OKLAHOMA

State Of Oklahoma

Incentive Evaluation Commission

Tax Incentive Evaluation Report

2022

STATE OF OKLAHOMA
INCENTIVE EVALUATION COMMISSION

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

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

In our seventh year, IEC reviewed ten 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 ten draft evaluation reports on facts and findings on Sept. 30, 2022, with a formal presentation to the Commission Meeting on Oct. 13, 2022. As required in statute, a public hearing meeting took place on Oct. 27, 2022, to receive public comments regarding the consultant's recommendations.

The commission took into consideration all public comments received at the Nov. 17 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 2022, Year Seven 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 59th Legislature.

Respectfully,

The Oklahoma Incentive Evaluation Commission

INCENTIVE EVALUATION COMMISSION ACTIONS

INCENTIVE	YEAR 7, EVALUATION RECOMMENDATION (2022)	COMMISSION ACTION
Oklahoma Affordable Housing Tax Credit	**PFM Recommendation; Retain, with modifications:** As in 2018, the project team recommends making the credit refundable rather than transferable so as not to dilute the resources dedicated to affordable housing. While this may create a 'taxable event' for federal income tax purposes, a transfer of the credit would also do so. Because the credit may be carried forward for two years, the taxpayer can elect to make it a taxable event.	Vote: 3-2 to **approve** PFM's recommendation with the **modification** that the tax credit is refundable or transferrable. Against: Representative Sears, Dr. Robert Dauffenbach
Small Business Incubators Incentives	**PFM Recommendation; Retain, with modifications:** **1.** Establish standards for tenant occupancy to qualify for tax exemption. The program statute does not require businesses to be tenants in an incubator for a designated amount of time or performance before becoming eligible for the exemption. A business could establish tenancy then immediately depart the incubator while becoming eligible for the exemption for 10 years. **2.** Increase data collection and require participation in the annual survey as a condition of occupancy in State-certified incubators.	Vote: 5-0 to **approve** PFM's recommendation.
Applied Research (OARS) Program	**PFM Recommendation; Retain, with modifications:** **1.** Further refine and improve data collection and reporting processes. While Oklahoma Center for the Advancement of Science and Technology (OCAST) has begun collecting additional data points from its OARS grantees in recent years, it remains difficult to effectively evaluate the effectiveness of the program due to data collection and reporting process issues. **2.** OCAST should collect additional information from grant recipients as part of its data collection and reporting processes, including jobs, payroll, economic activity, and success or failure rate. **3.** OCAST should conduct longitudinal case studies over a meaningful period of time for select companies. This would track the advance and development of the effects and benefits of applied research funded by the program, showing the synergy between grants, follow-on funding, and capital investment. **4.** OCAST should obtain data when funds are spent and the purpose for fund expenditures for follow-on funding attained.	Vote: 5-0 to **approve** PFM's recommendation.
Health Research Support Program	**PFM Recommendation; Retain, with modifications:** **1.** Further refine and improve data collection and reporting processes. While OCAST has begun collecting additional data points from its health research grantees in recent years, it remains difficult to effectively evaluate the effectiveness of the program due to data collection and reporting process issues. **2.** OCAST should collect additional information from grant recipients as part of its data collection and reporting processes, including jobs, payroll, economic activity, success or failure rate, and industry sector formation. **3.** OCAST should conduct longitudinal case studies over a meaningful period of time for select grant recipients. This would track the advance and development of the effects and benefits of health research funded by the program, showing the synergy between grants, follow-on funding and capital investment. **4.** For follow-on funding attained, OCAST should obtain data on when funds are spent and the purpose for fund expenditures.	Vote: 5-0 to **approve** PFM's recommendation.

Quick Closing Action Fund (QACF)	**PFM Recommendation: Retain, with modifications:** **1.** Require more robust reporting on awards. Oklahoma publicly reports only the award amount, the company name, award date and a very brief description of how the award is to be used. Nearly all comparable programs have more detailed public reporting on projects that have received awards. **2.** Include an explanation of why each awarded project was considered "high-impact." Statute dictates the QACF may be used when the award would "likely be a determining factor in locating a high-impact business project or facility in Oklahoma." However, no definition of "high-impact" is provided in statute.	Vote: 5-0 to **approve** PFM's recommendation.
Investment/New Jobs Tax Credit	**PFM Recommendation; Reconfigure:** **1.** Limit the carryforward period to seven years. The carryforward period for capital investment credits is indefinite, contributing to the continued growth in the State's unused tax credit liability. This is in line with the Commission's recommendation following the last evaluation of this credit. **2.** Require claims to be filed with the Tax Commission each year of the carry forward period, regardless of whether the credit is used to offset tax liability. Regular annual claims can require claimants to attest that the capital investment is still in use and, in aggregate, these annual claims would provide the State a clearer picture of how much credit is still available to be used. **3.** Require an application and approval before allowing claims. The application would be submitted within 60 days of the capital investment being placed in service and would need to be approved before the taxpayer could claim the credit on a tax return. Applying in a timely manner would increase the likelihood that firms would have to plan on taking the credit when making a qualifying investment. **4**. Eliminate the new jobs credit, in favor of incenting manufacturing job creation through the Quality Jobs Program. The Investment-New Jobs Tax Credit needs significant updates to its job creation requirements. As noted in key findings, the minimum annual pay required of $7,000 is equal to 11.2 percent of the manufacturing's average annual pay in Oklahoma. There is also no requirement related to benefits provided to new jobs. Only one new job is required to receive a new job tax credit.	Vote: 5-0 to **approve** PFM's recommendation with the **modification** that the application submittal date change from 30 to 60 days and to add a review process by the Incentive Approval Committee.
New Products Development Exemption	**PFM Recommendation; Repeal:** **1.** Improve data processing in order to collect and report the total cost of corporate tax exemptions. In order to improve future evaluations of this program and any other program associated with corporate tax exemptions, the OTC should improve its data processing to allow for the disaggregation of the total cost of each corporate tax exemption. **2.** Modify program requirements to require companies to provide key data on a yearly basis to be eligible for the tax exemption. Currently, those wishing to take the tax exemption must register with OCAST, but there is no requirement that the inventor or manufacturer provide additional information that would be useful in determining the effectiveness or efficacy of the program. The inventor or manufacturer should be required to provide information on annual revenues, annual payroll, and FTEs, both the total number and the number located in Oklahoma to be eligible for the tax exemption.	Vote: 5-0 to **approve** PFM's recommendation.
Seed Capital Fund	**PFM Recommendation; Retain, with modifications:** **1.** Current focus in software and biotech firms could be shifted over time to align with other statewide programs and incentives. **2.** Given the maturation of the venture capital industry in Oklahoma, it could be valuable to reexamine Oklahoma Seed Capital Fund's (OSCF) role and mission in the market. Implementation of the new pre-seed capital program in FY23 solves a major challenge for firms accessing the Technology Business Finance (TBFP).	Vote: 5-0 to **approve** PFM's recommendation.

	Additional research – in the form of surveys, in-depth interviews, and/or focus groups – should be conducted to identify remaining gaps for entrepreneurs that can be supported through the OSCF and its associated programs. **3.** Improve data collection and reporting. Annual data collection and reporting should be modified to collect data that better ties business performance to the initial investment made by the fund. This would improve future evaluations and more accurately describe the benefits of the program. The annual survey should collect growth in employment, wages, revenue and profitability measures.	
Technology Business Financing Program (TBFP)	**PFM Recommendation; Retain, with modifications:** Require program participants to respond to annual surveys. There is currently no requirement that companies receiving funding through the TBFP respond to i2E's annual survey. Requiring companies to respond to the survey, at least for a certain period of time after receiving funding, would allow for an analysis of employment and payroll growth from year to year.	Vote: 5-0 to **approve** PFM's recommendation.
Technology Transfer Income Tax Exemption	**PFM Recommendation; Reconfigure:** **1.** Enhance data collection through changes to current corporate tax forms. The Oklahoma Tax Commission (OTC) staff expressed the opinion that the current tax forms are viewed as burdensome for taxpayers, and the OTC seeks to streamline and reduce the required data rather than increase it. Their general perspective is that increased complexity leads to greater taxpayer reporting errors. While this is an understandable perspective, there is also a public policy need for data and information associated with tax expenditures. Given that digital tax preparation software is widely used, and many of the impacted taxpayers are probably retaining tax preparation professionals, the OTC should consider targeted, high-value additions to these forms to improve data quality. **2.** Shift administration of the program to a contract-based agreement with the Department of Commerce. The authorizing statute could require that those wishing to take the exemption must be approved by the Department of Commerce. The Department of Commerce could then make data reporting an annual requirement for program approval. **3.** Consider reconfiguring the program to incorporate best practices from benchmark programs. This might include converting the income tax exemption to a grant, as has been successful in the Arkansas example. Specifically, the program could be altered to reduce costs for entities generating technology that can be transferred, as opposed to the corporations that acquire the technology. **4**. Funding can also be diverted to support services such as technical assistance for small businesses that are applying for a Small Business Technology Transfer Program (STTR) awards or to connecting small businesses and entities such as colleges and universities that frequently develop these desirable technologies to generate additional opportunities to commercialize these products and services.	Vote: 5-0 to **approve** PFM's recommendation.

INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
NOV. 17, 2022; 10 a.m.
OKLAHOMA STATE CAPITOL
SENATE CONFERENCE ROOM 4S.9
OKLAHOMA CITY, OK 73105

MEMBERS PRESENT:
Lyle Roggow, President, Designee of the OK Professional Economic Development Council
Carlos Johnson, Certified Public Accountant
Mandy Fuller, CPA, Auditor of Private Company
Earl Sears, Bartlesville, OK
Dr. Robert Dauffenbach, Economist
Mark Wood, Chairman, Tax Commission, Ex-Officio; Non-Voting
Brent Kisling, Director, Department of Commerce, Ex-Officio; Non-Voting

MEMBERS ABSENT:
Dana Webb, OMES designee, Ex-Officio; Non-Voting

STAFF/GUESTS:
Beverly Hicks, OMES
Randall Bauer, PFM
Amanda Hall, State Chamber
Lyle Walters, OCAST
Shawn Ashley, Quorum Call
Andrea Frymire, Midwest Housing
Megan Holden, OTC
John Riesenberg, Governor's Office

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

   Chairman Roggow called this regular meeting to order at 10:03 a.m. A roll call was taken, and a quorum was established. A meeting notice was filed with the Secretary of State, and the agenda was posted in accordance with the Open Meeting Act.

2. **Approval of minutes from the October 27, 2022, Commission meeting:**

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

   Ms. Fuller, aye; Mr. Roggow, aye; Mr. Sears, aye, Dr. Dauffenbach, aye.

3. **Discussion and possible action on Year 7, 2022, Incentive Evaluations:**

   3.1. Affordable Housing Tax Credit – PFM *Recommendation: Retain, with modifications*. [As in 2018, the project team recommends making the credit refundable rather than transferable so as not to dilute the resources dedicated to affordable housing.]

Carlos Johnson moved to approve PFM'S recommendation with the modification that the tax credit is refundable or transferrable. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

Commissioner Johnson entered the meeting at 10:05 a.m.
Commissioner Wood exited the meeting at 10:28 a.m.

3.2. Small Business Incubators – **PFM *Recommendation: Retain, with modifications.*** **[**Establish Standards for tenant occupancy to qualify for tax exemption. The program statute does not require businesses to be tenants in an incubator for a designated amount of time or performance before becoming eligible for the exemption. A business could establish tenancy then immediately depart the incubator while becoming eligible for the ten-year exemption. Increase data collection and require participation in the annual survey as a condition of occupancy in State-certified incubators.]

Rep. Earl Sears moved to approve PFM'S recommendation. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

3.3. Applied Research Support (OARS) Program – **PFM *Recommendation: Retain, with modifications.*** **[**Further, refine and improve data collection and reporting processes. While Oklahoma Center for the Advancement of Science and Technology (OCAST) has begun collecting additional data points from its OARS grantees in recent years, evaluating the program's effectiveness remains challenging due to data collection and reporting process issues. OCAST should collect additional information from grant recipients as part of its data collection and reporting processes, including jobs, payroll, economic activity, and success or failure rate. OCAST should conduct longitudinal case studies over a meaningful period of time for select companies. This would track the advance and development of the effects and benefits of applied research funded by the program, showing the synergy between grants, follow-on funding, and capital investment. OCAST should obtain data on when funds are spent and the purpose for fund expenditures for follow-on funding attained.]

Rep. Earl Sears moved to approve PFM'S recommendation. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

Commissioner Kisling entered the meeting at 10:33 a.m.

3.4. Health Research Support Program – **PFM *Recommendation: Retain with modifications.*** **[**Further, refine and improve data collection and reporting processes. While OCAST has begun

collecting additional data points from its health research grantees in recent years, evaluating the program's effectiveness remains challenging due to data collection and reporting process issues. OCAST should collect additional information from grant recipients as part of its data collection and reporting processes, including jobs, payroll, economic activity, success or failure rate, and industry sector formation. OCAST should conduct longitudinal case studies over a meaningful period of time for select grant recipients. This would track the advance and development of the effects and benefits of health research funded by the program, showing the synergy between grants, follow-on funding, and capital investment. OCAST should obtain data when funds are spent and the purpose for fund expenditures for follow-on funding attained.]

Mandy Fuller moved to approve PFM'S recommendation. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

3.5. Quick Action Closing Fund (QACF) – **PFM *Recommendation: Retain, with modifications.* [Require more robust reporting on awards.** Oklahoma publicly reports only the award amount, the company name, award date, and a brief description of how the award will be used. Nearly all comparable programs have more detailed public reporting on projects that have received awards. An explanation of why each awarded project was considered "high-impact should be included." The statute dictates that the QACF may be used when the award would "likely be a determining factor in locating a high-impact business project or facility in Oklahoma." However, no definition of "high-impact" is provided in the statute.]

Rep. Earl Sears moved to approve PFM'S recommendation. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

3.6. Investment/New Jobs Tax Credit – **PFM *Recommendation: Reconfigure***. [Limit the carryforward period to seven years. The carryforward period for capital investment credits is indefinite, contributing to the continued growth in the State's unused tax credit liability. This is in line with the Commission's recommendation following the last evaluation of this credit. Require claims to be filed with the Tax Commission each year of the carry forward period, regardless of whether the credit is used to offset tax liability. Regular annual claims can require claimants to attest that the capital investment is still in use, and, in aggregate, these annual claims would provide the State a clearer picture of how much credit is still available to be used. Require an application and approval before allowing claims. The application would be submitted within 30 days of the capital investment being placed in service and would need to be approved before the taxpayer could claim the credit on a tax return. Applying in a timely manner would increase the likelihood that firms would have to plan on taking the credit when making a qualifying investment. Eliminate the new

jobs credit in favor of incenting manufacturing job creation through the Quality Jobs Program. The Investment-New Jobs Tax Credit needs significant updates to its job creation requirements. As noted in critical findings, the minimum annual pay required of $7,000 is equal to 11.2 percent of the manufacturing's average annual pay in Oklahoma. There is also no requirement related to benefits provided to new jobs. Only one new job is required to receive a new job tax credit. Amend the statute to require data collection for incentive evaluation and usage tracking purposes. The Oklahoma Tax Commission (OTC) currently collects useful information for incentive evaluation purposes on its Form 506. However, this information is not stored in a way that is easily accessible for evaluators and legislators to understand who is claiming the credit and why. The statute should be amended to require the OTC to store this information for program evaluation purposes.]

Mandy Fuller moved to approve PFM'S recommendation with the modification that the application submittal date change from 30 to 60 days and to add a review process by the Incentive Approval Committee. Dr. Dauffenbach seconded the motion. The following votes were recorded, and the motion passed:

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

3.7. New Products Development Exemption – **PFM *Recommendation: Repeal.*** **[**Improve data processing to collect and report the total cost of corporate tax exemptions. To improve future evaluations of this program and any other program associated with corporate tax exemptions, the OTC should improve its data processing to allow for the disaggregation of the total cost of each corporate tax exemption. Modify program requirements to require companies to provide key data annually to be eligible for tax exemption. Currently, those wishing to take the tax exemption must register with OCAST. Still, there is no requirement that the inventor or manufacturer provide additional information that would be useful in determining the effectiveness or efficiency of the program. The inventor or manufacturer should be required to provide information on annual revenues, annual payroll, and FTEs, both the total number and the number located in Oklahoma, to be eligible for the tax exemption.]

Rep. Earl Sears moved to approve PFM'S recommendation. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

3.8. Seed Capital Fund (OSCF)– **PFM *Recommendation: Retain, with modifications.*** **[**A current focus in software and biotech firms could be shifted over time to align with other statewide programs and incentives. Given the maturation of the venture capital industry in Oklahoma, it could be valuable to reexamine Oklahoma Seed Capital Fund's (OSCF) role and mission in the market. Implementing of the new pre-seed capital program in FY23 solves a significant challenge for firms accessing the Technology Business Finance (TBFP; See 3.9). Additional research – in the form of

surveys, in-depth interviews, and/or focus groups – should be conducted to identify remaining gaps for entrepreneurs that can be supported through the OSCF and its associated programs. Improve data collection and reporting should also be improved. Annual data collection and reporting should be modified to collect data that better ties business performance to the initial investment made by the fund. This would improve future evaluations and more accurately describe the program's benefits. The annual survey should collect growth in employment, wages, revenue, and profitability measures.]

Mandy Fuller moved to approve PFM'S recommendation. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

3.9. Technology Business Financing Program (TBFP) – **PFM *Recommendation: Retain, with modifications.*** **[**Require program participants to respond to annual surveys. There is currently no requirement that companies receiving funding through the TBFP respond to i2E's annual survey. Requiring companies to respond to the survey, at least for a certain period of time after receiving funding, would allow for an analysis of employment and payroll growth from year to year.]

Mandy Fuller moved to approve PFM'S recommendation. Carlos Johnson seconded the motion. The following votes were recorded, and the motion passed:

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

3.10. Technology Transfer Income Tax Exemption – **PFM *Recommendation: Reconfigure.*** **[**Enhance data collection through changes to current corporate tax forms. The Oklahoma Tax Commission (OTC) staff expressed the opinion that the contemporary tax forms are viewed as burdensome for taxpayers, and the OTC seeks to streamline and reduce the required data rather than increase it. Their general perspective is that increased complexity leads to more significant taxpayer reporting errors. While this is an understandable perspective, there is also a public policy need for data and information associated with tax expenditures. Given that digital tax preparation software is widely used, and many impacted taxpayers probably retain tax preparation professionals, the OTC should consider targeted, high-value additions to these forms to improve data quality. Shift administration of the program to a contract-based agreement with the Department of Commerce. The authorizing statute could require that the Department approve those wishing to take the exemption of Commerce. The Department of Commerce could then make data reporting an annual requirement for program approval. Consider reconfiguring the program to incorporate best practices from benchmark programs. This might include converting the income tax exemption to a grant, as has been successful in the Arkansas example. Specifically, the program could be altered to reduce costs for entities generating technology that can be transferred, as opposed to the corpo-

rations that acquire the technology. Funding can also be diverted to support services such as technical assistance for small businesses applying for a Small Business Technology Transfer Program (STTR) awards or connecting small businesses and entities such as colleges and universities that frequently develop these desirable technologies to generate additional opportunities to commercialize these products and services.]

Mandy Fuller moved to approve PFM'S recommendation. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

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

Rep. Earl Sears moved to accept the final report from PFM with modifications. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

5. **Discussion and possible action to approve 2023 meeting dates, all Thursday at 10:00 a.m.**

Jan. 26	**Oct. 26**
Mar. 23	**Nov. 16**
Aug. 24	**Dec. 7**
Oct. 12	

Rep. Earl Sears moved to approve the meeting dates of 2023. Dr. Dauffenbach seconded the motion. The following votes were recorded, and the motion passed:

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

6. **Adjournment**

There being no further business, Rep. Earl Sears made the motion to adjourn. Mandy Fuller seconded the motion. Seeing no opposition, the meeting adjourned at 11:20 a.m.

INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
OCT. 27, 2021; 10 a.m.
OKLAHOMA STATE CAPITOL
SENATE CONFERENCE ROOM 4S.9
OKLAHOMA CITY, OK 73105

MEMBERS PRESENT:
Lyle Roggow, President, Designee of the OK Professional Economic Development Council
Carlos Johnson, Certified Public Accountant
Mandy Fuller, CPA, Auditor of Private Company
Earl Sears, Bartlesville, OK
Mark Wood, Chairman, Tax Commission, Ex-Officio; Non-Voting
Brent Kisling, Director, Department of Commerce, Ex-Officio; Non-Voting

MEMBERS ABSENT:
Dr. Robert Dauffenbach, Economist
Dana Webb, OMES designee, Ex-Officio; Non-Voting

STAFF/GUESTS:
Beverly Hicks, OMES
Randall Bauer, PFM
Cody Smith, LegisOK
Lyle Walters, OCAST
Shawn Ashley, Quorum Call
Andrea Frymire, Midwest Housing
Megan Holden, OTC
John Riesenberg, Governor's Office

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

   Chairman Roggow called this regular meeting to order at 10:05 a.m. A roll call was taken, and a quorum was established. A meeting notice was filed with the Secretary of State, and the agenda was posted in accordance with the Open Meeting Act.

2. **Approval of minutes from the October 13, 2022, Commission meeting:**

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

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

3. **Discussion and possible action on IEC's recommended and proposed legislative changes to the existing Incentive Evaluation Act statute.**

   Discussion only. No action was taken.

   Commissioner Kisling entered the meeting at 10:15 a.m.

4. **Discussion and public comment on PFM draft evaluation reports for Year 7, 2022, Incentive Evaluations:**

4.1. Affordable Housing Tax Credit – PFM *Recommendation: Retain*. [As in 2018, the project team recommends making the credit refundable rather than transferable so as not to dilute the resources dedicated to affordable housing.]

Andrea Frymire:
Ms. Frymire, CCIM, Vice President of Community Investments with MHEG, spoke on behalf of the Midwest Housing Equity Group, Inc, in support of the Affordable Housing Act and asked that the Commission accept PFM's recommendation to retain the program. She provided the Commission with a letter and supporting information.

Andrea Flowers:
Ms. Flowers, Executive Director of the Oklahoma Coalition for Affordable Housing, was not present at the meeting and had Ms. Frymire speak on behalf of the Oklahoma Coalition for Affordable Housing (Coalition) Board of Directors in support of the Affordable Housing program. Ms. Kirby H. Crowe, Board President, requests that the Commission recommend continuing the program. She provided the Commission with a letter and supporting information.

Jill Flynn:
Ms. Flynn, Director of Affordable Housing Programs in Omaha, Nebraska, was not present at the meeting. She provided a letter on behalf of the Cornerstone Housing Group, LLC, supporting the Oklahoma Affordable Housing Act. She endorsed the recommendation made by PFM to retain the program and requested that the Commission recommend continuing the program. She provided the Commission with a letter.

Melody Townsend:
Ms. Townsend, Director of Development in Ardmore, Oklahoma, with LW Development, LLC, was not present at the meeting. She provided a letter on behalf of LW Development in support of the Oklahoma Affordable Housing Act and requested that the Commission recommend the continuation of the program. She provided the Commission with a letter.

Pat McFerron:
Mr. McFerron with CMA Strategies was present at the meeting and made brief comments about the detriment of the change to refundable credit. His comment was provided through electronic submission on https://iec.ok.gov/schedule feedback.

Sabine Brown:
Ms. Brown, the Senior Policy Analyst, Infrastructure and Access with the Oklahoma Policy Institute, was not present at the meeting. She provided a letter on behalf of the Institute in support of the Oklahoma Affordable Housing Act and requested that the Commission recommend the continuation of the program. She provided the Commission with a letter.

Scott Nixon:
Mr. Nixon, Director of Acquisitions, Midwest with Sugar Creek Capital, was not present at the meeting. He provided a letter on behalf of Sugar Creek Capital commenting against the recommendation to make this credit refundable. He urged the Commission not to recommend revising

legislation to make the Affordable Housing Tax Credit refundable. He provided the Commission with a letter.

No action was taken. Public comment only.

4.2. Small Business Incubators – **PFM *Recommendation: Retain, with modifications.*** **[**Establish Standards for tenant occupancy to qualify for tax exemption. The program statute does not require businesses to be tenants in an incubator for a designated amount of time or performance before becoming eligible for the exemption. A business could establish tenancy then immediately depart the incubator while becoming eligible for the exemption. A business could establish tenancy then immediately depart the incubator while becoming eligible for the ten-year exemption. Increase data collection and require participation in the annual survey as a condition of occupancy in State-certified incubators.]

No public comments were received electronically or in person.

No action was taken. Public comment only.

4.3. Applied Research Support (OARS) Program – **PFM *Recommendation: Retain, with modifications.*** **[**Further, refine and improve data collection and reporting processes. While Oklahoma Center for the Advancement of Science and Technology (OCAST) has begun collecting additional data points from its OARS grantees in recent years, evaluating the program's effectiveness remains challenging due to data collection and reporting process issues. OCAST should collect additional information from grant recipients as part of its data collection and reporting processes, including jobs, payroll, economic activity, and success or failure rate. OCAST should conduct longitudinal case studies over a meaningful period of time for select companies. This would track the advance and development of the effects and benefits of applied research funded by the program, showing the synergy between grants, follow-on funding, and capital investment. OCAST should obtain data on when funds are spent and the purpose for fund expenditures for follow-on funding attained.]

Lyle Walters:
Mr. Walters, Legislative Liaison at the Oklahoma Center for the Advancement of Science and Technology (OCAST), present at the meeting, provided comment on the Commission's draft report for their program, the Oklahoma Applied Research Support, otherwise known as OARS. OCAST appreciates the time of PFM in analyzing their programs this year and does not dispute any of their findings. The issue of data collection is not only OCAST's to bear but also is an issue with many economic development agencies. While they have made many improvements in these areas, they are committed to continual adaptation to new or improved industry standards not yet defined. In fact, becoming more data and report driven is a central theme in their agency's strategic plan. Their intent is to add staffing to monitor these reports and trends, improving their ability to measure their economic impact on the State of Oklahoma. They will never lose interest in improving their programs so that they continue to support their mission of bringing new technologies to market. His comment was provided through electronic submission on https://iec.ok.gov/schedule feedback.

No action was taken. Public comment only.

4.4. Health Research Support Program – **PFM *Recommendation: Retain with modifications.*** **[**Further, refine and improve data collection and reporting processes. While OCAST has begun collecting additional data points from its health research grantees in recent years, evaluating the program's effectiveness remains challenging due to data collection and reporting process issues. OCAST should collect additional information from grant recipients as part of its data collection and reporting processes, including jobs, payroll, economic activity, success or failure rate, and industry sector formation. OCAST should conduct longitudinal case studies over a meaningful period of time for select grant recipients. This would track the advance and development of the effects and benefits of health research funded by the program, showing the synergy between grants, follow-on funding, and capital investment. OCAST should obtain data on when funds are spent and the purpose for fund expenditures for follow-on funding attained.]

Lyle Walters:
Mr. Walters, Legislative Liaison at the Oklahoma Center for the Advancement of Science and Technology (OCAST), present at the meeting, commented on the Commission's draft report for their Health Research program. OCAST appreciates the time of PFM in analyzing their programs this year and does not dispute any of their findings. The issue of data collection is not only OCAST's to bear but also is an issue with many economic development agencies. While they have made many improvements in these areas, they are committed to continual adaptation to new or improved industry standards not yet defined. In fact, becoming more data and report driven is a central theme in their agency's strategic plan. Their intent is to add staffing to monitor these reports and trends, improving their ability to measure their economic impact on the State of Oklahoma. They will never lose interest in improving their programs so that they continue to support their mission of bringing new technologies to market. His comment was provided through electronic submission on https://iec.ok.gov/schedule feedback.

No action was taken. Public comment only.

4.5. Quick Action Closing Fund (QACF) – **PFM *Recommendation: Retain, with modifications.*** **[Require more robust reporting on awards.** Oklahoma publicly reports only the award amount, the company name, award date, and a brief description of how the award will be used. Nearly all comparable programs have more detailed public reporting on projects that have received awards. An explanation of why each awarded project was considered "high-impact should be included." The statute dictates that the QACF may be used when the award would "likely be a determining factor in locating a high-impact business project or facility in Oklahoma." However, no definition of "high-impact" is provided in the statute.]

No public comments were received electronically or in person.

No action was taken. Public comment only.

4.6. Investment/New Jobs Tax Credit – **PFM *Recommendation: Reconfigure*.** [Limit the carryforward period to seven years. The carryforward period for capital investment credits is indefinite, contributing to the continued growth in the State's unused tax credit liability. This is in line

with the Commission's recommendation following the last evaluation of this credit. Require claims to be filed with the Tax Commission each year of the carry forward period, regardless of whether the credit is used to offset tax liability. Regular annual claims can require claimants to attest that the capital investment is still in use, and, in aggregate, these annual claims would provide the State a clearer picture of how much credit is still available to be used. Require an application and approval before allowing claims. The application would be submitted within 30 days of the capital investment being placed in service and would need to be approved before the taxpayer could claim the credit on a tax return. Applying in a timely manner would increase the likelihood that firms would have to plan on taking the credit when making a qualifying investment. Eliminate the new jobs credit in favor of incenting manufacturing job creation through the Quality Jobs Program. The Investment-New Jobs Tax Credit needs significant updates to its job creation requirements. As noted in critical findings, the minimum annual pay required of $7,000 is equal to 11.2 percent of the manufacturing's average annual pay in Oklahoma. There is also no requirement related to benefits provided to new jobs. Only one new job is required to receive a new job tax credit. Amend the statute to require data collection for incentive evaluation and usage tracking purposes. The Oklahoma Tax Commission (OTC) currently collects useful information for incentive evaluation purposes on its Form 506. However, this information is not stored in a way that is easily accessible for evaluators and legislators to understand who is claiming the credit and why. The statute should be amended to require the OTC to store this information for program evaluation purposes.]

No public comments were received electronically or in person.

No action was taken. Public comment only.

4.7. New Products Development Exemption – **PFM** ***Recommendation: Repeal.*** **[**Improve data processing to collect and report the total cost of corporate tax exemptions. To improve future evaluations of this program and any other program associated with corporate tax exemptions, the OTC should improve its data processing to allow for the disaggregation of the total cost of each corporate tax exemption. Modify program requirements to require companies to provide key data annually to be eligible for tax exemption. Currently, those wishing to take the tax exemption must register with OCAST. Still, there is no requirement that the inventor or manufacturer provide additional information that would be useful in determining the effectiveness or efficiency of the program. The inventor or manufacturer should be required to provide information on annual revenues, annual payroll, and FTEs, both the total number and the number located in Oklahoma, to be eligible for the tax exemption.]

Lyle Walters:
Mr. Walters, Legislative Liaison at the Oklahoma Center for the Advancement of Science and Technology (OCAST), present at the meeting, provided comment on the Commission's draft report for their program, New Products Development Income Tax Exemption. OCAST appreciates the time of PFM in analyzing their programs this year and does not dispute any of their findings, and will follow the Commission and/or Oklahoma Legislature's lead regarding this program. If

retained, their staff stands ready to work with the Oklahoma Tax Commission and internal processes to capture the data necessary to measure the impact of the incentive effectively. His comment was provided through electronic submission on https://iec.ok.gov/schedule feedback.

No action was taken. Public comment only.

4.8. Seed Capital Fund (OSCF)– **PFM *Recommendation: Retain, with modifications.* [**A current focus in software and biotech firms could be shifted over time to align with other statewide programs and incentives. Given the maturation of the venture capital industry in Oklahoma, it could be valuable to reexamine Oklahoma Seed Capital Fund's (OSCF) role and mission in the market. Implementing of the new pre-seed capital program in FY23 solves a significant challenge for firms accessing the Technology Business Finance (TBFP; See 4.9). Additional research – in the form of surveys, in-depth interviews, and/or focus groups – should be conducted to identify remaining gaps for entrepreneurs that can be supported through the OSCF and its associated programs. Improve data collection and reporting should also be improved. Annual data collection and reporting should be and modified to collect data that better ties business performance to the initial investment made by the fund. This would improve future evaluations and more accurately describe the program's benefits. The annual survey should collect growth in employment, wages, revenue, and profitability measures.]

Lyle Walters:
Mr. Walters, Legislative Liaison at the Oklahoma Center for the Advancement of Science and Technology (OCAST), present at the meeting, provided comment on the Commission's draft report for their program, the Seed Capital Program. OCAST appreciates the time of PFM in analyzing their programs this year and does not dispute any of their findings. The issue of data collection is not only OCAST's to bear but also is an issue with many economic development agencies. While they have made many improvements in these areas, they are committed to continual adaptation to new or improved industry standards not yet defined. In fact, becoming more data and report driven is a central theme in their agency's strategic plan. Their intent is to add staffing to monitor these reports and trends, improving their ability to measure their economic impact on the State of Oklahoma. They will never lose interest in improving their programs so that they continue to support their mission of bringing new technologies to market. His comment was provided through electronic submission on https://iec.ok.gov/schedule feedback.

No action was taken. Public comment only.

4.9. Technology Business Financing Program – **PFM *Recommendation: Retain, with modifications.* [**Require program participants to respond to annual surveys. There is currently no requirement that companies receiving funding through the TBFP respond to i2E's annual survey. Requiring companies to respond to the survey, at least for a certain period of time after receiving funding, would allow for an analysis of employment and payroll growth from year to year.]

Lyle Walters:

Mr. Walters, Legislative Liaison at the Oklahoma Center for the Advancement of Science and Technology (OCAST), present at the meeting, provided comment on the Commission's draft report for their program, the Technology Business Finance Program, otherwise known as TBFP. OCAST appreciates the time of PFM in analyzing their programs this year and does not dispute any of their findings. The issue of data collection is not only OCAST's to bear but also is an issue with many economic development agencies. While they have made many improvements in these areas, they are committed to continual adaptation to new or improved industry standards not yet defined. In fact, becoming more data and report driven is a central theme in their agency's strategic plan. Their intent is to add staffing to monitor these reports and trends, improving their ability to measure their economic impact on the State of Oklahoma. They will never lose interest in improving their programs so that they continue to support their mission of bringing new technologies to market. His comment was provided through electronic submission on https://iec.ok.gov/schedule feedback.

No action was taken. Public comment only.

4.10. Technology Transfer Income Tax Exemption – PFM *Recommendation: Retain, with modifications.* [Enhance data collection through changes to current corporate tax forms. OTC staff expressed the opinion that the contemporary tax forms are viewed as burdensome for taxpayers, and the OTC seeks to streamline and reduce the required data rather than increase it. Their general perspective is that increased complexity leads to more significant taxpayer reporting errors. While this is an understandable perspective, there is also a public policy need for data and information associated with tax expenditures. Given that digital tax preparation software is widely used, and many impacted taxpayers probably retain tax preparation professionals, the OTC should consider targeted, high-value additions to these forms to improve data quality. Shift administration of the program to a contract-based agreement with the Department of Commerce. The authorizing statute could require that the Department approve those wishing to take the exemption of Commerce. The Department of Commerce could then make data reporting an annual requirement for program approval. Consider reconfiguring the program to incorporate best practices from benchmark programs. This might include converting the income tax exemption to a grant, as has been successful in the Arkansas example. Specifically, the program could be altered to reduce costs for entities generating technology that can be transferred, as opposed to the corporations that acquire the technology. Funding can also be diverted to support services such as technical assistance for small businesses applying for STTR awards or connecting small businesses and entities such as colleges and universities that frequently develop these desirable technologies to generate additional opportunities to commercialize these products and services.]

No public comments were received electronically or in person.

No action was taken. Public comment only.

5. Adjourn

There being no further business, Rep. Earl Sears made the motion to adjourn. Mandy Fuller seconded the motion. Seeing no opposition, the meeting adjourned at 10:49 a.m.

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

State Of Oklahoma
Incentive Evaluation Commission

Oklahoma's Incentive Evaluation Act provides a solid foundation for the yearly evaluations of tax and other forms of incentives. Among the requirements for each incentive evaluation is to make "Recommendations for any changes to state policy, rules, or statutes that would allow the incentive to be more easily or conclusively evaluated in the future. These recommendations may include changes to collection, reporting and sharing of data, and revisions or clarifications to the goal of the incentive."

Many of the Oklahoma incentive evaluations highlight the need for better or more data to conclusively evaluate the incentive. This is not a concern that is specific to the Oklahoma incentives and incentive evaluation process. The National Conference of State Legislatures maintains a database containing hundreds of incentive evaluations of state (and a few local) programs. A review of those evaluations found that the need for more or better data is among the most common issues raised in incentive evaluations.

There are certainly trade-offs related to increased data collection. It can be an administrative burden, and it may create complexity. At the same time it is important for the State to determine whether the state's investment in a particular tax incentive or other incentive program is a good deal for the State and its taxpayers. In the vast majority of cases, as the evaluations demonstrate, Oklahoma's incentives are 'a good deal' but there are opportunities to even more conclusively demonstrate that. The Commission recommends that the Governor, and Legislature pay particular attention to the concerns raised in state programs around the need for more or better data for incentive evaluations.

Respectfully,

The Oklahoma Incentive Evaluation Commission

State of Oklahoma
Incentive Evaluation Commission
Oklahoma Affordable Housing Tax Credit Evaluation

November 16, 2022

PFM Group Consulting LLC
BNY Mellon Center
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Incentive Overview

The Oklahoma Affordable Housing Act was signed into law in June 2014.[1] The Act, administered by the Oklahoma Housing Finance Agency (OHFA), provides for the allocation of up to $4 million per year in State low-income housing tax credits. State credits under the program are used to (1) raise private equity to finance affordable housing for families and seniors; and (2) provide affordable rent for low-to-moderate income Oklahomans (typically those earning 60 percent or less of the area median income[2]). Credits are claimed annually over a 10-year period (beginning when the building is placed in service), are nonrefundable, and can be carried forward for two years. The state tax credit program generally mirrors the federal low-income housing tax credit program.

Retain, Reconfigure or Repeal: Retain

Key Findings

- **Number of projects and units funded by the program**: Between 2015 and 2021, a total of $27.9 million in state credits was issued. These credits helped fund 57 development projects to create more than 3,700 affordable housing units in Oklahoma.

- **Number and percent of low-income units in market-rate neighborhoods:** Prior to 2019, only projects in counties with a population of less than 150,000 residents qualified for state credits, effectively rendering projects in Cleveland, Oklahoma, and Tulsa counties ineligible (though projects in these counties could still qualify for federal credits). In 2019, HB 1411 eliminated this population restriction, and effective November 1, 2019, qualified projects can be located anywhere in the state.[3] Since that time, the state has issued credits for eight projects in previously ineligible counties: six in Oklahoma County and two in Tulsa County. Across these projects, the development of 794 low-income units was supported via the issuance of $5.3 million in state tax credits.

- **Percent of low-income population with/without access to affordable housing over time:** In the 2018 evaluation of this program, it was noted that Oklahoma's affordable housing shortage predominantly impacts those at the lowest income levels. At that time, only 49 affordable and available rental homes were available for every 100 extremely low income (ELI) renter households. The finding persists today and has, in fact, been exacerbated. As of 2022, just 46 affordable and available rental homes are available for every 100 ELI renter households.

Table 1: Number of Affordable and Available Rental Homes per 100 Renter Households

Household Type	2018	2022	% Increase/ (Decrease)
80% of AMI	106	106	0%
50% of AMI	73	74	1.4%
ELI Renter	49	46	-6.1%

Source: NLIHC

- **Percent of low-income renters served as a result of the program:** According to recent estimates, Oklahoma faces a shortage of 71,160 rental homes affordable and available for extremely low-income renters. Between 2015 and 2021, the program has helped to fund 57 projects – equal to 0.08 percent of the need.

[1] Oklahoma Legislature, "SB 2128." Accessed electronically at http://webserver1.lsb.state.ok.us/cf_pdf/2013-14%20ENR/SB/SB2128%20ENR.PDF
[2] Area median income (AMI) is the median family income in a metropolitan or nonmetropolitan area.
[3] Oklahoma Legislature, "HB 1411." Accessed electronically at http://webserver1.lsb.state.ok.us/cf_pdf/2019-20%20ENR/hB/HB1411%20ENR.PDF

- **Economic activity associated with program funding:** The analysis of economic impacts via the IMPLAN input-output impact model indicates that an estimated 1,165 direct construction and finance jobs were created by the investments in housing as a result of state credits issued between 2015 and 2021. These jobs paid an estimated $395.1 million in cumulative wages over the six-year study period but are temporary jobs which end with the completion of construction activity. During this time period, an additional 538 jobs were supported through indirect business-to-business spending and induced spending by the construction workers. The following table illustrates the estimated economic impacts associated with the program.

Table 2: Economic and Fiscal Impact of State Affordable Housing Tax Credits, 2015-2021

Impact Type	Employment	Labor Income	Value Added	Economic Output
Direct	1,165	$395,127,746	$422,021,159	$620,154,309
Indirect	181	$57,831,655	$90,044,051	$187,293,120
Induced	357	$96,689,744	$175,690,785	$328,461,018
Total	**1,704**	**$549,649,145**	**$687,755,995**	**$1,135,908,447**

Source: PFM; IMPLAN 2022
Note: Employment is annual; economic activity and tax revenues are cumulative from 2015-2021

- **State return on investment:** Based on the activity described in the preceding bullet, new state tax revenues generated are estimated to be just under $26 million over the 2015-2021 time period, as follows:

  - Direct Effects: $10.8 million
  - Indirect Effects: $5.3 million
  - Induced Effects: $9.9 million

- **An assessment of whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase substantially beyond the state's expectations in future years:** While total state funding per allocation year is capped at $4 million, the credit period is up to 10 years. As a result, the projects funded in the initial $4 million funding round in 2015 will collectively receive $4 million annually each year through 2024, for a total state investment of $40 million in forgone revenue.[4] The new projects funded in each subsequent funding round will also receive a total investment of $40 million over ten years. As a result, assuming all allocated credits are used to reduce tax liability, the total cost to the State will increase by $4 million annually between 2015 and 2024, when it will level out at $40 million per year.

An assessment of whether the incentive is being administered effectively: The decision by legislators to tie the State tax credit to the federal credit results in more efficient, streamlined, and accountable program administration. The administrative burdens to the State beyond those for administering the federal tax credit program are minimal.

Recommendations

- As discussed throughout this evaluation, the State has made multiple changes to the program, including several that were included as recommendations in the 2018 Commission report. Among the modifications are eliminating the 150,000 resident county population restriction, shortening the carry-forward period from five years to two, and, most recently, removing the requirement that state credits be a 1:1 match with federal credits on a project-by-project basis. Because housing development

[4] In the event that a project is not ultimately completed or otherwise becomes ineligible for funding, the credits may be retracted or retracted and the cost to the State would be reduced.

projects typically occur over a multiple-year period, the impacts of these changes cannot yet be assessed.

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

  During the public hearing, the issue was raised that a refundable credit would create a taxable event for federal income tax purposes. While this is true, that is also the case if the tax credit is transferred. Further, the credit may be carried forward for two years – if the credit recipient wishes to avoid a taxable event, they can carry forward the portion of the credit necessary to avoid a taxable event.

Introduction

Oklahoma Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by House Bill (HB) 2182 of 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic development incentives. The Commission is made up of five members appointed by the Governor, President Pro Tempore of the Senate and Speaker of the House of Representatives, along with representatives of the Department of Commerce, Office of Management and Enterprise Services and the Tax Commission.

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

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

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or modify each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

Summary of 2018 Evaluation Findings and Recommendations

Based on the preceding framework, significant findings and recommendations from the 2018 evaluation of the Oklahoma Affordable Housing Tax Credit are summarized in the following table:

Table 3: Summary of 2018 Evaluation Key Findings and Recommendations

Evaluation Category	Key Finding(s)
Overall Findings	- There is a need for increased affordable housing in Oklahoma, though the need is less pronounced than in many other states - Since the introduction of state credits, the number of new affordable housing projects funded in OK has increased - The average per-project and per-unit cost of new projects have both increased since the program was rolled out
Fiscal and Economic Impact	- The State program results in increased statewide economic activity, but it has a negative net economic impact
Future Fiscal Impact Protections	- By 2024, the State program will cost OK a total of $40 million annually (in terms of foregone revenue)
Administrative Effectiveness	- The decision to tie the state tax credit to the federal credit and process results in efficient, streamlined and accountable program administration
Retain, Reconfigure or Repeal	- Retain, with modifications
Recommendations	- Shorten the 10-year credit period for future allocations - Consider removing the statutory provision that precludes housing projects in Oklahoma's most populous counties from receiving funding - Consider making the tax credits refundable instead of transferable

Source: State of Oklahoma Incentive Evaluation Commission, Tax Incentive Evaluation Report 2018

Based on PFM's analysis and consideration of other factors, the Commission voted 5-0 to approve the recommendation made by PFM to retain the program and to modify the 10-year credit period to a 5-year credit period for future allocations. The Commission voted 5-0 to disapprove the recommendation that the tax credits be made nontransferable.

In 2019, HB 1411 eliminated the 150,000-population restriction on where the tax credit can be used and shortened the carry forward period from 5 years to 2 years.

2022 Criteria and Evaluation Approach

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation and, as noted previously, the provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation.

In the case of the Oklahoma Affordable Housing Tax Credit, the goal is to "expand the supply of new and affordable rental units and rehabilitate existing rental housing for qualifying households by stimulating private investment."

In addition to this goal and the general evaluation factors previously described, the Commission has adopted the following criteria to assist in a determination of program effectiveness:

- Number of projects and units funded by the program
- Program-funded projects as a share of all low-income housing production
- Number and percent of low-income units in market-rate neighborhoods
- Percent of low-income population with/without access to affordable housing over time
- Percent of low-income renters served as a result of the program
- Economic activity associated with program funding
- State return on investment

To conduct its 2022 review of the program, the project team conducted the following activities:

- Submitted data requests to the Oklahoma Housing Finance Agency, the Oklahoma Tax Commission, and the Oklahoma Insurance Department
- Reviewed and analyzed internal and external data and information
- Completed subject matter expert/internal stakeholder interviews with representatives from OHFA and the Tax 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

State of Oklahoma
Incentive Evaluation Commission

Small Business Incubators Income Tax Exemption Evaluation

November 16, 2022

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Under the Oklahoma Small Business Incubators Incentives Act, tenants of certified Oklahoma small business incubators are exempt from state tax liability on income earned as a result of activities conducted as an occupant in an incubator for up to 10 years from the occupancy date in an incubator site. The exemption remains in effect after the date the tenant is no longer an occupant in an incubator, but not to exceed a total of 10 years.

Retain, Reconfigure or Repeal: Retain, with modifications.

Key Findings

- **Number of small businesses served by the program:** The number of small business tenants of Oklahoma's certified business incubators varies from year to year, ranging from a high of 190 in 2011 to a low of 109 in 2020. On average, incubators collectively have 149 tenants per year. Because the overall number of incubators has slightly declined while the number of tenants has remained essentially unchanged, the average number of tenants per incubator has increased by a compound annual growth rate (CAGR) of 2.4 percent.

- **Types of small businesses served as a result of the program:** While more than half of incubators target a specific type of business, other incubators target multiple, limited types of businesses. As summarized in the following table, 16 of the 36 incubators categorize themselves as "mixed use" (either solely or in addition to targeted business types), 16 indicate they focus on manufacturing/distribution businesses, and 7 target technology-centered businesses.

- **Case studies or other longitudinal tracking of program recipient growth outcomes:** A business incubator's main goal is to produce successful firms that will leave the program financially viable and freestanding (typically in two to three years). These incubator graduates have the potential to create jobs, revitalize neighborhoods, commercialize new technologies and strengthen local and national economies. Incubator graduates reported the following activity to the Oklahoma Department of Commerce (Department):

Table 1: Employment and Payroll of Incubator Graduates, 2015-2021

	2015	2016	2017	2018	2019	2020	2021
Employment	85	89	67	85	144	171	194
Establishments	8	9	10	10	15	17	18
Payroll ($ M)	$3.5	$3.7	$3.5	$4.3	$5.8	$7.1	$8.6
Avg. Wages	$40,615	$41,167	$52,684	$50,443	$40,451	$41,542	$44,222

Source: Department of Commerce

- **Employment and payroll associated with small businesses served as a result of the program:** Between 2018 and 2021, employment associated with tenants nearly doubled, growing from 827 to 1,660 over the four-year time period. In recent years, the Department has not collected consistent information regarding payroll. In 2018, it totaled $13.9 million – equal to $16,863 per employee.

- **Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem:** The Department does not currently track this information, so it is presently not possible to know if incubator tenants are benefitting from additional Oklahoma (or other) services and supports.

- **Economic activity associated with program funding:** The following table summarizes the estimated economic impacts associated with small businesses' tenancy in Oklahoma's certified business incubators.

Table 2: Economic Impacts of Incubator Tenants' Claimed Income, 2015-2019

Type	Employment	Labor Income	Value Added	Output
Direct	48	$3,915,248	$5,477,772	$18,051,868
Indirect	25	$1,538,666	$2,293,178	$4,790,830
Induced	23	$1,080,372	$1,911,848	$3,525,380
Total	**96**	**$6,534,286**	**$9,682,797**	**$26,368,079**

Source: PFM; IMPLAN 2022

- **State return on investment:** When considering just the direct impacts of the incubator companies, the economic impact model estimates the net state revenue is negative at -$34,000. When examining the total economic impacts of the income through the use of IMPLAN, net state tax revenue is estimated at $186,400. This includes the indirect and induced economic and tax impacts of the incubator companies' output.

Table 3: Economic Impacts of Incubator Tenants' Claimed Income, 2015-2019

Impact Type	State Tax Revenue
Direct	($33,946)
Indirect	$101,454
Induced	$118,919
Total	**$186,427**

Source: PFM; IMPLAN 2022

- **An assessment of whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase substantially beyond the state's expectations in future years:** While the likely cost of the exemption is relatively minimal to the State (in terms of foregone revenue), it is notable that adequate protections are not in place to ensure the fiscal impact of the incentive does not increase substantially beyond the State's expectations in future years. For example, the amount of tenant income reported by incubators in 2021 was more than $32 million, vastly higher than what was reported in prior years (approximately 75 percent of the total was attributable to a new incubator). As discussed in this evaluation, foregone revenue in 2021 could reasonably range somewhere between $0.2 and $1.6 million – the latter of which would be significantly higher than in prior years.

Recommendations

- **Establish standards for tenant occupancy to qualify for the tax exemption.** The program statute does not require businesses to be tenants in an incubator for a designated amount of time prior to becoming eligible for the exemption. A business could theoretically establish tenancy then immediately depart the incubator while becoming eligible for the exemption for 10 years. There are also no performance standards associated with eligibility for the incentive. Incorporating expectations and/or requirements regarding a tenant's investment of time and resources would likely strengthen the program.

- **Increase data collection requirements.** Data collection for any incentive program is indisputably a best practice, and this process is undoubtedly beneficial to a wide variety of interested internal and external stakeholders across the state. However, certain modifications are likely to improve the quality of the analysis that the data is able to facilitate. These include:

- Full-time versus part-time employees
- Interns employed
- Use of and payments to subcontractors
- Estimated annual gross revenue
- Estimated annual cost of goods/services
- Sources and amounts of other revenue and financial assistance

▪ Additionally, the Department should consider requiring participation in the survey (including in post-program years) as a condition of tenancy in a certified incubator and/or eligibility for the exemption. Alternatively, the Department could require that incubators include these provisions in their service agreements with tenants.

Introduction

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The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or modify each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

Summary of 2018 Evaluation Findings and Recommendations

Based on the preceding framework, significant findings and recommendations from the 2018 evaluation of the Small Business Incubators Income Tax Exemption are summarized in the following table:

Table 4: Summary of 2018 Evaluation Findings and Recommendations

Evaluation Category	Key Finding(s)
Overall Findings	- The number of certified incubators operating in the State has declined since 2008; however, the number of small businesses located in OK has increased - Incubators have aided in the creation of more than 3,000 OK jobs, and payroll of incubator tenants has increased over time
Fiscal and Economic Impact	- It is likely the return on investment to the State is breakeven or positive; however, given the data limitations associated with the program, it is difficult to document the annual economic and tax impacts
Administrative Effectiveness	- Some degree of taxpayer confusion exists regarding how to accurately claim the income tax exemption for incubator tenants - It is difficult to estimate the tax expenditure amounts of the individual components of the tax form used to claim the exemption
Retain, Reconfigure or Repeal	- Retain income tax exemption for tenants; repeal income tax exemption for sponsors
Recommendations	- Improve the exemptions claims process - Eliminate the requirement that tenants make at least 75 percent of gross sales out of state in order to qualify for years 6 to 10 of the tax exemption

Source: State of Oklahoma Incentive Evaluation Commission, Tax Incentive Evaluation Report 2018

Based on PFM's analysis and consideration of other factors, the Commission voted 4-0 to retain the tax exemption for tenants and 4-0 to repeal the tax exemption for sponsors.

SB 485 of 2019 made two significant changes to the program, effective January 1, 2020: (1) the income tax exemption for sponsors was repealed; and (2) the requirement that tenants make at least 75 percent of gross sales out of state in order to qualify for the income tax exemption in years 6 to 10 was eliminated.[1]

2022 Criteria and Evaluation Approach

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation and – as noted previously – the provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation.

In the case of the Small Business Incubators Income Tax Exemption for Tenants, the stated goals are "to promote, encourage and advance economic prosperity and employment through the state by creating a more favorable tax climate for tenants of small business incubators in Oklahoma."

In addition to this goal and the general evaluation factors previously described, the Commission has adopted the following criteria to assist in a determination of program effectiveness:

- Number and type of small businesses served as a result of the program
- Graduation/success rate of small business served as a result of the program
- Employment and payroll associated with small businesses served as a result of the program
- Case studies or other longitudinal tracking of program recipient growth outcomes
- Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem
- Economic activity associated with program funding
- State return on investment

To conduct its 2022 review of the Small Business Incubators Income Tax Exemption for Tenants, the PFM project team conducted the following activities:

- Submitted data requests to the Oklahoma Department of Commerce (Department) and Oklahoma Tax Commission (OTC)
- Reviewed and analyzed data from internal and external sources
- Completed subject matter expert/internal stakeholder interviews with representatives from the Department and OTC
- In collaboration with the Oklahoma City, Tulsa and Oklahoma State Chambers of Commerce, conducted external stakeholder interviews with industry representatives
- Conducted site visits of two representative certified business incubators
- Benchmarked Oklahoma to other states

[1] SB 485 of 2019 is provided in Appendix C.

State of Oklahoma
Incentive Evaluation Commission
Oklahoma Applied Research Support Program Evaluation

November 16, 2022

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Through the Oklahoma Applied Research Support (OARS) program, the Oklahoma Center for the Advancement of Science and Technology (OCAST) provides funding to Oklahoma-based companies in support of research that will lead to innovation, new knowledge, or technology with the potential for commercial application. Awards granted under the program are made for up to $90,000 for early-stage projects and up to $500,000 for later-stage projects. All awards require a dollar-for-dollar match.

Retain, Reconfigure or Repeal: Retain the OARS program with modifications.

Key Findings

- **Value and number of awards made over time:** Between 2009 and 2021, OCAST issued $36.8 million in OARS grant awards (an average of $2.8 million per year). On a year-over-year basis, total grants awarded have declined, decreasing by a compound annual growth rate (CAGR) of -7.1 percent over the time period. In 2021, OARS award payments totaled $1.4 million, representing a decrease of nearly $0.9 million from the prior year.

- **Value of additional funding leveraged as a result of program funding:** According to data from the most recent annual Impact Report, recent OARs awards attracted $3.6 million in follow-on funds between 2016 and 2021.

- **Number and value of commercially successful products, processes or services developed as a result of program funding:** Recent OARS recipients reported filing 26 patent applications and having 27 granted; the reported value of the patents is estimated to be $136.0 million.

  Case studies or other longitudinal tracking of program recipient growth outcomes: Based on information collected by OCAST, in 2020 and 2021, prior OARS grant recipients formed 17 new companies, developed 115 new products or innovations, and filed 29 patents.
- **Economic activity associated with program funding:** In the aggregate, OCAST awarded just under $16.0 million in OARS grants between 2016 and 2021. OCAST reported a total financial impact of just under $178.5 million during the time period, as follows:

Total Payroll:	$ 77,864,294
Follow-on Funds Attracted:	$ 3,634,795
Impact on Capital Investments:	$ 23,452,500
Impact on Gross Sales:	$ 73,508,473
Total Financial Impact:	**$178,460,062**

- **State return on investment (ROI):** Based on the information outlined in the preceding bullet, OCAST estimates that the direct effect of its investments during this time period generated a return of 11 to 1 (Total Financial Impact of $178.5 million / $16.0 million in grant funds awarded = state ROI of 11.2).

  Notably, however, OCAST's analysis is not an assessment of the economic impacts of the program relative to the tax revenue foregone by the State. When accounting for the direct, indirect and induced impacts of the OARS funds awarded – as compared to the state tax revenue generated by these impacts, PFM finds that the OARS program generated $5.9 million in state tax revenue between 2016 and 2021, falling short of the $16.0 million in awards granted over the time period.

Table 1: Economic Impact of OARS Program, 2016-2021

Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax
Direct	314	$71,040,839	$84,847,113	$179,933,910	$2,480,705
Indirect	90	$23,048,552	$34,461,792	$71,838,399	$1,350,645
Induced	89	$20,130,398	$36,593,048	$68,411,146	$2,061,663
Total	**493**	**$114,219,788**	**$155,901,953**	**$320,183,456**	**$5,893,013**

Source: PFM; IMPLAN 2022
Note: Employment reflects permanent jobs; all other measures are cumulative over the survey period

- **An assessment of whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase substantially beyond the state's expectations in future years:** OCAST has adequate projections in place to ensure the fiscal impact of the OARS program does not increase substantially beyond the state's expectations in future years.

- **Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem:** OCAST does not currently track the OARS program's interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem outside of OCAST.

Recommendations

- **Further refine and improve data collection and reporting processes:** Data collection for any incentive program is indisputably a best practice, and this process is undoubtedly beneficial to OCAST and its stakeholders.

  While OCAST has begun collecting additional data points from its OARS grantees in recent years, it remains difficult to effectively evaluate the effectiveness of the program due to data collection and reporting process issues.

  To allow the program to be more easily or conclusively evaluated in the future, OCAST should consider collecting additional information from grant recipients as part of its already-established data collection and reporting processes and/or modifying its current practices.

  At present, the OCAST data collected is not presented in a manner conducive for accurately calculating economic impact. Of primary concern is that the surveys cover multiple award years in the aggregate, with grant recipients dropping in and out of the survey. This often leads to significant fluctuations in the aggregate program data over time. Additionally, recipients self-report the data, which can lead to variances in the way information is reported and is subject to error. Finally, it is not clear when revenue is reported or where it is generated (i.e., in Oklahoma or another state).

  To more accurately perform an economic impact analysis, the following information would be required on an annual basis – preferably for each class of recipients by group or cohort, since the awards most often last for multiple years:

  - Jobs data (including how many jobs existed prior to OCAST funding and how much other funding has been raised);
  - Payroll data;
  - Economic activity data (including gross sales and additional funding raised as a direct result of OARS funding);
  - Success or failure rate of each recipient; and

- Industry sector information.

Additionally, OCAST should consider conducting longitudinal case studies over a meaningful period of time for select companies. This would track the advance and development of the effects and benefits of applied research funded by the program, showing the synergy between grants, follow-on funding and capital investment.

Finally, for follow-on funding attained, OCAST should obtain data on when funds are spent and the purpose for fund expenditures.

Introduction

Oklahoma Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by House Bill (HB) 2182 of 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic development incentives. The Commission is made up of five members appointed by the Governor, President Pro Tempore of the Senate and Speaker of the House of Representatives, along with representatives of the Department of Commerce, Office of Management and Enterprise Services and the Tax Commission.

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

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

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or modify each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

Summary of 2018 Evaluation Findings and Recommendations

Based on the preceding framework, significant findings and recommendations from the 2018 evaluation of the Oklahoma Applied Research Support Program are summarized in the following table:

Table 2: Summary of 2018 Evaluation Key Findings and Recommendations

Evaluation Category	Key Finding(s)
Overall Findings	- Oklahoma surpasses most states on investment in research and development (R&D) activities, but R&D performed as a share of state GDP lags most states - Statewide employment in R&D has decreased, and utility patents granted in the state have also declined - Since the program's inception, nearly $100 million in OARS awards have been made; private companies account for more than half of awards - Awards have been made to nearly 600 collaborative projects in 21 counties
Fiscal and Economic Impact	- 160 jobs are attributable to the program, and other economic impacts appear to be significant - Matching requirements have leveraged significant additional funding
Administrative Effectiveness	- Grantee surveys are beneficial but may lead to inconsistencies in data reporting
Retain, Reconfigure or Repeal	- Retain, with modifications (see below)
Recommendations	- Collect more detailed information from current and former grant recipients to allow for consistent analysis - Track business activity and funding sources prior to obtaining the state financial support, and after the state monies have been spent to measure the long-term effect of the program

Evaluation Category	Key Finding(s)
	- If a successful product or company is developed, the location where the product is sold, supported, and manufactured should be identified - In order to correctly and accurately perform an economic impact analysis, additional information should be collected

Source: State of Oklahoma Incentive Evaluation Commission, Tax Incentive Evaluation Report 2018

Based on PFM's analysis and consideration of other factors, the Commission voted 5-0 to approve the recommendation to retain the program with the suggested modifications. Since the Commission completed its review of this program in 2018, OCAST has made strategic modifications to its programming approach to have a more intentional focus on meeting the R&D needs of key industries within the state. These changes are discussed in the Program Usage & Administration section of this evaluation.

2022 Criteria and Evaluation Approach

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation and, as noted previously, the provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation.

The intent of the Oklahoma Applied Research Support Program is to "support establishments of certain industries that hold promise for significant development of the state's economy by providing incentives connected to jobs created in the state."

In addition to this goal and the general evaluation factors previously described, the Commission has adopted the following criteria to assist in a determination of program effectiveness:

- Value and number of awards made over time
- Value of additional funding leveraged as a result of program funding
- Number and value of commercially successful products, processes or services developed as a result of program funding
- Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem
- Case studies or other longitudinal tracking of program recipient growth outcomes
- Economic activity associated with program funding
- State return on investment

To conduct its 2022 review of the Oklahoma Applied Research Support Program, the PFM project team conducted the following activities:

- Submitted a data request to OCAST
- Reviewed and analyzed internal and external data and information
- Completed subject matter expert/internal stakeholder interviews with representatives from OCAST
- 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
Oklahoma Health Research Program Evaluation

November 16, 2022

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The Oklahoma Health Research Program, administered by the Oklahoma Center for the Advancement of Science and Technology (OCAST), provides funding to investigators to pursue their ideas for increased scientific understanding of important problems in human health and lays the foundation for driving economically significant future innovations. The program funds qualified basic research projects conducted by Oklahoma-based investigators for the multiple purposes of (1) enhancing the competitiveness of Oklahoma health researchers in their pursuit of additional research funds; (2) recruiting and retaining outstanding health research scientists for the state; (3) improving health care for Oklahoma citizens; and (4) strengthening the state's health care industry.

Award amounts range from $10,000 to $45,000 per year for up to three years (for a maximum of $135,000 over three years). No matching funds are required. Eligible entities include Oklahoma public or private colleges or universities, nonprofit research institutions and private enterprises with the principal place of business in Oklahoma.

Retain, Reconfigure or Repeal: Retain, with modifications.

Key Findings

- **Value and number of awards made over time:** Between 2011 and 2021, OCAST issued Health Research grant awards totaling $37.9 million (an average of $3.4 million per year). On a year-over-year basis, total grants awarded have declined, decreasing by a compound annual growth rate (CAGR) of -5.3 percent over that time period. In 2021, Health Research award payments totaled $2.5 million, representing a decrease of approximately $1.8 million from a decade prior.

- **Value of additional funding leveraged as a result of program funding:** For many years, the total number of federal National Institutes of Health (NIH) awards funded annually in Oklahoma remained relatively stable: between 1992 and 2017, total awards increased by a CAGR of 0.5 percent. In more recent years, however, the state has seen a significant increase: between 2017 and 2021, growth was a CAGR of 10.6 percent. Total NIH funding in the State available under these awards has grown relatively steadily over time, increasing from $21.7 million in 1992 to $128.3 million in 2021, CAGR of 6.3 percent.

  Based on information self-reported annually by grant recipients as a condition of receiving an award, between 2016 and 2021, Health Research Program grant recipients attracted approximately $84.3 million in follow-on funds, representing a significant benefit of the program.

- **Number and value of health care products and services developed as a result of program funding:** Recent Health Research Program grant recipients reported having 10 patent applications granted; the value of the patents is estimated to be $2.0 million.

- **Case studies or other longitudinal tracking of program recipient growth outcomes:** Based on information collected by OCAST, in 2020 and 2021, prior Health Research Program grant recipients formed 6 new companies, developed 32 new products or innovations, and filed 8 patents.

- **Economic activity associated with program funding:** In the aggregate, OCAST awarded approximately $18,5 million in Health Research Program grants between 2016 and 2021. OCAST reported a total financial impact of $183.4 million during the time period, as follows:

Total Payroll:	$3,859,512

Follow-on Funds Attracted:	$ 84,281,513
Impact on Capital Investment:	$ 79,241,232
Impact on Gross Sales:	$ 16,060,353
Total Financial Impact:	**$183,442,610**

- **State return on investment (ROI):** Based on the information outlined in the preceding bullet, OCAST estimates that the direct effect of its investments during this time period generated a return of 10 to 1 (Total Financial Impact of $183.4 million / $18.5 million in grant funds awarded = state ROI of 10.1).

  Notably, however, OCAST's analysis is not an assessment of the economic impacts of the program relative to the tax revenue foregone by the State. When accounting for the direct, indirect and induced impacts of the Health Research funds awarded – as compared to the state tax revenue generated by these impacts, PFM finds that the Health Research program generated approximately $5.9 million in state tax revenue between 2016 and 2021, well less than the $18.5 million in awards granted over the time period.

- **An assessment of whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase substantially beyond the state's expectations in future years:** OCAST has adequate projections in place to ensure the fiscal impact of the Health Research program does not increase substantially beyond the state's expectations in future years.

- **Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem:** OCAST does not currently track the Health Research program's interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem outside of OCAST.

Recommendations

- **Further refine and improve data collection and reporting processes:** Data collection for any incentive program is indisputably a best practice, and this process is undoubtedly beneficial to OCAST and its stakeholders.

  While OCAST has begun collecting additional data points from its Health Research grantees in recent years, it remains difficult to effectively evaluate the effectiveness of the program due to data collection and reporting process issues.

  To allow the program to be more easily or conclusively evaluated in the future, OCAST should consider collecting additional information from grant recipients as part of its already-established data collection and reporting processes and/or modifying its current practices.

  At present, the OCAST data collected is not presented in a manner conducive for accurately calculating economic impact. Of primary concern is that the surveys cover multiple award years in the aggregate, with grant recipients dropping in and out of the survey. This often leads to significant fluctuations in the aggregate program data over time. Additionally, recipients self-report the data, which can lead to variances in the way information is reported and is subject to error. Finally, it is not clear when revenue is reported or where it is generated (i.e., in Oklahoma or another state).

  To more accurately perform an economic impact analysis, the following information would be required on an annual basis – preferably for each class of recipients by group or cohort, since the awards most often last for multiple years:

  - Jobs data (including how many jobs existed prior to OCAST funding and how much other funding has been raised);

- Payroll data;
- Economic activity data (including gross sales and additional funding raised as a direct result of Health Research funding);
- Success or failure rate of each recipient; and
- Industry sector information.

Additionally, OCAST should consider conducting longitudinal case studies over a meaningful period of time for select companies. This would track the advance and development of the effects and benefits of health research, showing the synergy between grants, follow-on funding and capital investment.

Finally, for follow-on funding attained, OCAST should obtain data on when funds are spent; and the purpose for fund expenditures.

Introduction

Oklahoma Incentive Evaluation Commission Overview

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

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

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or modify each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

Summary of 2018 Evaluation Findings and Recommendations

Based on the preceding framework, significant findings and recommendations from the 2018 evaluation of the Oklahoma Health Research Program are summarized in the following table:

Table 1: Summary of 2018 Evaluation Key Findings and Recommendations

Evaluation Category	Key Finding(s)
Overall Findings	- Total NIH funding in Oklahoma has increased steadily over the past 25 years but lags other states on a per capita basis - OK's direct investment in health-related R&D is significant - OK's employment in R&D in health-related fields has decreased, but average industry pay has increased - Medical patents awarded in OK peaked in 1998
Fiscal and Economic Impact	- Since inception, the program has provided more than $85 million in awards; recipients are primarily public colleges and universities - Nearly 300 jobs are attributable to the program, and other economic impacts appear to be significant
Administrative Effectiveness	- Grantee surveys are beneficial but may lead to inconsistencies in data reporting
Retain, Reconfigure or Repeal	- Retain, with modifications (see the following)
Recommendations	- Collect more detailed information from current and former grant recipients to allow for consistent analysis - Track business activity and funding sources prior to obtaining the state financial support, and after the state monies have been spent to measure the long-term effect of the program

Evaluation Category	Key Finding(s)
	- If a successful product or company is developed, the location where the product is sold, supported, and manufactured should be identified - In order to correctly and accurately perform an economic impact analysis, additional information should be collected

Source: State of Oklahoma Incentive Evaluation Commission, Tax Incentive Evaluation Report 2018

Based on PFM's analysis and consideration of other factors, the Commission voted 5-0 to approve the recommendation to retain the program with the suggested modifications. Since the Incentive Evaluation Commission completed its review of this program in 2018, there have been no statutory changes.

2022 Criteria and Evaluation Approach

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation and, as noted previously, the provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation.

The stated purposes of the Oklahoma Health Research Program include (1) enhancing the competitiveness of Oklahoma health researchers in their pursuit of additional research funds; (2) recruiting and retaining outstanding health research scientists for the state; (3) improving health care for Oklahoma residents; and (4) strengthening the state's health care industry.

In addition to these goals and the general evaluation factors previously described, the Commission has adopted the following criteria to assist in a determination of program effectiveness:

- Value and number of awards made over time
- Value of additional funding leveraged as a result of program funding
- Number and value of health care products and services developed as a result of program funding
- Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem
- Case studies or other longitudinal tracking of program recipient growth outcomes
- Economic activity associated with program funding
- State return on investment

To conduct its 2022 review of the Oklahoma Health Research Program, the PFM project team conducted the following activities:

- Submitted a data request to OCAST
- Reviewed and analyzed internal and external data and information
- Completed subject matter expert/internal stakeholder interviews with representatives from OCAST
- 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
Quick Action Closing Fund Evaluation

November 16, 2022

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The Quick Action Closing Fund (QACF or Fund) was established in 2011 to attract high-impact businesses when award funds are likely to be the deciding factor in a business's location decision. These expenditures typically support infrastructure or capital improvements necessary for relocation of a company, but they can be used for a variety of business needs.

Recommendation: Retain, with modifications

Key Findings

- **The Fund's unreserved fund balance has more than tripled since the program was last evaluated in 2018.** At the end of FY 2022, the unreserved fund balance available for new awards was $18.6 million, up from $4.3 million at the end of FY 2019. Legislative appropriations drove this increase, rather than the statutory five percent of all new Quality Jobs Program rebate payments the Fund started receiving in FY 2019.

- **A total of $36.9 million in awards have been made through the Fund, and two-thirds of the total award amount was made between FY 2021 and FY 2022.** As more funding has been made available, more awards have been made.

- **A total of $24.5 million was awarded between FY 2021 and FY 2022, but only $7.3 million of those have been paid as these projects continue to work toward performance thresholds.** Fund award contracts are structured so payment is not issued until performance thresholds related to jobs, payroll and capital investment are met.

- **Projects receiving awards from the QACF were projected to create 6,752 new jobs at an average salary of about $63,000.** Projects that have received award payments were projected to create 4,081 jobs, while another 2,681 projected jobs are associated with projects awarded in FY 2020 or later that are still working toward meeting performance thresholds. Projected jobs associated with paid projects have an average salary of about $50,200, while projected jobs associated with ongoing awards have an average salary of about $82,000.

  A Department of Commerce analysis of companies that have been awarded funds found as of 2022, these companies have a total of 7,470 employees in the State with an average salary of $83,818.

- **The average projected capital investment per project is $151.4 million.** Projects associated with awards that have been paid average $86.0 million while projects in progress (with award payments pending) average $308.2 million.

- **Assuming projected job creation, payroll, and capital investment is achieved, for each $1.00 spent through the program award payments from FY 2018 through FY 2022, $2.55 of new state tax revenue is generated by the economic impacts of participating companies.** Projected economic activity associated with companies receiving a total of $10.9 million in payments during this period would generate $1,602.6 million in economic impacts creating $27.9 million in state tax revenue from employment, payroll, and investment activity.

- **Nine of 12 companies that have completed QACF projects have also been awarded Quality Jobs Program contracts.** In these instances, the amount awarded by the Quick Action Closing Fund is adjusted downward by the Department of Commerce to account for the Quality Jobs Program benefit and ensure the combination of awards are still expected to be revenue neutral for the State.

- **Effective cost controls are in place.** As previously noted, the program is still mainly dependent on appropriations from the Legislature. These appropriations naturally limit the amount that can be spent by the fund. Furthermore, statute requires several program features that control costs. All awards are required to be revenue neutral as determined by a detailed analysis by the Department of Commerce, and claw back provisions are required to be included in award agreements to return funds to the State if performance thresholds aren't met. The Department of Commerce also structures its award agreements so that awards are not paid until performance goals are met, adding another layer of cost control to the program.

Recommendations

- **Require more robust reporting on awards**. Oklahoma publicly reports only the award amount, the company name, award date and a very brief description of how the award is to be used. Nearly all comparable programs have more detailed public reporting on projects that have received awards. Transparency in how the program is used and the performance of projects receiving awards is important for building public trust in the program and allowing for monitoring. The State should consider making the following additional information associated with each award public:

  - Expected Capital Investment associated with award activity[1]
  - Expected Job Creation associated with award activity
  - Expected Average Wage/Payroll associated with award activity
  - Specific thresholds required for award payment
  - Progress toward such thresholds
  - Award Amount Paid
  - Actual Job Creation associated with award activity
  - Actual Capital Investment associated with award activity
  - Actual Average Wage/Payroll associated with award activity

  In addition to reporting the above information, the Department of Commerce should include an explanation of why each awarded project was considered "high-impact." Statute dictates the QACF may be used when the award would "likely be a determining factor in locating a high-impact business project or facility in Oklahoma." However, no definition of "high-impact" is provided in statute. This leaves the Department of Commerce to interpret what is written and determine whether a program is "high-impact." To date, it appears QACF has been used mostly for high-impact projects based on the high amount of capital investment. However, use of the program has varied significantly – from one project expected to create seven new jobs and $2.5 million in capital investment, to one expected to create 1,500 new jobs and over $1,000 million in capital investment. While the project team sees no immediate concern about the use of the QACF, this reporting would enhance transparency and help ensure the program is used as intended.

[1] "Award activity" refers to the project the award was granted for, as described in the award agreement, rather than activity occurring outside the scope of the award.

Introduction

Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by HB 2182 of 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic incentives. The Commission is made up of five members appointed by the Governor, President Pro Tempore of the Senate and Speaker of the House of Representatives, along with representatives of the Department of Commerce, Office of Management and Enterprise Services and the Tax Commission.

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

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

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or reconfigure each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

Summary of 2018 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	The program was used sporadically from FY 2012 through FY 2018, and only five companies had received awards. The program was found to have strong administrative protections.
Fiscal and Economic Impact	The program was found to be a net benefit to the State.
Future Fiscal Impact Protections	The program features performance requirements and claw back provisions that help the State control costs.
Administrative Effectiveness	Program administration was found to be effective. The Department of Commerce thoroughly reviews potential project qualifications and benefits to the state before sending to the Governor for final approval.
Achievement of Goals	The program funded projects expected to create 1,445 jobs and capital investment of $712 million.
Retain, Reconfigure or Repeal	Based on its analysis of available data, the project team recommended in 2018 that the program be retained.
Other Recommendations	Implement a wage threshold for job creation to ensure incentivized jobs are paid higher than average wages.

Based on PFM's analysis and consideration of other factors, the Commission voted 5-0 to approve PFM's recommendation to retain the incentive. Two significant statutory changes have been made to the program since it was last reviewed. First, five percent of quarterly payments made to Quality Jobs Program participants are now to be deposited in the Oklahoma Quick Action Closing Fund. Second, to qualify for Quick Action Closing Fund awards, an establishment must pay wages equal to or greater than the average wage of the county where it is located.

2022 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.

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

- History of use of the program
- Layering of the program with other incentives
- Total investment per project
- Actual vs. projected jobs, payroll, investment
- Comparison of job and payroll growth with/without use of this incentive
- State return on investment

State of Oklahoma
Incentive Evaluation Commission
Investment/New Jobs Tax Credit Evaluation

November 16, 2022

PFM Group Consulting LLC
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Contents

Key Findings and Recommendations

Incentive Overview

The State of Oklahoma began offering the Investment-New Jobs Tax Credit in 1980. The credit is available to manufacturers, aircraft maintenance facilities, and web search portal companies who either invest in depreciable property of at least $50,000 or create new jobs in the State. The tax credit is equal to one percent of the cost of the depreciable property or $500 per new employee, which may be claimed for five years. The credit is doubled if a company makes an investment of at least $40 million or is located in an Enterprise Zone.

Recommendation: Reconfigure

Key Findings

- **Use of the credit to offset tax liability has generally decreased over time, while the amount of unused carried forward credit has increased to $734.1 million as of Tax Year 2020.** Low credit usage combined with the unlimited carry forward period for unused capital investment credits make it likely this number will continue to grow.

Table 1: Credit Use, Tax Years 2015 through 2020 (Dollars in Millions)

Tax Year	Number of Returns	Total Amount Claimed	Amount Used to Reduce Tax Liability	Unused Credit Carried Forward
2015	1,009	$622.3	$64.8	$557.4
2016	1,010	$303.0	$25.6	$277.4
2017	1,017	$270.2	$24.6	$245.6
2018	921	$525.3	$47.0	$478.3
2019	861	$408.8	$38.5	$370.3
2020	692	$743.3	$9.2	$734.1

Source: Oklahoma Tax Commission

- **The Oklahoma Tax Commission (OTC) is not statutorily required to and does not collect data for the purpose of analyzing program effectiveness, or to track the usage of the program in detail.** As a result, the OTC was not able to provide basic information regarding usage by year, including how much credit was taken for capital investment versus new jobs, the total amount of capital investment associated with claims, the total number of new jobs associated with claims, the number of claims made in an enterprise zone, and the number of claims associated with an investment of over $40 million. For this evaluation, the OTC was able to provide more detailed information for one tax year upon special request. Without this information for each year of the program, evaluations of the credit will continue to be limited.

- **An analysis of a set of claims submitted for investments or jobs placed in service during Tax Year 2019 showed the following[1]**

  - **Based on the economic activity associated with the claims, the credit generates $0.73 in new State tax revenue for each $1.00 of foregone State revenue.**

  - **Nearly all the credits claimed were for capital investment.** Capital investment accounted for 99.7 percent of new credits claimed; less than one percent of credit claims were related to new jobs. This is in line with the previous evaluation of this credit that found 98.3 percent of new credit claims in Tax Year 2016 were for capital investment.

[1] This analysis included 220 completed 2019 506 forms. Data provided by the Tax Commission included 499 2019 506 forms were submitted in 2019, but many of these were missing key information including the total amount of credit claimed, the rate applied to calculate credit claimed, or the number of new jobs created. Forms missing this information were excluded from the analysis, as were forms claiming credit amounts that appeared to be for investments of less than $50,000. Forms submitted by pass-through entities were also excluded as these entities do not report credit usage on Form 506.

- **Most credits were claimed on corporate income tax returns.** Corporate returns accounted for 80.5 percent of the total dollar amount of credits claimed, with 19.5 percent claimed on individual income tax returns.

- **New credit claims made in Tax Year 2019 were associated with $1,300 million in capital investment.** Of this investment, 86 percent was in an Enterprise Zone in Oklahoma.

- **Most new capital investment credits claimed (89.2 percent) were made by facilities located in enterprise zones.** About half of all new capital investment associated with credits claimed in Tax Year 2019 was located in Enterprise Zones.

▪ **Oklahoma's tax benefit ranks 9th of 11 among comparable state programs.** Because Oklahoma's one percent credit is claimed over a five-year period, the present value of the capital investment tax credit is four percent of total investment cost, despite its nominal total benefit of five percent.

▪ **In general it is unlikely that the credit is significantly influencing business decisions:**

- **From Tax Year 2008 through Tax Year 2019, excluding years a cap was in effect, an average of 21.1 percent of the total reported value of credits claimed was used to reduce tax liability.**[2] This suggests claimants may not have sufficient tax liability to make use of credits earned. Unused credits for capital investment may be carried forward indefinitely, remaining a liability to the State. The State's corporate and top individual income tax rate declined from 6.0 to 4.0 percent, and 5.0 to 4.75 percent, respectively, starting in Tax Year 2022 and is likely to increase the amount of carried forward credit.

- **The investment tax credit's impact on location decisions is likely negligible.** On a present value basis, the investment tax credit reduces investment costs by 4.0 percent, assuming credits claimed in each year of the five-year period are fully used to offset tax liability. The economic research literature has examined how business taxes affect business activity, suggesting that a 1 percent cost reduction (measured as a percent of business value-added) increases the likelihood of making a desired location or expansion decision by 10 percentage points.[3] Using this approach, it is estimated that the 4.0 percent reduction in costs over the five-year period equates to 0.24 percent of the estimated value-added generated by a given capital investment.[4] Thus, the cost reduction generated by the credit is equivalent to a 2.4 percentage point increase in a favorable location decision. If these estimates are adjusted to reflect the reality that claimants are not using all credits claimed each year to offset tax liability, the impact on location decisions decreases.

- A similar increase of 2.3 percentage points was estimated for the new jobs tax credit.

▪ **In contrast to many other incentives offered by Oklahoma, the Investment-New Jobs tax credit does not require an application or advanced notice to receive benefits.** The credit is claimed on tax returns, so firms may claim the credit regardless of whether it played a role in the investment decision.

▪ **While the capital investment tax credit has been able to keep up with inflation and cost growth because it is a percentage of total investment, the new jobs tax credit as a fixed dollar amount has fallen behind.** From 2001 to 2021, the value of the $500 tax credit per new job has declined from 1.5 percent to 0.8 percent of Oklahoma's average annual pay in manufacturing.[5]

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[2] Tax Year 2020 excluded as this year is likely an outlier due to the impact of the COVID-19 pandemic. Tax Years 2016 and 2017 also excluded, as usage in these years was subject to a $25 million cap.
[3] Timothy J. Bartik, "Making Sense of Incentives: Taming Business Incentives to Promote Prosperity," accessed electronically at: https://www.upjohn.org/research-highlights/making-sense-incentives-taming-business-incentives-promote-prosperity
[4] Manufacturing capital expenditures and value added data from the US Census Bureau's 2019 Annual Survey of Manufactures used to calculate a ratio of $13.66 value added per dollar of capital investment as part of this approach.
[5] US Bureau of Labor Statistics, Quarterly Census of Employment and Wages

- **Key program requirements expressed as dollar amounts in statute have not been updated since the credit was created in 1980.** The minimum salary required to qualify for the new jobs tax credit is extremely low, at $7,000. This equates to 11.2 percent of average annual pay for manufacturing in Oklahoma in 2021.[6] The minimum required investment amount of $50,000 has also not been changed since 1980. Adjusted for inflation, this is equivalent to about $170,000 in 2022. As a result, the State may be incenting creation of low wage jobs and allowing credits for the equivalent of less than one-third of what was originally intended.

- **Oklahoma's growth in manufacturing employment, payroll, and capital expenditures from 2003 to 2019 exceeded most neighboring states, and its employment and payroll growth exceeded the national average.[7]** Oklahoma ranks either first or second in each of these metrics when compared to neighboring states, including those with more generous investment tax credits (Arkansas, Kansas, New Mexico).

Table 2: Compound Annual Growth, Manufacturing, 2003 to 2019

	Employment	Payroll	Capital Expenditures
Arkansas	-1.7%	1.0%	5.9%
Colorado	-1.2%	1.0%	0.5%
Kansas	-0.9%	1.7%	1.3%
Missouri	-1.0%	1.3%	-0.6%
New Mexico	-3.4%	-1.2%	-4.5%
Oklahoma	**-1.0%**	**1.8%**	**2.0%**
Texas	-1.2%	1.5%	0.9%
Oklahoma Rank	**2 of 7**	**1 of 7**	**2 of 7**
United States Total	**-1.1%**	**1.4%**	**2.9%**

Source: US Census Bureau, Annual Survey of Manufactures

Recommendations

- **Limit the carryforward period to seven years.** The carryforward period for capital investment credits is indefinite, contributing to the continued growth in the State's unused tax credit liability. Limiting the carryforward period to seven years after a credit is claimed would reduce the State's liability over time, while still allowing claimants some flexibility. This is in line with the Commission's recommendation following the last evaluation of this credit.

  If applied to the set of analyzed new claims submitted in Tax Year 2019, a carryforward limit of seven years beyond the initial five-year credit claiming period would reduce costs to the State by about 6 percent, assuming usage continues at 2019 rates until the carryforward balance is exhausted.

- **Require claims to be filed with the Tax Commission each year of the carry forward period, regardless of whether the credit is used to offset tax liability.** Regular annual claims can require claimants to attest that the capital investment is still in use and, in aggregate, these annual claims would provide the State a clearer picture of how much credit is still available to be used. Currently, following the initial five-year credit period, the annual submission of Form 506 (the Tax Commission's claim form) is not required. This causes the credit amount claimed and the unused carried forward amount reported in Tax Commission data to fluctuate based on the number of companies submitting a form each year.

- **Require an application and approval before allowing claims.** The application would be submitted within 30 days of the capital investment being placed in service and would need to be approved before

[6] US Bureau of Labor Statistics, Quarterly Census of Employment and Wages. The preliminary average annual pay for manufacturing in Oklahoma as of 2021 is $62,546.
[7] US Census Bureau Annual Survey of Manufactures

the taxpayer could claim the credit on a tax return. Applying in a timely manner would increase the likelihood that firms would have to plan to plan on taking the credit when making a qualifying investment. An application process is common among the comparison group, with five of 11 states requiring an application or certification.

Without an application, it is more likely firms that did not need, or possibly were not aware of the credit, would make claims. The ease of claiming the credit may also be a factor in the continued growth of unused carried forward credit. Firms may claim the credit for capital investment simply because it is available to them, without an immediate need for it based on tax liability, and carry the credit forward indefinitely.

Many State incentives, including the Quality Jobs Program, the Quick Action Closing Fund, and the newly enacted LEAD act each require applications to receive benefits. This approach of requiring intent from incentive claimants is also in line with the project team's recommendation to require advance notice for claiming the Five-Year Ad Valorem Exemption for manufacturers.

- **Eliminate the new jobs credit, in favor of incenting manufacturing job creation through the Quality Jobs Program.** The Investment-New Jobs Tax Credit needs significant updates to its job creation requirements. As noted in key findings, the minimum annual pay required of $7,000 is equal to 11.2 percent of the manufacturing's average annual pay in Oklahoma. There is also no requirement related to benefits provided to new jobs. Only one new job is required to receive a new job tax credit.

  The Quality Jobs Program, which is available to manufacturers, is favorable as it generally requires that $2.5 million in new payroll is generated by new jobs earning at least the average county wage, that receive health benefits for which the company pays half of premiums.

Introduction

Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by HB 2182 of 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic incentives. The Commission is made up of five members appointed by the Governor, President Pro Tempore of the Senate and Speaker of the House of Representatives, along with representatives of the Department of Commerce, Office of Management and Enterprise Services and Tax Commission.

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

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

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or reconfigure each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

Summary of 2018 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Fiscal and Economic Impact	Data collected by the Oklahoma Tax Credit was insufficient for economic impact analysis.
Future Fiscal Impact Protections	As of Tax Year 2015, the program to date has incurred a $557.4 million potential liability for the State, and that liability is expected to continue to grow.
Administrative Effectiveness	No administrative issues were raised, other than a lack of sufficient data for economic impact analysis
Achievement of Goals	In Tax Year 2016, credits claimed were associated with total capital investment of $2.0 billion and 737 jobs.
Retain, Reconfigure or Repeal	Based on its analysis of available data, the project team recommended reconfiguring the program.
Other Recommendations	The project team recommended several modifications to control program costs including: ▪ Awarding credits only in the year a capital investment is made, ▪ limiting the credit carryforward period to five years, ▪ reducing the credit amount to equal four percent of capital investment or $2,000 per job, ▪ implementing stricter reporting requirements and claw back provisions, ▪ restricting eligibility to specific industries, ▪ restricting the credit to only capital expenditures for new or expanding facilities rather than capital replacement, ▪ increasing the wage requirement for new jobs, ▪ maintaining the annual cap on expenditures, ▪ and improving data collection.

Based on PFM's analysis and consideration of other factors, the Commission voted 5-0 to approve PFM's recommendation to reconfigure the incentive but modified two recommendations. It recommended the carryforward period be reduced to seven rather than five years, and the wage requirement be increased to match the Quality Jobs Program requirement. No statutory changes were made since these recommendations were made.

2022 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.

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

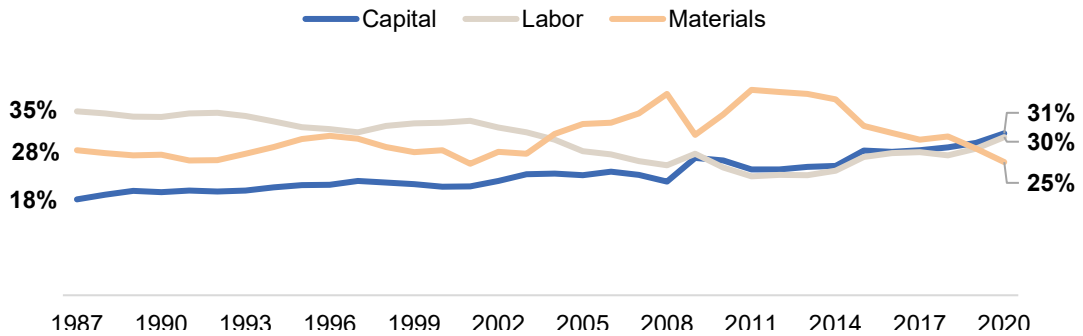
- Change in employment, payroll, and capital investment from qualified facilities
- Change in employment, payroll, and capital investment from qualified industries before/after program
- Change in employment, payroll and capital investment in qualified industries in other states
- State return on investment

Manufacturing in Oklahoma

The Credit is one of three major incentives for manufacturers offered by Oklahoma, along with the Five-Year Ad Valorem Tax Exemption and the Quality Jobs Program. While the Five-Year Ad Valorem Tax Exemption reduces overhead costs and the Quality Jobs Program reduces the cost of labor, this Credit primarily targets the cost of capital investment.

Capital investment is increasingly important in manufacturing. Since 1987, capital has grown as a factor of productivity in United States manufacturing by a compound annual growth rate (CAGR) of 1.6 percent, while labor and materials declined by 0.5 percent and 0.3 percent, respectively. Since 2010, capital has maintained a higher factor share of manufacturing productivity than labor. Technological advancements leading to the reduction in the costs of capital, and the offshoring of labor in manufacturing have been suggested as explanations for this shift.

Figure 1: Factor Shares, US Manufacturing Sector, 1987 to 2020



Source: US Bureau of Labor Statistics

This national trend is reflected in Oklahoma, where manufacturing employment has declined by a CAGR of 1.0 percent from 2003 to 2019 while manufacturing capital expenditures increased at twice the rate (2.0 percent). Compared to neighboring states, manufacturing payroll grew fastest in Oklahoma, and the State trailed only Kansas in employment growth, and Arkansas in capital expenditure growth.

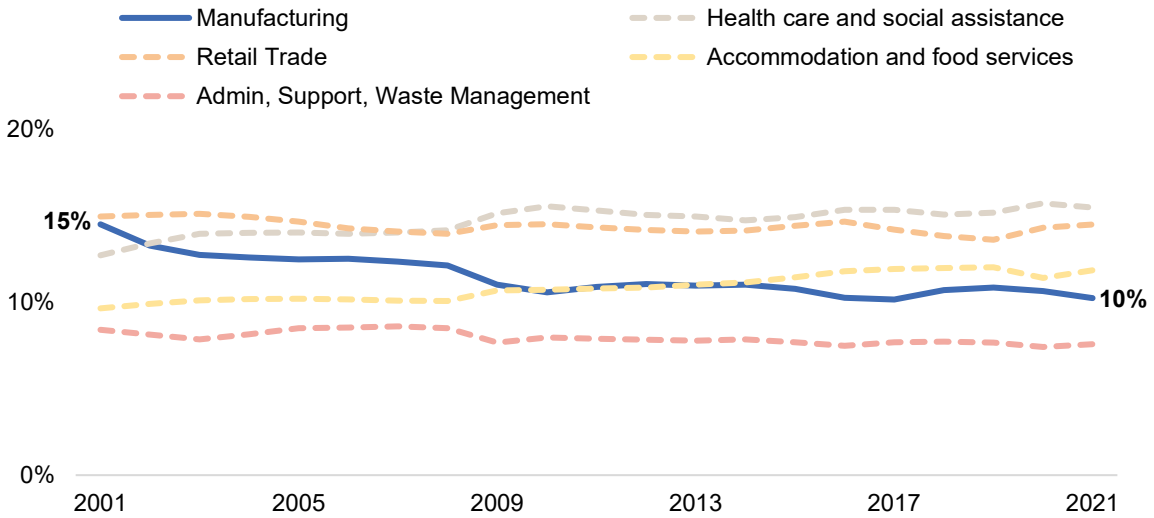
Table 3: Compound Annual Growth, Manufacturing, 2003 to 2019

	Employment	Payroll	Capital Expenditures
Arkansas	-1.7%	1.0%	5.9%
Colorado	-1.2%	1.0%	0.5%
Kansas	-0.9%	1.7%	1.3%
Missouri	-1.0%	1.3%	-0.6%
New Mexico	-3.4%	-1.2%	-4.5%
Oklahoma	**-1.0%**	**1.8%**	**2.0%**
Texas	-1.2%	1.5%	0.9%
Oklahoma Rank	**2 of 7**	**1 of 7**	**2 of 7**
US Total	**-1.1%**	**1.4%**	**2.9%**

Source: US Census Annual Survey of Manufactures

Manufacturing has remained a top-five sector by share of total private employment in Oklahoma, but its share has declined significantly. In 2001, manufacturing accounted for about 15.0 percent of employment in the State, but this declined to about 10.0 percent in 2021.

Figure 2: Share of Total Private Employment in Oklahoma, Top-Five Sectors as of 2021, 2001 to 2021



Source: US Bureau of Labor Statistics

State of Oklahoma
Incentive Evaluation Commission
New Products Development Exemption Evaluation

November 16, 2022

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Contents

Key Findings and Recommendations

Overview

The New Products Development Income Tax Exemption was established in 1987. The incentive offers an income tax exemption to both inventors and manufacturers of new products developed in the State of Oklahoma (State). An inventor can exempt royalty payments for up to seven years, as long as the new product is manufactured in the State. The manufacturer producing the product in Oklahoma is able to exclude from state taxable income 65 percent of the cost of depreciable property purchased in order to manufacture the product, up to $500,000.

Taxpayers claiming the royalty income tax exemption must register with the Oklahoma Center for the Advancement of Science and Technology (OCAST). Following registration with OCAST, the exemption is administered by the Oklahoma Tax Commission (OTC).

Recommendation: Repeal

Key Findings Related to Established Criteria for Evaluation

- **Program foregone tax revenue, in terms of Royalty Income Tax Exemptions, have declined.** From Tax Year 2015 to 2020, individual tax expenditures decreased from $452,462 to $181,719.

- **The OTC does not calculate the total amount of income excluded by manufacturers as part of this program.** While firms need to be approved through the OCAST registration process, the corresponding OTC data is only available in the aggregate, which makes it impractical to undertake more detailed analyses.

- **Based on data from 2015 to 2020, the New Products Development Income Tax Exemption may have a negative return on investment.** Estimated tax expenditures were approximately $1.6 million with an estimated tax revenue increase of approximately $0.5 million, for a total loss of $1.1 million. However, it should be noted that data limitations related to the depreciable property exemption means this analysis is likely understating the impacts.

- **According to OCAST data, two firms represent 93 percent of registration applications from July 2017 to July 2022**. Charles Machine Works (91 percent) and ThruTubing Solutions (2 percent) represented the overwhelming majority of the applications received and thus are the most likely to receive the majority of the exemptions. This follows a similar pattern identified in the 2018 incentive evaluation of this program.

- **Of the companies registered with OCAST for the royalty tax exemption, 3 of the 30 companies have also received the Investment/New Jobs Tax Credit.** Charles Machine Works, the company with the highest number of registration applications on file with OCAST, has also received nearly $1.4 million in Investment/New Jobs Tax Credits over tax years 2014 through 2016.

- **Relative to comparable state programs, Oklahoma's New Products Development Income Tax Exemption is broad-based.** Two of the three comparable programs in other states target incentives for inventors in certain industries or to small businesses. Oklahoma does not restrict its program by industry or company size.

Other Findings

- **Total patents originating in Oklahoma in 2020 are at approximately the same level as in 1993 (681 vs. 689)**. The number of patents originating in the State has ranged from 429 to 692, with no consistent pattern from year to year, in spite of the program's goal to increase product development.

Recommended Changes to Improve Future Evaluation

Recommendation 1: Improve data processing in order to collect and report the total cost of corporate tax exemptions. In order to improve future evaluations of this program and any other program associated with corporate tax exemptions, the OTC should improve its data processing to allow for the disaggregation of the total cost of each corporate tax exemption. Without this data, it is not possible to evaluate the full impact of the program or understand its basic cost to the State.

Recommendation 2: Modify program requirements to require OCAST to obtain key data on a yearly basis to be eligible for the tax exemption. Currently, those wishing to take the tax exemption must register with OCAST, but there is no requirement that the inventor or manufacturer provide additional information that would be useful in determining the effectiveness or efficacy of the program. The inventor or manufacturer should be required to provide information on annual revenues, annual payroll, and FTEs, both the total number and the number located in Oklahoma to be eligible for the tax exemption. Receiving this data annually would allow for tracking firms that access the exemption over time and would allow the Evaluators to more completely understand the impacts to job creation and industry development.

Introduction

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The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or reconfigure each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

2018 Evaluation: Key Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	This incentive provides a limited benefit to a very limited number of firms at a cost that outweighs its economic impact.
Fiscal and Economic Impact	The program has a negative return on investment, when reviewing available data.
Future Fiscal Impact Protections	The relatively small number of firms utilizing the program and the cap on individual claim amounts helps to manage the total cost of the program.
Administrative Effectiveness	As a by-right incentive, administration is very effective. However, improvements to data gathering should be considered to enhance the evaluation process.
Achievement of Goals	Given the limited reach of the incentive, it does not appear to be significantly increasing the number of new products developed in the State.
Retain, Reconfigure or Repeal	Based on its analysis in 2018, the project team recommended that the program be repealed.
Other Recommendations	

2022 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.

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

1. Use of the program
2. Comparison of Oklahoma incentive to other states
3. Determination of the amount of layering with the Investment/New Jobs Tax Credit
4. Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem State return on investment
5. Case studies or other longitudinal tracking of program recipient growth outcomes
6. State return on investment

State of Oklahoma
Incentive Evaluation Commission

Seed Capital Fund Evaluation

November 16, 2022

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Contents

Key Findings and Recommendations

Overview

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

Recommendation: Retain the program, with modifications.

While there is an increasing venture capital presence in Oklahoma, the OSCF has been successful in its investing approach and provides high-quality due diligence and other services to firms where they make an investment.

Key Findings

- **From 2008 to Q3 2022, OSCF has closed 83 investments totaling $31 million in 44 companies.** Under the program guidelines, companies receiving funding have made repayments totaling more than $9 million to the fund.

- **From 2008 to Q2 2022, total capital investment in Oklahoma by companies receiving OSCF funding has reached $272 million.** The capital investment amount is approximately 8.8 times the initial investments made over that same period.

- **Since establishing the first fund Series in 2007, the OSCF has leveraged more than $700 million of private capital in total**. This represents an approximate 23:1 leverage ratio.

- **From 2008 to 2021, for economic impact that can be measured, the OSCF has an internal ROI that is negative.** However, this does not include impacts from additional capital invested in Oklahoma as a result of these early, strategic investments in seed stage companies. The fund is also revolving, so that repayments and investment returns are able to be recycled in the future.

- **The most common OSCF investment recipients are companies operating in the biopharmaceutical or computer software industries.** These industries account for 68 percent of the total number of investments and 70 percent of the total dollar amount of investments made.

- **Oklahoma ranks low among nearby states and the nation in terms of venture capital funding disbursed.** According to data from the National Venture Capital Association, Oklahoma ranks 46th among all states in number of companies receiving investment, venture capital deals, and total dollars invested. After making up ground compared to nearby states in the last evaluation, Oklahoma has continued to grow, but not as quickly as states such as Kansas and Arkansas.

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

[1] Small business, defined by the United States Small Business Administration

Recommendations

- **Current focus in software and biotech firms could be shifted over time to align with other statewide programs and incentives**.

- **Given the maturation of the venture capital industry in Oklahoma, it could be valuable to reexamine OSCF's role and mission in the market.** Implementation of the new pre-seed capital program in FY23 solves a major challenge for firms accessing the Technology Business Finance Program (TBFP0. Additional research – in the form of surveys, in-depth interviews, and/or focus groups – should be conducted to identify remaining gaps for entrepreneurs that can be supported through the OSCF and its associated programs.

- **Improve data collection and reporting.** Annual data collection and reporting should be modified to collect data that better ties business performance to the initial investment made by the fund. This would improve future evaluations and more accurately describe the benefits of the program. An annual survey is distributed by i2e that collects employment, wages, and revenue levels of companies that have received fund investments. However, there is no indication of net growth in these categories, or when the initial investment was made relative to this growth. The annual survey should collect growth in employment, wages, revenue and measures of profitability. This data should be reported in a way that is clear regarding the timing of this growth relative to the initial investment.

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

2018 Evaluation: Key Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	While the Seed Capital Fund invests significant funding into firms in Oklahoma, not enough data exists to capture its specific impacts on sectors, job, growth, etc.
Fiscal and Economic Impact	The program was found to have a positive economic impact.
Future Fiscal Impact Protections	Given the growth in this area, future fiscal growth is a reasonable assumption.
Administrative Effectiveness	The project team noted several areas of strength in the administration of the program.
Achievement of Goals	More data is needed to determine whether it specifically achieves goals related to job growth and sector growth.
Retain, Reconfigure or Repeal	Retain
Other Recommendations	Continue to enhance data collection efforts.

2022 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.

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

1. Program use
2. Amount of capital investment
3. Comparison of capital investment in general to capital investment in eligible projects
4. Oklahoma jobs created by firms receiving incentive
5. Financial performance of the fund
6. Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem
7. Case studies or other longitudinal tracking of program recipient growth outcomes
8. State return on investment

State of Oklahoma
Incentive Evaluation Commission
Technology Business Financing Program Evaluation

November 16, 2022

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

Contents

Key Findings and Recommendations

Overview

The Technology Business Finance Program (TBFP) was established in 1999. The program is intended to assist qualified pre-seed or concept stage firms commercialize new products and processes and advance to the next stage of investment. It provides capital to qualified companies with repayment and private investment matching requirements.

To administer the program, the Oklahoma Center for the Advancement of Science and Technology (OCAST) has partnered with i2E, a not-for-profit corporation that invests in Oklahoma-based start-up companies. Qualifying start-ups may receive cash advances, which are generally between $20,000 and $50,000. The start-ups enter into contracts with i2E and agree to repay the advances with interest within 5 years.

Recommendation: Retain, with improvements in data collection for future evaluation.

Key Findings Related to Established Criteria for Evaluation

- **There is insufficient data to determine the economic impact of the program.** As the administrator of the program, the not-for-profit corporation i2E conducts annual surveys of program participants to collect the number of jobs, average salary, annual revenue that was made possible because of TBFP funding. However, due to fluctuations in the number of respondents to the annual survey, the best this data can offer is a year-to-year snapshot of a sampling of companies that have participated.

- **About half of the total amount of advances made have been repaid.** Of the $12.9 million in funding advanced, $6.3 million has been repaid. With no new appropriations planned for the TBFP, these repayments are the only source of funding for ongoing operations and new advances. Current projections estimate the program will run out of funds between 2036 and 2058.

- **TBFP portfolio companies have a four-year survival rate of 66.2 percent.** The average four-year survival rate for Oklahoma establishments in general has been 54.5 percent since the inception of the program. This suggests the program may be providing some advantage to participants.

Recommended Program Changes

- **Require program participants to respond to annual surveys.** There is currently no requirement that companies receiving funding through the TBFP respond to i2E's annual survey. Requiring companies to respond to the survey, at least for a certain period of time after receiving funding, would allow for an analysis of employment and payroll growth from year to year.

Introduction

Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by HB 2182 of 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic incentives. The Commission is made up of five members appointed by the Governor, President Pro Tempore of the Senate and Speaker of the House of Representatives, along with representatives of the Department of Commerce, Office of Management and Enterprise Services and the Tax Commission.

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

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

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

Summary of 2018 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	The program appears to have some impact on the success of firms in the State, but not enough data exists to understand the economic impacts overall.
Fiscal and Economic Impact	Because of the difficulty in maintaining consistent, accurate, time-series data, there is insufficient data to determine the economic impacts.
Future Fiscal Impact Protections	See finding above.
Administrative Effectiveness	
Achievement of Goals	There are elements of the program that have been successful, but additional data collection would be beneficial to determining the impacts.
Retain, Reconfigure or Repeal	Reconfigure the data collection process to allow for longitudinal measurement.
Other Recommendations	Consider the impacts of declining appropriations on the program's performance.

2022 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.

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

1. Jobs/payroll associated with the program
2. Use of the program over time
3. Comparison of participant success rates to tech start-ups, generally
4. Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem State return on investment
5. Case studies or other longitudinal tracking of program recipient growth outcomes
6. Return on investment from an equity standpoint

State of Oklahoma
Incentive Evaluation Commission
Technology Transfer Income Tax Exemption Evaluation

November 16, 2022

PFM Group Consulting LLC
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Contents

Key Findings and Recommendations

Overview

The Technology Transfer Income Tax Exemption was created in 1987. For tax years starting on or after January 1, 1988, it allows corporations to exempt from income 10 percent of gross proceeds from the transfer of technology to an Oklahoma small business for 10 years. While not specified in statute, the goals of the program are likely to provide support for the transfer of technology to Oklahoma small businesses that do not have the resources to produce technology that may provide operational efficiencies or provide innovative products to the market.

Overall Recommendation: Reconfigure the program to capture data that would provide a basis for a rigorous cost benefit analysis.

Key Findings Related to Evaluation for Criteria

- **The Oklahoma Tax Commission (OTC) is unable to provide data on the use of the exemption.** Corporate tax exemptions are claimed through Form 512, as part of the calculation of Oklahoma taxable income for corporate income tax returns. The OTC collects this information through a "Miscellaneous Other" exemptions form box – the Technology Transfer program represents one of five possible exemptions that can be listed in that space. When combined with the practice of reporting only in the aggregate the level of corporate income tax exemptions taken, it is not currently possible to know the true cost of this program.

- **Despite many other states having similar goals, Oklahoma is the only example of this particular strategy to incentivize the relevant activities**. In Arkansas, the state offers grant funding to reduce technology transfer costs for businesses. Other states supplement federal programs, including the Small Business Technology Transfer (SBTT) program, by offering technical training, funding to complete the SBTT application process, or matching grants for federal funds received.

Recommendations

The Evaluators have considered the current period as well as previous rounds of evaluation and determined there are several approaches to reconfigure the program.

- **Enhance data collection through changes to current corporate tax forms.** In During incentive evaluation interviews, OTC staff expressed the opinion that the current tax forms are viewed as burdensome for taxpayers, and the OTC seeks to streamline and reduce the required data rather than increasing it. Their general perspective is that increased complexity leads to greater taxpayer reporting errors.

  While this is an understandable perspective, there is also a public policy need for data and information associated with tax expenditures. Given that digital tax preparation software is widely used, and many of the impacted taxpayers are probably retaining tax preparation professionals, the OTC should consider targeted, high-value additions to these forms to improve data quality.

- **The State could shift administration of the program to a contract-based agreement with the Department of Commerce.** The authorizing statute could require that those wishing to take the exemption must be approved by the Department of Commerce. The Department of Commerce could then make data reporting an annual requirement for program approval.

- **Consider reconfiguring the program to incorporate best practices from benchmark programs.** This might include converting the income tax exemption to a grant, as has been successful in the Arkansas example. Specifically, the program could be altered to reduce costs for entities generating technology that can be transferred, as opposed to the corporations that acquire the technology. Funding can also be diverted to support services such as technical assistance for small businesses that are applying for STTR awards, or to connecting small businesses and entities such as colleges and universities that frequently develop these desirable technologies to generate additional opportunities to commercialize these products and services.

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The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or reconfigure each inventive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018:

2018 Evaluation: Key Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	Due to reporting limitations on corporate tax exemptions, this incentive is unable to be evaluated on its usage, cost, or ROI.
Fiscal and Economic Impact	Unable to be determined.
Future Fiscal Impact Protections	Unable to be determined.
Administrative Effectiveness	The exemption is not very effective administratively, as it is unclear how often is it being used.
Achievement of Goals	It is unclear due to the lack of data and reporting.
Retain, Reconfigure or Repeal	The project team recommends reconfiguring the exemption to properly collect data to report on its usage and potential impact.
Other Recommendations	None.

2022 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.

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

1. Comparison of Oklahoma incentive to other states
2. Number and amount of technology transfers
3. Dollar value of the benefit
4. Employment and payroll associated with the technology transfer