommendations to reconfigure. (Dr. Rogers absent) 2. 4-0 to **approve** to modify the evaluation with suggested changes. **Modify:** Page 13 of the report with distinction made between the three separate incentives. (Dr. Rogers absent)
Spaceport Exemption	**Reconfigure:** 1. Consider supporting space-related startups with incubator/accelerator services, and develop and expand supplier relationships; 2. Consider extending liability protections to those involved in spaceflight activities.	4-0 to **approve** PFM's recommendation to reconfigure. (Dr. Rogers absent)
Railroad Reconstruction or Replacement Expenditures (Railroad Modernization Tax Credit)	**Retain:** 1. Standardize reporting to improve data collection and analysis; 2. To evaluate program success require eligible recipients to provide additional information about eligible projects.	4-0 to **approve** PFM's recommendations retain the program and adopt Lori Peterson's comments in the Commission's comments section of the report. (Dr. Rogers absent)
Rural Economic Action Plan	**Retain and reconfigure:** 1. Consider increasing REAP funding and/or pair REAP funds with other rural economic strategies; 2. Consider eliminating split sharing provisions; 3. To measure program success, require communities to provide additional information regarding impact of REAP-funded projects.	4-0 to **approve** PFM's recommendation to retain with reconfiguration. (Dr. Rogers absent)
The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act	**Retain:** 1. Seek ways to increase program appeal and usage beyond Oklahoma City; 2. Improve data collection, including employment, capital investment and other impacts associated with enterprise zones (such as changes in assessed value).	3-0-1 to **approve** PFM's recommendation to retain with reconfiguration. (Commissioner Fuller abstained; Dr. Rogers absent)

INCENTIVE	EVALUATION RECOMMENDATION	COMMISSION ACTION
Computer Services and Data Processing Tax Exemption	**Repeal:** This incentive has become unnecessary due to the availability of more generous and easier to use incentives.	4-0 to **approve** PFM's recommendation to repeal. (Dr. Rogers absent)
Construction Materials Tax Exemption	**Repeal:** The Quality Jobs Program has likely made this program (at least in terms of actual use) unnecessary.	4-0 to **approve** PFM's recommendation to repeal. (Dr. Rogers absent)
Economic Development Pooled Finance	**Retain with minor modification:** 1. Consider adding a clawback provision requiring a company to repay withholding taxes if it ends operations in the state prior to the end of the expected repayment period; 2. Establish regular reporting of awards and costs associated with programs.	4-0 to **approve** to retain the program and modify the clawback provision as recommended by PFM and replace it with language submitted by the Department of Commerce. (Dr. Rogers absent)
Oklahoma Seed Capital Fund	**Retain:** Improve data collection and reporting. The current annual survey data collected by i2e can be improved by relating job growth, capital investment and profitability growth to the timing of initial investment.	4-0 to **approve** PFM's recommendation to retain. (Dr. Rogers absent)
Training for Industry Program	**Reconfigure:** 1. Consider a minimum wage requirement or additional weighting criteria; 2. Collect data regarding wage increases and employee retention following training; 3. Consider requiring applicants to demonstrate the potential for trainee retention and career progression.	4-0 to **approve** to retain the program and that modifications be made to eliminate the minimum wage requirement, but that the waiting criteria used by the Department of Career Tech be retained. (Dr. Rogers absent)

INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
Nov. 14, 2019
Oklahoma State Capitol
Rm. 419-C, 10:00 a.m.
Oklahoma City, Oklahoma

A meeting notice was filed with the Secretary of State and an agenda posted in accordance with the Open Meeting Act.

MEMBERS PRESENT: Ron Brown, Layperson
Mandy Fuller, CPA, Auditor of Private Company
Carlos Johnson, Certified Public Accountant
Lyle Roggow, President Designee of the OK Professional Economic Development Council
Comm. Charles Prater, Ex Officio; Non-voting (Tax Commission)
Brandy Manek, Ex Officio; Non-voting (OMES)
Brent Kisling, Ex Officio; Non-voting (Dept. of Commerce)

MEMBERS ABSENT: Dr. Cynthia Rogers, Economist

STAFF/GUESTS:

Beverly Hicks, OMES
Taylor Ferguson, OTC
Tom Gray, GRDA
Jon Chiappe, ODOC
Leslie Blair, ODOC
Randall Bauer, PFM
Victor Bird, OAC
Jeremy Stoner, ODFA
Lori Peterson, Okla. Railroad Assoc.
Lyle Walters, OCAST
Marcie Mack, ODCTE
Matthew Weaver, ACOG
Bruce Mark, OARC
Christine Handley, LegisOK
Shawn Ashley, ECapitol

1. **Call to order and establish a quorum. [Lyle Roggow, chairman]**

Chairman Roggow called the meeting to order at 10:02 a.m. A roll call was taken and a quorum was established. Chairman Roggow was advised that notice of the meeting was given and an agenda posted in accordance with the Open Meeting Act.

2. **Approval of minutes from the Oct. 31, 2019 meeting.**

Ron Brown moved to approve the meeting minutes for Oct. 31. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

3. **Discussion and possible action on the 2019 Year Four Ten Incentives. Possible action may include to approve, disapprove modify or take no action:**

PFM provided members with a clean copy and red-lined versions of the final evaluation from the draft report prior to the meeting.

Dr. Rogers provided comments in writing on all incentives, which was read in the meeting.

i. **<u>Aircraft Facilities Sales Tax Exemption</u>: [*Reconfigure*]**

Mr. Bauer reported there were a few updates applied to the incentive after receiving updated data related to the industry. PFM found that there are particular exemptions not being used at the moment and to the extent that the program be reconfigured.

PFM provided some alternatives in areas for the Legislature to consider; benchmark states do not impose aircraft registration fees, or they levy them at low rates. Oklahoma is an outlier in that respect. There are also other sales taxes that do not apply aircraft in other states; North Carolina has a sales cap tax of $2,500 dollars for aircrafts and engines. There are casual sales that are not exempted by the State of Oklahoma. This industry is important and if these exemptions are meant to generate activity for the industry and are not being used, PFM suggests a look at reconfiguring the program.

Dr. Rogers, in writing, recommended to eliminate this incentive because it is not being used, tough to administer, and it is layered with other programs. If this were used it would be difficult to evaluate given the other programs available to aerospace companies: PFM lists nine programs, including Quality Jobs, Small Employer Quality Jobs, 21st Century Quality Jobs, etc. It would be useful to know how much firms in this industry are using other available incentives to better understand the potential value of this one. Oklahoma's aerospace manufacturing ranking is low due to the economy and labor conditions. Incentives to this industry, in general, are not going to change those factors. Per recommendations, she hesitates to suggest an exemption of local sales taxes as municipalities in Oklahoma are heavily reliant on sales taxes. A local community could set up a Tax Increment Financing to target a particular company with diverted sales taxes if it wanted to and provide incentives.

PFM recommended to reconfigure: Consider the policy goals of the exemptions and modify them accordingly. Explore the adoption of targeted tax preferences employed in other states, including Georgia, Indiana, Michigan, Missouri and North Carolina.

Commissioner Roggow made known that a letter was received and sent to commission members from Victor Bird prior to the meeting.

Ron Brown moved to approve PFM's recommendation to reconfigure. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

Mr. Bird brought up an error on page 13 of the report where he does not believe a distinction is made amongst the three separate exemptions. He addressed the last paragraph before PFM's conclusion that it should be corrected with accurate information. He concedes that the ones related to aircraft maintenance facilities and market manufacturing facilities have not been used for the last several years. The one for aircraft repairs in subsection 28 of section 1357 in Title 68 is used more than any tax incentive consistently and regularly by the aerospace industry and more than the interior tax credits for aerospace. We are a maintenance, repair and operations state and the report has to be corrected to reflect that distinction.

Commissioner Fuller suggested that PFM clarify in their report on page 13 what incentives they are talking about, in the area under the historic use of the incentive where it says, "According to the interviews conducted with the Oklahoma Tax Commission subject matter experts the aircraft maintenance facility sales tax exemption."

Mandy Fuller motioned to modify the evaluation with the suggested changes. Ron Brown seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

ii. **Spaceport Exemption: [*Reconfigure*]**

This is another space industry-related sales tax the state offers where exemptions are not being used and the program has had no economic or fiscal impact.

Mr. Bauer reported Oklahoma has one of the 11 non-federal facility spaceports in the U.S. He made known it has been a decade since it was used for spaceflight testing and that Oklahoma's space industry employment is 33% more concentrated as a share of total employment than for a nation as a whole.

It is an industry worth targeting and if current methods are not leading to desired outcomes, PFM suggested the state look at other alternatives being used in other places, such as Colorado, New Mexico and California, where some are preferences or financial incentives. There are legislative programs that are employed in other states; tax credits in Florida, deductions in New Mexico and Virginia and grant programs in Texas.

The space economy is expected to grow exponentially over the next several decades. It is an asset to the State of Oklahoma and that is why PFM has made the recommendation to reconfigure space industry-related incentives.

Dr. Rogers, in writing, agrees with PFM's recommendation to reconfigure this program and listed the following comments or recommended changes:

- Exempt space flight income from state taxes: This would need to have *specific targets and criteria to qualify*.
- Supplemental tax exemptions: This would need to AVOID providing *up front incentives which might allow risky ventures from taking the money and running (e.g., Rocketplane experience in Wisconsin).*
- Support with startups and incubator/accelerator services: This is reasonable.

- Develop and expand supplier relationships: *This makes sense.*
- Extend liability protections to those involved in spaceflight activities: *This places risk on others and could have unintended consequences.* This needs to be thought out carefully.

PFM recommended to reconfigure: Consider supporting space-related startups with incubator/accelerator services, and develop and expand supplier relationships. Consider extending liability protections to those involved in spaceflight activities.

Ron Brown moved to approve PFM's recommendation to reconfigure. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

iii. **Railroad Reconstruction or Replacement Expenditures (Railroad Modernization Tax Credit): [*Retain*]**

Mr. Bauer reported that additional data was added to the previous draft report where it relates to where credits are being taken or transferred.

This type of infrastructure related to the incentive program is good and necessary. Rail traffic is an important part of commerce in moving across state lines and is used in a variety of places around the state. PFM recommends retaining the program as it currently exists.

Commissioner Johnson recommended that the bullet point in PFM's presentation on considering making tax credits refundable instead of transferrable should be removed. He was concerned on how it could be read and that it could mislead the Legislature into thinking the Commission agrees with this view. He pointed out there was positive discussion in a past meeting on why the credits need to be transferrable because the program will not work unless the credits are transferrable.

Mr. Bauer said he would remove that bullet point off of the presentation but that the evaluation stands on its own.

Commissioner Kisling added to Commissioner Johnson's point that in the report it makes the statement that this is a net negative to the state or economic impact. He is concerned it could be taken the wrong way and could reflect negatively on the Commission if they vote unanimously in support of a net negative incentive to the state. He would like to see today's proceedings reflect that this body recognize infrastructure projects. Putting in a street or road is probably not going to generate the sales tax revenue to make it reflect positive, but the traffic and the people traffic on it is a net benefit to the state.

Mr. Bauer said PFM is obligated to run the IMPLAN model and to enter the data associated with the activity. In the report it is mentioned that in similar infrastructure types of programs that do not necessarily generate, on a pure economic impact tax revenue basis, an amount that equals the cost associated with them, those investments are still strong even though there is a negative on a tax revenue basis. The incentive is not going to raise as much revenue as what it is going to cost.

Commissioner Roggow understood both points of view that there is a cost of doing business and at the exact same time the state is getting a huge benefit by rolling a lot of product on the rail, which is the big takeaway here. Although it is a cost factor from the consultants' side, it is a necessity to the state and the markets it serves, and is a must have. It is one where you wish you could do more with and open up more availability to more of the rail providers, due to cost continuing to climb.

Commissioner Fuller said one of the things she noted was the decrease in derailments in the report, but there is also a lot of significant benefits to it that should be recognized and acknowledged.

Ms. Lori Peterson, representative of the Oklahoma Railroad Association, said they had submitted in comments some numbers on the investment that the railroad industry makes, and while they are required to make a 50/50 match they actually invest much more, and if it might be considered an addition to enhance the progress, it encourages the railroad industry and customers to invest.

Dr. Rogers, in writing, recommended to retain but consider modifications. As was discussed in the Oct. 31 meeting, there were concerns with the refundable aspect. She can see how it affects the smaller firms to replenish operating cash. However, at $.85 to $.90 value per dollar, millions of the cost of this incentive is used outside the railroad industry. A few firms capture a large share of these. She recommends to investigate other programs, low-cost loans or grants for instance, to keep more of the incentives with the targeted firms.

PFM recommended to retain: Standardize reporting to improve data collection and analysis. To evaluate program success, require eligible recipients to provide additional information about eligible projects.

Carlos Johnson moved to approve PFM's recommendation to retain the program and adopt Ms. Peterson's comments in the Commission's comments section of the report. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

iv. **Rural Economic Action Plan (REAP): [*Retain with reconfiguration*]**

Mr. Bauer reported he changed the recommendation to reconfiguring the program because PFM suggests that the split of available funds in the program be modified relating to the two largest central Oklahoma governments, Oklahoma City and Tulsa.

Dr. Rogers, in writing, agrees with PFM's recommendation to reconfigure the program and their recommended modifications.

PFM recommended to retain and reconfigure: Consider increasing REAP funding and/or pair REAP funds with other rural economic development strategies; consider eliminating split-sharing provisions; to measure program success, require communities to provide additional information regarding impact of REAP-funded projects.

Ron Brown moved to approve PFM's recommendation to retain with reconfigure. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

v. **The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act:** [***Retain***]

Mr. Bauer reported that it be retained with minor modifications. It provides funding for local units of government to match local tax revenue to support a specific project that is located in an enterprise zone. In practice, it has been primarily used in Oklahoma City. It is a fairly uncommon program among the states, but its interest has value and should be expanded on how it is marketed or administered so that it is used just outside the Oklahoma City area. There is little data associated with the program and as statute requires, PFM is to make recommendations that would provide for better opportunities to evaluate the other Cassia programs in the future.

Dr. Rogers, in writing, supports PFM's recommendation to retain, with minor modifications.

Edit: Page 5 – fix the note that OKC is only user to go with correction in first key finding.

Recommendations:

- She definitely supports improved data collection.
- She is reluctant to support the recommendation to expand the program to increase its appeal. The data available for analysis is limited. Also there has been an explosion of TIF districts in the state (over 80 in total?). The estimates of increment growth and actual increment revenue collections do not account for potential negative spillover effects or likely displacements effects. Displacement effects are a concern for major tourism events (Brad Humphreys, West Virginia University, has a number of articles on such concerns).

PFM recommended to retain: Seek ways to increase program appeal and usage beyond Oklahoma City; improve data collection, including employment, capital investment and other impacts associated with enterprise zones (such as changes in assessed value).

Carlos Johnson moved to approve PFM's recommendation to retain with minor modifications. Ron Brown seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, abstain; Mr. Roggow, aye.

vi. **<u>Computer Services and Data Processing Tax Exemption</u>: [*Repeal*]**

Mr. Bauer reported earlier in the process there was discussion related to several of these sales tax exemptions that have not been in use and the decision was made to go forward with the review of them to determine if the program is beneficial or could be reconfigured. This is a program PFM recommends to repeal. The state offers a sales and use tax exemption to new and expanding businesses primarily engaged in computer services and data processing, or research and development. To qualify, the computer services and data processing, or research and development purpose, must derive at least 50% of its gross revenue for the sale of goods for services to out-of-state customers and create 10 new jobs at an average annual salary of $35,000. Data processing firms must make a minimum of $100,000 in qualified purchases that include computers, data processing equipment, telecommunication services and equipment. Research and development firms are likely choosing the Quality Jobs Program or Small Employer Quality Jobs program instead of this incentive.

Commissioner Kisling commented that this is a great example of a program that has a great philosophy behind it and could be very useful, but became an arduous program to work through in a very small box, and when you do that to an incentive program, it goes away.

Mr. Tom Gray with the Grand River Dam Authority informed they provide exclusively green energy to power what could be the largest data center in the U.S. in both hydro and wind. They are currently working with one of their municipalities to attract another data center which could be significant. He does not think PFM's recommendation is off-base, but would say that Oklahoma is becoming attractive for these data centers.

Commissioner Johnson commented that he would not be for repeal, except there are other programs in place that are working and there does not seem to be any danger of those programs going away and as long as those programs are in place he is okay with this incentive being repealed. He agrees with Mr. Gray in that we have those costs in managing power and it is what data centers need and lots of it.

Dr. Rogers, in writing, agrees with this recommendation to repeal.

PFM recommended to repeal: This incentive has become unnecessary due to the availability of more generous and easier to use incentives.

Ron Brown moved to approve PFM's recommendation to repeal. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

vii. **<u>Construction Materials Tax Exemption</u>: [*Repeal*]**

Mr. Bauer informed according to the data and information collected from the Tax Commission, this incentive has not been used over the last five years and therefore has no economic impact.

The reporting requirements are significant and burdensome for this particular exemption. You are not allowed to take the Quality Jobs Program at the same time you are taking this exemption. A manufacturer's choice is the Quality Jobs Program.

Dr. Rogers, in writing, agrees with the recommendation to discontinue this incentive.

PFM recommended to repeal: The Quality Jobs Program has likely made this program (at least in terms of actual use) unnecessary.

Ron Brown moved to approve PFM's recommendation to repeal. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

viii. **Economic Development Pooled Finance:** [***Retain with minor modifications***]

Mr. Bauer reported this is a program that works well and suggest to retain with minor modifications. Adding a clawback provision is generally considered a best practice as it relates to incentive programs. There is not a regular reporting of awards and costs required by statute, which makes it difficult, when doing a cost benefit analysis, to identify the benefits associated with some of the programs, but in general it is a net positive to the state.

Commissioner Kisling said besides the Quality Jobs Program, this may be one of the most important incentive programs in the state and believes the program will continue to grow over the next several years and agrees with having it retained. However, he disagrees with the clawback feature as it adds a complication to the program that may stymie some usage of it in the future. He suggested it be removed and instead add a provision where, every year, staff does onsite monitoring in order to make sure the project continues to move forward. Additionally, before annual distribution is made, staff makes sure the investment was made and fees are in place.

Dr. Rogers, in writing, agrees with the recommendation to retain with minor modifications.

Comments on PFM's recommendations –

- Add clawback provision: This is important to be accountable.
- Establish regular reporting: This is also important for evaluation and accountability.

Possible modifications:

- Consider a wage floor, such as similar to the Quality Jobs act, or contingent on county unemployment rates.

Consider less upfront loading and make it more contingent on performance.

PFM recommended to retain with minor modification: Consider adding a clawback provision requiring a company to repay withholding taxes if it ends operations in the state prior to the end of the expected repayment period. Establish regular reporting of awards and costs associated with the program.

Carlos Johnson moved to approve to retain the program and modify the clawback provision as recommended by PFM and replace it with languages submitted by the Department of Commerce. Ron Brown seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

ix. **Oklahoma Seed Capital Fund:** [***Retain***]

Mr. Bauer reported this program has a net positive. PFM identified the program having positive administrative features in the way it operates and suggests minor reporting required modification.

Dr. Rogers, in writing, agrees with PFM's recommendation to retain with minor modifications and recommendation to improve data collection and reporting.

PFM recommended to retain: Improve data collection and reporting**.** The current annual survey data collected by i2e can be improved by relating job growth, capital investment and profitability growth to the timing of initial investment.

Ron Brown moved to approve PFM's recommendation to retain. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

x. **Training for Industry Program:** [***Reconfigure***]

Mr. Bauer reported the initial recommendation to retain this program has been changed to reconfigure in the final evaluation. The primary issues of the program are any kinds of wage requirements, or a weighting criteria for wages. PFM's general perspective is that if you are going to ask taxpayers to subsidize for profitability, it should in some way be advancing the general interest of the public. They do not believe jobs that are below average in terms of wages and rural compensation necessarily advance that, as Quality Jobs and other programs have requirements where positions have a wage that is at or above the county average, they suggest that some kind of wage weighting, or actual thresholds, be entered into this program.

Ms. Marcie Mack, state director of Career Tech, informed on how a company would qualify for a reimbursement. It is not a direct dollar amount, as training is required and the company has to be established. The calculation on what a company would qualify for is based on the wage provided configured in the calculation. If a $15/hour wage calculated within falls below that amount, it would affect qualification for reimbursement. The wage conversation is addressed when a proposal is provided to a company, and that company must meet the said criteria before they receive the reimbursement.

PFM understands that training has spinoff benefits for the workforce and notes it in their report as a benefit over and above the wages of a job. If people are improving their overall skillsets, they will likely move up the career ladder more quickly. In terms of targeting resources, if you are not paying for every possible job industry training then it should be targeted to the higher wage jobs.

Ms. Mack informed that the actual wage of individuals who received training is documented in the final outcome. In the calculation for what they would be reimbursed in what they are provided, those wages are in the calculation of what they would qualify for. Kay County is an example, when looking across the State of Oklahoma, of the opportunity for rural development and adding rural jobs. With particular wages in other areas for the same job looking a little different, it was a substantial economic impact for Kay County to receive that industry and those particular wages. They are not the only wages that are brought for that company, they are just the wages of the individuals who received training for industry dollars to bring them into their manufacturing, or whatever work area that may be. Though it is the wage in discussion, it is not the only wage that is provided by that company within the state.

The counties PFM included in the table, such as Payne County, have an average county wage of $38,000, now less than Kay County with the 235 jobs that were trained under this program at $62,000/year jobs. You get a better return on your investment in those kinds of situations with some weighting criteria. If they are scarce resources, that kind of weighting would be beneficial to the state.

Commissioner Kisling commented that, for folks who are making $23,000/year that were making $0 before they took that job, their average mean is going up and that's why he has an issue with the minimum wage requirement in this program. The latter local economy in some of those jobs might be a first step out of social services. He recommends a modification to the Commission's report to take out the minimum wage requirement recommendation.

Ms. Mack shared that the weighting criteria aspect does calculate in the anticipated jobs one will have and their anticipated gross annual income for the company as a whole. All the criteria is a part of the same criteria of quality jobs. They work in direct conjunction with Commerce in those particular pieces. They have companies who ask to qualify for the training for industry programs that do not meet the criteria, as the program is only for specific industries. They have not done resale specifically for manufacturing. The dollar amount is not a line-item dollar amount that is provided by the Legislature. The funds used for training for industry dollars comes out of their state appropriations. The State Department of Career Tech and their state board determines the dollar amount that will be utilized in training for industry programs and the reimbursement. It is not a program that is legislated, nor is it a program that has a direct appropriation for it. The dollar amount that is utilized for the program is budgeted on behalf of their agency out of what is given to them for operations.

Dr. Rogers, in writing, agrees with PFM's recommendation to reconfigure the program and with their recommended modifications, particularly the data collection/reporting.

PFM recommended to retain: Consider a minimum wage requirement or additional weighting criteria; collect data regarding wage increases and employee retention following training; consider requiring applicants to demonstrate the need for program funding; consider requiring applicants to demonstrate the potential for trainee retention and career progression.

Carlos Johnson moved to approve the program be retained and that modification be made to eliminate the minimum wage requirement, but that the weighting criteria used by Department of Career Tech be retained. Ron Brown seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

4. **Discussion and possible action on the acceptance of the final report provided by PFM:**

Carlos Johnson moved to accept the final report by PFM as modified by discussion in today's meeting. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

5. **Discussion and possible action to approve 2020 meeting dates:**

Jan. 23	**Oct. 1**	**Dec. 10**
April 30	**~~Oct. 29~~ 22**	
Aug. 27	**Nov. 12**	

Carlos Johnson moved to approve the suggested dates, except Oct. 29 be modified to Oct. 22. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Johnson, aye; Ms. Fuller, aye; Mr. Roggow, aye.

6. **Discussion and update on IEC consultant contract.**

Commissioner Manek updated the members that the process is on track and moving forward.

Update only. No action taken.

7. **New Business.** None.

8. **Adjourn.**
There being no further business, Mr. Brown made the motion to adjourn. Ms. Fuller seconded the motion. Seeing no opposition, the meeting adjourned at 11:30 a.m.

INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
Oct. 31, 2019
Oklahoma State Capitol
Rm. 419-C, 10:00 a.m.
Oklahoma City, Oklahoma

A meeting notice was filed with the Secretary of State and an agenda posted in accordance with the Open Meeting Act.

MEMBERS PRESENT: Ron Brown, Layperson
Mandy Fuller, CPA, Auditor of Private Company
Dr. Cynthia Rogers, Economist
Carlos Johnson, Certified Public Accountant
Lyle Roggow, President Designee of the OK Professional Economic Development Council
Comm. Charles Prater, Ex Officio; Non-voting (Tax Commission)
Dow Hughes, Ex Officio; Non-voting (OMES)

MEMBERS ABSENT: Brent Kisling, Ex Officio; Non-voting (Dept. of Commerce)

STAFF/GUESTS: Beverly Hicks, OMES
Taylor Ferguson, OTC
Josh McGoldrick, ODOC for Director Kisling
Randall Bauer, PFM
Jake Lowrey, OMES
Victor Bird, Aeronautics
Ryan Pidde, Mickelson & Co. /Railroad
Nathan Champion, WATCO/SLWC
Judy Petry, Farmrail
Lori Peterson, Okla. Railroad Assoc.
Chad Donoley, AOK Railroad
John Montgomery, Senate
Pat Wall, American Airlines
Jonna Kirschner, Chickasaw Nation Industries
David Oakley, Legis OK
Michael Davis, OK Finance Authority
Amy Walton, OCAST
Lyle Walters, OCAST
Matthew Weaver, ACOG
Max McKnight, ODCTE
Maureen Hammond, Norman
Cliff Branan, Guest
Shawn Ashley, ECapitol

1. **Call to order and establish a quorum. [Lyle Roggow, chairman]**

Chairman Roggow called the meeting to order at 10:03 a.m. A roll call was taken and a quorum was established. Chairman Roggow was advised that notice of the meeting was given and an agenda posted in accordance with the Open Meeting Act**.**

2. Approval of minutes from the Oct. 3, 2019 meeting. [Lyle Roggow]

Ron Brown moved to approve the meeting minutes for October 3rd. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye.

3. Discussion and public comment on the 2019 Ten Incentives. [Lyle Roggow]

1. **Aircraft Facilities Sales Tax Exemption** [PFM recommendation: ***Reconfigure***]

2. **Spaceport Exemption** [PFM recommendation: ***Reconfigure***]

   Mr. Victor Bird, Director of The Oklahoma Aeronautics Commission spoke on both the Aircraft Facilities Sales Tax and Spaceport Exemptions.

3. **Railroad Reconstruction or Replacement Expenditures** (**Railroad Modernization Tax Credit**) [PFM recommendation: ***Retain***]

   Nathan Champion, Stillwater Central Railroad:
   Mr. Champion serves as the General Manager of the Stillwater Central Railroad. He informed that many of the short lines operating here in Oklahoma were once part of the larger Class I railroad network. In the 80s and 90s, the lines we now call short line railroads were often marginal, low density lines headed for possible abandonment. Companies like his saw these lines as an opportunity. Instead of them being abandoned, they bought them, did their best to restore and market them to the shippers who make up their customer base today. Many remain marginal in terms of the track infrastructure and, given their high cost of capital, they use the tax credit to help deploy dollars in a manner that best suits their customers' needs. The credit also allows them to compete against other modes of transportation that are highly subsidized by taxpayer dollars.

   Chad Donoley, Arkansas Oklahoma:
   Mr. Donoley is the Vice President of Marketing for the Arkansas-Oklahoma railroad located in Wilburton, OK. One of the challenges his company faces, like many other short lines, is the cost of improving and rehabilitating track to accommodate the needs and demands of customers. Access to capital is a challenge, making them prudent when budgeting and prioritizing investments on an ongoing basis. Short lines cannot afford maintenance to lapse due to a down year from an otherwise reliable shipper. The tax credit allows them the ability to undertake projects that might otherwise be out of reach and more capital flexibility to meet regular

maintenance to stay ahead of maintenance curve, or add capacity to increase operating efficiencies (ie handle heavier "fully loaded cars"). It has enabled them to undertake several projects to accommodate customer needs. The mechanics of the program have allowed them to complete track work and reinvest. In order to generate tax credits the company must first spend the funds. If the program had a higher per mile cap they could take on additional reinvestment work. It is a critically important program that helps them to budget and plan for the future. As the State looks to attract new business and larger scale industrial development projects it is critical to consider ways to boost this program so short lines are in position to help capitalize on opportunities when they arise. This program will help accelerate critical reinvestment in the rail infrastructure that will lead to new opportunities for the customers and communities.

Judy Petry, Farmrail System, Inc.:
Ms. Petry is President and General Manager of Farmrail System in Clinton, OK. They are an employee owned short line railroad holding company headquartered in Clinton, Oklahoma and operate two Class III short line railroads in Western, Oklahoma. They have been in business since 1981 and got their start by taking over rural low-density track that was previously under-maintained by the Class I's headed for abandonment. Freight railroading is capital intensive. The 2018 of Oklahoma Rail Plan estimates over $245 million is needed in long-term freight rail funding needs for Oklahoma short line railroads. Short lines have utilized the railroad tax credit to install hundreds of thousands of ties to stabilize and upgrade track. The State needs to continue to invest in heavier rail and upgraded bridges to support heavier railcars. Most Oklahoma short lines can only carry a maximum of 268,000-pound railcars rather than the new industry standard 286,000-pound car. The 70-pound rail needs to be replaced with a minimum of 115-pound rail to carry the heavier loads to assist their shippers in order to maintain competitive. The program is a proven solution that drives private reinvestment and is not a handout, but rather a revolving hand-up as it requires them to invest their own money, allows the transfer of the credit earned and the short lines reinvest the funds received from the transfer back into the track infrastructure. The transferability component is critical as it allows smaller railroads with insufficient cash flow to fund expensive rehabilitation that would otherwise be out of reach. In past, Farmrail has been able to transfer the tax credit to a customer (Halliburton), which gave them the ability to fund more track improvements that enable them to handle more rail business.

Commissioner Johnson entered the meeting during Mr. Donoley's presentation at 10:19 a.m.

4. **Rural Economic Action Plan (REAP)**[PFM recommendation: ***Retain***]

Matthew Weaver, Association of Central Oklahoma Governments (ACOG):
Mr. Weaver, CED Coordinator of Economic Development supports all changes to REAP with the following comments:

- Increase REAP funding AND/OR
- Pair REAP funds with other rural economic development strategies
- Eliminate split sharing provisions between ACOG and INCOG

- Require communities to provide additional information regarding impact of REAP-funded projects.

The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act [PFM recommendation: ***Retain***] No public speaker.

Computer Services and Data Processing Tax Exemption [PFM recommendation: *Repeal*] No public speaker.

Construction Materials Tax Exemption [PFM recommendation: *Repeal*] No public speaker.

5. **Economic Development Pooled Finance** [PFM recommendation: ***Retain***]

Pat Hall, American Airlines spoke at the meeting.

The Commission received two support letters from the following:

- Maureen Hammond, Interim President and CEO, Norman Economic Development Coalition
- George Wilson, President, Hitachi Computer Products (America) Inc.
- John Cunningham, Manufacturing Director and Melinda Madden, Finance Business Partner, with Goodyear-Lawton Tire & Rubber Company.

6. **Oklahoma Seed Capital Fund** [PFM recommendation: ***Retain***]

Amy Walton, Oklahoma Center for the Advancement of Science and Technology (OCAST): Ms. Walton, Director of Government Relations and Strategic Initiatives provided the following:

<u>PFM Seed Capital Fund Report</u> – Working Draft
"Data collection and reporting improvements are needed. Data reported by i2e is collected via an annual survey of all participating firms. The response rate of firms varies from year to year, so there can be no time-series trend drawn from the data. <u>There is also no information collected that identifies the sector where each job is created in or at what stage in the investment's lifecycle it was created. Other key data for measuring the impact the investment made on each company would be reports of growth in sales and measures of profitability</u>. This cannot be ascertained from aggregate level data collected from the annual survey and reported annually by i2e."

<u>OCAST/ i2E Comments</u>

"There is also no information collected that identifies the sector where each job is created in or at what stage in the investment's lifecycle it was created."

i2E does collect and identify the industry sector of each client company responding to the annual survey. When a company is entered into the i2E CRM database, it is assigned an Industry Code. As companies report new and existing jobs each year, those jobs are associated with the industry sector that is assigned, however, it has not been specifically requested as a part of the reported data for the OSCF in the annual Economic Impact Report submitted to OCAST.

When a company is entered into the i2E CRM database, it is also assigned a Business Stage from a set of six (6) stages that include: Proof of Concept, Seed, Startup, Early, Growth and Mature. Business Stage data is captured at the time of OSCF investment; however, it has not been specifically requested as a part of the reported data for the OSCF in the annual Economic Impact Report submitted to OCAST.

"Other key data for measuring the impact the investment made on each company would be reports of growth in sales and measures of profitability. This cannot be ascertained from aggregate level data collected from the annual survey and reported annually by i2e."

Sales and profitability data on a company by company basis cannot be reported under i2E's Confidentiality and Non-Disclosure Agreements with its clients. As a result, sales and revenue data are only reported in the aggregate.

Training for Industry Program (TIP) [PFM recommendation: ***Retain***] No public speaker.

The Commission received eight support letters from Ms. Marcie Mack, Director of Career Tech

- Tulsa Tech – Alfa Laval Inc., Broken Arrow
- Aircraft Structures International Corporation (ASIC)
- Great Plains Tech Center – Silver- Line Plastics
- Southern Oklahoma Tech Center – MAC Trailer of Oklahoma
- Great Plains Tech Center – Good Year Tire & Rubber Company
- Tri Country Tech – SP Foundry
- Tulsa Tech – Greenheck Group
- Tulsa Tech – Nordam

4. **New Business [Lyle Roggow]** None.

5. **Adjourn. [Lyle Roggow]**
There being no further business, Mr. Brown made the motion to adjourn. Ms. Fuller seconded the motion. Seeing no opposition, the meeting adjourned at 11:13 a.m.

INCENTIVE EVALUATION COMMISSION TABLE OF CONTENTS

The following report can be navigated by using your cursor to select an incentive evaluation below. You also can go directly to commissioner comments after each evaluation. At the bottom of each comment page select the button to return to the table of contents.

State of Oklahoma

Incentive Evaluation Commission

Aircraft Maintenance Facility Sales Tax Exemptions

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

The State of Oklahoma offers several aircraft maintenance facility-related sales tax exemptions intended to stimulate development within the industry. However, these exemptions are not in use – as a result, no State economic or fiscal impact can be attributed to the incentives. While the exemptions are not currently incenting industry development, there is also no corresponding fiscal impact on Oklahoma state revenues or budget.

Recommendation: The project team recommends reconfiguring the State's aircraft maintenance facility incentives.

Given that the Legislature assumed that the incentives might have a positive effect on the State economy, there is no reason to repeal them at this time. As the State has some useful attributes that make it attractive to the industry, it is logical to attempt to reconfigure its approach. Should that lead to growth in the industry in the State, the Commission would have a better opportunity to conduct a cost benefit analysis of the incentives.

Key Findings

- **The State's aircraft maintenance-related sales tax exemptions are not currently in use.** According to interviews conducted with Oklahoma Tax Commission (OTC) subject matter experts, these incentives have not been claimed in at least the last five fiscal years.

- **The program has had no fiscal or economic impact.** Because no taxpayers have used these sales tax exemptions, the State has not foregone any revenue. There also has been no economic impact as a result of the incentives.

- **Oklahoma offers a robust package of incentives to aerospace companies.** These programs include the Quality Jobs, Small Employer Quality Jobs, and the 21st Century Quality Jobs programs; Engineer Workforce Tax Credit; Business Expansion Incentive Program; Investment/New Jobs Tax Credit; Training for Industry Program; Talent Acquisition Team; and New Markets Tax Credit.

- **The aviation/aerospace industry has become a strong, integral component of the Oklahoma economy.** A recent study of the estimated economic benefits of aviation and aerospace in Oklahoma concluded that each year, the industry supports $11.7 billion in payroll, accounts for $32.3 billion in spending and generates a total of $43.7 billion in economic activity.[1]

- **Oklahoma plays an important role in the national aviation maintenance industry.** Among all states, Oklahoma ranks seventh in aviation maintenance industry employment and accounts for 4.3 percent of industry employment nationally. Among states immediately neighboring Oklahoma, only Texas has a larger share (more than 24,000 jobs, or 11.5 percent of the U.S. total).

- **Oklahoma ranks 12th among states for economic activity associated with aviation maintenance.** The industry contributed $1.6 billion in economic activity to the State economy – equal to 3.2 percent of the U.S. total. Among states, California and Arizona generate the most economic activity, followed by Washington, Texas, Connecticut and Georgia. These six states account for 47 percent of the nation's economic activity.

[1] Oklahoma Aeronautics Commission – Oklahoma Aviation and Aerospace Economic Impact Study Fact Sheet. Accessed electronically at https://oac.ok.gov/sites/g/files/gmc221/f/Fact%20Sheet%20%28Oklahoma%20Aviation%20%26%20Aerospace%20Economic%20Impact%29_0.pdf

- **Oklahoma's aerospace manufacturing industry attractiveness ranked 30th among states in 2019 (declining from 20th in 2018).** The drop is due primarily to the state's industry rating, which declined from 17th to 29th during the year. While the state fared relatively well in tax policy (10th), cost (11th) and infrastructure (13th) in 2019, its economy and labor attractiveness rankings were lower (35th and 45th, respectively).

- **Only four other states (Arizona, Mississippi, Ohio and Washington) were identified as having similar tax exemptions, and in several instances, Oklahoma's incentives are more complex.** For example, Oklahoma's exemption for sales of computers, data processing equipment and the like is only available to new or expanding facilities that spend at least $2 million on related equipment and has both investment and job creation requirements. Washington provides a similar exemption but does not have thresholds for minimum spend, investment or job creation. As another example, Oklahoma's exemptions for sales of aircraft and aircraft parts as well as machinery, tools, supplies, equipment and related tangible personal property and services are available only to facilities with 2,000 employees in the prior year. Ohio provides a similar exemption for sales of materials, parts, equipment or engines used for repair or maintenance, but it does not impose investment or job creation restrictions.

Recommended Changes

- **Consider the policy goals of the exemptions and modify them accordingly.** Other state incentives can be used as a starting point of discussion regarding possible changes. Loosening certain provisions and/or eligibility requirements may increase program appeal. For example, if the goal of the incentives is to recruit new businesses to the State, eliminating the (potentially limiting) minimum spend, investment and/or job creation requirements that accompany its computer and data processing equipment exemption may generate the desired activity.

- **Explore the adoption of targeted tax preferences employed in other states, including Georgia, Indiana, Michigan, Missouri and North Carolina.** For example, in North Carolina, local sales taxes do not apply to aircraft, and there is a sales tax cap of $2,500 for aircraft and aircraft engines. Oklahoma does not exempt casual aircraft sales from taxation, and it provides only a limited fly away exemption relative to benchmark states. Oklahoma also does not allow taxpayers to reduce from gross proceeds the trade-in value of a sale in calculating taxes owed, and also levies excise tax upon the transfer of legal ownership. Additionally, while benchmark states do not impose aircraft registration fees or levy them at relatively low rates, Oklahoma's fees are significant.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The State's package of aircraft maintenance facility sales tax exemptions is collectively one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Today, the aviation industry is an integral part of the Oklahoma economy: more than 120,000 people are employed by approximately 500 Oklahoma aerospace and defense industry companies. This constitutes approximately 6 percent of the state's economy.[2] Maintenance, repair and overhaul (MRO) is a key sector of the industry, where all fine-tuning, designing, inspecting and overhauling of aircrafts is performed. Oklahoma is home to the two largest MRO facilities in the world: the American Airlines Maintenance and Engineering Center, the largest commercial MRO, employs more than 6,000 people in Tulsa; the Oklahoma City Air Logistics Complex at Tinker Air Force Base is the largest air depot maintenance facility for the U.S. Department of Defense.

Oklahoma provides several sales tax exemptions for new or expanding aircraft maintenance or manufacturing facilities as well as exemptions on sales or aircraft and aircraft parts and equipment used in the repair, remodel or maintenance of aircrafts at qualified aircraft maintenance facilities. However, these exemptions have not be used for at least the last five fiscal years.

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 goal included in legislation is not provided, but presumably is to increase industry activity within the state.

To assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- Changes to industry measures – size sector GDP, employment compared to other sectors;
- Comparisons of changes in sector versus states with/without similar exemptions;
- Changes in Oklahoma industry employment;
- Changes in Oklahoma industry capital investment;
- State return on investment.

[2] Oklahoma Department of Commerce – Aerospace in Oklahoma. Accessed electronically at https://stateofsuccess.com/wp-content/uploads/sites/2/2018/04/Oklahoma-Aerospace-Brief.pdf

State of Oklahoma
Incentive Evaluation Commission
Spaceport Tax Exemptions Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

The State of Oklahoma offers several space industry-related sales tax exemptions meant to stimulate development within the industry. However, these exemptions have never been used – as a result, no State economic or fiscal impact can be attributed to the incentives. While the exemptions are not currently incenting space industry development, there is also no corresponding fiscal impact on Oklahoma state revenues or budget.

Recommendation: The project team recommends reconfiguring the State's space industry-related incentives.

Given that the Legislature assumed that the incentives might have a positive effect on the State economy, there is no reason to repeal them at this time. As the State has some useful attributes that might make it attractive to the industry, it is logical to attempt to reconfigure its approach. Should that lead to growth in the industry in the State, the Commission would have a better opportunity to conduct a cost benefit analysis of the incentives.

Key Findings

- **The State's spaceport sales tax exemptions have never been used.** According to interviews conducted with Oklahoma Tax Commission subject matter experts, these incentives have never been claimed.

- **The program has had no fiscal or economic impact.** Because no taxpayers have used these sales tax exemptions, the State has not foregone any revenue. There also has been no economic impact as a result of the incentives.

- **Historically, most U.S. military and scientific satellites were launched into orbit by expendable launch vehicles designed for a variety of missions.** Spaceports (i.e., sites for launching spacecraft into orbit) have been developed in recent years to reduce costs associated with space launches and improve dependability, safety and reliability, and there is strong competition in the commercial launch market to develop the next generation of launch systems.

- **Oklahoma has one of a few spaceports in the United States; while it has been used numerous times for aviation-related purposes, it has been a decade since it was used for space flight testing.** Although spaceports were initially developed as federal government facilities, the Federal Aviation Administration (FAA) has licensed 11 non-federal spaceport facilities owned and operated by states, authorities and private companies – including one in Burns Flat, Oklahoma.

- **The space economy is expected to grow exponentially over the next several decades.** A number of private sector forecasters predict the space economy will continue to grow dramatically, though the level of growth varies. Goldman Sachs analysts predicted the sector would grow to about $1 trillion by 2040, consistent with a forecast by Morgan Stanley. Analysts at the Bank of America Merrill Lynch predict the sector will surpass $3 trillion over the same period. According to the U.S. Chamber of Commerce, the sector will reach $1.5 trillion by 2040 – equal to approximately 5 percent of U.S. gross domestic product (GDP).[1]

- **Oklahoma's space industry employment is 33 percent more concentrated as a share of total employment than for the nation as a whole.** Oklahoma ranks seventh among all states in this metric, but its concentration is significantly lower than in Washington, Kansas and Connecticut.

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[1] U.S. Chamber of Commerce – The Space Economy: An Industry Takes Off (October 11, 2018). Accessed electronically at https://www.uschamber.com/series/above-the-fold/the-space-economy-industry-takes

- **Oklahoma's aerospace manufacturing industry attractiveness ranked 20th among states in 2018.** While the state fared relatively well in tax policy (10th), cost (11th), infrastructure (14th) and industry (17th), its economy and labor rankings were low – 36th and 45th, respectively.

- **While several states include the space exploration industry in their general economic development incentives, few provide specific incentives targeted to space activity businesses.** Only Oklahoma, California, Colorado, Florida, New Mexico, Texas and Virginia have these legislative incentives, which include tax preferences (exemptions, credits and deductions), grant programs and limiting the liability of those conducting commercial space transportation activities.

Recommended Changes

Currently, Oklahoma's spaceport exemptions are not achieving the desired result of generating associated commercial launch activity within the state. The following policy modifications may help the State achieve this goal.

- **Modify existing tax exemptions.** Colorado and New Mexico also offer tax exemptions for space-related activity, and California recently considered its own proposal. While the Colorado and New Mexico provisions are similar to Oklahoma's, California's proposal would have exempted space flight income from State taxes.

- **Consider supplementing tax exemptions with other tax preferences and financial incentives.** Targeted legislative programs employed in other states may be worth exploring as a starting point. These include tax credits (Florida), tax deductions (New Mexico, Virginia) and grant programs (Texas). It is notable that until January 1, 2014, Oklahoma offered a commercial space industries tax credit equal to five percent of eligible capital costs for investments in qualified commercial space industry projects.

  In recommending that the National Aeronautics and Space Administration (NASA) create a space-oriented research and development tax credit program to attract commercial space activity, one analysis noted that "refundable tax credits provide an immediate reduction in the potential loss an investor might suffer and also enhance the upside return when the market potential might otherwise not provide sufficient investment incentives."[2]

  A follow-up analysis to the NASA report indicated that tax credits, enhanced small business innovation research (SBIR) programs and direct equity investments are typically the most effective tools for early stage or small companies, and that loan guarantees should be used when the aggregate risk level has been reduced.[3]

- **Support space-related startups with incubator/accelerator services.** As noted in a recent analysis of Washington's space economy, "access to sufficient venture capital and supporting services can be essential for new companies, and space-related companies often have different requirements for facilities and capital and supporting services than other high-tech startups (such as support for navigating federal regulations about space technology)."[4]

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[2] NASA – Supporting Commercial Space Development Part 1: Support Alternatives versus Investor Risk Perceptions and Tolerances (November 2010). Accessed electronically at https://www.nasa.gov/sites/default/files/files/SupportingCommercialSpaceDevelopmentPart1.pdf

[3] NASA – Supporting Commercial Space Development Part 2: Support Alternatives versus NASA Commercialization Priorities (November 2010). Accessed electronically at https://www.nasa.gov/sites/default/files/files/SupportingCommercialSpaceDevelopmentPart2.pdf

[4] Puget Sound Regional Council – Washington State Space Economy (September 2018). Accessed electronically at https://www.psrc.org/sites/default/files/the_washington_state_space_economy-nov2018.pdf

- **Develop and expand supplier relationships.** The same report notes that "building the relationships between space companies and suppliers in the region can be essential in capturing economic benefits. Opportunities should be explored both to link upper-tier manufacturers and original equipment manufacturers with existing lower-tier suppliers, and to attract, grow and retain new suppliers that can support growing demands for a space-related supply chain."[5]

- **Extend liability protections to those involved in spaceflight activities.** According to the FAA, one of the biggest challenges that space transportation operators intending to carry people face is ambiguity regarding how such operations will be regulated on both the federal and state level. Some states have taken steps to remove this ambiguity in order to further incent space transportation companies to locate in their respective states. Virginia was the first state to adopt a liability and immunity act in 2007, followed by Florida, California, Colorado, New Mexico and Texas.

[5] Ibid.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The State's spaceport tax exemptions are one of ten incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Spaceports have been developed in recent years to reduce costs associate with space launches and improve dependability, safety and reliability. Most U.S. military and scientific satellites are launched into orbit by expendable launch vehicles designed for a variety of missions, and there is strong competition in the commercial launch market to develop the next generation of launch systems.

Although spaceports were initially developed as federal government facilities, the FAA has licensed several public and private facilities owned and operated by states, authorities and private companies – including one in Oklahoma.

The Oklahoma Air and Space Port is a public-use airport and industrial airpark that has facilities in place for aerospace testing, research and development, flights and launches. To stimulate development within the industry, the State offers a package of spaceport sales tax exemptions.

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 these exemptions, the specific goal is not provided in law but presumably is to stimulate investment in Oklahoma's space industry.

To assist in a determination of program effectiveness, the Commission has adopted two criteria: (1) change in industry employment over time and (2) industry employment relative to other states. However, these exemptions have never been used – and as such, no industry employment trends or State economic or fiscal impact can be attributed to the incentives.

State of Oklahoma

Incentive Evaluation Commission

Railroad Modernization Income Tax Credit Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

Since 2006, the State of Oklahoma has offered a Railroad Modernization Tax Credit to incent Class II or Class III railroad track reconstruction or replacement. Eligible taxpayers may qualify for a tax credit equal to 50 percent of qualified track improvement expenditures up to a cap of $1,500 multiplied by the miles of railroad track owned or leased by that taxpayer within the State.

Recommendation: Based on its analysis of available data, the project team recommends retaining the program.

Key Findings

- **Rail service is essential to Oklahoma's economy and provides a multitude of additional benefits.** Rail-related employment accounts for more than 20,000 jobs statewide and has an estimated economic impact of $1.4 billion paid in income and total economic output of $6.5 billion. The availability of rail transport provides cost and logistical advantages to Oklahoma firms that enable the state to compete effectively in the global marketplace. The presence of rail freight is especially important in rural areas where agriculture, mining/drilling, manufacturing, and local industries rely on freight shipping. Railroads are also up to four times more fuel efficient than trucks on the basis of ton-miles transported, and as greenhouse gas emissions are directly related to fuel consumption, every ton-mile of freight moved by rail instead of truck reduces greenhouse gases by up to 75 percent. The diversion of freight traffic to rail also increases the safety of the State's highway system.[1]

- **There appears to be a need for additional private investment in Class III railroad tracks.** In its 2013 Report Card for Oklahoma's Infrastructure report, the American Society of Civil Engineers (ASCE) gave the State's rail system a 'B' based on its infrastructure needs, capability and funding (the nation as a whole received a 'C+' for rail infrastructure in that year).[2] The evaluation found that segments of the short line network could not accommodate the high-capacity freight cars common to Class I railroads, and while the short line industry generally had the resources to maintain basic operations, increasingly higher funding would be required to maintain operations in accordance with escalating industry standards.[3]

- **In the years following the implementation of the credit, short line derailments have decreased.** The number of annual derailments peaked in 2006 – the same year the tax credit was enacted. Between 1994 and 2005, the State averaged 10.4 short line derailments per year; between 2007 and 2018, the average decreased to 7.8 annually.

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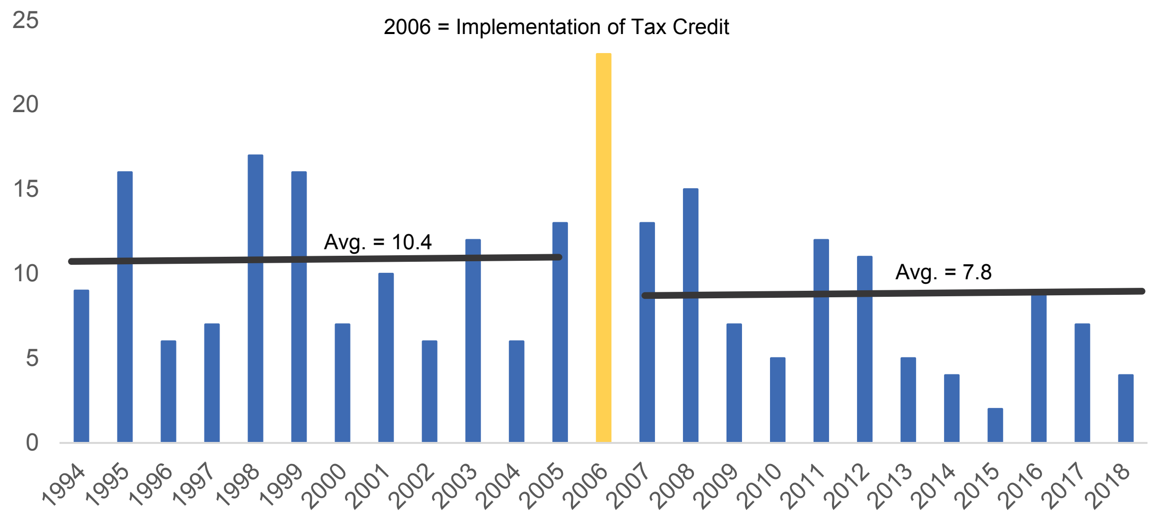
[1] Oklahoma Department of Transportation – 2018 Oklahoma State Rail Plan. Accessed electronically at https://www.ok.gov/odot/documents/OK_StateRailPlan_Final_2018.pdf
[2] 2013 is the most recent year for available Oklahoma data.
[3] American Society of Civil Engineers – 2013 Report Card for Oklahoma's Infrastructure. Accessed electronically at https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-OK-2013-Report-Card.pdf

Figure 1: Derailments Occurring on Oklahoma Class III Railroads, 1994-2018



Source: Federal Rail Administration Office of Safety Analysis

- **Credit use to reduce tax liability fluctuates from year to year.** Between FY2012 and FY2015, credits reduced tax liability by between $150,000 and $1,500,000. Preliminary data indicate the FY2017 total may be approximately $300,000.

- **The tax credit program results in increased statewide economic activity, but the net impact is negative.** Between 2014 and 2017, the program, through direct, indirect and induced economic effects, generated approximately $0.6 million in State tax revenue. Over the same period, however, the State provided nearly $6.1 million in tax credits, resulting in a net impact over the four year period of -$5.5 million, as shown in the following table.

Table 1: Annual Tax Revenue Generated

	Credits Established During Tax Year	Estimated Oklahoma Tax Revenue	Net Impact
2014	$341,753	$32,637	($309,116)
2015	$3,417,691	$352,498	($3,065,193)
2016	$2,042,503	$191,157	($1,851,346)
2017	$259,950	$22,839	($237,111)
Total	**$6,061,897**	**$599,131**	**($5,462,766)**

Other Findings

- **Credits are frequently transferred by railroad companies to other taxpayers.** In tax year 2015, the value of transferred credits used to reduce tax liabilities was $1.5 million. That total decreased slightly – to $1.4 million – in 2016, and to $0.8 million in 2017.

- **A few beneficiaries make up a large majority of total claimants – and most are not railroad companies.** Six taxpayers are responsible for $29.3 million of the $35.1 million in claims made during the past five fiscal years – equal to a share of more than 83 percent of total claims. Among the six, only one – Rio Grande Pacific Corp. – is in the railroad industry. Wal-Mart Stores East LP is the single largest program tax claimant, with claims totaling nearly $10.0 million over the past five fiscal years.

- **State support for short line railroads is typically offered in the form of tax-based incentives (such as Oklahoma's credit, modeled after the federal "45G" credit) and/or through grant or loan programs.** While few states currently have tax credit programs in place similar to Oklahoma's, several states are currently considering or have recently considered similar incentives.

- **Evaluations of similar short time tax credit programs are generally positive but have yielded mixed results.** While several analyses have demonstrated the financial, economic, safety and other benefits of tax credit programs for railroad infrastructure improvements, one analysis found that tax credits are not as effective as direct expenditure programs (i.e. grant and/or loan programs) to support short line railroads, stating that it would be more efficient and timely to focus expenditures on directly addressing the need for improvement in short line infrastructure, rather than on persuading private investors to undertake the investment with an expectation of government repayment.[4]

- **Several changes have impacted the value of and ability to claim the credit in recent years.** A moratorium on the credit in FY2011 and FY2012 prevented claims from being made for eligible expenditures (carried forward credits could still be used). Since January 1, 2016, the value of the credit was reduced by 25 percent. Finally, effective January 1, 2018, an aggregate annual cap of $2.0 million was put into place; all credits are reduced by a percentage that is calculated by the Oklahoma Tax Commission (OTC).

- **The State is not currently at risk of significant increases in expenditures associated with the program.** One of the statutory requirements of the Incentive Evaluation Act 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 implementation of a $2.0 million annual cap effective January 1, 2018, the State is not at risk of significant increases in expenditures related to this incentive.

- **There are concerns about tax data and reporting, but improvements are being made.** There exists a lack of high quality data, which makes it difficult for the State to accurately report on the impact of the incentive. Since 2014, the data collected and reported is more detailed. Additionally, the enactment of HB2335, which directs the OTC to make tax credit data available on its website no later than January 1, 2020, will likely improve data availability and reporting.[5]

Recommended Program Modifications

- **Consider making credits refundable instead of transferable.** Critics of transferrable tax credits question whether it is prudent for tax breaks to be sold to companies in industries the tax credits were not meant to incent. Additionally, selling the credits generally deflates their value, as they are typically sold by those companies at 85 to 90 cents on the dollar. Instead of making credits transferrable, it may be more impactful to make them refundable. Refundable credits provide a larger benefit to the original recipient at the same cost to the State, as these taxpayers would not sell them for less than full value.

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[4] National Center for Intermodal Transportation for Economic Competitiveness – Economic Impact Analysis of Short Line Railroads (2014). Accessed electronically at https://www.ltrc.lsu.edu/pdf/2014/FR_527.pdf

[5] In May 2018, Governor Fallin signed into law HB3225. The information available on the website must be available free of charge, downloadable and offer users the ability to systematically sort and search the data. The bill also sets the minimum standards for what type of information must be disclosed about each tax credit, including a brief explanation of the credit and the following information for tax year 2013 and each tax year thereafter.

- **Standardize reporting to improve data collection and analysis.** As currently reported, the data available on the State's data and statistics website (data.ok.gov) is difficult to summarize and analyze because there is no consistent identifier for taxpayers. To analyze credits claimed by taxpayer, one must use the taxpayer name, which may or may not be consistent. For example, Wal-Mart made nine claims between FY2014 and FY2018. There are three variations of the name in the system: "WAL-MART STORES EAST, LP," "WAL MART STORES EAST LP" and "WAL-MART STORES EAST LP." As a result, data must be cleaned manually before it can be used, and the possibility of human error is increased.

- **To evaluate program success, require eligible recipients to provide additional information about eligible projects.** To understand the full economic impact of the tax credit program and resulting improved transportation infrastructure, data regarding total eligible expenditures – as well as whether an eligible project was linked to an economic development project (retention or expansion) – would be required.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The Railroad Modernization Income Tax Credit, enacted as part of the Railroad Modernization Act of 2005, is one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Oklahoma is a crossroads for freight and passenger rail in the U.S. and maintains more than 3,100 miles of freight rail lines. Overall, the largely private Oklahoma rail industry is responsible for maintaining its basic infrastructure. While the three major railroads in the state have significant resources available to do so, 12 smaller railroads (which serve the majority of rural Oklahoma) have fewer resources to dedicate to network expansion and improvement.

In 2006, the State of Oklahoma began offering a Railroad Modernization tax credit to incent track improvements on these smaller railroads. Taxpayers reconstructing or replacing railroad infrastructure may qualify for a tax credit equal to 50 percent of qualified expenditures up to a cap of $1,500 multiplied by the miles of railroad track owned or leased within the State.

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 goal included in legislation is not identified; however, its purpose is presumably to spur short line and regional railroad infrastructure improvements within the State.

To assist in a determination of program effectiveness, the Commission has adopted the following evaluation criteria:

- Tax credit usage;
- Private investment associated with the tax credit;
- Railroad safety associated with the tax credit;
- State return on investment.

State of Oklahoma
Incentive Evaluation Commission
Rural Economic Action Plan Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

In 1996, the Oklahoma Legislature created two grant programs with a goal to "remove impediments to economic development in rural areas to alleviate the sometimes negative effects of lower population density, population decreases and increased demand for governmental services and to maintain a desirable quality of life for residents and other legal entities in rural areas." The Rural Economic Development Action Plan (REAP) encompasses these two grant programs.

Recommendation: Based on its analysis of available data, the project team recommends reconfiguring the program.

Key Findings

- **The State has two REAP programs.** While largely administered at the local level by regional councils of government (COGs), the Department of Commerce (Department) provides oversight for REAP economic development project funds, while the Oklahoma Water Resources Board (OWRB) provides oversight for REAP water infrastructure project funds.

- **The State's REAP funds are competitively awarded and appear to be in demand.** Local governments must apply for funds in support of specific infrastructure projects, and applications for funds surpass the funds available.

- **Based on a high level analysis, REAP funds do not appear to impact quality of life measures.** The project team did not observe changes in unemployment rate, median household income or poverty rate in local governments receiving funding or relative to local governments not receiving REAP funds.

- **Data related to certain evaluation criteria is not collected by program participants or the programs' administrators.** The Commission's criteria for evaluation include Oklahoma jobs creation and capital investment associated with funding in participating local governments, and comparisons to similar local governments not participating. This data is not collected or tracked by the local governments or the COGs responsible for administering the REAP funds.

- **REAP grants result in increased statewide economic activity, but the net impact is negative.** Between 2014 and 2018, the grants, through direct, indirect and induced economic effects, generated approximately $2.3 million in State tax revenue. Over the same period, however, the State provided nearly $52.0 million in grant funds across both funding programs, resulting in a net impact over the five year period of -$49.6 million.

- **A traditional economic impact analysis does not capture the full benefits of improving infrastructure.** For example, improving transportation infrastructure can reduce travel time and costs. In addition, new capacity might attract a new firm to the region. However, the information currently collected by the State does not allow for this type of analysis.

Other Findings

- **While several states have grant programs structured much like Oklahoma's, other state approaches focus on directly incenting businesses to locate in rural areas.** Many states, including Florida, Georgia, North Carolina, South Carolina and Utah, have programs that combine REAP-like benefits with other rural economic development initiatives.

- **The State is not at risk of significant increases in the costs associated with these programs.** One of the statutory requirements of the Incentive Evaluation Act 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 that grant funds are appropriated by the legislature each year, the State is not at risk of unknowingly making significant increases in expenditures related to this incentive.

Recommended Program Modifications

- **Increase REAP funding and/or pair the REAP program with other rural economic development strategies.** Currently, REAP funds are spread thinly across the state. In FY2018, the average water project grant was $84,000, and the average economic development project grant was $34,000 – likely far below the total cost of the projects. Consider increasing program funding and/or directing funds toward the implementation of strategies employed in other states, such as the rural investment fund approach used in Georgia, Pennsylvania and Utah.

- **Eliminate the provision that requires INCOG and ACOG to split a share of available funds.** As currently constructed, the program provides that INCOG and ACOG receive half the share of REAP funding despite having REAP-eligible communities. For example, the FY2019 OWRB apportionment of nearly $3 million was distributed so that INCOG and ACOG each received $149,139, while all other COGs received $298,279. Similarly, the Department’s appropriation of just over $10 million was distributed so that INCOG and ACOG each received $0.5 million, while all other COGs received slightly over $1 million. As INCOG and ACOG contain communities eligible for REAP funds, this provision appears to be unnecessarily restrictive.

- **To measure program success, require communities to provide additional information regarding the impact of REAP-funded projects.** To understand the full economic impact of the grant programs and resulting improved local government infrastructure, data regarding whether the projects generated the desired effects would be required. For example, the State could develop, provide to the COGs and require use of a financial model that calculates each project’s return on investment.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The following evaluation of the Rural Economic Action Plan (REAP) grant programs administered by the Oklahoma Department of Commerce (Department) and OWRB is one of 10 evaluations being conducted by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to these programs.

Incentive Background

Oklahoma's population is more than one-third rural, significantly more so than the U.S. as a whole (19.3 percent). Rural areas face unique challenges that may hinder economic development opportunities, including lower incomes and employment rates, heightened sensitivity to economic trends that affect their leading industries and reduced financial capacity to address infrastructure needs.

In 1996, the Oklahoma Legislature created two grant programs with a goal to "remove impediments to economic development in rural areas to alleviate the sometimes negative effects of lower population density, population decreases and increased demand for governmental services and to maintain a desirable quality of life for residents and other legal entities in rural areas."

While these programs (which provide grant funds to local governments for water quality and economic development projects) might not be considered incentives in the traditional sense. For example, the incentive evaluation law, HB2182, defines an incentive for purposes of evaluation to include grants that are "intended to encourage businesses to locate, expand, invest or remain in Oklahoma, or to hire and retain employees in Oklahoma." Given the REAP programs' intent to improve economic conditions to spur business investment, the Commission concluded that they are subject to review under the process.

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 goal included in legislation is to improve the quality of life in rural Oklahoma. Per Oklahoma statute, the intent is to "remove impediments to economic development in rural areas in order to alleviate the sometimes negative effects of lower population density, population decreases and increased demand for governmental services and in order to maintain a desirable quality of life for residents and other legal entities in rural areas."

To assist in a determination of program effectiveness, the Commission has adopted the following criteria:

- Demand for and usage of the program;
- Oklahoma jobs created for participating local governments, and comparisons to similar local governments that do not;
- Changes in capital investment for participating local governments, and comparisons to similar local governments that do not;
- Quality of life measures – changes in median income, poverty rate, employment within local governments that participate, and comparisons to similar local governments that do not;
- State return on investment.

State of Oklahoma

Incentive Evaluation Commission

Oklahoma Local Development & Enterprise Zone Incentive Leverage Act Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act provides funding for local units of government to match local tax revenue dedicated to support a project located in an enterprise zone.

Recommendation: Based on its evaluation of available data, the project team recommends retaining, the program with minor modifications.

Key Findings

- **Oklahoma City is this incentive's primary and nearly sole beneficiary.** According to the Oklahoma Tax Commission (OTC), it is nearly the only user of this program.[1]

- **Very limited data is available regarding the program's use. Limited data exists to aid in the evaluation of this program.** Five Oklahoma City tax increment finance (TIF) Districts with project budgets ranging from $5 million to $167 million currently use leverage funds available under this program.

- **Information related to most evaluation criteria (employment, capital investment and other results associated with enterprise zones, such as changes in assessed value) is not available.** This issue is not unique, as studies of the impact of enterprise zones frequently site the inability to isolate metrics within an enterprise zone's boundaries.

- **The program is intended to be fiscally neutral to the State.** Applicants are required to demonstrate a positive return on investment for local governments and the State, and applications must include an estimate of the incremental revenues likely to be derived from the project.

- **To ensure revenue neutrality, the Department of Commerce (Department) calculates a net benefit rate for each project as required by law.** This approach is a best practice used in many states to help ensure a positive return on investment, while creating an incentive program that achieves its goals of jobs creation and attracting private investment. The Department uses an in-house methodology to determine the net benefit to the State of Oklahoma after deducting direct and indirect expenses incurred by the State. The net benefit rate for a hotel project, for example, is computed by dividing direct net benefits to the State by the projected sales tax revenue that would be generated given an estimated hotel occupancy rate (e.g., 70 percent occupancy).

- **Based on standard econometric multipliers, it is reasonable to estimate the State of Oklahoma captures an amount equal to or greater than the incentives offered under this program.** By design, the net benefit calculations estimate the total eligible payment to a project after subtracting direct educational and general government costs. No attempt is made to estimate other direct tax revenue or the indirect and induced effects (e.g., workers spending wages in the local economy). In FY2018, for example, sales tax (State only) represented about 25 percent of total collections from all sources administered by the OTC. Projects using this program would generate additional tax revenue, such as income tax, alcoholic and mixed beverage tax and gasoline tax. The total economic and tax impact (direct + indirect + induced) yields positive tax revenue above what is calculated in the net benefit analyses.

- **Developers typically receive other incentives in conjunction with this program.** In addition to the benefits provided by this incentive, developers also receive other enterprise zone-related benefits. The

[1] In addition to projects within Oklahoma City, this program has supported a military growth impact project associated with Fort Sill.

new federal opportunity zone provisions and Oklahoma's associated "Priority Enterprise Zones" add an extra layer of possible benefits, including the ability to defer and/or reduce capital gains tax liability.

Other Findings

- **The incentive is relatively uncommon among states.** While enterprise zones are often employed nationally, the leverage/match associated with this program is unique.

- **The State is not currently at risk of significant increases in costs related to this program.** Because the program requires a net benefit rate and the matching payments are based on actual sales tax revenues generated by the projects, and because there is an aggregate limit placed on all state local government matching payments that might be made, the State is not at risk of expenditures increasing beyond its control.

Recommended Program Modifications

- **Increase program appeal and usage beyond Oklahoma City.** Currently, the program's sole user is Oklahoma City. In order to expand its uses, the State should ensure the program is widely advertised statewide.

- **Improve data collection.** Very limited data is currently available regarding the program's use, making an evaluation of the program challenging. The State should collect and report on employment, capital investment and other impacts associated with enterprise zones, such as changes in assessed value.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The Oklahoma Local Development and Enterprise Zone Leverage Act is one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

When communities across the nation seek to stimulate economic growth, they have several options designed to provide incentives to businesses, including tax increment financing (TIF) districts and enterprise zones.[2]

In addition to these economic development tools, since July 1, 2000, Oklahoma provides funding for local governments to match local tax revenue dedicated to support economic development projects. This program, authorized under the Oklahoma Local Development and Enterprise Zone Incentive Leverage Act (62 O.S. § 840 et. al), uses a portion of State taxes levied and collected to pay local enterprise and local government incentive claims and is intended to be fiscally neutral to the State. Eligible projects must be located entirely in an enterprise zone, in support of a major tourism destination or in support of a military growth impact.

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 goal included in legislation is not provided.

To assist in a determination of program effectiveness, the Commission has adopted the following criteria:

- Program usage and amount of layering with other programs;
- Oklahoma employment associated with the program;
- Capital investment associated with program use;
- Results associated with enterprise zones – changes in assessed value of property within zones, case studies, survey results, comparison to similar non-zone area results; and
- State return on investment.

[2] TIF districts and enterprise zones are explained more fully later in the evaluation.

State of Oklahoma
Incentive Evaluation Commission
Computer Services, Data Processing and Research and Development Tax Exemption Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

The State offers a sales and use tax exemption to new and expanding businesses primarily engaged in computer services and data processing or research and development. In order to qualify, computer services and data processing or research and development firms must derive at least 50 percent of its gross revenue from the sales of goods or services to out-of-state customers, and create 10 new jobs at an average annual salary of $35,000. Data processing firms must make a minimum of $100,000 in qualified purchases. Eligible purchases include computers, data processing equipment, and telecommunications services and equipment.

Recommendation: The project team recommends repealing the program due to its lack of use.

Key Findings

- **Oklahoma's sales and use tax exemption for firms engaged in computer services and data processing or research and development has not been used in the last five fiscal years.** A significant factor in its lack of use is the state's separate tax exemption for computer services and data processing firms. This separate exemption has no job creation requirement, no minimum purchase requirement and does not require firms to submit claims to the Tax Commission for each qualifying purchase. Data processing firms, which would be most likely to use the exemption based on recent industry growth, would prefer the separate exemption based on the minimal requirements associated with it and its relatively easier administrative process.

- **It may be difficult for data centers to meet job creation requirements.** In order to qualify for the exemption, a data center must create at least 10 new jobs. Employment per data center establishment has been declining in Oklahoma and nationally. In 2018, employees per data center establishment in Oklahoma was less than 7. Nationally, average employment at data centers has declined by 39.7 percent since 2001. Of 22 benchmark states, 9 have no requirement for job creation for this type of incentive.

- **Data center investment may generate increased property and sales tax revenue, but it generally does not create a significant number of new jobs.** A 2016 evaluation of Washington's tax exemption for data centers estimated a cost of $205,000 per job for FY 2015 through FY 2019. In 2016, Oregon evaluated its incentives for data centers and found the amount of exemptions per job ranged from $87,000 to almost $800,000 in FY 2015. Of course, there may be businesses that cluster around data centers that create additional net new jobs.

- **Research and development firms are likely choosing the Quality Jobs Program or Small Employer Quality Jobs program instead of this incentive.** The Quality Jobs and Small Employer Quality Jobs programs do not allow companies to benefit from both incentives at once. Research and development firms in industries that would qualify for the exemption are subject to lower total payroll thresholds of $1.5 million (instead of the standard $2.5 million), and neither program imposes an out-of-state sales requirement on those industries.

Other Findings

- **Oklahoma ranks highly among states in terms of affordable electricity, but ranks low among states in broadband coverage, which are two important factors in data center location decisions.**

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The Computer Services, Data Processing and Research and Development Tax Exemption is one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Nationally, there has been strong growth in the data center industry, with the number of data center establishments increasing by 60 percent between 2012 and 2018. During this timeframe, there has been strong competition among states to attract investment in this sector. Programs comparable to Oklahoma's have been found in 21 other states, with 2 of the programs signed into law in 2019.[1]

Oklahoma offers a sales and use tax exemption to new and expanding businesses primarily engaged in computer services and data processing or research and development. A qualifying firm must derive at least 50 percent of its gross revenue from the sales of goods or services to out-of-state customers, and create 10 new jobs at an average annual salary of $35,000. Data processing firms must make a minimum of $100,000 in qualified purchases. Items exempt from sales and use tax include computers, data processing equipment, and telecommunications services and equipment.

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 exemption, no specific goal is included in legislation. However, based on the characteristics of the exemption, the intention of the exemption appears to be to encourage investment in Oklahoma by computer services, data processing and research and development firms.

Additionally, to assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- Changes to industry measures – size sector GDP, employment compared to other sectors;
- Comparisons of changes in sector versus states with/without similar exemptions;
- Changes in Oklahoma industry employment;
- Changes in Oklahoma industry capital investment;
- State return on investment.

[1] Illinois and Indiana each created new exemptions for data centers in 2019.

State of Oklahoma
Incentive Evaluation Commission
Construction Materials Tax Exemption Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

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. According to the Oklahoma Tax Commission, the incentive has not been used over the last five fiscal years.

Recommendation: The project team recommends repealing the program.

The project team recommends repealing the program as it is no longer useful to the state. The intent of this incentive is now being fulfilled by the Quality Jobs Program. At each level of qualification for the exemption, the Quality Jobs Program offers a greater benefit to the manufacturer.

Key Findings

- **The exemption has not been claimed in the last five fiscal years.**
    - Eligible businesses are likely choosing the state's Quality Jobs Program instead of the Construction Materials Sales Tax Exemption;
    - The Quality Jobs Program statute prohibits the use of both programs simultaneously. At each level of qualification for the exemption, the Quality Jobs Program offers a more generous benefit in present value terms.

- **Documentation required to submit claims may be burdensome.** Statute requires that the following information be included in each refund claim:
    - Invoices indicating the amount of state and local tax billed;
    - Affidavit of each vendor that sales tax charged has been collected by the vendor and remitted to the Tax Commission;
    - 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;
    - Additional data required by the Tax Commission.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The Construction Materials Tax Exemption Evaluation is one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Incentive Background

The program 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. According to the Tax Commission, the incentive has not been used over the last five fiscal years.

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 goal of the incentive is not listed in legislation. However, the goal of the incentive can be interpreted to be to encourage the construction of manufacturing or distributor facilities or expansions in the state.

Additionally, to assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- Changes to industry measures – size sector GDP, employment compared to other sectors;
- Comparisons of changes in sector versus states with/without similar exemptions;
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment;
- State return on investment.

State of Oklahoma
Incentive Evaluation Commission
Economic Development Pooled Finance Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

The Economic Development Pooled Finance Program was established in 2009 by the Oklahoma Community Economic Development Pooled Finance Act. The Legislature sought to support economic development and public infrastructure projects for the purpose of attracting private investment, creating jobs, and developing infrastructure essential to a safe and productive environment for state residents and visitors. The program seeks to accomplish this through a $200 million pool of financing made available to for-profit entities for an economic development project, or two or more local governments for a local infrastructure project. Debt is issued by the Oklahoma Development Finance Authority (ODFA) to finance a project that receives approval from the Department of Commerce (Department). The debt is repaid by the recipient either through captured withholding taxes generated by a for-profit entity receiving funding, or a new tax or tax increase levied by the local governments receiving funding.

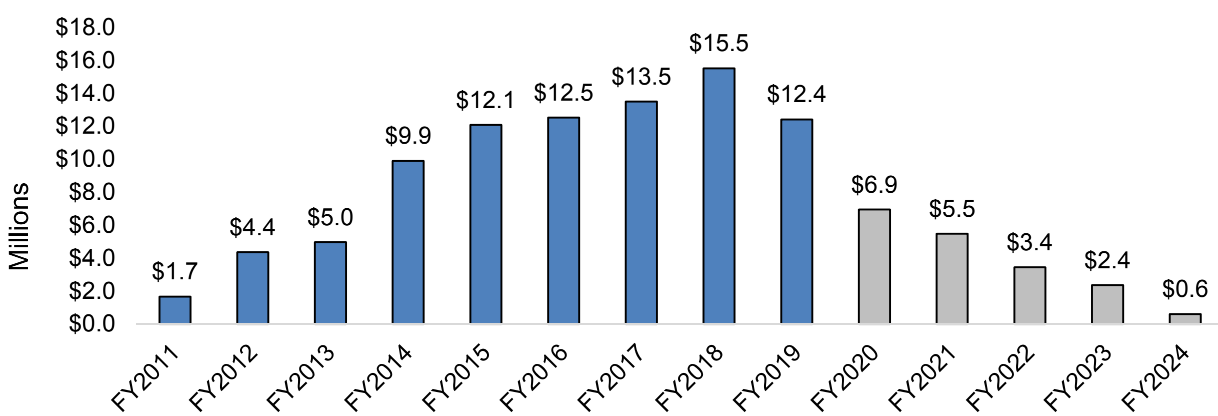
Recommendation: Based on its analysis of available data, the project team recommends retaining the program with minor modifications.

Key Findings

- **All Projects that have received financing through the program expect to create 4,269 jobs and make capital investment of $1.5 billion.** The average funding received by pooled finance beneficiaries is about $4.3 million.

- **Since FY 2011, $86.9 million in withholding tax revenue has been foregone by the State as part of the program.** Foregone withholding tax revenue peaked in FY 2018 and is projected to decline through FY 2025, pending additional financing awards. If no new financing awards are made, the program is expected to reduce state revenue by an additional $21.8 million from FY 2020 to FY 2025.

Figure 1: Actual and Projected Foregone Revenue, FY 2011 - FY 2025



- **The average wage of new jobs associated with Economic Development Pooled Finance projects is $33,447.** Of the total new jobs reported, 77.2 percent had reported average wages less than the county average at the time funding was awarded by the Department, although all new jobs pay a wage exceeding the state threshold wage used by Quality Jobs with the exception of two most projects receiving awards in FY 2019. However, the funding provided to projects with low average wages is relatively small. These projects received only 12.9 percent of total funding provided by the program and averaged $2.2 million per project, compared to the overall project average of $4.0 million.

- **Over the past five years, the average number of years required to recoup the incentives offered was three years.** Assuming these firms are still in business after three years, the return on investment to the State for these projects is positive.

- **No pool funds have been used for local government infrastructure projects.** The program was originally intended to be used by local governments to finance infrastructure projects in addition to for-profit entities. However, the program has never been used by a local government for this purpose. Reasons for this likely include the requirement for a voter-approved tax increase in order to repay debt, as well as the requirement that two or more local governments work together on the infrastructure project. As a result, the program was reconfigured to allow all pooled funds to be used for either for-profit companies or local government projects.

Other Findings

- **On average, 18 percent of the capital investment associated with a project is funded by this program.** This is often a greater dollar benefit for the company than may be obtained through the Quality Jobs or the Investment Tax Credit (ITC) programs. The project team's analysis found that 14 of the 25 projects funded by the program received a greater benefit than was available to them through Quality Jobs or the ITC.

- **Of 25 total projects receiving funding, 12 would not have met Quality Jobs Program requirements.** The Quality Jobs Program's requirement, that new jobs pay at least the county average wage, up to a state threshold wage, would not be met by 2 projects; further, 9 projects would not have met the Quality Jobs Program total new payroll requirement of $2.5 million, and 1 project that may have been eligible for the Small Employer Quality Jobs program would not have met its job creation requirement.

Recommended Program Modifications

- **Add a clawback provision requiring a company to repay all captured withholding taxes if it ends operations in the State prior to the end of the expected repayment period.** Currently, there is no provision that would require a recipient firm to repay the State for foregone revenue in cases where project expectations are not met. This leaves the State vulnerable to losses in the event of a recipient going out of business or failing to create expected new jobs.

- **Establish regular reporting of awards and costs associated with the program.** There is currently no regular reporting of awards and costs required by statute. Other major State incentive programs, including the Quality Jobs Program and the Investment Tax Credit regularly report awards made, the recipients of the awards and other information. This reporting improves transparency and accountability. Without this reporting, the costs and benefits of the program are unclear to the public and other stakeholders.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The Economic Development Pooled Finance program is one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

The program was established in 2009 by the Oklahoma Community Economic Development Pooled Finance Act. The Legislature sought to support economic development and public infrastructure projects for the purpose of attracting private investment, creating jobs, and developing infrastructure essential to a safe and productive environment for state residents and visitors.[1] The program seeks to accomplish this through a $200 million pool of financing made available to for-profit entities for an economic development project, or two or more local governments for a local infrastructure project. Debt is issued by the Oklahoma Development Finance Authority (ODFA) to finance a project that receives approval from the Department of Commerce (Department). The debt is repaid by the recipient either by captured withholding taxes generated by a for-profit entity receiving funding, or a new tax or tax increase levied by the local governments receiving funding.

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 goal included in legislation is to attract private investment and job creation and to develop public infrastructure.

Additionally, to assist in a determination of program effectiveness, the Commission has adopted the following criteria:

- Job creation associated with financed projects;
- Capital investment (facilities, machinery and equipment) associated with financed projects;
- Comparison of performance of similar cities/counties in job creation and capital investment without using the program;
- State return on investment.

[1] O.S. 62-891.2

State of Oklahoma
Incentive Evaluation Commission
Seed Capital Fund Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

The Oklahoma Seed Capital Fund (OSCF) makes early-stage equity investments to Oklahoma businesses in industries with technologies and proprietary products, processes, or knowledge that provide high growth opportunities. OSCF invests in high-growth small businesses based in Oklahoma with a goal of using the state's investment to attract additional private investment.[1] OSCF investments range from $0.2 million to $1.5 million. In most cases, the investment is made with 100 percent matching from private sources. Qualifying firms must have at least 50 percent of its employees and/or assets in Oklahoma. The OSCF is funded through the Oklahoma Center for the Advancement of Science and Technology (OCAST) and managed by i2e, a not-for-profit corporation that specializes in investing in innovative Oklahoma-based small businesses.

Recommendation: Retain the program, with minor modifications.

The project team recommends retaining the program, because there is evidence of a lack of venture capital funding available in the state, the program is well-designed based on best practices, and the fund is still relatively early in its lifecycle.

Key Findings

- **From 2008 to 2018, $22.9 million has been invested in 37 companies.** Of the 37 companies, 24 are still in business in Oklahoma, 8 have gone out of business, 4 have been acquired, and 1 has relocated to Texas.

- **From 2008 to 2018, total capital investment by companies receiving OSCF investments was $222.3 million.**

- **A total of $364.5 million in private capital has been leveraged.** The OSCF investment typically has at least a 100 percent match from private sources. It is a best practice for government sponsored venture capital funds to make investments only with significant co-investment from the private sector. The Center for American Entrepreneurship recently suggested government investment account for no more than 40 percent of a total investment.[2]

- **The program invested $22.9 million between 2008 to 2018, received $9.1 million in repayments, and generated an estimated $16.7 million of tax revenue for the State, creating a net fiscal benefit of $3.0 million.**

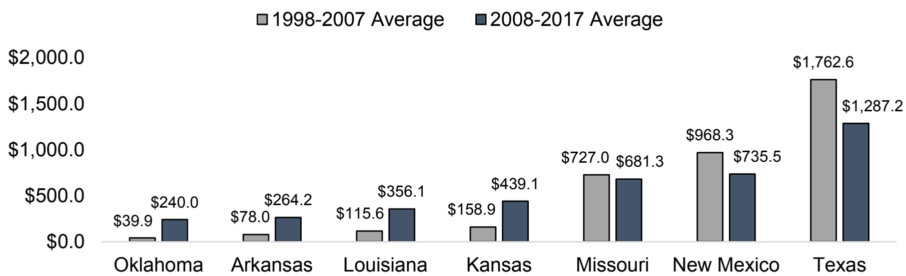
- **The most common OSCF investment recipients are companies operating in the biopharmaceutical or computer software industries.** These industries account for 68.0 percent of the total number of investments and 70.0 percent of the total dollar amount of investments made.

- **Oklahoma ranks low among nearby states and the nation in terms of venture capital funding disbursed.** According to data from the National Science Foundation, Oklahoma ranks 46th among all states in the average dollars of venture capital disbursed per state GDP from 2008 to 2017. Among nearby states, Oklahoma ranks lowest in this metric. However, Oklahoma's 2008

[1] Small business, defined by the United States Small Business Administration
[2] Center for American Entrepreneurship "Some Considerations for Governments Interested in Public Venture Capital Programs" 2019. Accessed electronically at https://www.startupsusa.org/blog/some-considerations-for-governments-interested-in-public-venture-capital-programs/

to 2017 average venture capital dollars disbursed per $1 million of state GDP has had the strongest growth compared to the 1998 to 2007 average among nearby states.

Figure 1: Dollars of Venture Capital Disbursed per $1 million of State GDP, 2008 to 2017



Source: National Science Foundation

- **Data collection and reporting improvements are needed.** Data reported by i2e is collected via an annual survey of all participating firms. The response rate of firms varies from year to year, so there can be no time-series trend drawn from the data. There is also no information collected that identifies the sector where each job is created or at what stage in the investment's lifecycle it was created. Other key data for measuring the impact the investment made on each company would be reports of growth in sales and measures of profitability. This cannot be ascertained from aggregate level data collected from the annual survey and reported annually by i2e.

Other Findings

- **There are several positive administrative features of the OSCF, which include:**

  - **The fund is operated by a private third-party entity.** Both the Center for American Entrepreneurship and research by the National Bureau of Economic Research suggest that government supported venture capital funds perform best when the government has limited investment decision-making power. Reasons for this include the government often not having the expertise to make investment decisions, and it limits the opportunity for investment decisions to be politically influenced. Operating government supported venture capital funds through a private third-party entity allows for professionals with extensive experience in the private investment sector to lead investment decisions.

  - **Non-financial support is provided.** In addition to funding, consulting services, networking opportunities, and investment industry expertise are provided by i2e. These services, especially networking opportunities, are important in generating healthy entrepreneurial environments. According to i2e's annual survey, customer satisfaction with these services was rated 4.31 out of 5 in 2017.

  - **The fund has reasonable expectations.** Time horizon of funding series is generally 10 to 15 years. Investing in early-stage companies is a long process. The ability to make long term investments is an advantage for government-supported venture capital relative to private venture capital generally. Private venture capital funds may experience greater pressure to target early exits.

- **The fund typically has at least 100 percent matching investment from private sources.** The statute authorizing the fund requires it to have at least one additional equity or near-equity partner in each investment, but i2e guidelines include a goal of a one-to-one match of private investment. This is a step in the right direction, but the Center for American Entrepreneurship recommends that government venture capital funds contribute no more than 40 percent of a total funding round.

- **State appropriations to the fund have declined from $3.7 million in FY 2015 to $2.9 million in FY 2020.** This follows the trend in OCAST appropriations overall, which have declined from $16.8 million in FY 2015 to $14.3 million in FY 2020. As the fund matures, the goal is for the fund to be self-sustaining, as all investment returns are reinvested in the fund. Due to the high-risk nature of investments in seed-stage companies, the success of this type of fund is usually determined by a small portion of portfolio companies that may produce very high returns. The OSCF has had several very successful companies in its portfolio, including Selexys, a biopharmaceutical firm, and WeGoLook, a computer software firm. Both were acquired in 2016 and generated a return of 13.4X and 6.14X, respectively.

Recommended Program Modifications

- **Improve data collection and reporting.** Annual data collection and reporting should be modified to collect and report data that better ties business performance to the initial investment made by the fund. This would improve future evaluations and more accurately describe the benefits of the program. An annual survey distributed by i2e collects employment, wages, revenue levels, and other metrics of companies that have received fund investments. The annual report of this data provides a cumulative snapshot of these metrics at an aggregate level, but could be improved by providing an indication of net growth in these categories relative to the fund's initial investment, to the extent possible while preserving anonymity of individual companies.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). 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 first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The Oklahoma Seed Capital Fund is one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Venture capital funding provides start-up companies with needed capital funding to support the development of products and services at an early stage in the business lifecycle. More than three quarters of venture capital investments are made in California, New York, and Massachusetts, leaving other states struggling to compete and develop or keep start-up companies within their borders.[3] Oklahoma is one of many states across the country that has developed programs to support in-state venture capital.

Oklahoma's Seed Capital Fund (OSCF) focuses on investing in seed-stage companies based in Oklahoma. The fund is supplied with capital through appropriations to the Oklahoma Center for the Advancement of Science and Technology (OCAST) and is managed by i2e, a private not-for-profit corporation that specializes in investing in innovative Oklahoma-based small businesses.

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 program, the specific goal is not established in legislation. However, based on the structure of the program and the investments it makes, the program intends to fill a need for venture capital funding in the state and support Oklahoma start-ups with funding and other business development support in order to maintain the presence of successful, growing start-ups in the state.

Additionally, to assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- Program use;
- Amount of capital investment;
- Comparison of capital investment in general to capital investment in eligible projects;
- Oklahoma jobs created by firms receiving incentive;
- Financial performance of the fund;
- State return on investment.

[3] National Science Foundation and Bureau of Economic Analysis data

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State of Oklahoma
Incentive Evaluation Commission
Training for Industry Program Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Key Findings and Recommendations

Overview

The Training for Industry Program (TIP) provides reimbursements for workforce trainings conducted by new or expanding companies in Oklahoma. The program is intended to serve companies exporting goods and services in the following ecosystems: Manufacturing: Aerospace and Defense: Energy; Transportation and Distribution; Agriculture and Biosciences; Information and Financial Service; and Health. The Oklahoma Department of Career and Technology Education (ODCTE) oversees administration of the program in conjunction with technology centers across the state, who directly interface with the companies benefitting from the program. Trainings can be fully reimbursed by the program. From FY 2014 through FY 2018, reimbursements averaged $28,500 per training and totaled $4.8 million.

Recommendation: Reconfigure.

Key Findings

- **A total of 10,166 employees received training through TIP from FY 2014 through FY 2018.** Manufacturing, with 45.2 percent of the total, is the industry group with the greatest share of employees trained.

- **Companies have received $4.8 million in reimbursements for training costs from FY 2014 through FY 2018.** Over this period, manufacturing (47.6 percent) and professional, scientific, and technical services (33.6 percent) combine for 81.1 percent of all reimbursements paid by the program.

- **Wages of trainees vary widely.** The overall average annual wage associated with jobs that received TIP training was $37,976, but there is no wage requirement for trainings to be funded. As a result, the jobs associated with trainings vary widely. Hourly wages of jobs receiving training ranged from $8.50 to $59.95. From FY 2014 through FY 2018, the reported average wage of new jobs as a percentage of the average county wage ranged from 56.3 percent to 161.5 percent. In Oklahoma and Tulsa counties (the location of most jobs receiving training), the average wage of those jobs was 85.1 percent and 77.1 percent, respectively.

- **ODCTE does not collect data regarding employee retention or survey participating firms following participation in the TIP.** Effective evaluations of other programs have often measured impacts on wages and productivity in the period following training in order to measure the impact of trainings.

- **From 2014 to 2018, the project team calculated a net benefit to the State from the program.** During this period, $4.8 million in reimbursements were made through the TIP that supported new or expanding companies. This is calculated to have generated $67.7 million in tax revenue for the state, resulting in a net fiscal benefit of $62.9 million over the period.

- **The project team's survey of technology centers that have conducted the training yielded several findings related to program administration:**

    - When asked if TIP funding was sufficient to complete effective training programs, 53.9 percent of respondent technology centers indicated that it was, while 30.8 percent reported it was not sufficient. When asked to explain their answer, each respondent that reported that funding was not sufficient cited all funds being allocated in July as the reason. This has been resolved by a change implemented by ODCTE effective in FY 2019. Now, a training must begin within 60 days of awarded funding. If this does not occur, that funding is made available to other projects instead of being tied to a qualified project that never takes place. This allows for unused funding to be allocated throughout the year.

- Technology centers reported significant difficulty using the CareerTech Information Management System (CTIMS), through which all training expenses are logged and reimbursed. Survey respondents reported that the system is cumbersome, not intuitive, and time consuming. A total of 61.5 percent of survey respondents reported the administrative process was cumbersome or was in need of streamlining. This creates a significant administrative burden for technology centers conducting and administering trainings. Beyond increased administrative time using the system, it may also impact the effectiveness of trainings. For example, if a change is made to the training plan beyond for the initially approved funds, one respondent indicated this change order can take weeks (or even months) to process.

- Almost all Technology Centers that have administered trainings reported that the program has helped them build lasting relationships with local firms, adding to the indirect benefits of the program.

▪ **The project team's survey of training recipients yielded the following findings:**

  - All respondents to the survey reported being satisfied with the training received as well as the application process and administration of the program.

  - When asked if the training had a positive impact on firm sales, 5 of 9 respondents reported it had, while 4 reported being unsure. Some respondents elaborated that the trainings had increased productivity and quality of work, which in turn improved sales. 7 of 9 respondents reported that the program had improved the quality of the firm's workforce.

  - When asked if the training would have taken place without the Training for Industry Program, 7 of 9 respondents reported that the training still would have taken place. Of those responses, 6 reported the training would have been scaled back without the program, while 1 reported the training would have taken place as planned. Only 1 respondent reported that the training would not have happened without the program.

  - Two respondents reported the program impacted a decision to locate or expand in Oklahoma, while four respondents reported it did not.

  - A majority of respondents reported using their local technology center's services since participating in the program. This suggests that the program helps to facilitate long-term relationships between technology centers and local firms.

Other Findings:

▪ **Workforce skill-level is an important factor in location decisions.** Availability of skilled labor was rated the most important site selection factor in Area Development's 2018 Corporate Survey, with more than 90 percent of respondents reporting it is "very important" or "important" when considering a relocation or expansion.[1]

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[1] Area Development Annual Corporate Survey. Accessed electronically at https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2019/33nd-annual-corporate-survey-15th-annual-consultants-survey.shtml

Recommended Program Modifications

- **Establish a minimum wage requirement or weighting criteria.** In order to target incentives toward higher quality jobs and improve consistency with the state's standards for other incentive programs, the project team recommends implementing wage requirements similar to that of the Quality Jobs program. Targeting higher wage jobs should lead to greater return on investment for the State. While there can be benefits for training for low-wage workers (as increasing their skills may improve the overall productivity of the State workforce), the State could develop a separate program with a different training emphasis if it intends to specifically benefit this cohort. For example, low-wage worker training programs in other states often require basic skills training and English as a second language classes.

- **Collect data regarding wage increases and employee retention following training.** An expected benefit generated by training programs is increased wages due to higher productivity and skills attainment. Collecting information on wage increases and employee retention following training would allow for a better evaluation of program benefits in the future. A comparable program in Florida has a system in place to track this data. In order to track wage increases over time, CareerSource Florida, the administrator of the program, collects the legal name, social security number, date of hire and job title of each employee to be trained for long-term evaluation.

- **Require applicants to demonstrate the need for program funding.** The project team's survey found that several companies believe trainings that received funding would have taken place without the reimbursement provided by the program. A possible model for modification is New Jersey's Workforce Development Partnership Program. As part of the application to receive benefits from this incumbent worker training program, an applicant must demonstrate that it would not be able to provide the training, or that significantly less training would be provided without funding. [2] Nebraska's Worker Training Program also requires a statement of need as part of its application.

- **Require applicants to demonstrate the potential for trainee retention and career progression.** TIP currently prioritizes projects based on return on investment as calculated by comparing the income tax benefits generated by new jobs to the requested training reimbursement. The potential for wage increases and levels of employee retention are not considered in this calculation. It is in the state's best interest to incentivize training for high quality jobs, which provide the potential for long-term retention and wage growth. New Jersey's Workforce Development Partnership Program provides another model for a program modification. It requires applicants to submit long-term human resource development plans that show increases in productivity and the employment security of workers. Another example of a comparable program emphasizing retention is Pennsylvania's Workforce and Economic Development Network Essential Skills Training program. Under this program, companies with an annual employee turnover rate of 25% or greater are not eligible for funding.[3]

[2] New Jersey Administrative Code Title 12, Chapter 23
[3] Workorce and Economic Development Network of Pennsylvania, Company Guidelines FY2020. Accessed electronically at https://dced.pa.gov/download/wednet-company-guidelines/?wpdmdl=58765

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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 goal included in legislation is to provide training to targeted industries that are creating new employment and opportunities that have significant economic impact on Oklahoma's economy.

Additionally, to assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- Program usage;
- Program applications;
- Business workforce impacts – retention before and after program, employee satisfaction survey, evidence of skills development;
- State return on investment.