



STATE OF OKLAHOMA
INCENTIVE EVALUATION COMMISSION

TAX INCENTIVE EVALUATION REPORT
2020



STATE OF OKLAHOMA INCENTIVE EVALUATION COMMISSION

VOTING MEMBERS

LYLE ROGGOW

Chairman

CARLOS JOHNSON, CPA

Vice-Chairman

EARL SEARS

Commissioner

DR. CYNTHIA ROGERS

Commissioner

MANDY FULLER

Commissioner

NONVOTING MEMBERS

BRENT KISLING

Ex-Officio Commissioner

BRANDY MANEK

Ex-Officio Commissioner

CHARLES PRATER

Ex-Officio Commissioner

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 fifth year, IEC reviewed nine incentives during this evaluation process. We have continued our contractual relationship with Public Financial Management Inc., who won the bid in 2016 and again in 2020. They are a nationally recognized firm specializing in public sector finances. IEC members received nine draft evaluation reports on facts and findings on Sept. 30, 2020, with a formal presentation to the Commission Meeting on Oct. 1, 2020. As required in statute, a public hearing meeting took place on Oct. 22, 2020, to receive public comments regarding the consultant's recommendations.

The commission took into consideration all public comments received at the Nov. 12 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 2020, year five report. The report will also be made publicly available on the Incentive Evaluation Commission website at iec.ok.gov and at the Oklahoma Department of Commerce website 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 1st Session of the 58th Legislature.

Respectfully,

The Oklahoma Incentive Evaluation Commission

2020 INCENTIVE EVALUATION COMMISSION ACTIONS

INCENTIVE	EVALUATION RECOMMENDATION	COMMISSION ACTION
Five-year Ad Valorem Tax Exemption	<p>Retain with the following modifications:</p> <ul style="list-style-type: none"> Establish requirements that better target the program toward the state's economic development goals. Targeting the program toward more specific industries could help control costs, which have increased dramatically in recent years. Requirements related to average wage would also control costs and increase the potential economic impact of the program and return on investment for the state. Establish minimum wage requirements for qualifying facilities. The Quality Jobs Program requires wages equal to at least the minimum of the county average wage or a "state threshold wage." Require qualified facilities to at least maintain employment levels in addition to payroll throughout the five-year exemption period. One of the state's other major incentives, the Investment/New Jobs Tax Credit, requires that the incented capital investment not result in any decrease in employment. Incorporating a similar requirement for the ad valorem exemption could help protect against loss of employment. Require advanced notification in order to qualify for an exemption. A central goal of incentive programs in general is to induce activity that would otherwise not occur. However, under current program rules, a facility can apply for a tax exemption for construction or an expansion that has already occurred, meaning companies who did not consider the exemption in its project decision-making process can still benefit from the program. Increase program transparency. Data provided by applicants is not available for evaluation purposes. Require local government financial participation. This will help ensure that local governments accurately assess and assist with administration of program requirements. Improve annual reporting by including metrics on program benefits. Report exemption data based on North American Industry Classification System (NAICS) code rather than OTC categories. 	5-0 to approve the recommendations of PFM to retain with modifications.
Tax Credit for Electricity Generated by Zero Emissions Facilities	Retain with existing sunset.	5-0 to approve the recommendations of PFM to retain with existing sunset.

INCENTIVE	EVALUATION RECOMMENDATION	COMMISSION ACTION
Aerospace Employer and Employee Tax Credits	<p>Retain. Recommendations pertaining to employer tax credits:</p> <ul style="list-style-type: none"> Enhance employer reporting to show overlap with the state's Quality Jobs incentives. There is possible overlap among the two incentives exists, but the current data does not support an analysis of this overlap. There are also reporting requirement changes that would enhance the information available for evaluation. <p>Recommendations pertaining to employee tax credits:</p> <ul style="list-style-type: none"> Consider broadening the employee tax credit incentive eligibility. The employee tax credit is limited to employees who have been awarded an undergraduate or graduate degree from a qualified program accredited by the Engineering Accreditation Commission of ABET. The employee must not have been employed in the aerospace sector in Oklahoma immediately preceding employment with the employer. The state should consider these restrictions in conjunction with statewide economic development goals, as well as the goals of the incentive itself. It may be reasonable to loosen the ABET accreditation requirements to allow graduates of non-ABET accredited programs to qualify. Clarify eligibility requirements in statute. 	<p>5-0 to approve the recommendations of PFM to retain.</p>
Film Enhancement Rebate	<p>Retain but monitor. While the program has a potentially low return on investment and is limited to a small group of beneficiaries, there has been an increase in activity since the program cap was raised and the sunset extended. Given improved program administration and some of the expected economic activity for FY2020 has, because of COVID-19 been put on hold, the project team recommends that this incentive "stay the course," and revisit the program after the impacts of increasing the annual cap to \$8 million can be more fully analyzed and understood.</p>	<p>5-0 to approve the recommendations of PFM to retain but monitor.</p>
Historic Rehabilitation Tax Credit	<p>Retain. Currently, the program has no cap as it provides a one-for-one match with the federal credit. The lack of a cap could theoretically increase the cost burden to the state beyond the point of desirability. However, given the recent trend of decreased program utilization, in terms of the foregone revenue to the state, the project team does not believe the lack of a cap poses a real financial threat at this time.</p>	<p>5-0 to approve the recommendation of PFM to retain and revisit in the future, but with modifications to include a cap.</p>
Industrial Access Road Program (Continues on next page.)	<p>Retain with the following modifications:</p> <ul style="list-style-type: none"> Incorporate assistance from the Department of Commerce to evaluate the economic impact of projects that are applying for funding. Some level of joint administration with an economic development agency provides expertise to Departments of Transportation which are typically not well-equipped to evaluate the economic impact of projects. Collect average wage of new jobs for each project to further evaluate economic impact. Without this information, it is difficult to determine state economic impact. 	<p>5-0 to approve the recommendation of PFM to retain with modifications.</p>

INCENTIVE	EVALUATION RECOMMENDATION	COMMISSION ACTION
<p>(Continued from previous page.)</p> <p>Industrial Access Road Program</p>	<ul style="list-style-type: none"> Collect information regarding other incentives received by the project. Formal collection of this information would help evaluators to determine how meaningful the incentive is in inducing location or expansion. Create clear standardized definitions of jobs and capital investment. There is the lack of detail regarding the jobs and capital investment associated with projects receiving funding. For many of the state's incentive programs, these terms are defined within the program's establishing statute. However, the administrative rules governing the Industrial Access Road Program do not include definitions or requirements for jobs and capital investment. While ODOT has collected jobs and capital investment figures for each of its projects, without these standards there is room for different interpretation from project to project. Create a standard application form. ODOT currently administers the Industrial Access Road Program via a request letter process. Introducing a standard application form to be completed would streamline administration of the program and provide an opportunity to ask specific questions of applicants. 	
<p>Quality Events Incentive</p>	<p>Retain with the following modifications:</p> <ul style="list-style-type: none"> Replace "actual documentation" with a standardized economic impact study form that identifies all the information needed to determine economic impact. The "actual documentation" that is required to be submitted after the event is not clearly defined in statute, and stakeholders sometimes submit information that is not useful to OTC's determination of incremental state sales tax revenue. Remove the statutory requirement that host communities submit the actual documentation 30 days after the event ends. Stakeholders believe that 30 days is not enough time to gather all the materials necessary for OTC to determine the event's economic impact. Stakeholders need to obtain this data from their vendors, and the time it takes to do so varies. Collect data that will better help determine the program's economic impact on the state. This includes the number of event attendees, number of event participants, length of the event, ratio of local to non-overnight attendees, ratio of local to non-overnight participants, average daily spending, and total cost of the event. 	<p>5-0 to approve the recommendation of PFM to retain with modifications.</p>
<p>Oklahoma Capital Investment Board</p>	<p>Retain the existing program sunset.</p> <p>The goals of OCIB are currently advanced by state programs that are better aligned with the principles of well-designed state venture capital programs.</p>	<p>5-0 to approve the recommendation of PFM to retain the existing program sunset.</p>

INCENTIVE	EVALUATION RECOMMENDATION	COMMISSION ACTION
<p>Excise Tax Exemption on Aircraft Sales</p>	<p>Reconfigure with a specific policy goal.</p> <ul style="list-style-type: none"> Focus the excise tax exemptions around a specific policy goal. As currently structured, none of the state's excise tax exemptions for aircraft sales include policy goals. Well-defined goals facilitate the identification of policy targets (e.g., private sector jobs) and the identification and design of specific policy instruments (e.g., wage-based corporate tax credits to promote employment creation). In this case of this incentive, a specific policy goal might be to increase aerospace manufacturing industry employment. Improve the data collection process. The OTC may consider updating its exemption application form to require that the dealer explain whether the sale was taxable or exempt, and if exempt, for what reason. Identify the history of/basis for each excise tax exemption and evaluate whether it aligns with the state's economic and policy goals. If an exemption is found to be out of alignment, consider repealing the specific tax preference. 	<p>5-0 to approve the recommendation of PFM to reconfigure with a specific policy goal.</p>

**INCENTIVE EVALUATION COMMISSION
HYBRID SPECIAL MEETING MINUTES**

Nov. 12, 2020

**Oklahoma Department of Commerce
900 N. Stiles Avenue
Gallery Rm. 1-1, 10:00 a.m.
Oklahoma City, Oklahoma 73104
Virtual WebEx Platform**

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

MEMBERS PRESENT:

Lyle Roggow, President Designee of the OK Professional Economic Development Council – *In-person*
Carlos Johnson, Certified Public Accountant – *Videoconference*
Mandy Fuller, CPA, Auditor of Private Company – *Videoconference*
Dr. Cynthia Rogers, Economist – *Videoconference*
Earl Sears, Layperson – *Videoconference*
Comm. Charles Prater, Ex Officio; Non-voting (Tax Commission) – *In-person*
Brandy Manek, Ex Officio; Non-voting (OMES) – *Videoconference*
Brent Kisling, Ex Officio; Non-voting (Dept. of Commerce) – *Videoconference*

MEMBERS ABSENT: None.

STAFF/GUESTS:

Beverly Hicks, OMES – <i>In-person</i>	Jeremy Stoner, ODFA
Taylor Ferguson, OTC	Grayson Ardies, OAC
Leslie Blair, ODOC – <i>In-person</i>	Chase Beasley, American Airlines
Randall Bauer, PFM – <i>In-person</i>	Jamie Longacre
Ellen Harpel, PFM	Sieana Mackiewicz, ODOT – <i>In-person</i>
Jon Chiappe, ODOC	Bart Vleugels, ODOT
Deena Kimball, PFM	Gloria Ross, OMES
Ian Parnell, PFM	David Oakley, LegisOK – <i>In-person</i>
Stanley Geberer, PFM	Shawn Ashley, ECapito
Julia Kirt, Senate	

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

Chairman Roggow called this hybrid special meeting to order at 10:13 a.m. A roll call was taken and a quorum established. A meeting notice was filed with the Secretary of State and agenda posted in accordance with the amendments to the Open Meeting Act made by enrolled Senate Bill 661 (2020).

**INCENTIVE EVALUATION COMMISSION
HYBRID SPECIAL MEETING MINUTES**

Nov. 12, 2020

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900 N. Stiles Avenue
Gallery Rm. 1-1, 10:00 a.m.
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MEMBERS PRESENT:

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Carlos Johnson, Certified Public Accountant – *Videoconference*
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Brandy Manek, Ex Officio; Non-voting (OMES) – *Videoconference*
Brent Kisling, Ex Officio; Non-voting (Dept. of Commerce) – *Videoconference*

MEMBERS ABSENT: None.

STAFF/GUESTS:

Beverly Hicks, OMES – <i>In-person</i>	Jeremy Stoner, ODFA
Taylor Ferguson, OTC	Grayson Ardies, OAC
Leslie Blair, ODOC – <i>In-person</i>	Chase Beasley, American Airlines
Randall Bauer, PFM – <i>In-person</i>	Jamie Longacre
Ellen Harpel, PFM	Sieana Mackiewicz, ODOT – <i>In-person</i>
Jon Chiappe, ODOC	Bart Vleugels, ODOT
Deena Kimball, PFM	Gloria Ross, OMES
Ian Parnell, PFM	David Oakley, LegisOK – <i>In-person</i>
Stanley Geberer, PFM	Shawn Ashley, ECapito
Julia Kirt, Senate	

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

Chairman Roggow called this hybrid special meeting to order at 10:13 a.m. A roll call was taken and a quorum established. A meeting notice was filed with the Secretary of State and agenda posted in accordance with the amendments to the Open Meeting Act made by enrolled Senate Bill 661 (2020).

2. Approval of minutes from the October 22, 2020, Commission hybrid special meeting:

Mandy Fuller moved to approve the special meeting minutes for October. Earl Sears seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

3. Discussion and possible action on Year Five, 2020, Incentive Evaluations. Possible action may include to approve, disapprove, modify or take no action.

Discussion and possible action on Five Year Ad Valorem Tax Exemption – PFM recommended to retain, with the following modifications:

- Establish requirements that better target the program toward the State's economic development goals. Targeting the program toward more specific industries could help control costs, which have increased dramatically in recent years. Requirements related to average wage would also control costs and increase the potential economic impact of the program and return on investment for the State.
- Establish minimum wage requirements for qualifying facilities. The Quality Jobs Program requires wages equal to at least the minimum of the county average wage or a "State threshold wage."
- Require qualified facilities to at least maintain employment levels in addition to payroll throughout the five-year exemption period. One of the State's other major incentives, the Investment/New Jobs Tax Credit, requires that the incented capital investment not result in any decrease in employment. Incorporating a similar requirement for the ad valorem exemption could help protect against loss of employment.
- Require advanced notification in order to qualify for an exemption. A central goal of incentive programs in general is to induce activity that would otherwise not occur. However, under current program rules, a facility can apply for a tax exemption for construction or an expansion that has already occurred, meaning companies who did not consider the exemption in its project decision-making process can still benefit from the program.
- Increase program transparency. Data provided by applicants is not available for evaluation purposes.
- Require local government financial participation. This will help ensure that local governments accurately assess and assist with administration of program requirements.
- Improve annual reporting by including metrics on program benefits.
- Report exemption data based on North American Industry Classification System (NAICS) code rather than OTC categories.

Earl Sears moved to approve the recommendation of PFM to retain, with modifications. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Tax Credit for Electricity Generated by Zero Emissions Facilities – PFM recommended to retain the existing sunset:

Earl Sears moved to approve the recommendation of PFM to retain the existing sunset. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Aerospace Employer and Employee Tax Credits – PFM recommended to retain:

Recommendations Pertaining to Employer Tax Credits:

- Enhance employer reporting to show overlap with the State's Quality Jobs incentives. There is possible overlap among the two incentives exists, but the current data does not support an analysis of this overlap. There are also reporting requirement changes that would enhance the information available for evaluation.

Recommendations Pertaining to Employee Tax Credits:

- Consider broadening the employee tax credit incentive eligibility. The employee tax credit is limited to employees who have been awarded an undergraduate or graduate degree from a qualified program accredited by the Engineering Accreditation Commission of ABET. The employee must not have been employed in the aerospace sector in Oklahoma immediately preceding employment with the employer. The State should consider these restrictions in conjunction with statewide economic development goals, as well as the goals of the incentive itself. It may be reasonable to loosen the ABET accreditation requirements to allow graduates of non-ABET accredited programs to qualify.
- Clarify eligibility requirements in statute.

Mandy Fuller moved to approve the recommendation of PFM to retain. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Film Enhancement Rebate – PFM recommended to retain but monitor:

- While the program has a potentially low return on investment and is limited to a small group of beneficiaries, there has been an increase in activity since the program cap was raised and the sunset extended. Given improved program administration and some of the expected economic activity for FY2020 has, because of COVID-19 been put on hold, the project team recommends that this incentive “stay the course,” and revisit the program after the impacts of increasing the annual cap to \$8 million can be more fully analyzed and understood.

Earl Sears moved to approve the recommendation of PFM to retain, but monitor. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Historic Rehabilitation Tax Credit – PFM recommended to retain and revisit in the future:

- Currently, the program has no cap as it provides a one-for-one match with the federal credit. The lack of a cap could theoretically increase the cost burden to the State beyond the point of desirability. However, given the recent trend of decreased program utilization, in terms of the foregone revenue to the State, the project team does not believe the lack of a cap poses a real financial threat at this time.

Mandy Fuller moved to approve the recommendation of PFM to retain and revisit in the future. Carlos Johnson seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, no.

The vote was 4 to 1 in favor of PFM's recommendation. After the motion passed and before moving onto the next item Chairman Roggow asked Mr. Sears for clarification on his vote. Mr. Sears reconfirmed his vote of no and said that he tried to speak up before the vote took place, but was having technical issues with virtual connection to the meeting. He fully understands the recommendation and supports the credit, but believes a cap is needed for this particular incentive. Dr. Rogers concurred and said she also supports a cap and believes that caps are useful and for fiscal protection. Chairman Roggow asked both members to write a letter to be added into the end-of-the-year report addressing their beliefs in the program including a recommendation to the Legislature to consider adding a cap.

Chairman Roggow asked commission member Mandy Fuller who made the initial motion to approve the recommendation made by PFM, if she would allow an amendment made to her motion. Ms. Fuller accepted and agreed that a cap is a good idea and understands there is not a huge risk at this point and time, but a cap could not hurt by any means. Commissioner Carlos Johnson who seconded the original motion agreed with the amendment. There was discussion about what the recommendation for the cap should be. PFM Consultant Randall Bauer, recalled back in 2016, that their firm made the recommendation of a cap, but could not recall the specific amount and asked for additional time to look it up during the meeting.

Carlos Johnson moved to table the recommendation of PFM for further consideration during the meeting. Earl Sears seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Carlos Johnson moved to bring back the discussion and possible action on the Historical Rehabilitation Tax Credit. Mandy Fuller seconded the motion. The following votes were recorded and the motioned passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Mr. Bauer reported that on page 27 of the 2016 Historic Rehabilitation Tax Credit report PFM recommended that the Legislature should put a cap on the program. That recommendation did not include a specific dollar figure. He read the last paragraph of the report that stated, “The project team recommends that Oklahoma adopt an annual cap to ensure some measure of future budget predictability. Further, in order to keep administration burdens to a minimum, once a program cap has been placed, the team recommends the projects be accepted on a first-come-first-serve basis in lieu of a supplementary assessment procedure.”

Mandy Fuller moved to approve the recommendation of PFM to retain and revisit in the future, but with modification to include a cap. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Industrial Access Road Program – PFM recommended to retain with the following modifications:

- Incorporate assistance from the Department of Commerce to evaluate the economic impact of projects that are applying for funding. Some level of joint administration with an economic development agency provides expertise to Departments of Transportation which are typically not well-equipped to evaluate the economic impact of projects.
- Collect average wage of new jobs for each project to further evaluate economic impact. Without this information, it is difficult to determine State economic impact.
- Collect information regarding other incentives received by the project. Formal collection of this information would help evaluators to determine how meaningful the incentive is in inducing location or expansion.
- Create clear standardized definitions of jobs and capital investment. There is the lack of detail regarding the jobs and capital investment associated with projects receiving funding. For many of the State’s incentive programs, these terms are defined within the program’s establishing statute. However, the administrative rules governing the Industrial Access Road Program do not include definitions or requirements for jobs and capital investment. While ODOT has collected jobs and capital investment figures for each of its projects, without these standards there is room for different interpretation from project to project.
- Create a standard application form. ODOT currently administers the Industrial Access Road Program via a request letter process. Introducing a standard application form to be completed would streamline administration of the program and provide an opportunity to ask specific questions of applicants.

Mandy Fuller moved to approve the recommendation of PFM to retain with modifications. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Quality Events Incentive – PFM recommended to retain, with modifications:

- Replace “actual documentation” with a standardized economic impact study form that identifies all the information needed to determine economic impact. The “actual documentation” that is required to be submitted after the event is not clearly defined in statute, and stakeholders sometimes submit information that is not useful to OTC’s determination of incremental state sales tax revenue.
- Remove the statutory requirement that host communities submit the actual documentation 30 days after the event ends. Stakeholders believe that 30 days is not enough time to gather all the materials necessary for OTC to determine the event’s economic impact. Stakeholders need to obtain this data from their vendors, and the time it takes to do so varies.
- Collect data that will better help determine the program’s economic impact on the State. This includes the number of event attendees, number of event participants, length of the event, ratio of local to non-overnight attendees, ratio of local to non-overnight participants, average daily spending, and total cost of the event.

Carlos Johnson moved to approve PFM’s recommendation to retain, with modifications. Earl Sears seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Oklahoma Capital Investment Board – PFM recommended to retain the existing program sunset:

- The goals of OCIB are currently advanced by State programs that are better aligned with the principles of well-designed state venture capital programs.

Carlos Johnson moved to approve PFM’s recommendation to retain the existing program sunset. Mandy Fuller seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Excise Tax Exemption on Aircraft Sales – PFM recommended to reconfigure with a specific policy goal:

- Focus the excise tax exemptions around a specific policy goal. As currently structured, none of the State’s excise tax exemptions for aircraft sales include policy goals. Well-defined goals facilitate the identification of policy targets (e.g., private sector jobs) and the identification and design of specific policy instruments (e.g., wage-based corporate tax credits to promote employment creation). In this case of this incentive, a specific policy goal might be to increase aerospace manufacturing industry employment.
- Improve the data collection process. The OTC may consider updating its exemption application form to require that the dealer explain whether the sale was taxable or exempt, and if exempt, for what reason.
- Identify the history of/basis for each excise tax exemption and evaluate whether it aligns with the State’s economic and policy goals. If an exemption is found to be out of alignment, consider repealing the specific tax preference.

Earl Sears moved to approve PFM's recommendation to reconfigure with a specific policy goal. Carlos Johnson seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

Discussion and possible action on acceptance of final report provided by PFM:

Carlos Johnson moved to approve acceptance of final report by PFM. Earl Sears seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

4. Discussion and possible action to approve 2021 meeting dates, all at 10 a.m.

Jan. 21	Oct. 14	Dec. 9
Mar. 25	Oct. 28	
Aug. 26	Nov. 18	

Mandy Fuller moved to approve the IEC meeting dates of 2021. Earl Sears seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

5. Adjourn.

There being no further business, Mr. Sears made the motion to adjourn. Ms. Fuller seconded the motion. Seeing no opposition, the meeting adjourned at 11:39 a.m.

**INCENTIVE EVALUATION COMMISSION
HYBRID SPECIAL MEETING MINUTES**

Oct. 22, 2020

Oklahoma Department of Commerce

900 N. Stiles Avenue

Gallery Rm. 1-1, 10:00 a.m.

Oklahoma City, Oklahoma 73104

Virtual WebEx Platform

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

MEMBERS PRESENT:

Lyle Roggow, President Designee of the OK Professional Economic Development Council – *In-person*

Carlos Johnson, Certified Public Accountant – *In-person*

Mandy Fuller, CPA, Auditor of Private Company – *In-person*

Dr. Cynthia Rogers, Economist – *Videoconference*

Earl Sears, Layperson – *In-person*

Comm. Charles Prater, Ex Officio; Non-voting (Tax Commission) – *In-person*

Brandy Manek, Ex Officio; Non-voting (OMES) – *Videoconference*

Brent Kisling, Ex Officio; Non-voting (Dept. of Commerce) – *Videoconference*

MEMBERS ABSENT: None.

STAFF/GUESTS:

Beverly Hicks, OMES

Taylor Ferguson, OTC - virtual

Josh McGoldrick, ODOC

Leslie Blair, ODOC

Nicole Boyles, ODOC

Randall Bauer, PFM

Ellen Harpel, PFM - virtual

Elizabeth Osburn, Mass Arch. - virtual

Jon Chiappe, ODOC - virtual

Deena Kimball, PFM - virtual

Ian Parnell, PFM - virtual

Stanley Geberer, PFM - virtual

Frank V. Roesler III, ODOT

David Oakley, LegisOK

Shawn Ashley, ECapitol - virtual

Brien Thorstenberg, Tulsa Chamber - virtual

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

Chairman Roggow called this hybrid special meeting to order at 10:03 a.m. A roll call was taken and a quorum established. A meeting notice was filed with the Secretary of State and agenda posted in accordance with the amendments to the Open Meeting Act made by enrolled Senate Bill 661 (2020).

2. Approval of minutes from the October 1, 2020, Commission hybrid special meeting:

Earl Sears moved to approve the special meeting minutes for August. Carlos Johnson seconded the motion. The following votes were recorded and the motion passed:

Mr. Johnson, aye; Ms. Fuller, abstain; Dr. Rogers, aye; Mr. Roggow, aye; Mr. Sears, aye.

3. Discussion and public comment on Year Five, 2020, Incentive Evaluations:

Five Year Ad Valorem Tax Exemption [*Retain with modifications: - Establish more targeted program requirements (wages, specific industries); - Increase notice and reporting requirements; Consider methods to increase local financial involvement.*] There were no public comments virtual or in-person.

Tax Credit for Electricity Generated by Zero Emissions Facilities [*Retain the existing sunset.*] There were no public comments virtual or in-person.

Aerospace Employer and Employee Tax Credits [*Retain: - The State should consider changes to the accreditation requirements; - There are also reporting requirement changes that would enhance the information available for evaluation.*]

Victor Bird, Oklahoma Aeronautics Commission (OAC)

Mr. Bird, Director of the Oklahoma Aeronautics Commission provided the following comments regarding IEC Draft reports addressing the Aerospace Employer and Employee Tax Credits:

Aerospace Employer and Employee Tax Credits Evaluation

At the outset I must note that this draft report is very good, particularly the information regarding the economic impact of these tax credits. I do not believe in the 12-year history of these tax credits (with a brief 6-month hiatus when the Legislature suspended them in the 2010 legislative session) that I have seen a better, more thorough analysis of the economic impact of these tax credits.

As the report points out on p. 4, there was a critical shortage of engineers in the aerospace industry in the early part of the 21st century that drove the introduction of the legislation in 2007. The industry must have adequate engineering talent in order to thrive. Whether it's the pressurized cabin, the jet engine, winglets, or the Apollo Space Program, those things do not happen without engineers. The purposes of the legislation were to encourage more engineers, in and out of the state, to go to work for an aerospace employer in Oklahoma, and to encourage aerospace employers to hire more engineers in Oklahoma. Both purposes have been well served by the legislation.

All I have are actually points of clarification with respect to the legislation. I wrote the original legislation, and the Aeronautics Commission championed their passage in the 2008 session. The credits were originally introduced in the 2007 session and were popularly known as the Engineer Workforce Bill for Aerospace. They are more widely known now as the Engineer Tax Credits for Aerospace.

P. 4: In footnote 1 you note that the credit for tuition reimbursement for aerospace employers is not in use. That is correct; it has been rarely used. I blame that more on the fact that neither the Aeronautics Commission nor the Commerce Department has publicized or explained this credit enough. I am aware of companies that do pay for or reimburse an engineer's education, but they do not claim this credit.

P.6 (also addressed on p. 21 and several other places): Below Table 2 on p. 6, you note the problem that has arisen for too many engineers attempting to qualify based upon a graduate degree in engineering. The OTC interpretation of *qualified program* has led to this. Last session I worked with Senator Standridge to resolve this problem by way of Senate Bill 1461. The bill would have made it clear that if, for example, the undergraduate program in mechanical engineering was ABET accredited, that would suffice for an engineer attempting to qualify for the credits based upon a graduate degree in mechanical engineering although the specific graduate program in mechanical engineering was not ABET accredited. Underlying this problem is that ABET did not authorize its Engineering Accreditation Commission to accredit graduate programs until 2008, the year the legislation passed. The gold standard and what has been viewed for over 70 years as meaning your particular engineering program is ABET accredited is having the accreditation for your undergraduate program in , for example, mechanical engineering. If you were to look at the ABET website today, you would only see a handful of actual graduate programs in engineering across the country that have been ABET credited. Last time I checked, I do not believe that either the University of Oklahoma or Oklahoma State University have any of their graduate programs in engineering ABET accredited, but most, if not all of their undergraduate programs are ABET accredited.

The bill would have also provided an alternative basis of qualifying, having a Professional Engineer (PE) license in the particular discipline of engineering, for example, mechanical. This latter basis would have had a negligible fiscal impact as very few engineers other than civil engineers attain their PE. While it is the gold standard for civil engineers so that they may sign and seal engineering plans and drawings, it is almost never required by an aerospace employer. But, if someone has their PE in aerospace engineering, that certainly demonstrates a level of competency that should also qualify for the credits. The bill passed the Senate but ran into the COVID wall in the House. The effort to resolve this problem so that Oklahoma can get rid of this black eye will be taken up again this next session by Senator Pugh. As several of you will relate to, we need to minimize occasions in the tax incentives area that remind the business world of the GM debacle in the 1980s.

P. 7: You suggest considering broadening the employee tax credit incentive eligibility. I believe it is important to note that it was the aerospace industry that provided the ABET accreditation standard in 2007. SB 1461, as noted above, would have also allowed an engineer to qualify based upon having a PE in mechanical, electrical, industrial, whatever discipline of engineering that the engineer had been hired for by an aerospace employer.

Experienced engineers already qualify for the credits; the law does not limit it to recent graduates. Boeing has made significant use of this as it has hired a number of engineers with 10-15 years of experience.

P. 14: Here, and in several other places in your report it is worded so that it appears that only “aerospace engineers” qualify for these tax credits. This has always been an issue since the legislation was originally drafted, went through the legislative process, and was passed. The law does not limit it to only aerospace engineers. Any engineer, whether they are mechanical, industrial (software), electrical, aerospace, or civil qualify for the tax credits (and, consequently, the aerospace employer qualifies for its tax credits in this regard) if they got their degree in whatever discipline of engineering from a qualified program and go to work for a qualified aerospace employer. It is not just limited to “aerospace engineers,” as numerous mechanical, industrial, and

electrical engineers have qualified for the tax credits through the years that they have been on the books.

Public comment only.

Film Enhancement Rebate [*Retain but monitor: - The current year disruption and the recent program expansion suggest a need for additional time and data.*] There were no public comments virtual or in-person.

Historic Rehabilitation Tax Credit [*Retain*] There were no public comments virtual or in-person.

Industrial Access Road Program [*Retain, with modifications: - Incorporate assistance from the Department of Commerce to evaluate the economic impact of projects that are applying for funding; - Create a standard form for application and collect data on jobs, payroll and capital investment associated with the incentive.*] There were no public comments virtual or in-person.

Quality Events Incentive [*Retain, with modifications: - Replace “actual documentation” with a standardized form that identifies all the information needed to determine economic impact; - Remove the statutory requirement that host communities submit the actual documentation 30 days after the event ends; - Collect additional data – number of event attendees, number of event participants, length of the event, ratio of local to non-overnight attendees, ratio of local to non-overnight participants, average daily spending*] There were no public comments virtual or in-person.

Oklahoma Capital Investment Board [*Recommendation: Retain the existing program sunset: - The goals of OCIB are currently advanced by State programs that are better aligned with the principles of well-designed state venture capital programs.*] There were no public comments virtual or in-person.

Excise Tax Exemption on Aircraft Sales [*Reconfigure with a specific policy goal*]

Victor Bird, Oklahoma Aeronautics Commission (OAC)

Mr. Bird, Director of the Oklahoma Aeronautics Commission provided the following comments regarding IEC Draft reports addressing the Aerospace Employer and Employee Tax Credits:

Excise Tax Exemption on Aircraft Sales Evaluation

While not focused upon any particular page of this report (it will be noted otherwise if a particular page is addressed), my comments primarily concern pp. 14-18, “Incentive Usage and Administration,” of the report. The report is very good in bringing the relevant information regarding these exemptions to the attention of the policymakers. Our research at the Aeronautics Commission indicates that Oklahoma has more exemptions, 17, to the aircraft excise tax than any other state. It is also important to note that unlike the vast majority of states, Oklahoma, as a matter of public policy, has decided to fund its investment in the 108 airports comprising the state airport system through primarily the revenue derived from the aircraft excise tax. Most other states fund this investment through an aircraft fuel tax. Of the 47 states that have an aircraft fuel tax, Oklahoma ranks 47th at 8/100ths of one cent per gallon (0.0008/gal).

The aircraft excise tax is, on average, responsible for 90% of the funding to the Aeronautics Commission, which then invests, on average, 83% of its revenue into aviation infrastructure across the state. Between 2001 and 2015, the Aeronautics Commission received 100% of the aircraft excise tax collected. Starting in FY 2016, a \$4.5 million cap was placed upon the amount of revenue from this tax that went to Aeronautics. While the amount of money that has gone to the general fund, a little over \$1.1 million, is not much from the perspective of the overall state budget, to the Oklahoma Airport System (OAS) that is significant as this amount would pay for a major runway rehabilitation, several terminal grants (\$500,000 each as part of the Aeronautics Terminal Grant Program), several airport lighting systems, etc. \$1.2 million will actually pay for a lot in the airport world, particularly general aviation airports that are in almost every county in the state. The cap contradicts the implied trust fund agreement (similar to that at the federal level) existing between aircraft owners, the users of the OAS, and the State of Oklahoma.

As stated in your report, on p. 6, the exemptions to the aircraft excise tax need to be examined to determine if they have an explicit policy goal and make sense. They also need to be examined to make sure that the OTC has the tools to ensure the exemptions are administered with accountability and integrity. House Bill 2253, as noted in your report on p. 16 of your report, is an example of making sure OTC has the tools needed to ensure accountability in administering these tax credits.

HB 2253 was the culmination of a 15-year effort by the Aeronautics Commission to have accountability in the administration of the exemption addressed in HB 2253, commonly referred to as the “charter exemption.” The first time the IEC addressed this particular exemption and pointed out this problem helped Aeronautics in its advocacy of HB 2253. Of the 26 states that provide a charter exemption to the payment of an aircraft excise or sales tax (24 states do not allow such an exemption), Oklahoma was the only one that had no requirement that the exempted aircraft actually be used for charter operations. In other words, in Oklahoma it was enough that you simply quacked like a duck, you did not need to walk like one. All other states required that at least 50% of the aircraft’s operations be charter in order to receive the exemption (Kentucky requires exclusive charter use, and Maine requires exclusive for the first two years and 80% charter operations thereafter). Incredibly, we simply had no requirement that the aircraft actually be used for charter operations. HB 2253 changed that, and now 50% of the exempted aircraft’s operations have to be charter. Over the last several years, this requirement has probably been the major reason the amount of revenue lost through these exemptions has declined.

All these exemptions need to be examined as recommended in your report. The OTC must be given more tools to ensure accountability in the administration of these exemptions. Another specific exemption that begs for examination is the exemption for aircraft owned by dealers noted in p. 15 of your report. The critical issue with respect to this particular exemption is the definition of *aircraft dealer* in the Oklahoma Statutes. The definition is very loose as certain requirements (e.g., selling 3 aircraft within 18 months) that ensured more accountability were removed in approximately 2004 to provide some relief to dealers that had been negatively impacted by the 2003 recession. As recent as a year ago, I discussed the restoration of these requirements to ensure more accountability with respect to the dealer exemption with the OTC. At that time it appeared that the OTC wanted to do just that. The requirements need to be restored.

Your report brings into sharp focus the way in which the state has chosen to fund investment in its airport system through the aircraft excise tax as compared to other states that have chosen their aircraft fuel tax. Most of the states around us utilize this fuel tax for the purpose of making a reasonable investment in their airport systems. The aircraft fuel tax garners on average for Louisiana, \$25-28 million, Arkansas, \$11-14 million, and Colorado, \$13-20 million. That Oklahoma has chosen the aircraft excise tax as its primary investment vehicle exacerbates the need to ensure that the exemptions make sense and that there is accountability in their administration. On behalf of the Aeronautics Commission, I sincerely thank you for bringing the needed focus to this issue.

These will be the last comments I submit to you as the Director of Aeronautics for the State of Oklahoma as I have announced my retirement effective November 1. As such, I would like to sincerely thank the Incentive Evaluation Commission and your consultant for the critical work it has done with respect to the tax incentives offered by the state. As the brainchild of former Representative Dave Dank (my Representative), and certainly former Representative Earl Sears, your work has proven invaluable insofar as protecting the citizens of Oklahoma and making sure that we get the best bang for the buck when it comes to incentives. I know several of you and I admire your dedication to this endeavor that I am sure seems thankless at times. Please know that is not the case. Please continue your good work that some may see as “good trouble.” Good for you.

Public comment only.

4. Announcements:

Chairman Roggow made known that the next meeting will be held at the Oklahoma Department of Commerce on Thursday, November 12, 2020 at 10 a.m.

5. Adjourn

There being no further business, Mr. Sears made the motion to adjourn. Ms. Fuller seconded the motion. Seeing no opposition, the meeting adjourned at 10:52 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.

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Tax Credit for Electricity Generated by Zero Emissions Facilities [*Access full report.*](#)

Aerospace Employer & Employee Tax Credits [*Access full report.*](#)

Film Enhancement Rebate [*Access full report.*](#)

Historic Rehabilitation Tax Credit [*Access full report.*](#)

Industrial Access Road Program [*Access full report.*](#)

Quality Events Incentive Act [*Access full report.*](#)

Oklahoma Capital Investment Board [*Access full report.*](#)

Excise Tax Exemption on Aircraft Sales [*Access full report.*](#)

State of Oklahoma

Incentive Evaluation Commission

Five Year Ad Valorem Tax Exemption Evaluation

November 11, 2020

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



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Key Findings and Recommendations



Overview

The exemption was approved by voters through state question 588 in April 1985. The property tax exemption applies to all real and personal property necessary for the manufacturing of a product and facilities engaged in qualifying industries, and the Legislature has implemented it via State statute.¹ The property tax exemption applies to new, acquired or expanded manufacturing facilities in qualified industries. Facilities may qualify for the property exemption for up to five consecutive years, if they continue to meet payroll and other requirements.

In its inception, the program focused on what might be considered ‘traditional’ manufacturing of durable goods, but other industries qualify as well. These have included aircraft repair and rebuilding, computer services and data processing, distribution and warehousing, research and development, and electric power generation.²

Since the exemption was last reviewed in 2016, statute has been modified only to clarify the definitions of qualifying construction costs and payroll. These changes have not made a significant difference in the administration of the program. The most significant change to the program since the last review is the removal of wind facilities from eligibility. The Legislature made this modification in 2015, but it did not take effect until January 1, 2018, when wind facilities were prohibited from applying for new exemptions.

It should be noted that in the closing days of the 2020 session, the legislature (in SB 1595) repealed 68 O.S. 2011, section 2902, which provides for the ad valorem tax exemption (the language of section 2902 is included in the Appendix A). However, Governor Stitt vetoed the bill, leaving the exemption in place.

Recommendation: Retain, with modifications.

Key Findings Related to Established Criteria for Evaluation

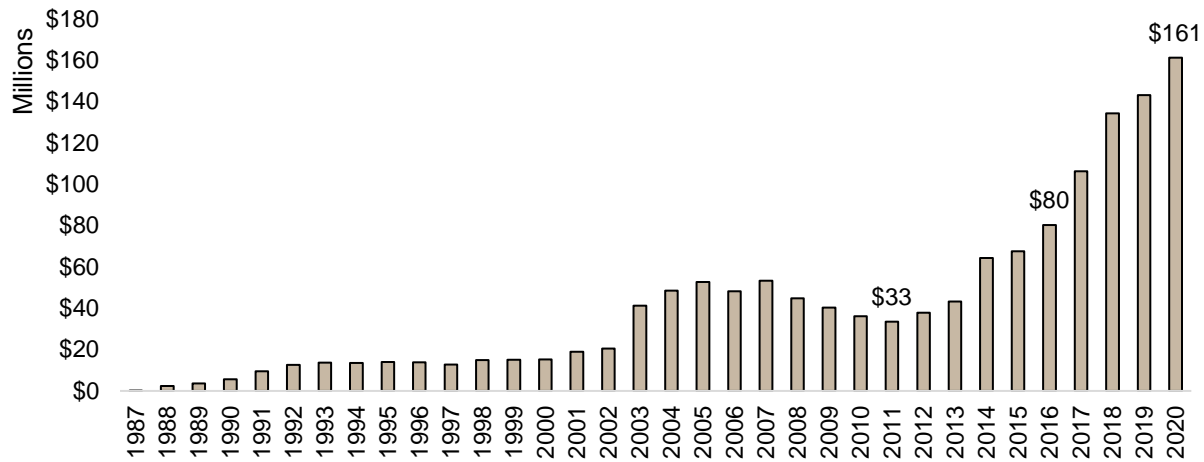
- **From FY 2016 to FY 2020, total exemption reimbursement payments made by the State more than doubled, from \$80.3 million to \$161.2 million – equal to 2.5 percent of the State’s budgeted FY 2020 general revenue.** The increase is largely driven by manufacturing facilities and computer data processing facilities, which received \$76.3 million and \$40.5 million in exemptions in FY 2020, respectively, and computer data processing facilities, which received \$40.5 million in exemptions in FY 2020.

¹ The implementing language has been revised numerous times. It may be found in Oklahoma Revised Statutes, Chapter 68, Section 2902.

² No electric power generation facilities may qualify after December 31, 2017.



Figure 1: State Reimbursements Paid by Fiscal Year

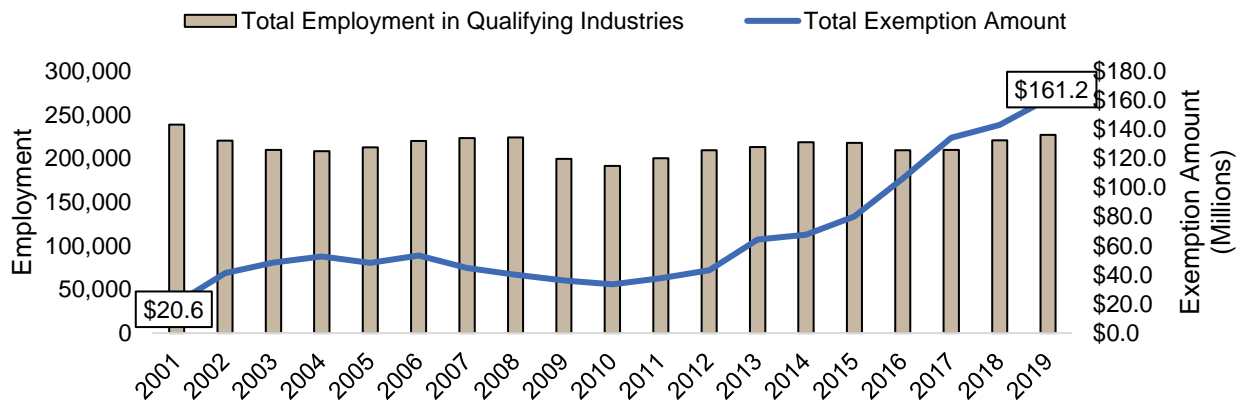


Source: Oklahoma Tax Commission

- **Qualifying manufacturing facilities in the first year of exemption increased payroll by an average of \$249.3 million, in aggregate, from FY 2016 through FY 2020.** This is equal to a 10.3 percent increase from the facilities' aggregate average initial payroll of \$2.4 billion over this period.
- **The Oklahoma Tax Commission collects payroll information but does not collect the number of jobs associated with exempt manufacturing property as part of its application.** Based on available total payroll increase data for manufacturing facilities in the first year of exemption from FY 2016 to FY 2020, and assuming each was paid the state's average annual manufacturing wage in these years, an estimated 24,654 jobs were associated with exempt property.
- **Aggregate capital investment by qualifying manufacturing facilities in the first year of exemption averaged \$1.9 billion from FY 2016 through FY 2020.** Personal property represents 94.1 percent of total exempt manufacturing property over this period.
- **Economic impact analysis suggests exemptions for manufacturing facilities provide a net return to the State.** If all payroll increases at manufacturing facilities over the five-year exemption period are attributed to the exemption, return to the State ranges from \$3.19 to \$8.64 per dollar of exemption. If only first-year payroll increases are attributed to the exemption, the economic impact analysis shows the program as a net cost to the State in one of five years reviewed. Under this assumption, return to the State ranged from \$0.81 to \$2.42 per dollar of exemption.
- **Increases in costs to the State have not coincided with significant employment increases in eligible industries since 2001.**



Figure 2: Employment Levels and Exemption Amounts³



Source: Tax Commission and US Bureau of Labor Statistics Data

- **Exemptions for wind facilities peaked in their last year of eligibility, at \$60.5 million in FY 2018 and have since been declining.** The last reimbursement payments for wind facilities will be made in FY 2022.
- **Reimbursements have been paid to 60 counties from FY 2016 through FY 2020.** Total exemption amounts among counties receiving reimbursements over this period range from \$20,322 (in Major County) to \$142.7 million (in Mayes County), with a median of \$3.9 million.
- **Exempt manufacturing property accounted for 71.2 percent of all manufacturing capital expenditures in 2015, and 89.9 percent in 2016.⁴** The value of all exempt manufacturing property was \$1.7 billion in 2015 and \$2.0 billion in 2016.
- **The Ad Valorem Reimbursement Fund's dedicated funding equal to 1.0 percent of annual income tax collections continues to be insufficient to cover the cost of reimbursements.** From FY 2016 through FY 2019, the dedicated one percent of income tax revenue averaged just 30 percent of total reimbursement payments, necessitating additional appropriations each year, which have grown from \$47.7 million in FY 2016 to \$105.7 million in FY 2019. The total FY 2019 reimbursement payment equates to 3.8 percent of income tax revenue.

Recommended Program Modifications

- **Establish requirements that better target the program toward the State's economic development goals.** Targeting the program toward more specific industries could help control costs, which have increased dramatically in recent years. Requirements related to average wage would also control costs and increase the potential economic impact of the program and return on investment for the State. Targeting high wage industries has been shown to improve the chances that an incentive program provides a net return for the State. However, even among manufacturing facilities, the exemption is available to jobs in a wide range of wage levels. For example, although the average annual pay in manufacturing in Oklahoma was \$59,928, average annual pay within manufacturing subsectors in the State ranged from \$32,594 (Textile Product Mills) to \$105,215 (Petroleum and Coal Products). Currently, the exemption is available to the full range of these facilities, regardless of average wage.

³ Eligible industries included in employment data are Manufacturing (NAICS Codes 31-33), Computer Data Processing (NAICS Codes 5112, 518210, 519130, and 5415), Distribution (NAICS Codes 42, 49311, 49312, 49313, 49319), and Wind (NAICS code 221115)

⁴ U.S. Census Bureau Annual Survey of Manufacturers



- **Establish minimum wage requirements for qualifying facilities.** Currently, only distribution facilities are subject to a wage requirement as part of exemption qualification. These facilities must pay wages of at least 175 percent of the federal minimum wage. Another major incentive offered by Oklahoma, the Quality Jobs Program, requires wages equal to at least the minimum of the county average wage or a “State threshold wage”.
- **Require qualified facilities to at least maintain employment levels in addition to payroll throughout the five-year exemption period.** The program currently has no requirement related to the number of jobs created and does not require the number of jobs to be maintained throughout the exemption period. Although maintenance of payroll likely means a maintenance of employment level, employment levels are an important concern for any incentive that primarily promotes capital investment, as the ad valorem exemption does. Investment in capital sometimes comes at the cost of labor. One of the State’s other major incentives, the Investment/New Jobs Tax Credit, recognizes this potential tradeoff by requiring that the incented capital investment does not result in any decrease in employment. Incorporating a similar requirement for the ad valorem exemption could help protect against loss of employment.
- **Require advanced notification in order to qualify for an exemption.** A central goal of incentive programs in general is to induce activity that would otherwise not occur. However, under current program rules, a facility can apply for a tax exemption for construction or an expansion that has already occurred, meaning companies who did not consider the exemption in its project decision-making process can still benefit from the program. Based on conversations the project team has had with OTC staff, there have been instances of this occurring, although it is not common. By requiring a filing of advanced notification with the OTC, the State would require intentional use of the program to receive its benefit.

The State of Louisiana added this requirement to its Industrial Tax Exemption Program in 2016.⁵ Under the requirement, applicants must submit advanced notification before any construction or hiring has taken place in order to qualify. The advanced notification includes a description of the project as well as data on the number of existing and new jobs, existing and new payroll and capital investment.

- **Require local government financial participation.** As currently constructed, the lost property tax revenue from Five Year Ad Valorem Tax Exemption is replaced in its entirety by the State. In similar programs in some states, there percentage replacement is less than 100 percent. This requires financial participation at the local level that helps to reduce the possibility of the incentive being treated as a ‘free good.’ This will help ensure that local governments accurately assess and assist with administration of program requirements. The level of local participation could vary depending on key characteristics or it could be a specific percentage. In either case, it should help advance the goals of the incentive program.
- **Increase program transparency.** Program evaluators have struggled to determine its economic impact for many years. The program has been reviewed several times, including by economics professors from Oklahoma and Oklahoma State Universities in 2004, by the State’s Incentive Review Committee in 2006, by the State Chamber of Commerce in 2014, and the Incentive Evaluation Commission in 2016. None of these evaluators had access to data provided by applicants as part of their review. Due to confidentiality concerns, only aggregated information was provided by the OTC.

⁵ It should be noted, that despite this requirement, due to the locally implemented nature of Louisiana’s incentive there are still instances of local governments in State approving incentives for projects that have completed construction. Local governments are able to develop their own policy on whether to accept applications from projects that have completed construction. Several local governments including New Orleans and Baton Rouge do not.



Oklahoma's program is less transparent than in other states. Applications for similar benefits in Louisiana and Texas provide information submitted by each applicant as public information. In fact, they are easily accessible on State-operated websites.⁶ In Louisiana's case, information on pending applications and approved projects including NAICS code, capital investment, total number of jobs, and estimated payroll, is all provided in a searchable and downloadable database. Texas made all application documents public through legislative action in 2009.

Other Recommendations

- **Improve annual reporting by including metrics on program benefits.** The current annual reporting done by the OTC includes only exemption amounts by county. Additional metrics (jobs, payroll and average wage associated with the exemptions) would better illustrate the benefits to the State as a result of the exemption program.
- **Report exemption data based on North American Industry Classification System (NAICS) code rather than OTC categories.** The OTC groups all facilities into a handful of major categories: traditional manufacturing, large manufacturing, electric wind generating, and computer data processing. Meanwhile, statute refers to qualifying industries by NAICS code. In order for the results seen in annual reports to align with the language used in statute and used by legislators as the program is amended, all program reporting should be identified by NAICS code categories. This would make it easier to evaluate the program and align it with the standard approach to reporting industry data.

⁶ Louisiana: <https://fastlaneng.louisianaeconomicdevelopment.com/public/search/bi>
Texas: <https://comptroller.texas.gov/economy/local/ch313/agreement-docs.php>



Introduction



Incentive Evaluation Commission Overview

In 2015, HB 2182 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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Five-Year Ad Valorem Tax Exemption, first evaluated in 2016, is among nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature related to these incentives.

2016 Evaluation: Key Findings and Recommendations

Fiscal and Economic Impact	Total state reimbursements more than doubled between FY 2012 and FY 2016, from \$37.8 million to \$80.2 million, for a total of \$293.3 million. This growth was driven largely by wind facilities. Over the same period, estimated State tax revenue resulting from qualified facilities totaled \$51.6 million.
Adequate Protections for Future Fiscal Impact?	Removing wind facilities from the program was a step in the right direction to control program costs. Beyond that, there are no program caps or other limitations such as per-facility caps.
Effective Administration?	Yes. However, issues were raised as to data availability and data restrictions due to confidentiality concerns.
Achieving Its Goals?	Oklahoma manufacturing is performing somewhat better than the nation as a whole. Broad use of the program among counties suggest it is meeting that legislative goal.
Changes to Improve Future Evaluation	Confidentiality requirements related to certain information should be waived by participating companies as it relates to the program evaluations conducted by the IEC. Recommend data to be made available for each facility include: <ul style="list-style-type: none">▪ NAICS codes▪ Capital investment amounts▪ Existing and new payroll▪ Existing and net new jobs

2020 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the 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 this case, the original state question that was approved by voters and placed into the Constitution provides that:

“For the purpose of inducing any manufacturing concern to locate or expand manufacturing facilities within any county of this state, a qualifying manufacturing concern shall be exempt from the levy of any ad valorem taxes upon new, expanded or acquired manufacturing facilities for a period of five (5) years.”



Based on this, the goal of the program is to induce location or expansion of manufacturing facilities in the state. Given that manufacturing is typically associated with paying above average wages and that the requirements for the incentive generally require payroll growth, it seems logical to assume that criteria that measure jobs and payroll would align with the intent of the Constitutional amendment as well.

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

- Change in number of jobs associated with the exemption;
- Change in total payroll associated with the exemption;
- Change in capital investment associated with the exemption;
- But-for test – change in jobs/payroll/capital associated with the exemption versus state growth rates as a whole;
- Use with other related business incentives;
- Change in other government revenues and expenditures associated with facilities receiving an exemption;
- Return on investment - economic activity versus financial net cost.

State of Oklahoma

Incentive Evaluation Commission

Tax Credit for Electricity Generated by Zero Emissions Facilities Evaluation

November 2, 2020

PFM Group Consulting LLC
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Key Findings and Recommendations



Overview

The tax credit for electricity generated by zero emissions facilities was signed into law in 2001, allowing the first credits to be claimed in tax year 2002. For qualifying facilities, the program offers a \$0.005 refundable credit per kilowatt-hour of energy generated by zero emissions facilities for a period of 10 years. A refundable credit means that the State remits the entirety of the dollar amount of the credit to the claimant, even if the claimant has no tax liability.

Qualifying facilities include those that generate electricity from wind, moving water, sun, or geothermal energy and have a rated production capacity of at least one megawatt. Wind facilities have been the most common credit recipients, but changes to statute in 2017 removed wind from the list of eligible energy sources; wind facilities placed into service on or after July 1, 2017 are no longer eligible for the tax credit. No new credits can be claimed after December 31, 2021.

Since the program's last evaluation in 2016, the program's sunset for wind facilities was moved from January 1, 2021 to July 1, 2017. In 2019, the Legislature also added an annual cap of \$500,000 for credits claimed by non-wind facilities.

Recommendation: Retain and allow the program to sunset as scheduled.

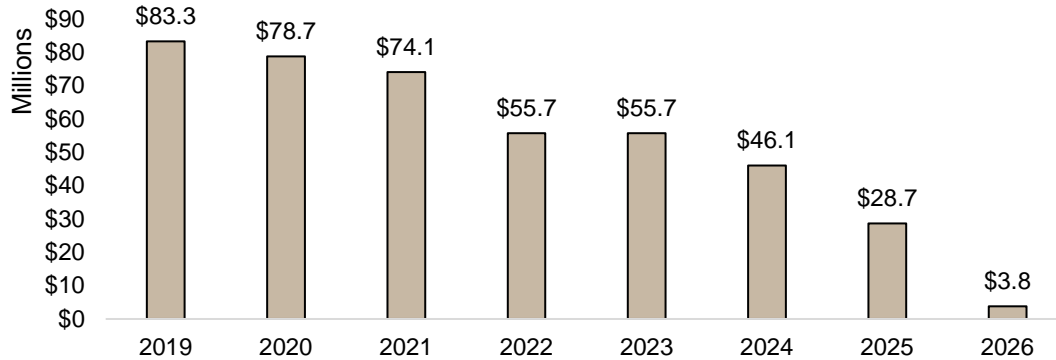
Key Findings Related to Established Criteria for Evaluation

- **From FY 2012 to FY 2019, the amount of credits used to offset tax liability or refunded (total state cost) increased dramatically, from \$2.3 million to \$88.0 million.** In FY 2015, when taxpayers began to be required to refund unused tax credits at 85.0 percent of face value rather than carry them forward, total state cost increased from \$27.6 million to \$59.8 million, with refunded credits accounting for 75.3 percent of the total. In 2018, refunded credits accounted for 99.8 percent of total state cost.
- **Wind facilities will continue to generate tax credits through tax year 2026.** Although wind facilities placed in service after July 1, 2017 are not able to claim the credit, facilities placed in service earlier are able to make claims for their 10-year credit period. This means some wind facilities will still be able to claim the credit through tax year 2026. The Oklahoma Tax Commission (OTC) does not maintain projections of future claims by these facilities. The project team was able to project the potential remaining cost of wind facilities based on added wind capacity in the State over the last several years, according to data from the Energy Information Administration (EIA). These estimates show the potential for over \$400 million in tax credits to be generated by wind facilities in tax years 2019 through 2026.¹

¹ Estimates Energy Information Administration data on capacity factors at the time capacity was added. Projections assume no increase in capacity factors in the years following addition which may increase the potential claims.

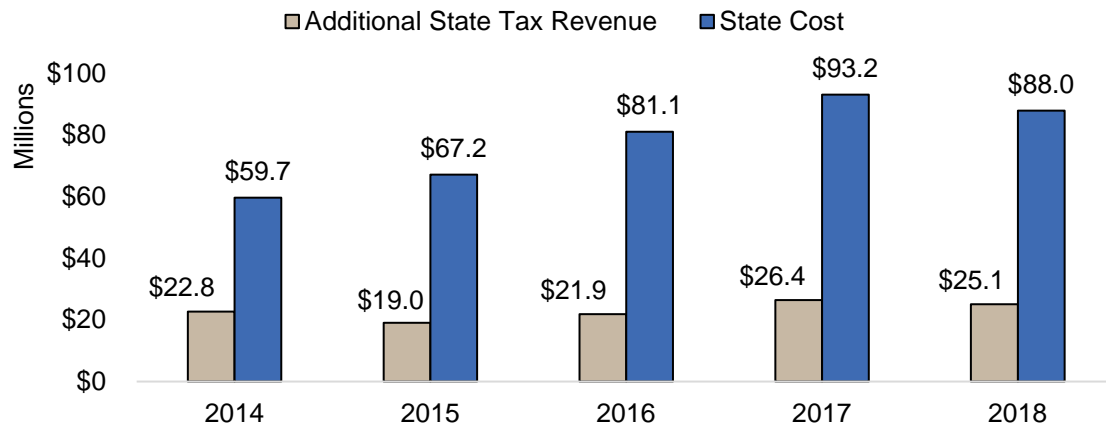


Figure 1: Estimated Potential Credit Claims, Tax Year 2019 through 2026



- **By sunsetting the program for wind facilities in 2017, the State avoided a potential \$177.2 million over 10 years in tax credit claims based on wind generating capacity added to the State in 2018 alone.** This is based on 1,162 MW of nameplate capacity added to the State in 2018 according to EIA data. Assuming all of this generating capacity was at newly qualified facilities, it would have the potential to generate 3.5 million MWh of electricity per year, equivalent to \$17.7 million in tax credits.
- **From FY 2015 through FY 2019, the program returned between \$0.27 to \$0.38 in tax revenue for each dollar spent by the State.** In FY 2019, facilities receiving credits generated an estimated \$25.1 million in additional State tax revenue while \$88.0 million in tax credits were refunded or used to offset tax liability, representing a return of \$0.29 per dollar spent by the State that year.

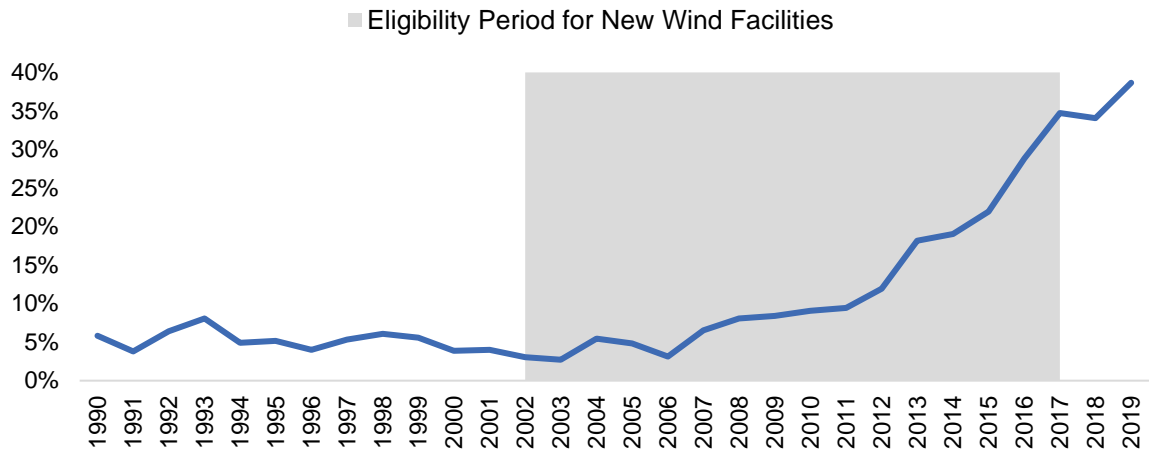
Figure 2: Fiscal Impact



- **Over the life of the credit for wind facilities, renewable energy as a share of all electricity generated in the State increased from 3.1 percent in 2002 to 34.7 percent in 2017.** From 1990 through 2001 prior to the credit, renewable energy accounted for an average of 5.3 percent of total energy generation in Oklahoma annually. In 2019, this percentage increased to 38.7.



Figure 3: Renewable Energy Share of Total Electricity Generated in Oklahoma



Source: US Energy Information Administration

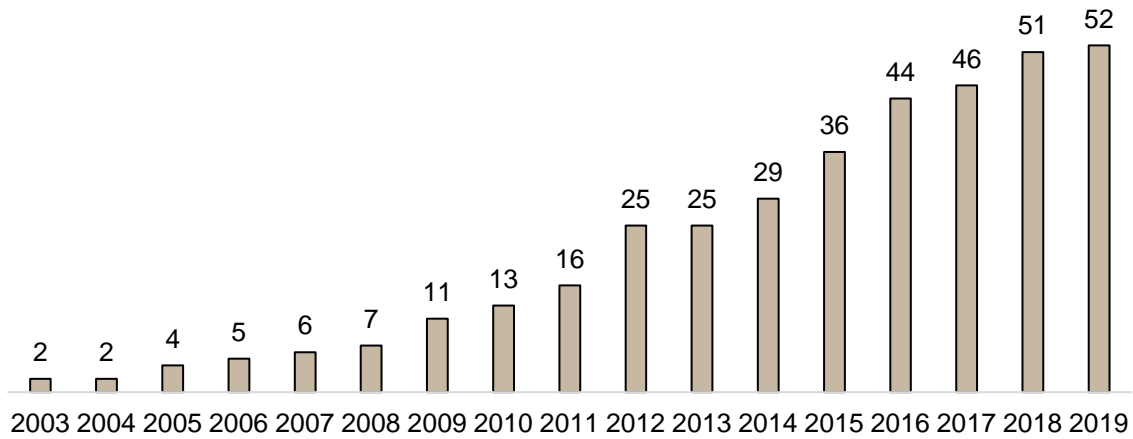
- **In 2017, the last year of eligibility for new wind facilities, wind accounted for 92.1 percent of the State's renewable energy generation.** This percentage increased to 93.1 percent in 2018 but declined to 88.1 percent in 2019. This decline was driven by an increase in hydroelectric power generation which nearly doubled from 2.0 million megawatthours to 3.9 million from 2018 to 2019. From 1990 to 2001 prior to the credit, hydroelectric power was responsible for nearly all renewable energy produced in the State. Wind power was first generated in Oklahoma in 2003 and accounted for just 3.3 percent of renewable energy produced in the State that year.
- **In 2017, electricity qualifying for the credit accounted for 85.9 percent of total wind electricity generated statewide.** Generation associated with the credit was 20.3 million megawatt-hours while a total of 23.6 million megawatt-hours of wind electricity was generated statewide.
- **A total of 46 wind facilities were placed into operation over the life of the credit program.** Over the life of the program, facilities increased from 2 in 2003 to 46 in 2017.² The EIA does not have data on wind facilities in the State prior to 2003. However, the US Wind Turbine Database, created by the US Department of Energy, shows a total of just 6 turbines in service in two counties in the State prior to 2003.³ Since the last year of eligibility for new wind facilities in 2017, 6 facilities have been added, bringing the State's total to 52 in 2019.

² To be eligible for the credit, wind facilities must be in operation by July 31, 2017.

³ United States Wind Turbine Database. Accessed electronically at: <https://eerscmapp.usgs.gov/uswtddb/>



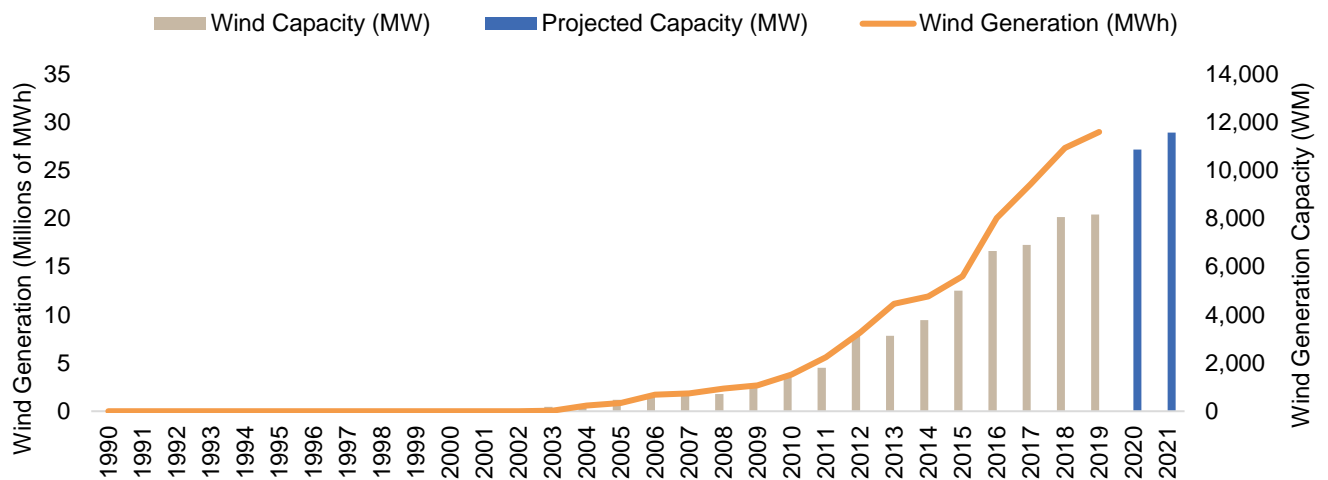
Figure 4: Wind Power Facilities in Oklahoma



Source: Energy Information Administration

- **Wind electricity capacity and generation has continued to increase following the end of credit eligibility.** In 2018, 1,1162.3 megawatts of wind capacity was added to the State, followed by another 100 megawatts in 2019. According to the EIA's survey of planned capacity additions, another 3,409.4 megawatts will be added in 2020 and 2021.

Figure 5: Wind Electricity Capacity and Generation in Oklahoma, 1990-2021⁴



Source: US Energy Information Administration

- **While the industry has experienced significant growth (in terms of facilities and power generated), it has not had an equivalent direct impact on employment.** According to U.S. Bureau of Labor Statistics data, the wind electric power generation industry employed just 178 people in Oklahoma in 2018.
- **Electricity prices in Oklahoma have been consistently lower than the national average since 2001.** Over this period, average electricity prices increased 45.4 percent nationally, but only increased 26.9 percent in Oklahoma.

⁴ Projected capacity calculated using planned addition data from the US Energy Information Administration



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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Tax Credit for Electricity Generated by Zero Emissions Facilities, first evaluated in 2016, is one of nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature.

2016 Evaluation Findings and Recommendations

Key findings from PFM's 2016 evaluation of this program are displayed in the following table:

Fiscal and Economic Impact	The amount of credits claimed increased rapidly between 2010 and 2014, from \$3.7 million to \$113.2 million. Tax revenue generated by projects over this period totaled \$73.8 million.
Adequate Protections for Future Fiscal Impact?	No, there has been a significant increase in costs with the potential to accelerate in future years and the program has no caps in place.
Effective Administration?	Yes. Administration is straight-forward, but there is some concern that the tax credit reporting is not sufficient for revenue estimating.
Achieving Its Goals?	Yes, the program has achieved its goal of supporting the renewable energy industry and the State was able to meet its renewable energy goals.
Changes to Improve Future Evaluation	Increase reporting requirements related to expected energy generation and use of state credits.

2020 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the 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 incentive, specific goals were not established in legislation. However, the goal of the program can reasonably be assumed to be to support the development of the renewable energy industry in Oklahoma and increase the amount of renewable energy generated in the State.

The Tax Credit for Electricity Generated by Zero Emissions Facilities was ended for facilities that commenced operation after July 1, 2017. While those in operation prior to July 1, 2017 may continue to take the credit for 10 years, the elimination of the program creates an opportunity to determine the impact that the tax credit has on the industry as a whole, both for facilities that can and cannot take advantage of the credit. As a result, the Incentive Evaluation Commission has adopted the following criteria, which are particularly focused on a lapsed incentive program:

- Comparison to the period prior, during and after the credit of renewable energy and wind's share of renewable energy;



- Comparison to the period prior, during and after the credit of renewable energy kilowatt hours generated vs all kilowatt hours generated in the state;
- Facilities put into operation before, during and after the end date of initiating the credit;
- Income generated within the State by eligible projects;
- Jobs generated within the state by eligible projects;
- Use with other related business incentives;
- State return on investment;
- Lease revenue generated by zero-emission facilities;
- Change in average price of electricity before, during and after the tax credit.

State of Oklahoma

Incentive Evaluation Commission

Aerospace Employer & Employee Tax Credits Evaluation

November 2, 2020

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Key Findings and Recommendations



Overview

In the early part of the 21st century, Oklahoma's aerospace industry increasingly encountered a lack of qualified applicants for engineering positions, posing a significant barrier to entry and an impediment to growth. In response to this issue, effective January 1, 2009, the State enacted a package of tax incentives designed to "address the critical shortage of engineering and technical talent facing the Oklahoma aerospace industry," including a tax credit for compensation paid to by aerospace employers as well as a tax credit for aerospace employees.¹

Recommendation: The project team recommends retaining the State's tax credits for aerospace engineering employers and employees.

Key Findings Pertaining to Employer and Employee Tax Credits

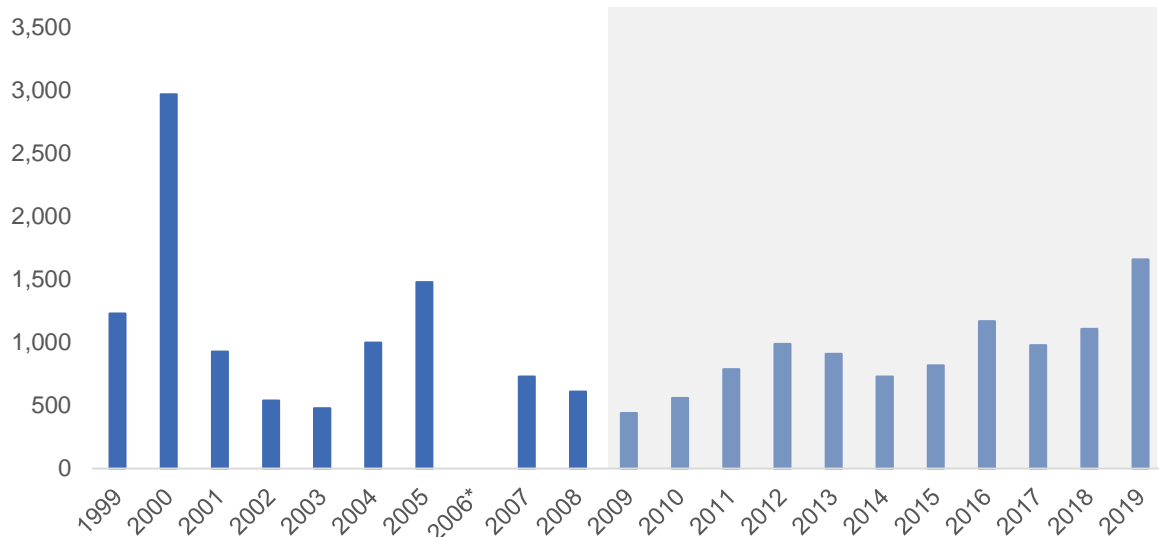
- **According to industry accounts, the State of Oklahoma still has a "skills gap"² when it comes to filling aerospace engineering positions – but data show an increase in related degrees conferred within the state.** Industry representatives indicated they must often look outside of Oklahoma to fill positions due to a continuing shortage of aerospace engineering graduates and employees in the state. There is some evidence that overall numbers are improving, as data shows that degrees conferred at the State's public institutions in aerospace-related fields of study trended upward by a compound annual growth rate (CAGR) of 4.7 percent between the 2014-2015 and 2017-2018 academic years (the most recent year for which data is available).
- **The introduction of the tax credits may have helped increase aerospace engineering employment in the state.** Between 1999 and 2008 (the year prior to when Oklahoma's incentives began to be offered), employment declined by a CAGR of -7.5 percent. Following the implementation of the credits in 2009 (in conjunction with the end of the Great Recession), employment has increased by a CAGR of 14.2 percent.

¹ It is important to note that the focus of this evaluation is on (1) the credit for qualified employers for compensation paid to qualified employees and (2) the credit for qualified employees. During initial discussions with the Tax Commission, it was determined that a third credit, for tuition reimbursement for aerospace employers, is not in use. For that reason, the project team suggested – and the Commission approved – exempting it from the evaluation process so that the focus of the analysis can be on those programs which are actively in use by the state's aerospace engineers and employers.

² The "skills gap" defines a fundamental mismatch between the skills that employers rely upon in their employees, and the skills that job seekers possess.



Figure 1: Aerospace Engineering Employees in Oklahoma, 1999-2019



Source: BLS Occupational Employment Statistics data for Aerospace Engineers (SOC code 172011)

* No data reported for 2006

Note: shaded area represents the existence of Oklahoma's incentives

- **Average annual growth in aerospace engineering pay lags national growth as well as all Oklahoma occupations, generally.** The average wage for aerospace engineers in Oklahoma is well above the state's average wage, yet it increased by a CAGR of 1.3 percent between 2010 and 2019 – a rate of growth that lags the national rate for the occupation (2.2 percent) and the rate of Oklahoma wages for all occupations (2.4 percent).
- **The total economic activity associated with the tax credits substantially exceeds the cost to the State each year.** For each \$1 paid by the State between 2013 and 2017, the economic output generated ranged from \$72 to \$89 annually. In 2017, the most recent year with available data, total economic activity associated with the 2,384 jobs for which claims were made reached \$1.6 billion. Indirect and induced activity supported an additional 2,567 jobs – more than one additional job for each job supported by the incentive. Total employment supported in 2017 reached 4,951 jobs.
- **Oklahoma's tax credits are unique among states.** No other state was found to have a directly comparable program, and the credits appear to be valuable to industry representatives who recruit aerospace engineers.

Key Findings Pertaining to Employer Tax Credits

- **While the employer tax credit is being claimed by more employers, the cost to the State is declining.** Between 2013 and 2017, the number of employer returns claiming the credit increased by a CAGR of 21.5 percent, while the amount used to reduce tax liability (the foregone revenue to the State) trended downward by a CAGR of -27.4 percent. On a per-return basis, the average amount used to reduce tax liability is approximately \$50,000 over the time period.



Table 1: Usage of Aerospace Employer Tax Credits, 2013-2017

Tax Year	Number of Returns	Total Amount Claimed	Estimated Employees Claimed*	Amount Used to Reduce Tax Liability	Average Amount Used to Reduce Tax Liability / Return
2013	22	\$2,595,665	280-560	\$1,133,449	\$51,520
2014	36	\$2,879,984	310-630	\$2,001,145	\$55,587
2015	33	\$3,783,321	430-850	\$2,908,642	\$88,141
2016	37	\$4,743,861	550-1,100	\$1,790,880	\$48,402
2017	48	\$484,984	50-110	\$314,861	\$6,560
Avg.	35	\$2,897,563	320-640	\$1,629,795	\$50,042

Source: Oklahoma Tax Commission; PFM analysis

* Calculation uses the average wage per OES data referenced in the preceding chapter; ranges are based on 10% credit for in-state degree and 5% for out-of-state degree. Estimates have been rounded.

Key Findings Pertaining to Employee Tax Credits

- **Use of the employee tax credit has increased – and the cost to the State has grown commensurately.** The incentive's use grew between 2013 and 2017 – both in terms of the number of returns (by a CAGR of 15.3 percent) and the amount used to reduce tax liability (by a CAGR of 15.2 percent). The average amount used to reduce tax liability has generally remained constant, at just over \$3,100.

Table 2: Usage of Tax Credits for Aerospace Employees, 2013-2017

Tax Year	Number of Returns	Unused Credit Carried Over	Credit Established, Current Tax Year	Total Claimed	Amount Used to Reduce Tax Liability	Amount Used to Reduce Tax Liability / Return
2013	1349	N/A	N/A	\$7,739,763	\$4,206,737	\$3,118
2014	1,501	\$3,820,064	\$6,550,532	\$10,866,070	\$5,067,377	\$3,376
2015	1,999	\$4,956,306	\$8,787,471	\$14,017,600	\$6,288,098	\$3,146
2016	2,283	\$6,324,653	\$9,665,287	\$16,185,075	\$7,164,341	\$3,138
2017	2,384	\$7,203,876	\$10,182,183	\$17,585,381	\$7,400,323	\$3,104
Avg.	1,903	\$5,576,225	\$8,796,368	\$13,278,778	\$6,025,375	\$3,166

Source: Oklahoma Tax Commission

- **The incentive's Accreditation Board for Engineering and Technology (ABET) accreditation requirement has led to confusion among some employees claiming the credit.** In recent years, the employee tax credit has faced scrutiny, as some employees learned they do not qualify for the credit based on the ABET accreditation standards – even after their applications have been approved. This is because the Oklahoma Tax Commission (OTC) Compliance Division regularly conducts discovery projects related to the tax programs it audits, and through this process it has identified employees that it believes mistakenly claimed and received the credit.

Recommendations Pertaining to Employer Tax Credits

- **Enhance employer reporting to show overlap with the State's Quality Jobs incentives.** While this recommendation was made as part of the 2016 evaluation of this incentive, it has not been adopted by the OTC. There is possible overlap among the two incentives exists, but the current data does not support an analysis of this overlap. Based on discussions with industry representatives, the project team is aware that at least one major company – the Boeing Company – that participates in both programs, but detailed data for analysis is not available.



Recommendations Pertaining to Employee Tax Credits

- **Consider broadening the employee tax credit incentive eligibility.** As currently defined in statute, the employee tax credit is limited to employees who have been awarded an undergraduate or graduate degree from a qualified program accredited by the Engineering Accreditation Commission of ABET. The employee must not have been employed in the aerospace sector in Oklahoma immediately preceding employment with the employer. The State should consider these restrictions in conjunction with statewide economic development goals, as well as the goals of the incentive itself. It may be reasonable to loosen the ABET accreditation requirements to allow graduates of non-ABET accredited programs to qualify. It may also be reasonable to extend the credit beyond recent graduates to draw more experienced candidates to the State. Both measures may broaden the pool of potential aerospace engineering candidates and, as a result, increase the State's ability to recruit and retain industry talent.
- **Clarify eligibility requirements in statute.** The State should seek to alleviate, in state law, the confusion associated with eligibility for this incentive, regardless of whether the preceding recommendations are implemented.



Introduction



Incentive Evaluation Commission Overview

In 2015, HB 2182 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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The State's Tax Credits for Aerospace Engineers and Employers, first evaluated in 2016, are among nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature related to these incentives.

2016 Evaluation: Key Findings and Recommendations

Significant findings from the 2016 evaluation of these programs are displayed in the following table:

Table 3: Summary of Findings, 2016 Evaluation

Fiscal and Economic Impact	<p>Fiscal Impact: Between 2010 and 2014, aerospace employers and employees claimed a total of \$18.4 million in credits – the amount of foregone revenue for to the State.</p> <p>Economic Impact: Between 2010 and 2014, the employer and employee tax credits resulted in \$4.2 billion in economic output; \$878.3 million in labor income, nearly 12,800 jobs and \$46.3 million in State tax revenue.</p>
Adequate Protections for Future Fiscal Impact?	The various benefit limitations, coupled with the fact that these credits are neither transferable nor refundable and have a limited (5 year) carry-forward provides adequate protection against significant, unanticipated fiscal impact.
Effective Administration?	Additional reporting by employers that shows the overlap with the Quality Jobs and Ad Valorem programs is required.
Achieving Its Goals?	Overall, the aerospace industry in the state is growing and the number of aerospace engineers employed outperforms other types of engineering jobs. While the data on decreasing engineering job openings is inconclusive (perhaps for technical reasons), overall, the employer and employee incentives seem to be an efficient part of growing a key Oklahoma industry.
Changes to Improve Future Evaluation	Enhance employer reporting to show the overlap with Quality Jobs incentives.

The project team recommended in 2016 that the program be retained. The Commission voted 5-0 to approve the project team's recommendation, and the incentive is still in place. Further, SB 120 (2017) extended the incentive's sunset date from January 1, 2018 to January 1, 2026.

2020 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the 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 tax credit, the specific goal included in legislation



is to “address the critical shortage of engineering and technical talent facing the Oklahoma aerospace industry.”³

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

- Number and dollar value of approved credits by year of program;
- Employment growth in state aerospace industry – comparison to period prior to the credit and comparable states;
- Payroll growth in state aerospace industry – comparison to period prior to the credit and comparable states;
- Change in measures of the ‘skills gap’ for engineering and technical skills in the aerospace industry;
- Use with other related State business incentives;
- Return on investment.

2020 Evaluation Approach

To conduct its 2020 review of these tax credits, the project team conducted the following activities:

- Submitted a data request to the Oklahoma Tax Commission (OTC);
- Reviewed and analyzed OTC-provided data;
- Completed subject matter expert/internal stakeholder interviews with representatives from the OTC, Department of Commerce and Oklahoma Aeronautics Commission;
- In collaboration with the Oklahoma City, Tulsa and State Chambers of Commerce, conducted external stakeholder interviews with industry representatives;
- Benchmarked Oklahoma to other states.

³ Per HB 3239 of the 51st Oklahoma Legislature. Available at <http://okhouse.gov/Documents/2008SessionInReview.pdf>

State of Oklahoma

Incentive Evaluation Commission

Film Enhancement Rebate Evaluation

November 2, 2020

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Key Findings and Recommendations



Incentive Overview

The State of Oklahoma offers companies a rebate of between 35 and 37 percent of documented expenditures made in-state that are directly attributable to the production of a film, television production or television commercial with a budget of at least \$50,000 (with 50 percent expended in-state).¹

Recommendation: Based on some increase in economic activity that is presumably tied to the increase in the program cap and the disruption associated with COVID-19, the project team recommends retaining the incentive at present, but the State should continue to monitor the impact of the annual cap increase.

Key Findings

- **The number of Oklahoma-based production companies is increasing significantly (though the extent that the incentive influenced behavior is not known).** As of 2005, Oklahoma was home to 61 production companies.² By 2019, the total had grown to 99 – a CAGR of 3.5 percent. This level of annual growth exceeded that of all private industry establishments within the state, which averaged 1.2 percent annual growth over the same time period. Relative to other states, Oklahoma's growth ranks 10th.
- **The number of Oklahoma production company employees is also increasing meaningfully (though the extent that the incentive influenced behavior is not known).** According to U.S. Department of Labor, Bureau of Labor Statistics (BLS) data, in 2005, 161 people in Oklahoma were employed in the Motion Picture and Video Production industry – a figure that increased to 306 by 2019 (a CAGR of 4.7 percent).³ This level of annual growth is significantly higher than employment growth in all industries across the state, which averaged 0.8 percent annually over the same time period. Relative to other states, Oklahoma's industry employment growth ranks 10th.
- **The number of productions based in Oklahoma participating in the incentive program has increased significantly in recent years.** Total productions eligible for the rebate have grown by a compound annual growth rate (CAGR) of 24.1 percent between FY2013 and FY2020.

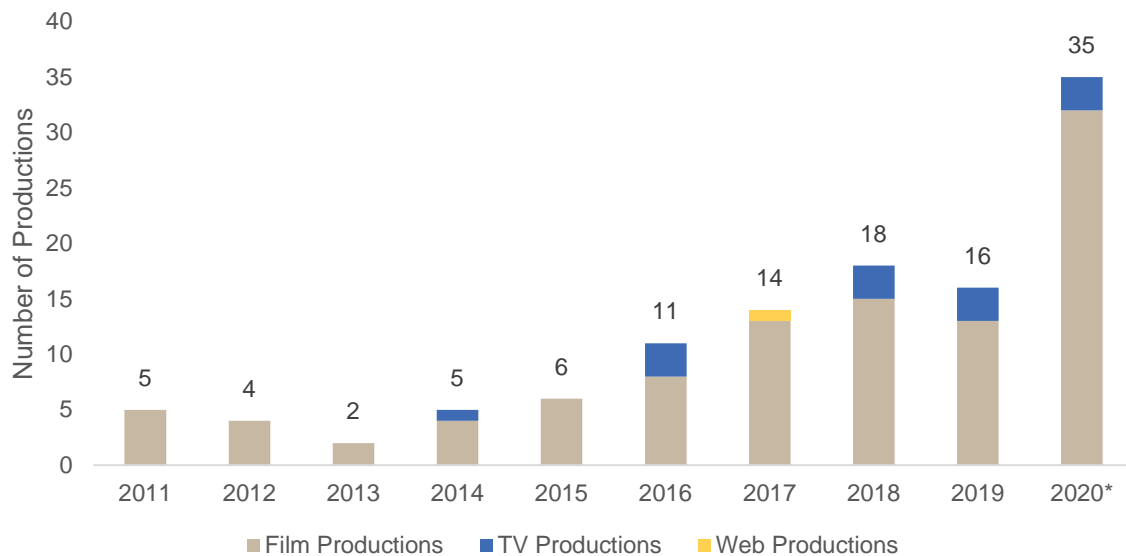
¹ As discussed later in this report, the initial rebate amount was 17 percent; the rebate amount was increased to 35 percent for documented expenditures made after July 1, 2009. An additional 2 percent rebate may be applied if a production company spends at least \$20,000 for the use of music created by an Oklahoma resident that is recorded in Oklahoma or for the cost of recording music in Oklahoma for use in the production.

² Based on BLS Quarterly Census of Employment and Wages data for North American Industry Classification System (NAICS) code 51211 – Motion Picture and Video Production

³ Based on BLS data for North American Industry Classification System (NAICS) code 51211 – Motion Picture and Video Production



Figure 1: Total Oklahoma Productions Participating in Incentive Program, FY2011-FY2020



Source: OF+MO

* FY2020 total includes productions that are in the queue but have not yet begun principal photography.

- While total qualified payroll associated with incentive productions increased meaningfully between FY2013 and FY2019, the average below the line (BTL) employee wage growth declined. While total eligible BTL and above the line (ATL) payroll associated with qualified productions increased meaningfully between FY2013 and FY2019 (by a CAGR of 38.0 percent), the average wage paid to below the line workers declined by a CAGR of -8.5 percent over the same time period.

Table 1: Total and Average Payroll Paid to Oklahoma Residents by Eligible Productions

Fiscal Year	BTL Total*	ATL Total**	Total, BTL + ATL	Average, BTL	Average, ATL
2013	\$703,866	\$0	\$703,866	\$3,384	\$0
2014	\$1,082,826	\$19,575	\$1,102,401	\$4,213	\$19,575
2015	\$1,053,556	\$91,345	\$1,144,901	\$1,733	\$1,497
2016	\$2,860,805	\$1,498,809	\$4,359,614	\$1,767	\$17,032
2017	\$10,356,541	\$6,474,683	\$16,831,224	\$3,452	\$52,215
2018	\$4,833,537	\$2,253,918	\$7,087,455	\$2,404	\$18,627
2019	\$3,190,604	\$1,661,718	\$4,852,322	\$1,987	\$12,782
CAGR	28.6%	N/A	38.0%	-8.5%	N/A

Source: OF+MO

Note: Totals include actual payroll as well as projected payroll for productions that have been approved but have not yet completed production. In these instances, payroll numbers are based on projections included – and subsequently preliminarily approve – as part of the application process.

* “Below the line” refers to crew members; namely persons who work on the production who are not “above the line”

** “Above the line” refers to individuals hired or credited on screen for the production as producers, principal cast, screenwriters and directors.

- Anticipated FY2020 productions indicate a significant increase in production activity – though the extent to which expected activity materialized is unknown. According to preliminary FY2020 production data supplied by OF+MO, BTL payroll was anticipated to reach nearly \$36 million, and qualified ATL payroll was expected to reach nearly \$16 million.



At the time FY2020 qualified production activity data was provided to the project team, however, most approved expenses were preliminary, as principal photography had not yet begun. Additionally, data was supplied prior to the start of the COVID-19 pandemic, which has since delayed and/or otherwise modified the filming schedules of several productions. As an example, included in the projected FY2020 total is payroll associated with the film “Killers of the Flower Moon,” a major motion picture where production has since been postponed until 2021. This production accounts for \$14.2 million of the \$35.8 million BTL total anticipated in FY2020.

- **In addition to payroll expenditures, other film-related expenditures in Oklahoma by films eligible for the rebate have varied widely from year to year.** These totals range from just over \$1.0 million in 2014 to \$16.6 million in 2017. The average expenditures per production have varied as well, ranging from \$0.2 million in 2014 and 2015 to \$3.5 million in 2013.
- **For the period 2013-2016 the return on investment measured by total economic activity generated was \$2.41 for each \$1.00 in rebates.** For the period 2017-2020 the return on investment was \$17.04 for each \$1.00 in rebates.
- **For each \$1.00 in rebates provided by the State, the Oklahoma tax revenue generated from filming and production spending within the state is well under \$1.00.** For the period 2013-2016 the state tax revenue generated was \$.05 for each \$1.00 of rebates provided. For the period 2017-2020 the state tax revenue return was \$.52 per \$1.00 of rebates. It should be noted that economic activity (total spending and multiplier effects) is a different measure than taxes generated by that spending.

Other Findings

- **The program is effectively administered.** The OF+MO has established processes that are smooth, fair and verifiable. A clear and comprehensive set of guidelines is available to applicants. Eligible costs are defined narrowly to maximize in-state benefits.
- **Beginning in 2020, OF+MO improved the data collection aspect of the application process.** Applicants are now required to supply additional information on their initial and final applications which should enable OF+MO to provide additional reporting on program impact.
- **Adequate financial protections are in place.** The program has a cap of \$8 million per fiscal year, and claims exceeding the cap can be paid in following years.
- **Compared to other states, the value of Oklahoma’s incentive is among the highest in the nation.** Just two other states – Montana and Washington – offer incentives up to 35 percent.⁴
- **Respondents to a survey of production companies indicated that Oklahoma has several locational strengths.** These include a diverse topography with options for “anywhere in America;” a strong film commission and a crew base that is pleasant to work with. Respondents indicated that the incentive influenced the decision to film in Oklahoma.

⁴ In Washington, the range is 15-30 percent, depending on the type of production and minimum spend.



- **Survey respondents indicated Oklahoma also has locational weaknesses.** These include an insufficient experienced crew base to properly utilize the state incentive and an insufficient number of production vendors, an annual cap that prevents larger budget films from considering Oklahoma, and a need for more film and television infrastructure. Multiple respondents indicated that California and Georgia are among the most competitive locations for film production.

Recommendations: Retain and revisit in the future.

While the program has a potentially low return on investment and is limited to a small group of beneficiaries, the project team's analysis notes that there has been an increase in activity since the program cap was raised and the sunset extended. Given that OF+MO has improved program administration and some of the expected economic activity for FY2020 has, because of COVID-19 been put on hold, the project team recommends that this incentive "stay the course," and revisit the program after the impacts of increasing the annual cap to \$8 million can be more fully analyzed and understood.



Introduction



Incentive Evaluation Commission Overview

In 2015, HB 2182 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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Film Enhancement Rebate, first evaluated in 2016, is one of nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature related to this incentive.

2016 Evaluation Findings and Recommendations

Key findings from the 2016 evaluation of this program are displayed in the following table:

Table 2: Summary of Findings, 2016 Evaluation

Topic Area	Findings
Fiscal and Economic Impact	<p>Fiscal Impact: Total rebates ranged from \$0.9 million to \$6.5 million between FY2011 and FY2015. The incentive generated between \$0.1 million and \$0.7 million in tax revenue during those years.</p> <p>Economic Impact: Economic output ranged from \$4.8 million to \$32.4 million between FY2011 and FY2015; labor income ranged from \$1.9 million to \$13.3 million over the same time period.</p>
Adequate Protections for Future Fiscal Impact?	Yes. The program has a cap of \$5 million per fiscal year; claims exceeding the cap can be paid in following years.
Effective Administration?	Yes. The Oklahoma Film and Music Office (OF+MO) has established processes that are smooth, fair and verifiable. A clear and comprehensive set of guidelines is available to applicants.
Achieving Its Goals?	No. There is no evidence that the Oklahoma film industry has strengthened since the rebate was created. Documented job creation is neither stable nor sustainable, absent state support. The effect on Oklahoma's image nationwide is unclear, but likely limited.
Changes to Improve Future Evaluation	<p>Supplement existing data reporting practices by retaining the following information shared by rebate recipients:</p> <ul style="list-style-type: none"> - Duration of film shoot or employment period; - In-state goods and services expenditures by types and services expenditures by type; - Rebate expenditures associated with Oklahoma "expatriates" and Oklahoma production service entities. <p>To the extent possible, administrators should increase reporting consistency when documenting film productions not receiving state incentives.</p>



Based on these findings, the 2016 recommendation was to repeal the Film Enhancement Rebate or allow it to sunset as scheduled in 2024. The Commission voted 4-1 to approve this recommendation; however, in 2019, the sunset date was extended from July 1, 2024 to July 1, 2027.

The annual program cap was reduced from \$5 million to \$4 million in 2018, and in 2019, the State increased the cap to \$8 million – a measure meant to retain local productions in-state while attracting new and larger productions to the state.⁵

2020 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the 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 incentive, the specific goal included in legislation is to “increase film production in the State of Oklahoma by providing an incentive that will stand out among those of other states.”

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

- Marginal wages and salaries paid to Oklahoma residents by films eligible for the rebate – comparison to period prior to the rebate;
- Film-related expenditures in Oklahoma by films eligible for the rebate – comparisons to period prior to the rebate;
- Additional identifiable business activity directly or indirectly produced by films eligible for the rebate;
- Additional identifiable benefits that accrue to the State by films eligible for the rebate;
- Return on investment (economic activity versus rebates paid).

2020 Evaluation Approach

To conduct its 2020 review of the Film Enhancement Rebate, the project team conducted the following activities:

- Submitted an information request to OF+MO;
- Reviewed and analyzed OF+MO-provided data;
- Completed subject matter expert/internal stakeholder interviews with representatives from OF+MO;
- In collaboration with the Oklahoma City, Tulsa and State Chambers of Commerce, conducted external stakeholder interviews with industry representatives;
- Benchmarked Oklahoma’s incentive relative to peer state programs;
- Conducted an economic impact analysis of the incentive;
- Surveyed production companies and local tourism bureaus.

⁵ Per SB 200 (2019)

State of Oklahoma

Incentive Evaluation Commission

Historic Rehabilitation Tax Credit Evaluation

November 2, 2020

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Key Findings and Recommendations



Overview

In 1992, as part of the Local Development Act, the Oklahoma Legislature introduced a tax credit for the rehabilitation of certified historic hotels and newspaper plants located in an increment or incentive district. Effective January 1, 2006, with the passage of HB 3024, credit eligibility was broadened to include the rehabilitation of any income-producing certified historic structure; the bill also allowed projects that qualify for the 20 percent federal credit to automatically qualify for the state credit (also 20 percent) without additional paperwork. All requirements with respect to qualifying for the federal credit are applicable.

Recommendation: The project team recommends retaining the historic rehabilitation tax credit.

Key Findings

- **As of January 2020, Oklahoma has 1,345 properties in 77 counties listed on the National Register of Historic Places.**¹ Oklahoma County accounts for 152 properties (11.3 percent of the total) and Tulsa County accounts for an additional 96 properties (7.1 percent of the total).²
- **Between tax years 2014 and 2018, claims activity associated with the incentive decreased.** The number of returns filed declined by a compound annual growth rate (CAGR) of -15.4 percent, and the total amount claimed (unused credit carried forward plus credit established during the current tax year) declined by a CAGR of -20.1 percent over the same period. The amount used to reduce tax liability (the amount of foregone revenue to the State) also declined, decreasing by a CAGR of -27.1 percent over the five-year span.
- **Changes to federal tax law may be impacting the use of the credit.** The Tax Cuts and Jobs Act (TCJA) modified the timing for claiming the 20 percent federal credit effective for taxable years beginning after 2017. Prior to the TCJA, the credit was claimed in the taxable year in which the certified historic building was placed in service after substantial rehabilitation. Under the new rules, the federal credit is claimed over a five-year period beginning with the taxable year in which the certified historic building is placed in service after substantial rehabilitation.
- **The credit appears to generate significantly more economic activity than what the State forgoes in revenue.** The total foregone revenue between 2014 and 2018 was \$26.8 million. Total qualified expenditures associated with Oklahoma projects during the same years were \$322.7 million – more than 12 times this total.
- **The program's return on investment to the State is generally negative.** For the five-year period 2014-2018, the estimated tax revenue generated was \$16 million – compared with the cost of the incentive amount used to reduce tax liability of \$26.8 million. This represents \$0.60 in tax revenue for each \$1 of tax liability reduced. These same costs generated \$21 in total economic activity each \$1 of tax liability reduced.
- **The State historic rehabilitation tax credit is increasingly combined with the State's affordable housing tax credit.** This strategy, which is also allowable under for the federal-level incentives, perhaps accounts for the growth in housing-related projects as a share of total projects and total qualified expenditures in recent years (as opposed to multi-use, commercial, office, hotel or other projects).

¹ The National Register of Historic Places is a catalog of buildings, sites, structures, districts and objects significant to history and is the foundation for all of the Oklahoma State Historic Preservation Office's programs. Listing in the National Register of Historic Places provides recognition, limited protection and, in some cases, financial incentives for these properties.

² National Register of Historic Places, "Spreadsheet of NRHP Listed Properties," (listings up to January 8, 2020). Available at <https://www.nps.gov/subjects/nationalregister/data-downloads.htm>



- **The incentive is effectively administered.** The program is among the most efficient nationwide because it is directly tied to the federal program with no additional administrative burdens or costs. The policies and procedures in place are timely, transparent and accountable.
- **While protections are not in place to restrain the incentive's fiscal impact, recent experience suggests this isn't a major concern at present.** Because Oklahoma's program has no annual cap, the cost burden on the State could grow beyond the point of desirability. It is notable, however, that – as explained previously – credit usage has declined in recent years. As a result, the possibility that the obligations associated with credit claims will impose an unanticipated cost burden to the State is unlikely.
- **As of 2020, most states (37) provide historic rehabilitation tax credits, though significant variation exists in how these programs are structured.** At 20 percent of qualified rehabilitation expenditures, the amount of Oklahoma's credit ranks in the middle among other states, whose credits range from 5 to 50 percent. With a minimum investment requirement of \$5,000, Oklahoma's qualification threshold is among the lowest. Unlike Oklahoma, many states provide credits for non-income-producing properties.

Recommendations

Currently, the program has no cap as it provides a one-for-one match with the federal credit. The lack of a cap could theoretically increase the cost burden to the State beyond the point of desirability. However, given the recent trend of decreased program utilization, in terms of the foregone revenue to the State, the project team does not believe the lack of a cap poses a real financial threat at this time.

Based on its analysis, the project team believes this incentive is effective and efficiently administered, and has no recommendations related to its 2020 evaluation of the program.



Introduction



Incentive Evaluation Commission Overview

In 2015, HB 2182 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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Historic Rehabilitation Tax Credit, first evaluated in 2016, is one of nine incentives scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature related to this incentive.

2016 Evaluation Findings and Recommendations

Significant findings from the 2016 evaluation of this program are displayed in the following table:

Table 1: Summary of Findings, 2016 Evaluation

Fiscal and Economic Impact	Fiscal Impact: Between 2011 and 2015, a total of \$47.7 million tax credits was claimed – the amount of foregone revenue to the State. Economic Impact: Between 2011 and 2015, the incentive generated \$392.5 million in economic output, \$137.8 million in labor income, nearly 2,900 jobs and \$9.4 million in State tax revenue.
Adequate Protections for Future Fiscal Impact?	No. Without an annual cap in place, the cost burden on the State could grow beyond the point of desirability.
Effective Administration?	Yes. The program is among the most efficient nationwide because it is directly tied to the federal program with no additional administrative burdens or costs. The policies and procedures in place are timely, transparent and accountable.
Achieving Its Goals?	Yes. Since 2005 (the year the program was tied to the federal process), the average number of historic rehabilitation projects has quadrupled, and total development investment has increased by 82 times. This level of growth far exceeds that of most other states.
Changes to Improve Future Evaluation	None

The project team recommended in 2016 that the program be retained and an that an annual cap be adopted to ensure some measure of future budget predictability. The Commission voted 5-0 to approve retaining the program but did not recommend the adoption of an annual cap. In 2017, the Legislature considered – but did not pass – an annual cap or sunset provision.

2020 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the 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 incentive, while the specific goal was not included in legislation, its purpose is presumably to increase private sector investment in historic rehabilitation activity.



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

- Total amount of rehabilitation expenditures and number of qualified projects;
- State tax credit as a percent of total rehabilitation improvement for qualified projects;
- Percent of qualified structures on the National Register of Historic Places that receive assistance;
- Economic impact related to tourism, sales tax generated, etc.;
- Use with other related business incentives;
- Return on investment (economic impact versus financial impact).

2020 Evaluation Approach

To conduct its 2020 review of the Historic Rehabilitation Tax Credit, the project team conducted the following activities:

- Submitted a data request to the Oklahoma Tax Commission (OTC) and State Historic Preservation Office (SHPO) housed within the Oklahoma Historical Society;
- Reviewed and analyzed OTC- and SHPO-provided data;
- Completed subject matter expert/internal stakeholder interviews with representatives from OTC and SHPO;
- In collaboration with the Oklahoma City, Tulsa and State Chambers of Commerce, conducted external stakeholder interviews with industry representatives;
- Benchmarked Oklahoma to other states.

State of Oklahoma

Incentive Evaluation Commission

Industrial Access Road Program Evaluation

November 11, 2020

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Key Findings and Recommendations



Overview

The Industrial Access Road program is designed to enhance the efforts of local governments in stimulating industrial activity. The Oklahoma Department of Transportation (ODOT) administers the program and pursues this goal by providing funding for direct access roads from state or local roads directly to new industrial facilities. Funding for the program is appropriated annually by the Legislature and is typically \$2.5 million, although program expenses have not exceeded \$2.3 million in the last five fiscal years. No changes have been made to the program since it was last evaluated in 2016.

Recommendation: Retain, with modifications

Key Findings Related to Established Criteria for Evaluation

- **The program has provided \$5.8 million in funding to 9 qualified road projects across 6 counties from FY 2015 through FY 2019.** Tulsa County had the most projects with three, followed by Pottawatomie County with two.
- **Total job creation reported by facilities associated with qualified road projects was 2,105 while \$304.5 million of capital investment was reported.** However, there is no post-award reporting or monitoring of whether these job creation and capital investment figures are achieved.
- **The program is appropriated \$2.5 million annually but has not awarded its full appropriation in any year from FY 2015 through FY 2019.** Average funding awarded per year was \$1.2 million over this period.
- **The Oklahoma Department of Transportation does not collect information related to average wages or total payroll.** This data is critical in determining the program's economic impact.
- **Costs to the State relative to capital investment and job creation provided by projects receiving funding vary widely, from 0.3 percent to 21.0 percent of capital investment and \$500 to \$59,500 per job.** This may result from the lack of standardized economic development requirements associated with the program. The variance can be addressed through per project caps, such as one the State of Virginia implements for its Road Access Grant Program, which limits funding to 20 percent of qualified investment.

Recommended Program Modifications

- **Incorporate assistance from the Department of Commerce to evaluate the economic impact of projects that are applying for funding.** Some level of joint administration with an economic development agency provides expertise to Departments of Transportation which are typically not well-equipped to evaluate the economic impact of projects. This approach is taken by four of six benchmark programs. A more thorough determination of economic impact would help ODOT prioritize projects and assist in evaluating the impact of the program. Such an arrangement may be similar to Oklahoma's Quality Jobs Program where much of the upfront administration of the program is handled by the Department of Commerce to ensure projects are a net benefit prior to being allowed to receive incentive payments administered by the Tax Commission.
- **Collect average wage of new jobs for each project to further evaluate economic impact.** Wages are a key piece of information missing in what is currently collected by ODOT. Without this information, it is difficult to make a determination of economic impact on the State.



- **Collect information regarding other incentives received by the project.** Formal collection of this information would help evaluators to determine how meaningful the incentive is in inducing location or expansion.
- **Create clear standardized definitions of jobs and capital investment.** One of the challenges of evaluating the economic impact of this program is the lack of detail regarding the jobs and capital investment associated with projects receiving funding. For many of the State's incentive programs, these terms are defined within the program's establishing statute. However, the administrative rules governing the Industrial Access Road Program do not include definitions or requirements for jobs and capital investment. While ODOT has collected jobs and capital investment figures for each of its projects, without these standards there is room for different interpretation from project to project.
- **Create a standard application form.** Four of six benchmark programs provide forms for potential applicants to complete. ODOT currently administers the Industrial Access Road Program via a request letter process. Introducing a standard application form to be completed would streamline administration of the program and provide an opportunity to ask specific questions of applicants. For example, North Carolina's application form asks how the funding would induce the business to locate in North Carolina instead of another state, while Tennessee's application form asks if any property tax breaks were provided to the applying facility.



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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Industrial Access Road Program, first evaluated in 2016, is one of nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature.

2016 Evaluation Findings and Recommendations

Key findings from PFM's 2016 evaluation of this program are displayed in the following table:

Fiscal and Economic Impact	Available data does not allow for an economic impact analysis.
Adequate Protections for Future Fiscal Impact?	Yes. Because the program is funded through annual appropriations, there is no requirement for ODOT to fund all (or any) projects. Funding can be limited as needed to align with state budget requirements.
Effective Administration?	The program has been designed to minimize the associated administrative burdens. Maximum flexibility has been preserved so that formal metrics do not unintentionally rule out otherwise promising projects. However, the lack of lack of formal metrics, economic data verification and monitoring, or standardized reporting procedures raise concerns about transparency, accountability, and program evaluation.
Achieving Its Goals?	Without more robust data, it is not possible to articulate the economic benefits of this program with any certainty. The data that is available indicated that it is unlikely the Industrial Access Road Program has a meaningful impact on the location decisions of most projects funded.
Changes to Improve Future Evaluation	If the State opts to retain the program, changes to program application requirements, metrics, and funding criteria would be necessary.

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 included in administrative code is to “encourage and assist local efforts toward industrial development”.

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

- Change in employment at the state level associated with the road access - comparison to the period prior to the program;
- Change in wages at the state level associated with the road access - comparison to the period prior to the program;
- Change in capital investment at the state level associated with the road access;
- Return on investment – economic impact versus incentive cost;
- Impact on local government cost burden;
- Use with other related business incentives;



- Alignment with local government's identified economic development and community goals.

State of Oklahoma

Incentive Evaluation Commission

Quality Events Incentive Act Evaluation

November 2, 2020

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Key Findings and Recommendations



Overview

The Quality Events Incentive Act was passed in 2010 and went into effect on July 1, 2012. Later, it was amended in 2018.¹ The Quality Events program provides local municipalities reimbursements for the eligible expenses of qualified events. The program is intended to attract major events to Oklahoma that might have otherwise taken place in another state. The Oklahoma Tax Commission (OTC) oversees administration of the program by approving events and determining the incremental state sales tax revenue generated by the event. Since FY 2015, the maximum reimbursement amount for a fiscal year increased to \$3 million, where no single event could be reimbursed more than \$250,000. The Quality Events program is currently scheduled to sunset on June 30, 2021.

Recommendation: Retain with modifications

Key Findings Related to Established Criteria for Evaluation

- **Oklahoma communities have been reimbursed about \$1.3 million for 32 events hosted from FY 2015 through FY 2020.** \$1.3 million amounts to about 7.2 percent of the statutory maximum during this time period. There are still about 10 cases that are pending reimbursement provided the host communities submit the required materials.
- **Since FY 2016, event hosts received disbursements from 1 month to 27 months after the event concluded.** Host communities receive their reimbursements once they have proven that all expenses have been paid and the correct documentation is sent to OTC. This process can vary based on the host community's ability to obtain the pertinent data.
- **The definition of "actual documentation" is not clearly defined and leads to confusion on what information should be submitted by stakeholders.** "Actual documentation" is not currently defined in statute. OTC has a letter that gives more information about what is expected; however, this letter is not widely circulated.
- **The data that OTC retains from each event is limited.** Currently, for all events, OTC records the amount of the disbursement, the date of disbursement, the event date, and the event location. In some cases, OTC records the incremental state sales tax revenue generated and the total event expenses.
- **The economic impact of the Quality Events program cannot be computed due to insufficient data.** The data that OTC retains for this program is not enough to determine its impact on the state.

Recommended Program Modifications

- **Replace "actual documentation" with a standardized economic impact study form that identifies all the information needed to determine economic impact.** The "actual documentation" that is required to be submitted after the event is not clearly defined in statute, and stakeholders sometimes submit information that is not useful to OTC's determination of incremental state sales tax revenue. Also, inaccurate submissions of actual documentation lead the OTC to request additional information, which lengthens the time for the stakeholders to receive their reimbursements.
- **Remove the statutory requirement that host communities submit the actual documentation 30 days after the event ends.** Stakeholders believe that 30 days is not enough time to gather all the materials necessary for OTC to determine the event's economic impact. In many cases, the stakeholders need to obtain this data from their vendors, and the time it takes to do so varies. Currently,

¹ SB1252, c. 201



if OTC needs more information to determine impact, they will inform the stakeholder of necessary additional information and grant more time; given this, providing more flexibility on the 30-day timeline will make the program more user friendly. In the end, it is in the best interest of the program users to submit on a timely basis, but accuracy of submission should be the prime motivation, not a specific timeframe.

- **Collect data that will better help determine the program's economic impact on the State.** Data that should be collected includes the number of event attendees, number of event participants (in some cases, attendees and participants can be lumped together), length of the event (days), ratio of local to non-overnight attendees, ratio of local to non-overnight participants, average daily spending (not including event registration fees), total cost of the event. This data will help OTC be more effective in evaluating events and determining their economic impact.



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, an additional 11 were conducted in 2018, and lastly, 5 were conducted in 2019.

The Quality Events Incentive Act is one of 9 incentives scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

2016 Evaluation Finds and Recommendations

Key findings from the 2016 evaluation of this program are displayed in the following table:

Table 1: Summary of Findings, 2016 Evaluation

Fiscal and Economic Impact	Fiscal Impact: Total reimbursements ranged between \$25,000 and \$374,559 between FY2013 and FY2015. Reimbursements were provided for 7 events over this period. Economic Impact: Available data did not support a full economic impact analysis
Adequate Protections for Future Fiscal Impact?	Yes. The program has a project cap and an annual cap in place. In addition, communities cannot receive reimbursements in excess of the quantity of sales tax revenues generated by the event.
Effective Administration?	No. The administrative process was designed to emphasize verification and oversight. Unfortunately, the verification requirements have resulted in a process that is cumbersome, costly, inefficient, and ultimately undermines the ability of the program to achieve its goals.
Achieving Its Goals?	No. The outsized administrative burdens associated with the current processes and requirements generate uncertainty about the magnitude and timeliness of reimbursement. As a result, local hosting entities cannot rely on support from this program when developing bids to compete nationally for events.
Changes to Improve Future Evaluation	The State should maintain a database with essential project information.

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 incentive, the specific goal included in legislation is to “provide a method by which eligible municipalities and counties utilize a portion of the state sales tax revenues derived from taxable transactions occurring within a designated area to promote certain qualifying events.”



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

- Economic impact of qualifying events;
- Revenue impact of qualifying events;
- Existing versus new qualifying events;
- Additional quantifiable impacts for the State from qualifying events;
- Return on investment for qualifying events.

State of Oklahoma

Incentive Evaluation Commission

Oklahoma Capital Investment Board Evaluation

November 11, 2020

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Key Findings and Recommendations



Overview

The Oklahoma Capital Investment Board (OCIB) was created in 1987 and authorized to function as an independent trust in 1991 by the Oklahoma Capital Formation Act. Its statutory mission is “to mobilize equity and near-equity capital for investment in such a manner that will result in significant potential to create jobs and diversify and stabilize the economy of the State of Oklahoma.” OCIB has used two programs to pursue its mission. The first is the Oklahoma Capital Access Program (OCAP), launched in 1992, which seeks to increase access to capital by partially securing loans made to small businesses in the State. The second is the Venture Investment Program (VIP), launched in 1993, which makes investments in venture capital funds that invest in Oklahoma businesses. In order to fund these programs, OCIB’s enabling legislation authorizes it to sell \$100 million in transferrable tax credits.

OCIB has been significantly constrained by the Legislature in recent years. In 2012, SB1159 directed the OCIB to not enter into any new or additional contracts, investments or loan guarantees. While OCIB is able to participate in existing investment pools and contracts, no otherwise new activity is taking place. Tax credits authorized for use by OCIB expired July 1, 2020 unless the credits were purchased or agreed to be purchased prior to 1996.

Recommendation: Retain and allow the program to sunset as scheduled.

Key Findings Related to Established Criteria for Evaluation

- **OCIB’s Venture Investment Program has made funding commitments to 19 venture capital funds, totaling \$69.5 million.** A total of \$65.9 million have been funded as of FY 2019 with \$2.0 million not expected to be drawn, leaving \$1.6 million in remaining commitments.
- **As of FY 2018, OCIB-supported funds invested a total of more than \$171.0 million into 38 Oklahoma-based companies.** With total OCIB support of \$65.9 million, \$2.59 was invested in Oklahoma-based companies for every dollar funded by OCIB, exceeding its statutory requirement of \$2.00.
- **Four venture funds receiving OCIB commitments totaling \$21.1 million did not invest in any Oklahoma-based firms.** These funds include three of the five funds receiving OCIB commitments of \$5.0 million or greater.
- **OCIB has sold \$39.2 million of tax credits to support its investments.** This includes a total of \$8.3 million since FY 2018. The program was intended to support itself through investment returns with tax credits available to sell if investment returns were insufficient. All proceeds from the sale of tax credits have been used to pay down long-term debt.
- **OCIB’s Oklahoma Capital Access Program (OCAP) has enrolled over 1,500 loans covering \$34.2 million.** OCIB collected about \$1.3 million in fees from lending institutions and contributed \$1.6 million in matching funds to its OCAP reserve account to help offset loan losses.
- **Overall claims paid by OCAP totaled 6.6 percent of total covered loans.** A total of \$2.3 million has been paid out of the reserve fund, leaving about \$0.6 million to pay future claims.
- **OCIB’s total cost to the State as of FY 2019 was \$39.2 million with potential additional costs estimated at \$6.2 million.** The program’s current cost to the state is equal to tax credits sold to date. Potential costs include its remaining liabilities which may be paid through sale of additional tax credits in FY 2020 if investment returns are not sufficient.



Other Findings

- **All tax credits sold by OCIB were sold as part of agreements entered prior to 1996, meaning statute does not place a limit on their carryforward period.** In 2012, when the Legislature extended the expiration date of tax credits sold by OCIB from 2015 to 2020 an exception was included for credits purchased “pursuant to an agreement originally entered into no later than December 31, 1995.” According to OCIB this exception applies to all credits sold under the program, meaning there is effectively no expiration date on credits that have been sold by OCIB.
- **The goals of OCIB are currently being carried forward by State programs that are better aligned with the principles of well-designed state venture capital programs.** The Seed Capital Fund, which the Incentive Evaluation Commission reviewed in 2019, follows several key principles missing in the design of OCIB’s venture program. It is targeted toward specific industries and a specific stage of startup development, intentionally fosters entrepreneurial ecosystems by providing guidance and networking opportunities directly to its invested companies, and provides pathways to startups for the next round of investment. It also invests directly in Oklahoma-based startups rather than investing in funds that do so. This ensures that State funds are only used to support Oklahoma startups. OCIB’s venture program has itself invested in the Seed Capital Fund. In fact, it ranks second among all funds OCIB has made commitments to in the number of Oklahoma-based firms it has invested in.



Introduction



Incentive Evaluation Commission Overview

In 2015, HB 2182 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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Oklahoma Capital Investment Board, first evaluated in 2016, is among nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature related to these incentives.

The following are key findings and recommendations from the 2016 evaluation of this program:

Fiscal and Economic Impact	\$3.4 million of tax credits were sold by OCIB in FY 2011, which was the only cost incurred in the study period (FY 2011 through FY 2015). The economic impact could not be calculated using available data.
Adequate Protections for Future Fiscal Impact?	Yes, the statute limits the program to total tax credits of \$100 million and use of no more than \$20 million per year – to date, \$31 million expended. The Legislature has also limited further OCIB investments and program activities in a way that limits future fiscal impact.
Effective Administration?	Yes, the program uses professional management and a ‘fund of funds’ approach that diversifies investments and risks. OCIB policies and procedures include industry standard approaches to conflict of interest, reporting and audits of investments and returns.
Achieving Its Goals?	As with many public sector venture capital programs, return on investment analysis is more complicated than for private sector investors, and weighing the benefits and opportunity costs does not yield a clear answer. Past concerns about risk have led the Legislature to constrain OCIB program activities.
Changes to Improve Future Evaluation	Should the program be retained, additional reporting on results related to Oklahoma firms (pre and post investment payroll, jobs, capital investment) and investments by sectors.

Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the 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 this case, the 1991 Capital Formation Act established that the program’s mission is “to mobilize equity and near-equity capital for investment in such a manner that will result in significant potential to create jobs and diversify and stabilize the economy of the State of Oklahoma.”

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

- Net change in jobs and payroll created in Oklahoma via the Board’s investments;
- Loan repayments as a percentage of total loans made;
- Loan repayment rates compared to industry/other state metrics;
- Dollars invested in Oklahoma businesses as a percent of principal guaranteed by the Board;
- Return on investment, measuring economic impact versus cost of the program.

State of Oklahoma

Incentive Evaluation Commission

Excise Tax Exemption on Aircraft Sales Evaluation

November 2, 2020

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Key Findings and Recommendations



Overview

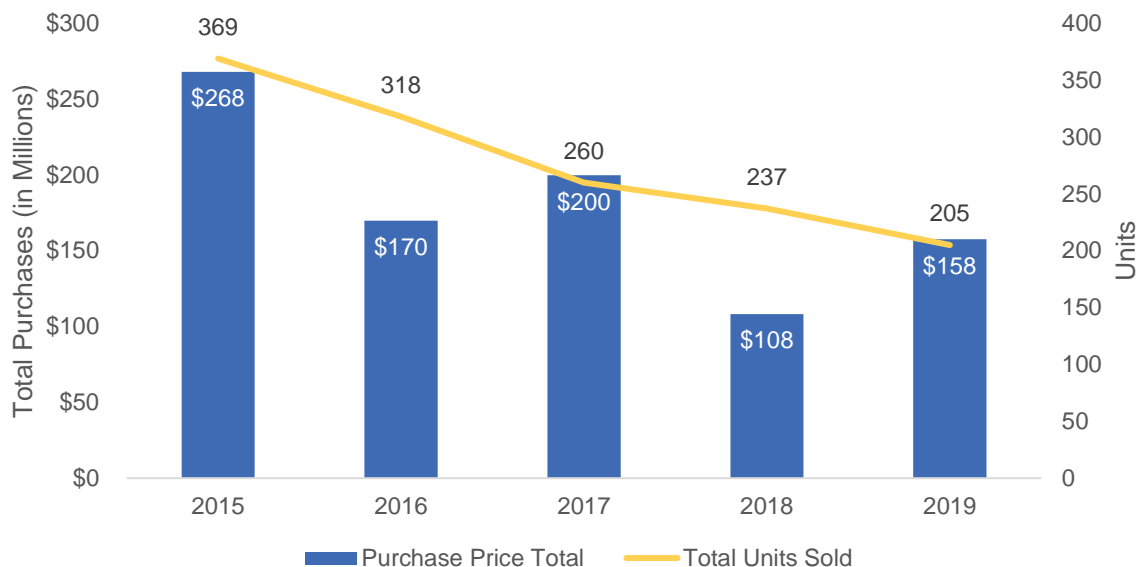
The State of Oklahoma levies an excise tax of 3.25 percent on the purchase price of each aircraft that is to be registered with the Federal Aviation Administration (FAA) upon the transfer of legal ownership of any such aircraft or use of any such aircraft in the state. The excise tax is due at the time of the transfer of legal ownership or first registration in Oklahoma. State statute provides for an exemption from the aircraft excise tax for 17 types of aircraft sales.

Recommendation: Based on its analysis of available data, the project team recommends reconfiguring the existing excise tax exemptions for aircraft sales by focusing them on a specific policy goal.

Key Findings

- **Annual aircraft sales in Oklahoma – as well as associated total sales prices – have decreased in recent years.** The number of aircraft sold in Oklahoma decreased from 369 in FY2015 to 205 in FY2019 – a compound annual growth rate (CAGR) of -13.7 percent over the time period. Similarly, total sales prices have declined by a CAGR of -12.4 percent.

Figure 1: Aircraft Sales in Oklahoma, FY2015-FY2019



Source: Oklahoma Tax Commission
* FY2020 data as of April 9, 2020

- **Aircraft sales transactions in Oklahoma that are exempt from the excise tax have also decreased in recent years.** The number of aircraft sales in Oklahoma exempt from the excise tax decreased from 54 in FY2015 (14.6 percent of total units sold in the state) to 14 in FY2019 (6.8 percent of the total) – a CAGR of -28.6 percent over the time period. As a percent of total units sold in the state, exempt units have fluctuated between 6.8 percent and 14.6 percent and have declined by a CAGR of -17.3 percent over the time period.



- **Oklahoma has a high number of aircraft registrations relative to surrounding states.**¹ According to the FAA, with a total of more than 6,500 aircraft registrations, Oklahoma has fewer than Texas, nearly as many as Colorado and has more than Arkansas, Kansas, Missouri and New Mexico. On a per-100,000 resident basis, with 165, Oklahoma has more than most surrounding states, with the exception of Kansas (at 179).

Table 1: Aircraft Registrations, Oklahoma and Surrounding States

State	Aircraft Registrations	Aircraft Registrations per 100,000 Residents
Oklahoma	6,541	165
Texas	26,426	91
Colorado	6,742	117
Kansas	5,219	179
Missouri	5,110	83
Arkansas	3,328	110
New Mexico	3,081	147

Source: Federal Aviation Administration, U.S. Census Bureau Population Estimates (7/1/19)

- **Growth in employment within Oklahoma's aerospace and parts manufacturing industry is increasing considerably.** Between 2009 and 2019, the state's industry employment grew by a CAGR of 10.7 percent – significantly higher than in neighboring states.

Table 2: Private Aerospace and Parts Manufacturing Employment

Year	Oklahoma	Arkansas	Colorado	Kansas	Missouri	New Mexico	Texas
2009	4,901	4,164	7,308	37,464	14,922	1,259	48,141
2010	5,030	3,439	7,063	32,818	14,657	1,075	48,029
2011	5,600	3,298	6,970	32,196	14,490	1,080	48,391
2012	6,218	3,228	6,824	32,409	14,235	1,063	47,940
2013	6,687	2,913	6,691	31,725	17,689	1,071	47,285
2014	7,085	3,305	6,658	30,479	17,778	1,056	44,698
2015	7,013	3,400	7,048	29,991	16,778	936	43,609
2016	7,132	3,301	7,259	29,823	16,044	899	44,639
2017	7,079	2,996	7,395	29,795	15,814	815	44,121
2018	13,004	2,997	7,568	31,438	16,127	734	46,060
2019	13,545	4,045	8,117	33,182	17,406	696	49,412
CAGR	10.7%	-0.3%	1.1%	-1.2%	1.6%	-5.8%	0.3%

Source: BLS Quarterly Census of Employment and Wages, NAICS 3364

- **There is insufficient information to assess the economic impacts of the excise tax exemption on aircraft sales.** The exemption helps support the aircraft manufacturing industry in Oklahoma by exempting locally manufactured aircraft and helps maintain the presence of rental aircraft at private fixed base operators (FBOs) located in Oklahoma's commercial and general aviation airports. While

¹ One of the criteria for evaluation is the growth in sales of exempted aircraft within Oklahoma compared to other states. During the course of the project team's analysis, it was determined that such comparable sales data does not exist. The project team used state aircraft registration data as a proxy for sales, generally, but detailed historical data is not available, and does not account for sales subject to exemptions. As of 2019, the FAA plans to modernize its outdated civil aviation registry systems.



business in general is supported, there is no reporting on economic activity associated with the aircraft sales; for example, whether jobs are created or retained or the purpose and use of the aircraft itself.

- **The current data collection process makes detailed evaluation challenging.** The Oklahoma Tax Commission (OTC) requires that every person licensed as a dealer in aircraft report, within 30 days, the transfer of legal ownership. While the form used requires current owners to provide a significant amount of information, it does not require the dealer to explain whether the sale was taxable or exempt, and if exempt, for what reason. Moreover, the OTC's ability to routinely extract information from dealer filings is limited, though it does receive aircraft registration data from the FAA on a monthly basis.
- **Comparable exemptions are common among states.** Each state neighboring Oklahoma offers tax exemptions for various types of aircraft sales, and many states with a strong aerospace industry presence also offer similar tax preferences.

Recommendations

- **Focus the excise tax exemptions around a specific policy goal.** As currently structured, none of the State's excise tax exemptions for aircraft sales include policy goals. According to tax policy experts, effective tax incentives are designed in support of well-defined policy goals and objectives. Goals and objectives provide metrics that can support rigorous analysis of program effectiveness and return on investment. Well-defined goals facilitate the identification of policy targets (e.g., private sector jobs) and the identification and design of specific policy instruments (e.g., wage-based corporate tax credits to promote employment creation).² In this case of this incentive, a specific policy goal might be to increase aerospace manufacturing industry employment.
- **Improve the data collection process.** The OTC may consider updating its exemption application form to require that the dealer explain whether the sale was taxable or exempt, and if exempt, for what reason.
- **Identify the history of/basis for each excise tax exemption and evaluate whether it aligns with the State's economic and policy goals.** If an exemption is found to be out of alignment, consider repealing the specific tax preference.

² Bruce, D. and M. Murray, "Best Practices for the Design and Evaluation of State Tax Incentive Programs for Economic Development," (January 2017).



Introduction



Incentive Evaluation Commission Overview

In 2015, HB 2182 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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Excise Tax Exemption on Aircraft Sales, first evaluated in 2016, is one of nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature related to this incentive.

2016 Evaluation Findings and Recommendations

Key findings from the 2016 evaluation are displayed in the following table:

Table 3: Summary of Findings, 2016 Evaluation

Fiscal and Economic Impact	<p>Fiscal Impact: An average of \$2.6 million in excise tax revenue is foregone annually, which is about 40 percent of actual collections. Collections are earmarked to support the operations of the Oklahoma Aeronautics Commission, so they do not have a broad programming impact.</p> <p>Economic Impact: The available data was insufficient to conduct an economic impact analysis.</p>
Adequate Protections for Future Fiscal Impact?	The available data was insufficient to conduct a comprehensive future fiscal impact analysis. Absent a material change in this industry in Oklahoma, it is unlikely that these exemptions will have a significant future fiscal impact.
Effective Administration?	Useful information related to the identity of the purchaser and the purchased aircraft is collected; however, dealers are not required to explain whether the reported sale was taxable or tax exempt, and if exempt, for what reason.
Achieving Its Goals?	Goals are not identified, and data does not provide a ready method of determining overall impact on the industry in the state.
Changes to Improve Future Evaluation	Require dealer reporting on aircraft transactions to identify the rationale for exempting sales from excise tax.

Based on these findings, the 2016 recommendation was to reconfigure the program by focusing it around a policy goal. The Commission voted 5-0 to approve this recommendation. While the Legislature did not implement this suggestion, it did modify the exemption for aircraft purchased or used by commercial airlines to require that it cannot operate under Part 91 of Title 14 of the Code of Federal Regulations for more than 50 percent of its annual operations. The 2016 evaluation – and its recommendation – were cited in the debate around this change.



While not directly related to the excise tax exemption for aircraft sales, effective November 1, 2017, the State increased its aircraft registration fees by 50 percent as part of an effort to provide fiscal stability to the Oklahoma Airport System.³ Prior to the increase, the fees had not been adjusted since they were established in 1976.

2020 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the 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, a specific goal is not provided.

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

- Growth in sales of exempted aircraft within the state – comparison to the period prior to the exemption and with other comparable states;
- Growth in employment in aircraft industry within the state – comparison to the period prior to the exemption and with other comparable states;
- Return on investment related to economic impact from exemption versus its cost;
- Use with other related State business incentives.

2020 Evaluation Approach

To conduct its 2020 review of the Excise Tax Exemption on Aircraft Sales, the project team conducted the following activities:

- Submitted an information request to the OTC;
- Reviewed and analyzed OTC-provided data;
- Completed subject matter expert/internal stakeholder interviews with representatives from OTC and the Oklahoma Aeronautics Commission (OAC);
- Benchmarked Oklahoma's incentive relative to peer state programs;
- Conducted an economic impact analysis of the incentive.

³ The cost of registering an aircraft is dependent on the type and weight of the aircraft.