



Oklahoma Incentive Evaluation Commission

Incentive Evaluation Update

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Today's Agenda

- Discussion of incentives under review.
- Timeline for the incentive evaluation process.
- Next steps.



Introduction

- The following are the incentives under review in 2023:
 - Economic Development Pooled Finance
 - Railroad Reconstruction or Replacement Expenditures
 - The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act
 - Training for Industry Program (TIP)
 - Rural Economic Action Plan
 - Aircraft Facilities Sales Tax Exemption
 - Computer Services and Data Processing Tax Exemption
 - Construction Materials Tax Refund



Economic Development Pooled Finance

- Intent: Encourage local government cooperation in the development of regional infrastructure and economic development projects.
- Started: July 1, 2009.
- Program description: The program provides \$200 million for local government infrastructure development and economic development projects. The program targets business expansion projects which include job creation and significant investment in facilities, machinery, and equipment.
- Financial impact: Total funding allocated as of 2019 is \$100.8 million.
- Benchmarking: Multiple states have a statewide municipal bond bank or similar entity that can issue bonds to provide similar types of financing. These include the neighboring state of Kansas as well as Alabama, California, Maine, Maryland, Nevada, New Hampshire, Pennsylvania, South Dakota, and Virginia.



Tax Credit for Railroad Reconstruction or Replacement Expenditures

- Intent: To enable and encourage private investment in railroad reconstruction and/or replacement activities.
- Started: January 1, 2006. Sunset: December 31, 2024.
- Program description: Provides a tax credit equal to 50 percent of qualified railroad reconstruction or replacement expenditures, limited to \$5,000 per miles of railroad owned or leased in the state.
- Incentive characteristics: May be transferred or carried forward for five years. Maximum of \$5 million in credits can be authorized annually, using pro-rata calculations if credits claimed exceed the cap.
- Financial Impact: \$103,000.



Tax Credit for Railroad Reconstruction or Replacement Expenditures

- Three states apply differing forms of tax incentives – income tax credits in Alabama and Kentucky, and a property tax exemption in Kansas
- Seven states provide non-tax incentives:
 - Illinois provides low interest loans, with grants considered in special circumstances; Iowa provides both grants and loans.
 - Mississippi, North Carolina, Pennsylvania, Virginia and Wisconsin have grant programs with various characteristics
 - These include promoting economic growth and job creation (Mississippi), economic growth (Virginia), attracting new industry (North Carolina), attracting or retaining business and industry (Wisconsin), and building or repairing lines or spurs (Pennsylvania).



Oklahoma Local Development and Enterprise Zone Incentive Leverage Act

- Intent: To encourage economic development within designated enterprise zones.
- Started: 2007. Sunset: December 31, 2034.
- Program description: Provides funding for local governments and businesses to match local tax revenue for projects in enterprise zones, in support of a major tourism destination, or in support of a military growth impact.
- Program characteristics: There are various limitations on use of the program by businesses (such as not for a gambling establishment). Enterprise matching payments may not exceed \$200,000 per fiscal year. There are also county limits of aggregate funding varying from \$20 to \$40 million.
- Financial impact: Total payments of \$6.3 million from FY 2015 – 2019.



Oklahoma Local Development and Enterprise Zone Incentive Leverage Act - benchmarking

- Programs focused around enterprise zones are common (18 states noted), with varying requirements to become an enterprise zone and incentives for locations within one.
- Most provide state tax incentives for businesses to locate and/or expand in distressed areas.
- There are some (Maryland, Ohio, Oregon) that also provide property tax credits.
- Minnesota's program is targeted at border towns.
- Some offer non-tax incentives as well (Alabama, Hawaii, Virginia).
- An evaluation of Maryland's enterprise zone tax credit found it was not effective in creating employment opportunities for residents within the enterprise zone.



Training for Industry Program (TIP)

- Intent: To provide customized employee training.
- Started: 1968.
- Program description: TIP works with a delivery agency to provide new job slot training for new or expanding businesses or industries in selected in manufacturing, or other national regional or offices of business and industry that create new employment opportunities or others that have a significant impact on Oklahoma's economy.
- Financial impact: \$1.8 million



Training for Industry Program (TIP) - Benchmarking

- Many states have comparable training programs, which is usually done by a funded program rather than a tax credit.
- Texas provides training where wages are equal to or greater than the prevailing wage for the occupation in the local labor market. Kansas requires net new jobs and equal to or greater than the median wage for their county.
- Arkansas targets incumbent workers to fill gaps in skills development that are otherwise not available.
- Colorado targets net new hires or established companies to adapt to new technology and avoid lay-offs.
- California targets training for unemployed or workers whose jobs are threatened by out-of-state competition and need to be retrained.
- New Jersey provides grants to businesses to hire and train unemployed residents, who must be paid at least \$12 an hour.
- Iowa is the only comparable state with a tax credit for employers that expand their employment base by 10 percent or more and provide training for workers.



Rural Economic Action Plan

- Intent: To remove impediments to economic development and provide for the general improvement of living and working conditions in rural areas of the state.
- Started: 1996.
- Program description: Grant funds are distributed to eligible cities, towns, and unincorporated areas represented by 11 organizations. Cities or towns are limited to those with a population of 7,000 or less. Higher priority is given to those with populations below 1,750. No entity can receive more than \$150,000 per year.
- Projects are limited to specified areas, which are for water quality; solid waste disposal, treatment or similar projects; sanitary sewer construction or improvement; road or street construction or improvement; fire protection and public safety services; expenditures designed to increase employment levels; health care/emergency care services; telecommunications systems; municipal energy distribution systems; community public facilities.
- Financial impact: \$15.5 million (Executive Budget for FY2024)



Rural Economic Action Plan- Benchmarking

- At least 16 states were identified with rural – centered programs.
- Several states have centers focused on rural development and related issues (North Carolina, Pennsylvania, Vermont)
- Arizona is the only identified state that uses tax credits for new job creation (at least five jobs)
- Two states use low or no interest loan programs for rural development (Arizona, Maine.
- Most states offer grants or other state funded assistance, sometimes related to business job creation or broader development.



Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemptions

- Intent: To encourage investment in aircraft maintenance and manufacturing facilities in Oklahoma.
- Started: January 1, 1991.
- Program description: Qualified aircraft maintenance or manufacturing facilities are eligible for certain sales tax exemptions, including computers, data processing equipment, telecommunications equipment for use that equals or exceeds \$2 million. Also sales of tangible property as part of a construction or expansion of a qualified facility. This requires total construction costs of \$5 million or more and employment of at least 250 new full-time employees. Also qualified are sales of aircraft and aircraft parts and repair and modification at qualified facilities.
- Financial impact: \$3.0 million.



Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemptions

- At least 10 states offer sales tax exemptions or other beneficial tax treatment for some aircraft-related activities.
- Mississippi has a broad-based program that provides both sales tax exemptions and exemption from income and franchise taxes for firms that manufacture or assemble components for the industry or provide research, development or training for the sector.
- Nevada provides both sales tax and property tax abatements.
- Arizona targets its to military reuse zones.
- Washington has broad-based exemptions for a variety of related activities.



Computer Services and Data Processing Tax Exemption

- Intent: To support the technology sector.
- Started: July 1, 1992.
- Program Description: Provided a sales tax exemption on qualified purchases for qualified purchasers primarily engaged in computer services and data processing or research and development.
- Financial Impact: Repealed November 1, 2022
- 16 states were identified with tax incentives.
- Sales tax exemptions were noted in Georgia, Idaho, Iowa, Minnesota, Missouri, Mississippi, and South Carolina. Georgia requires projects to create at least 20 new jobs, Idaho 30 jobs.
- Property tax credits or exemptions were identified Connecticut, Minnesota, North Carolina, North Dakota, and Washington.
- Arizona provides a mix of state, county, and local tax exemptions. Illinois provides an investment tax exemption and credit on employee wages paid.



Construction Materials Tax Exemption

- Intent: To incent the creation of manufacturing jobs in Oklahoma.
- Started: June 1, 1988.
- Program description: The state provides a tax exemption from the sale of personal property to a qualified manufacturer or distributor to be consumed within a new or existing qualified facility. This requires a significant expansion (between \$5 and \$50 million) and addition of new employees.
- Financial impact: This has not been claimed in the last five fiscal years.
- Several states have similar targeted programs for the manufacturing industry, including sales and use tax exemptions in Mississippi, North Dakota, and South Carolina, and corporate business tax credits in Connecticut.



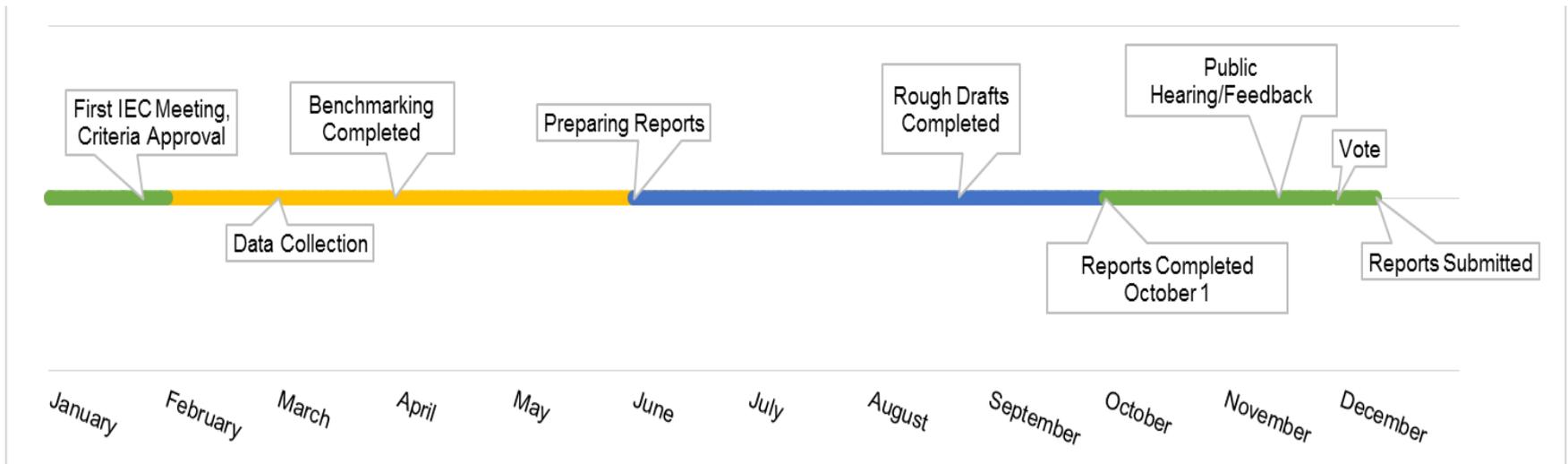
Key Takeaways

- No states are 'perfect peers' – there are multiple differences in economic, demographic and political factors that must be considered.
- It is exceedingly rare that any two state incentive programs will be exactly the same.
- Generally, Oklahoma's incentive programs are comparable to those offered in states with similar programs and the programs were not found to be an outlier.
- There continues to be increasing interest among the states in incentive evaluation, but few states have produced as many evaluations as Oklahoma.
- The project team is reviewing relevant program evaluations as a starting point for this year's analysis.



2023 Incentive Evaluation Commission Timeline

- The timeline is the same as in recent past years.
- We are completing the benchmarking and will move into the interview stage.





Next Steps

- We will send a written information request to the entities that administer the programs we are evaluating in the next few weeks.
- We will work with those entities to get the necessary information.
- We will schedule detailed interviews with program leaders and subject matter experts, targeted for once the legislature has completed its 2023 regular session business.
- As in past years, we will provide rough drafts to the Commission in mid-August.
- We will continue to adhere to the schedule for prior years, with the draft reports submitted by October 1, 2022.



Questions and Discussion