OKLAHOMA

State Of Oklahoma

Incentive Evaluation Commission

Tax Incentive Evaluation Report

2024

STATE OF OKLAHOMA
INCENTIVE EVALUATION COMMISSION

The Honorable Governor J. Kevin Stitt, Senate President Pro Tempore Paxton and Speaker of the House Hilbert:

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 ninth year, IEC reviewed twelve incentives during this evaluation process. We have continued our contractual relationship with Public Financial Management Inc., who won the bid in 2016, in 2020, and again in 2024. They are a nationally recognized firm specializing in public sector finances. IEC members received twelve draft evaluation reports on facts and findings on Oct. 1, 2024, with a formal presentation to the Commission Meeting on Oct. 10, 2024. As required in statute, a public hearing meeting took place on Oct. 24, 2024, to receive public comments regarding the consultant's recommendations.

The commission took into consideration all public comments received at the Nov. 14 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 not to 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 2024 Year Nine 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 to you is helpful during the upcoming 1st Session of the 60th Legislature.

Respectfully,

The Oklahoma Incentive Evaluation Commission

INCENTIVE EVALUATION COMMISSION ACTIONS

INCENTIVE	YEAR 9, EVALUATION RECOMMENDATION (2024)	COMMISSION ACTION
Oklahoma Rural Jobs Program	**PFM Recommendation: Retain, and allow the program to sunset in 2032, with another review of this program in 2028.** The Rural Jobs Act went into effect on November 1, 2022 and is intended to provide support to the state's rural communities by incentivizing rural development through existing lending agencies. It is scheduled to sunset on November 1, 2032. Based on the Act, the Department of Commerce (Department) has $100 million in capital investment authority to be invested by approved rural funds over a six-year period. Five funds have received $20 million each and have been approved to issue this capital investment to projects or businesses primarily located in rural areas in exchange for a capped tax credit. These tax credits are capped at an aggregate $15 million per calendar year across the entire program. The rural funds can only claim their tax credits in years three through six of the programs and are only able to claim 15 percent of the total tax credit each year.	Vote: 4-0 to **accept** PFM's recommendation to retain the Oklahoma Rural Jobs Program.
Invest in Oklahoma Program	**PFM Recommendation: Retain, with modifications, and remove from future evaluation.** The Invest in Oklahoma Act is intended to increase investment in the state by providing opportunities for public pensions to invest in Oklahoma-based funds, which are selected based on a series of criteria related to their financial performance and history of investment in the state. It went into effect on November 1, 2021.	Vote: 4-0 to **accept** PFM's recommendation to retain with modifications and remove from future evaluations the Invest in Oklahoma Program.
The Oklahoma Leverage Act	**PFM Recommendation: Retain, with modifications.** The Enterprise Zone Incentive Leverage Act (the "Leverage Act") went into effect on July 1, 2000, through the passage of SB 71. The Act is intended to encourage economic development within designated enterprise zones. All investments or improvements made within an enterprise zone and must begin no later than December 31, 2029 and must be completed before December 31, 2034. It provides funding for local units of government to match local tax revenue dedicated to support a project located in an enterprise zone, in support of a major tourism destination, or in support of a military growth impact. Enterprise Zones can be designated in disadvantaged counties, cities, or portions of cities. The state local government matching payment is made for the six-month periods preceding March 1 and September 1 of each calendar year and is equal to the lesser of the amount of local sales taxes that have been apportioned under the project plan or the net benefit rate multiplied by the actual gross sales derived from the project.	Vote: 4-0 to **accept** PFM's recommendation to retain with modifications outlined in the report, the Oklahoma Leverage Act Program.
Seed Capital Fund	**PFM Recommendation: Retain.** The Oklahoma Seed Capital Fund (OSCF) provides concept, seed, and start-up equity investments to innovative Oklahoma businesses. It is funded through legislative appropriations to the Oklahoma Center for the Advancement of Science and Technology (OCAST). Fund investments are focused on industry sectors with technologies and proprietary products, processes, and/or know-how that provide high growth opportunities in addressable markets (e.g. advanced materials, aerospace, agri-sciences, biotechnology, communications technologies, energy, software/information technology, medical devices, nanotechnology, robotics, etc.).	Vote: 4-0 to **accept** PFM's recommendation to retain the Seed Capital Fund Program.

	OSCF focuses on opportunities that show promise of rapid growth in terms of revenue, increased employment and increased private investment capital. It also includes a pre-seed component that is intended to address the needs of companies requiring smaller seed capital investment that may develop into larger investment opportunities.	
Small Business Incubator Tenants Tax Exemption	**PFM Recommendation: Retain, with modifications.** The State of Oklahoma provides a corporate income tax exemption for up to 10 years for tenants of small business incubators, from the date of occupancy. Small business incubators must be certified by the Department of Commerce. The purpose of the incentive is to promote, encourage, and advance economic prosperity and employment through the state by creating a more favorable tax climate for the tenants, particularly as they graduate from the incubators.	Vote: 4-0 to **accept** PFM's recommendation to retain, with the understanding that the Department of Commerce and the Oklahoma Tax Commission will continue to look at how to take in this aggregated information and any impertinent information through other means the Small Business Incubator Tenants Tax Exemption Program.
Technology Business Finance Program	**PFM Recommendation: Repeal.** The Oklahoma Center for the Advancement of Science and Technology (OCAST) was authorized to develop and implement a technology business financing program to provide funding and financing for and to assist qualified Oklahoma enterprises to commercialize a new product, service, technology, innovation, or process. Awards generally range from $20,000 to $50,000, and repayments are made through royalty payments.	Vote: 4-0 to **accept** PFM's recommendation to repeal the Technology Business Financing Program.
Five Year Ad Valorem Tax Exemption	**PFM Recommendation: Retain, with modifications.** The exemption was approved by voters through state question 588 in April 1985. The property tax exemption applies to all real and personal property necessary for the manufacturing of a product and facilities engaged in qualifying industries, and the Legislature has implemented it via state statute. The property tax exemption applies to new, acquired, or expanded manufacturing facilities in qualified industries. Facilities may qualify for the property exemption for up to five consecutive years if they continue to meet payroll and other requirements. The State reimburses local governments for the entirety of the property tax exemption. In its inception, the program focused on what might be considered 'traditional' manufacturing of durable goods, but other industries qualify as well. These have included aircraft repair and rebuilding, computer services and data processing, distribution and warehousing, research and development, and electric power generation. Since the exemption was last reviewed in 2016, the statute has been modified to clarify the definitions of qualifying construction costs and payroll. These changes have not made a significant difference in the administration of the program but has reduced the financial impact of the program. The most significant change to the program since the last review is the removal of wind facilities from eligibility for new exemptions. The Legislature made this modification in 2015, and it took effect on January 1, 2018.	Vote: 4-0 to **accept** PFM's recommendation to retain, with modifications, the Five Year Ad Valorem Tax Exemption Program.

Historic Rehabilitation Tax Credit	**PFM Recommendation: Retain.** In 1992, as part of the Local Development Act, the Oklahoma Legislature introduced a tax credit for the rehabilitation of certified historic hotels and newspaper plants located in a tax increment or incentive district. Effective January 1, 2006, with the passage of HB 3024, credit eligibility was broadened to include the rehabilitation of any income-producing certified historic structure; the bill also allowed projects that qualify for the 20 percent federal credit to automatically qualify for the state credit (also 20 percent) without additional paperwork. All requirements with respect to qualifying for the federal credit are applicable.	Vote: 4-0 to **accept** PFM's recommendation to retain the Historic Rehabilitation Tax Credit Program.
Film Enhancement Rebate	**PFM Recommendation: Retain, with modifications.** The State of Oklahoma Film Enhancement Rebate Program provides a base incentive for qualified productions of 20 percent of qualified spend and uplifts that can increase the rebate to a maximum of 30 percent. There are multiple uplifts as well as limits on eligible expenses subject to the rebate. The program was modified substantially since the last evaluation in 2020.	Vote: 4-0 to **accept** PFM's recommendation to retain, with the five modifications noted, the Film Enhancement Rebate Program.
Film and Television Companies Sales Tax Exemption	**PFM Recommendation: Reconfigure.** On or after July 1, 1996, the state of Oklahoma exempts sales of tangible personal property or services to a motion picture or television production company to be used or consumed in connection with an eligible production from the state and local sales and use tax. To qualify for the exemption, the motion picture or television production company must file required documentation and information with the Oklahoma Tax Commission (OTC).	Vote: 4-0 to **accept** PFM's recommendation to reconfigure the Film and Television Companies Sales Tax Exemption Program.
Tourism Development Act	**PFM Recommendation: Retain.** This is the first evaluation of the Tourism Development Act. The Tourism Development Act is a sales tax credit intended to create new or expand existing tourism attractions in Oklahoma. It provides a tax credit of up to 10 percent of approved costs, capped at $1 million, to companies who spend at least $500,000 on tourism attractions, such as cultural or historic sites, recreational facilities, or destination hotels. These projects must attract at least 25 percent of visitors from outside the state and produce significant revenues. No credits will be awarded after January 1, 2026.	Vote: 4-0 to **accept** PFM's recommendation to retain the Tourism Development Act Program.
Quality Events Act	**PFM Recommendation: Retain.** The Quality Events Incentive Act program was created in 2010 and launched in 2012, and it has been updated significantly twice since 2018. The amount of the incentive is determined by the Oklahoma Tax Commission (OTC) based on incremental sales tax revenues associated with a "quality" event. These events must be a new or existing event or meeting of a nationally recognized organization; national, international, or world championship; or managed or produced by an Oklahoma-based national or international organization. The Incentive requires an ordinance of support prior to the event and an economic impact study to demonstrate its impacts. Local incentives must be disclosed and are included in calculations of awards by the OTC. The program is capped at $250,000 per event and $3,000,000 per year.	Vote: 4-0 to **accept** PFM's recommendation to retain the Quality Events Act program.

INCENTIVE EVALUATION COMMISSION
Regular Meeting Minutes
Nov. 14, 2024, 10:00 AM
Oklahoma State Capitol
Senate Conference Room 230
Oklahoma City, OK 73105

MEMBERS PRESENT:
Lyle Roggow, Chair designee of Select Oklahoma and Economic Development Partnership, Inc.
Carlos Johnson, CPA, appointed by the Oklahoma Accountancy Board
Mandy Fuller, Auditor/CPA appointed by the Governor
Earl Sears, appointed by the Speaker of the House of Representatives
Mark Wood, Chair of the Oklahoma Tax Commission, Ex-Officio; Non-Voting
Jon Chiappe, Secretary of Commerce designee, Ex-Officio; Non-Voting
Ryan Bair, OMES Executive Director designee

MEMBERS ABSENT:
Dr. Saleh Tabrizy, an Economist appointed by the President Pro Tempore of the Senate

STAFF/GUESTS:
Beverly Hicks, OMES
Lorena Massey, OTC
Randall Bauer, PFM
Tony Toups, Advantage Capital
Mandi Boehringer, OK Investment Fund
Ryan Kilpatrick, Amber Integrated

♦*Office of Management and Enterprise Services (OMES)* ♦*Public Financial Management Group Consulting LLC (PFM)*
♦*OK Tax Commission (OTC)*

1. **Announcement of filing of meeting notice and posting of the agenda in accordance with the Open Meeting Act. [Lyle Roggow, chairman]**

   Chairman Roggow confirmed that the meeting complied with the Open Meeting Act.

2. **Call to order and establish a quorum. [Chair]**

   Chairman Roggow called this regular meeting to order at 10:10 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.

3. **Welcome/Introductions. [Chair]**

   Chairman Roggow welcomed commission members and guests to the meeting.

4. **Approval of minutes from October 24, 2024, Commission meeting:**

   Rep. Earl Sears moved to approve the meeting minutes of October 24. Many Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

5. Discussion and possible action on Year 9, 2024, Incentive Evaluations. [Chair]

Oklahoma Rural Jobs Program
Invest in Oklahoma Program
The Oklahoma Leverage Act
Seed Capital Fund
Small Business Incubator Tenants Tax Exemption
Technology Business Financing Program
Five Year Ad Valorem Tax Exemption
Historic Rehabilitation Tax Credit
Film Enhancement Rebate
Film and Television Companies Sales Tax Exemption
Tourism Development Act
Quality Events Act

Oklahoma Rural Jobs Program – **Recommendation: Retain, and allow the program to sunset in 2032, with another review of this program in 2028.** The Rural Jobs Act went into effect on November 1, 2022 and is intended to provide support to the state's rural communities by incentivizing rural development through existing lending agencies. It is scheduled to sunset on November 1, 2032. Based on the Act, the Department of Commerce (Department) has $100 million in capital investment authority to be invested by approved rural funds over a six-year period. Five funds have received $20 million each and have been approved to issue this capital investment to projects or businesses primarily located in rural areas in exchange for a capped tax credit. These tax credits are capped at an aggregate $15 million per calendar year across the entire program. The rural funds can only claim their tax credits in years three through six of the programs and are only able to claim 15 percent of the total tax credit each year.

Rep. Earl Sears moved to accept PFM's recommendation to retain the Oklahoma Rural Jobs Program. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

Commissioner Carlos Johnson entered the meeting at 10:17 a.m.

Invest in Oklahoma Program – **Recommendation: Retain, with modifications, and remove from future evaluation.** The Invest in Oklahoma Act is intended to increase investment in the state by providing opportunities for public pensions to invest in Oklahoma-based funds, which are selected based on a series of criteria related to their financial performance and history of investment in the state. It went into effect on November 1, 2021.

Mandy Fuller moved to accept PFM's recommendation to retain with modifications and remove from future evaluations the Invest in Oklahoma Program. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

The Oklahoma Leverage Act – **Recommendation: Retain, with modifications.** The Enterprise Zone Incentive Leverage Act (the "Leverage Act") went into effect on July 1, 2000, through the passage of SB 71. The Act is intended to encourage economic development within designated enterprise zones. All investments or improvements made within an enterprise zone and must begin no later than December 31, 2029 and must be completed before December 31, 2034. It provides funding for local units of government to match local tax revenue dedicated to support a project located in an enterprise zone, in support of a major tourism destination, or in support of a military growth impact. Enterprise Zones can be designated in disadvantaged counties, cities, or portions of cities. The state local government matching payment is made for the six-month periods preceding March 1 and September 1 of each calendar year and is equal to the lesser of the amount of local sales taxes that have been apportioned under the project plan or the net benefit rate multiplied by the actual gross sales derived from the project.

Rep. Earl Sears moved to accept PFM's recommendation to retain, with modifications outlined in the report, the Oklahoma Leverage Act Program. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

Seed Capital Fund – **Recommendation: Retain.** The Oklahoma Seed Capital Fund (OSCF) provides concept, seed, and start-up equity investments to innovative Oklahoma businesses. It is funded through legislative appropriations to the Oklahoma Center for the Advancement of Science and Technology (OCAST). Fund investments are focused on industry sectors with technologies and proprietary products, processes, and/or know-how that provide high growth opportunities in addressable markets (e.g. advanced materials, aerospace, agri-sciences, biotechnology, communications technologies, energy, software/information technology, medical devices, nanotechnology, robotics, etc.).

OSCF focuses on opportunities that show promise of rapid growth in terms of revenue, increased employment and increased private investment capital. It also includes a pre-seed component that is intended to address the needs of companies requiring smaller seed capital investment that may develop into larger investment opportunities.

Mandy Fuller moved to accept PFM's recommendation to retain the Seed Capital Fund Program. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

Small Business Incubator Tenants Tax Exemption – **Recommendation: Retain, with modifications.** The State of Oklahoma provides a corporate income tax exemption for up to 10 years for tenants of small business incubators, from the date of occupancy. Small business incubators must be certified by the Department of Commerce. The purpose of the incentive is to promote, encourage, and advance economic prosperity and employment through the state by creating a more favorable tax climate for the tenants, particularly as they graduate from the incubators.

Mandy Fuller moved to accept PFM's recommendation to retain, with the understanding that the Department of Commerce and the Oklahoma Tax Commission will continue to look at how to take in this aggregated information and any impertinent information through other means the Small Business Incubator Tenants Tax Exemption Program. Carlos Johnson seconded the motion. The following votes were recorded, and the motion passed:

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

Commissioner Bair exited the meeting at 10:54 a.m.

<u>Technology Business Financing Program</u> – **Recommendation: Repeal.** The Oklahoma Center for the Advancement of Science and Technology (OCAST) was authorized to develop and implement a technology business financing program to provide funding and financing for and to assist qualified Oklahoma enterprises to commercialize a new product, service, technology, innovation, or process. Awards generally range from $20,000 to $50,000, and repayments are made through royalty payments.

Rep. Earl Sears moved to accept PFM's recommendation to repeal the Technology Business Financing Program. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

<u>Five Year Ad Valorem Tax Exemption</u> – **Recommendation: Retain, with modifications.** The exemption was approved by voters through state question 588 in April 1985. The property tax exemption applies to all real and personal property necessary for the manufacturing of a product and facilities engaged in qualifying industries, and the Legislature has implemented it via state statute. The property tax exemption applies to new, acquired, or expanded manufacturing facilities in qualified industries. Facilities may qualify for the property exemption for up to five consecutive years if they continue to meet payroll and other requirements. The State reimburses local governments for the entirety of the property tax exemption.

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

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

Mandy Fuller moved to accept PFM's recommendation to retain, with modifications, the Five Year Ad Valorem Tax Exemption Program. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

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

Rep. Earl Sears moved to accept PFM's recommendation to retain the Historic Rehabilitation Tax Credit Program. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

Film Enhancement Rebate – **Recommendation: Retain, with modifications.** The State of Oklahoma Film Enhancement Rebate Program provides a base incentive for qualified productions of 20 percent of qualified spend and uplifts that can increase the rebate to a maximum of 30 percent. There are multiple uplifts as well as limits on eligible expenses subject to the rebate. The program was modified substantially since the last evaluation in 2020.

Mandy Fuller moved to accept PFM's recommendation to retain, with the five modifications noted, the Film Enhancement Rebate Program. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

Film and Television Companies Sales Tax Exemption (Point-of-Sale Motion Picture Sales Tax Exemption) – **Recommendation: Reconfigure.** On or after July 1, 1996, the state of Oklahoma exempts sales of tangible personal property or services to a motion picture or television production company to be used or consumed in connection with an eligible production from the state and local sales and use tax. To qualify for the exemption, the motion picture or television production company must file required documentation and information with the Oklahoma Tax Commission (OTC).

Mandy Fuller moved to accept PFM's recommendation to reconfigure the Film and Television Companies Sales Tax Exemption Program. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

Tourism Development Act – **Recommendation: Retain.** This is the first evaluation of the Tourism Development Act. The Tourism Development Act is a sales tax credit intended to create new or expand existing tourism attractions in Oklahoma. It provides a tax credit of up to 10 percent of approved costs, capped at $1 million, to companies who spend at least $500,000 on tourism attractions, such as cultural or historic sites, recreational facilities, or destination hotels. These projects must attract at least 25 percent of visitors from outside the state and produce significant revenues. No credits will be awarded after January 1, 2026.

Rep. Earl Sears moved to accept PFM's recommendation to retain the Tourism Development Act Program. Mandy Fuller seconded the motion. The following votes were recorded, and the motion passed:

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

Quality Events Act – Recommendation: Retain. The Quality Events Incentive Act program was created in 2010 and launched in 2012, and it has been updated significantly twice since 2018. The amount of the incentive is determined by the Oklahoma Tax Commission (OTC) based on incremental sales tax revenues associated with a "quality" event. These events must be a new or existing event or meeting of a nationally recognized organization; national, international, or world championship; or managed or produced by an Oklahoma-based national or international organization.

The Incentive requires an ordinance of support prior to the event and an economic impact study to demonstrate its impacts. Local incentives must be disclosed and are included in calculations of awards by the OTC. The program is capped at $250,000 per event and $3,000,000 per year.

Mandy Fuller moved to accept PFM's recommendation to retain the Quality Events Act program. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

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

6. Announcements: Next meeting date.

Chairman Roggow announced the next commission meeting date as December 5th at 10 a.m. in Senate Conference Room 4s.9.

7. New Business. [Chair]

There was no unforeseen new business reported.

8. Adjournment

There being no further business, Rep. Earl Sears made the motion to adjourn. Mandy Fuller seconded the motion. Seeing no opposition, the Chair adjourned the meeting at 11:47 a.m.

INCENTIVE EVALUATION COMMISSION
Regular Meeting Minutes
Oct. 24, 2024, 10:00 AM
Oklahoma State Capitol
Senate Conference Room 4s.9
Oklahoma City, OK 73105

MEMBERS PRESENT:
Lyle Roggow, Chair designee of Select Oklahoma and Economic Development Partnership, Inc.
Carlos Johnson, CPA, appointed by the Oklahoma Accountancy Board
Earl Sears, appointed by the Speaker of the House of Representatives
Dr. Saleh Tabrizy, an Economist appointed by the President Pro Tempore of the Senate
Mark Wood, Chair of the Oklahoma Tax Commission, Ex-Officio; Non-Voting
Jon Chiappe, Secretary of Commerce designee, Ex-Officio; Non-Voting

MEMBERS ABSENT:
Mandy Fuller, Auditor/CPA appointed by the Governor
Ryan Bair, OMES Executive Director designee

STAFF/GUESTS:
Beverly Hicks, OMES
Lorena Massey, OTC
Randall Bauer, PFM
Tony Toups, Advantage Capital
Mandi Boehringer, OK Investment Fund
Ryan Kilpatrick, Amber Integrated

♦ *Office of Management and Enterprise Services (OMES)* ♦ *Public Financial Management Group Consulting LLC (PFM)*
♦ *OK Tax Commission (OTC)*

1. **Announcement of filing of meeting notice and posting of the agenda in accordance with the Open Meeting Act. [Lyle Roggow, chairman]**

   Chairman Roggow confirmed that the meeting complied with the Open Meeting Act.

2. **Call to order and establish a quorum. [Chair]**

   Chairman Roggow called this regular meeting to order at 10:04 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.

3. **Welcome/Introductions. [Chair]**

   Chairman Roggow welcomed commission members and guests to the meeting.

4. **Approval of minutes from October 10, 2024, Commission meeting:**

   Rep. Earl Sears moved to approve the meeting minutes of October 10. Carlos Johnson seconded the motion. The following votes were recorded, and the motion passed:

   Mr. Johnson, aye; Mr. Sears, aye; Dr. Tabrizy, aye; Mr. Roggow, aye.

5. Discussion and public comment on PFM draft evaluation reports for Year 9, 2024 Incentive Evaluations. [Chair]

Oklahoma Rural Jobs Program (New)
Invest in Oklahoma Program (New)
The Oklahoma Leverage Act (2023)
Seed Capital Fund (2022)
Small Business Incubator Tenants Tax Exemption (2022)
Technology Business Financing Program (2022)
Five Year Ad Valorem Tax Exemption (2020)
Historic Rehabilitation Tax Credit (2020)
Film Enhancement Rebate (2020)
Film and Television Companies Sales Tax Exemption (New)
Tourism Development Act (2023)
Quality Events Act (2020)

Oklahoma Rural Jobs Program (New)—**Recommendation: Retain. Allow the program to sunset in 2032, with another review in 2028.** The Rural Jobs Act, effective November 1, 2022, is intended to provide support to the state's rural communities by incentivizing rural development. The Department of Commerce has $100 million in capital investment authority to be invested by approved rural funds over a six-year period. Five funds have received $20 million each and have been approved to issue this capital investment to projects or businesses primarily located in rural areas in exchange for a capped tax credit.

Mr. Tony Toups, representing Advantage Capital, made a public comment in person. He noted that, given the timing of the performance reports, PFM's evaluation is premature. The Commission and project team did not have access to certain information when the evaluation schedule was developed, and the program aligns with the parameters of the types of programs under review for 2024. He recommends deferring the program's review until after the December 2024 performance reports, when 60% of the capital will have been invested, or until after the December 2025 performance reports, when 100% of the capital has been invested, as the statutory performance reports have not yet been submitted and not all investment capital has been deployed.

Mrs. Mandi Wright, representing Sutherland Capital, made a public comment in person. She noted that while a review of the incentive programs is prudent, they believe a review of the Oklahoma Rural Jobs Act is premature. They welcome a thorough review at the appropriate time; however, in its early stages, the program has not yet had the opportunity to produce the results it is designed to deliver. They respectfully request that this program not be included in this year's final review. She informed commission members of inaccuracies and misunderstandings in the report regarding the program, aiming to provide them with a clearer understanding of how the program works and its current status. She emphasized that a review of the Oklahoma Rural Jobs Act at this time is premature.

No action was taken. Public comment only.

Invest in Oklahoma Program (New) – **Recommendation: Retain with modifications and remove from future evaluation.** The Invest in Oklahoma Act seeks to increase investment in the state by providing opportunities for public pensions to invest in Oklahoma-based funds, which are selected based on a series of criteria related to their financial performance and history of investment in the state. It went into effect on November 1, 2021.

Chairman Roggow provided the opportunity for public comment on the Invest in Oklahoma Program. No public comments were received electronically or in person.

No action was taken. Public comment only.

The Oklahoma Leverage Act (2023) – **Recommendation: Retain with modifications.** The Oklahoma Leverage Act seeks to encourage economic development within designated enterprise zones. It provides funding for local units of government to match local tax revenue dedicated to support a project located in an enterprise zone, in support of a major tourism destination, or in support of a military growth impact.

Chairman Roggow provided the opportunity for public comment on the Oklahoma Leverage Act. No public comments were received electronically or in person.

No action was taken. Public comment only.

Seed Capital Fund (2022) – **Recommendation: Retain.** The Fund provides concept, seed, and start-up equity investments to innovative Oklahoma businesses. It is funded through legislative appropriations to the Oklahoma Center for the Advancement of Science and Technology (OCAST). Fund investments are focused on industry sectors with technologies and proprietary products, processes, and/or know-how that provide high growth opportunities in addressable markets (e.g., advanced materials, aerospace, agri-sciences, biotechnology, communications technologies, energy, software/information technology, medical devices, nanotechnology, robotics, etc.).

Chairman Roggow provided the opportunity for public comment on the State Capital Seed Fund. No public comments were received electronically or in person.

No action was taken. Public comment only.

Small Business Incubator Tenants Tax Exemption (2022)—**Recommendation: Retain, with minor modifications.** The State of Oklahoma provides a corporate income tax exemption for up to 10 years for tenants of small business incubators from the date of occupancy. Small business incubators must be certified by the Department of Commerce. The purpose of the incentive is to promote, encourage, and advance economic prosperity and employment through the state by creating a more favorable tax climate for the tenants, particularly as they graduate from the incubators.

Chairman Roggow provided the opportunity for public comment on the Small Incubator Tenants Tax Exemption. No public comments were received electronically or in person.

No action was taken. Public comment only.

Technology Business Financing Program (2022) – **Recommendation: Repeal.** The Oklahoma Center for the Advancement of Science and Technology (OCAST) was authorized to develop and implement a technology business financing program to provide funding and financing for and to assist qualified Oklahoma enterprises to commercialize a new product, service, technology, innovation, or process. Awards generally range from $20,000 to $50,000, and repayments are made through royalty payments. The program was terminated, effective July 1, 2024.

Chairman Roggow provided the opportunity for public comment on the Technology Business Financing Program. No public comments were received electronically or in person.

No action was taken. Public comment only.

Five Year Ad Valorem Tax Exemption (2020) – **Recommendation: Retain, with modifications.** The exemption was approved by voters through state question 588 in April 1985. The property tax exemption applies to all real and personal property necessary for the manufacturing of a product and facilities engaged in qualifying industries, and the Legislature has implemented it via state statute. The property tax exemption applies to new, acquired, or expanded manufacturing facilities in qualified industries. Facilities may qualify for the property exemption for up to five consecutive years if they continue to meet payroll and other requirements. The State reimburses local governments for the entirety of the property tax exemption.

Chairman Roggow provided the opportunity for public comment on the Five Year Ad Valorem Tax Exemption. No public comments were received electronically or in person.

No action was taken. Public comment only.

Historic Rehabilitation Tax Credit (2020) – **Recommendation: Retain.** In 1992, as part of the Local Development Act, the Oklahoma Legislature introduced a tax credit for the rehabilitation of certified historic hotels and newspaper plants located in a tax increment or incentive district. Effective January 1, 2006, with the passage of HB 3024, credit eligibility was broadened to include the rehabilitation of any income-producing certified historic structure; the bill also allowed projects that qualify for the 20 percent federal credit to automatically qualify for the state credit (also 20 percent) without additional paperwork. All requirements with respect to qualifying for the federal credit are applicable.

Chairman Roggow provided the opportunity for public comment on the Historic Rehabilitation Tax Credit. No public comments were received electronically or in person.

No action was taken. Public comment only.

Film Enhancement Rebate (2020) – **Recommendation: Retain, with modifications.** The State of Oklahoma Film Enhancement Rebate Program provides a base incentive for qualified productions of 20 percent of qualified spend and uplifts that can increase the rebate to a maximum of 30 percent. There are multiple uplifts as well as limits on eligible expenses subject to the rebate. The program was modified substantially since the last evaluation in 2020.

Chairman Roggow provided the opportunity for public comment on the Film Enhancement Rebate. No public comments were received electronically or in person.

No action was taken. Public comment only.

Film and Television Companies Sales Tax Exemption (New) – **Recommendation: Retain, with modifications.** Since July 1, 1996, the state of Oklahoma exempts sales of tangible personal property or services to a motion picture or television production company to be used or consumed in connection with an eligible production from the state and local sales and use tax. To qualify for the exemption, the motion picture or television production company must file the required documentation and information with the Oklahoma Tax Commission.

Chairman Roggow provided the opportunity for public comment on the Film and Television Companies Sales Tax Exemption. No public comments were received electronically or in person.

No action was taken. Public comment only.

Tourism Development Act (2023) – **Recommendation: Retain.** The Tourism Development Act is a sales tax credit intended to create new or expand existing tourism attractions in Oklahoma. It provides a tax credit of up to 10 percent of approved costs, capped at $1 million, to companies who spend at least $500,000 on tourism attractions, such as cultural or historic sites, recreational facilities, or destination hotels. These projects must attract at least 25 percent of visitors from outside the state and produce significant revenues. No credits will be awarded after January 1, 2026. This is the first evaluation of the Tourism Development Act.

Chairman Roggow provided the opportunity for public comment on the Tourism Development Act. No public comments were received electronically or in person.

No action was taken. Public comment only.

Quality Events Act (2020) – **Recommendation: Retain.** The Quality Events Incentive Act program was created in 2010 and launched in 2012, and it has been updated significantly twice since 2018. The amount of the incentive is determined by the Oklahoma Tax Commission (OTC) based on incremental sales tax revenues associated with a "quality" event. These events must be a new or existing event or meeting of a nationally recognized organization, national, international, or world championship, or managed or produced by an Oklahoma-based national or international organization.

Chairman Roggow provided the opportunity for public comment on the Quality Events Act. No public comments were received electronically or in person.

No action was taken. Public comment only.

6. New Business. [Chair]

There was no unforeseen new business reported.

7. Announcements: Next meeting date.

Chairman Roggow announced the next commission meeting date as November 14th at 10 a.m. in Senate Conference Room 230.

8. Adjournment

There being no further business, Rep. Earl Sears made the motion to adjourn. Dr. Saleh Tabrizy seconded the motion. Seeing no opposition, the Chair adjourned the meeting at 10:43 a.m.

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

INCENTIVE EVALUATION COMMISSION TABLE OF CONTENTS

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

State of Oklahoma
Incentive Evaluation Commission
Rural Jobs Act Draft Evaluation

December 2, 2024

PFM Group Consulting LLC
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Contents

Key Findings & Recommendations

Overview

The Rural Jobs Act went into effect on November 1, 2022 and is intended to provide support to the state's rural communities by incentivizing rural development through existing lending agencies. It is scheduled to sunset on November 1, 2032. Based on the Act, the Department of Commerce (Department) has $100 million in capital investment authority to be invested by approved rural funds over a six-year period.[1] Five funds have received $20 million each and have been approved to issue this capital investment to projects or businesses primarily located in rural areas in exchange for a capped tax credit. These tax credits are capped at an aggregate $15 million per calendar year across the entire program. The rural funds can only claim their tax credits in years three through six of the program and are only able to claim 15 percent of the total tax credit each year.

Recommendation: Retain, and allow this program to sunset as scheduled in 2032, with another review of this program in 2028.

Key Findings

- **The Department of Commerce has issued $20 million each in capital investment authority to five rural funds who all demonstrated they met the requirements of the program.** These funds had to demonstrate that they invested at least $100 million in nonpublic companies located in U.S. counties with a population of less than 75,000. They also had to provide a business plan prepared by an independent economic forecasting firm that included a 10-year revenue-impact assessment projecting state and local tax revenue to be generated by the applicant's proposed qualified investments.

- **Between its inception and May 2024, the five rural funds have committed to investing $40.3 million in 15 businesses, although not all of this funding has yet been allocated.** These businesses employ a cumulative 359 full time and 9 part time employees. The funding amounts to each business ranged from $440,000 to $6.5 million.

- **Not all the projects that receive funding from the Rural Funds are required to be located in rural areas, nor do the companies receiving funding have to have all of their employees located in rural areas.** As part of their requirements, projects must be located in a rural area for 70 percent of the funds and have at least 60 percent of its employees or payroll located in Oklahoma. These requirements open the potential for investments that are not in areas that the program was originally intended to support.

- **There are statutory rules to prevent a conflict of interest among investors, but they could be more comprehensive.** Section 6 of HB 4085 prevents recipient businesses from acquiring an ownership interest in a rural fund or loan to or invest in a rural fund. However, there is room for these rules to encompass more scenarios.

- **As long as rural funds follow the statutory rules of the program, they are able to invest in projects without input or authorization from the Department.** Project selection within each fund is completed through an internal process independent of state oversight, although the funds may contact the Department to help determine if a specific project is eligible for funding.

[1] Oklahoma Department of Commerce. "Commerce Announces Rural Fund Participants Bringing $100 Million in Increased Capital to Oklahoma." 28 March 2023. Accessed electronically at: https://www.okcommerce.gov/commerce-announces-rural-fund-participants-bringing-100-million-in-increased-capital-to-oklahoma/

- **Performance reports for these funds are not due to the Department until December 2024, at the second anniversary of the initial funding award.** The metrics provided in the performance report are the same metrics as those listed in the application. Given the timing of the performance reports, in some respects this evaluation is premature. That information was not known by the Commission or the project team when the schedule of evaluations was being developed, and this program fits within the parameters of the types of program under review for 2024.

- **To date, the program has a slightly positive fiscal impact to the State.** Because the tax credits cannot be taken until years three through six, the first two years of the project show a positive fiscal effect, although it is likely it will turn negative in year three.

Table 1: Estimated Net Impact of the Rural Jobs Act

Year	Total Project Funding	Estimated Oklahoma Tax Revenue	Net Impact
2023	$20,312,424	$744,072	$744,072
2024	$17,000,000	$448,314	$448,314
Total	**$37,312,424**	**$1,192,385**	$1,192,385

- **Georgia's Agribusiness and Rural Jobs Act, the model for Oklahoma's program, operated at a net loss to the State.** In an evaluation of Georgia's rural jobs incentive program, it was determined that the program generated less tax revenue than the amount of credits issued.

Table 2: **Georgia Estimated Annual New Tax Revenues, 2020 Dollars**

Tax Type	State - Low Estimate	State - High Estimate	Local - Low Estimate	Local - High Estimate
Income	$430,000	$620,000	N/A	N/A
Sales	$150,000	$210,000	$125,000	$175,000
Property	N/A	N/A	$240,000	$335,000
Total	**$580,000**	**$830,000**	**$365,000**	**$510,000**

Source: Georgia Department of Audits and Accounts

- **The Rural Jobs Act meets some of the best practices identified for incentive programs.**[2] For example, it leverages private capital to provide targeted investments to rural areas of the state. It also requires the rural funds to provide summary performance reports after the first two years of the program, creating a level of transparency needed to operate a successful incentive. The program is also capped at $100 million to be distributed over a period of six years, which was distributed equally to five rural funds in 2022. This protects the State's financial health and allows the program to be reviewed before a potential renewal.

Recommendations

- **Allow the program to sunset on schedule and revisit the program evaluation after the rural funds issue their required program reports in December 2024**. Given that the $100 million has been allocated based on the statutory requirements, program changes in mid-stream are probably unwise. While other benchmarks demonstrate this program will likely operate at a net loss to the State, the logical course is to re-examine the program after program performance reports are provided by the five funds in December 2024.

[2] A complete list of these best practices is provided in Appendix C.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Commission has completed two cycles of qualified evaluations, from 2016-2019 and 2020 through 2023. This is now the first year of a new four-year cycle.

In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[3] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Rural Jobs Act ("the Act") tax credit administered by the Oklahoma Department of Commerce ("the Department") and the Oklahoma Tax Commission (OTC) is one of 12 evaluations being conducted by the Commission in 2024 and fits within the financing/venture capital/early business related incentives. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

Incentive Background

The Oklahoma Rural Jobs Act went into effect on November 1, 2022 through the passage of HB 4085 and is found in Oklahoma State Statutes at §68-3930-8.[4] The Act is intended to allow greater access to capital to qualifying small businesses located in rural areas. The program is scheduled to sunset on November 1, 2032.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this tax credit, the specific goal included in legislation is to allow greater access to capital for qualifying small businesses located in rural areas.

[3] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

[4] The complete statute is provided in Appendix D.

To assist in determining program effectiveness, the Commission has adopted the following criteria:

- Program use
    - Number of businesses who receive investment from the Rural Funds
    - Total amount of investment in businesses from Rural Funds
- State return on investment
- Job creation in recipient businesses
- Business revenue or profit increase after receipt of Rural Fund investment
- Number of businesses who relocate employees due to receipt of investment from Rural Funds

State of Oklahoma
Incentive Evaluation Commission
Invest in Oklahoma Act Final Draft Evaluation

November 14, 2024

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Contents

Key Findings & Recommendations

Overview

The Invest in Oklahoma Act is intended to increase investment in the state by providing opportunities for public pensions to invest in Oklahoma-based funds, which are selected based on a series of criteria related to their financial performance and history of investment in the state. It went into effect on November 1, 2021.

Recommendation: Retain, with modifications, and remove from future evaluation.

Key Findings

- **Public pension plans in the United States manage a combined $5.3 trillion in assets, providing the potential for targeted investments that can benefit industries and areas that are generally not considered by private equity or venture capital firms.** However, pension fund managers generally prioritize the financial success of their investments and are bound by confidentiality rules that limit the amount of data about investments that can be shared externally.

- **Currently, this program does not meet the technical definition of an incentive to be evaluated within the Oklahoma incentive evaluation statute.** Participation in this program is encouraged but not mandatory. Further, participating pension funds do not receive any compensation or other forms of incentives in exchange for investing in the approved funds.

- **The current statute does not provide guidance or rules on reporting performance.** While Oklahoma Statute Chapter 62 §2401 provides the factors used to select venture capital and growth funds to participate in the program, there are no statutory requirements for data reporting to understand the performance of the investment funds.

- **There are barriers to receiving performance reports.** The Department of Commerce (Department) reports that due to the proliferation of nondisclosure agreements in the financial sector, it is difficult to receive specific performance reports of how the pension funds' investments are performing, or whether they are specifically being invested in Oklahoma-based businesses.

- **There are specific criteria that the Department is to use to select the participating funds, allowing this program to be targeted towards specific outcomes, an incentive best practice.** These criteria include the funds' rate of return, sufficiency of capitalization, fee structure, and investment performance record. Through this process, the Department selected seven funds in which nine Oklahoma public pension funds can invest up to 5 percent of their assets.

- **As a result of these performance reporting barriers, it is not possible to complete an economic impact analysis of this program.** The Department does not receive enough data from each fund to align the amount invested with specific NAICS codes or other economic indicators that would allow for a targeted economic impact analysis.

- **Benchmark programs vary in terms of their prioritized outcomes.** Some states, such as California, New Mexico and Florida, prioritize generating economic activity within the state, whereas other states, such as New York and Wisconsin, prioritize a positive return on investment for participating funds.

- **New Mexico's program, the model for Oklahoma, has attracted $2 billion in investments to New Mexico from out-of-state investors as of 2017.** These funds have been invested in start-ups in the healthcare, aviation, software, cleantech, energy, and technology sectors. It should be noted that the New Mexico program invests state funds from a variety of non-pension funds, and this changes some of the nature of the concern for protecting the corpus of these funds.

- **The California Initiatives Program has resulted in a net job growth of 64 percent within participating companies between 2001 and 2017.** California targets investments made in companies that employ workers in economically disadvantaged areas. It prioritizes metrics such as job growth over the financial performance of the investments.

- **Although it is by design targeted towards Oklahoma-based funds, the Invest in Oklahoma Act does not align with some of the incentives best practices identified by the project team.**[1] Per these guidelines, incentives should be transparent and require accountability; however, the Invest in Oklahoma Act is not able to receive a report of the specific outcomes from the investments from public pension funds due the number of nondisclosure agreements in place in the financial sector.

Recommendations

- Retain the program with the addition of reporting guidelines to track the performance of investments made by participating pension funds and/or increased economic investment within the state, such as number of companies invested in within Oklahoma or each fund's annual return on investment.

- Additional reporting guidelines, particularly if they are codified within the statute, will allow the state to receive summary performance information despite the prevalence of nondisclosure agreements within the financial sector.

- The incentive evaluation statute defines an incentive as "a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma." This program does not provide a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan. As a result it does not fall within the statutory definition of a program eligible for review by the Incentive Evaluation Commission. It is recommended that it be removed from the list of incentives for future evaluations.

[1] A complete list of these best practices is provided in Appendix A.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Commission has completed two cycles of qualified evaluations, from 2016-2019 and 2020 through 2023. This is now the first year of a new four-year cycle.

In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[2] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Invest in Oklahoma Act ("the Act") tax credit, which is administered by the Oklahoma Department of Commerce ("the Department") and the Oklahoma Tax Commission (OTC) is one of 12 evaluations being conducted by the Commission in 2024.

Incentive Background

The Invest in Oklahoma Act took effect on November 1, 2021 and is found in Oklahoma State Statute at §62-2400-3.[3] The Act is intended to provide entities in Oklahoma with funds for opportunities to invest in Oklahoma-based private equity funds, venture capital funds, and growth funds. Notably, there is no monetary benefit from the State for participants to be involved in the program. Instead, participants receive the opportunity to invest in these approved funds to generate a positive return on investment.

As a result of its recent enactment, this incentive is being evaluated for the first time.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this incentive, the specific goal included in legislation is to allow more opportunities to invest in Oklahoma-based investment funds.

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

- Program use

[2] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf
[3] The complete statute is provided in Appendix C.

- Number of new applicants from venture funds, growth funds, or private equity funds to participate in the program
- Amount of annual investment in participating funds by Public Entities
- Number of Public Entities who invest in participating funds

- State return on investment
- Amount of annual investment from participating funds in Oklahoma businesses
- Number of renewal applications (or percentage of applications that are renewable)

State of Oklahoma

Incentive Evaluation Commission

Enterprise Zone Incentive Leverage Act Final Draft Evaluation

November 14, 2024

PFM Group Consulting LLC
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Contents

Key Findings & Recommendations

Overview

The Enterprise Zone Incentive Leverage Act (the "Leverage Act") went into effect on July 1, 2000 through the passage of SB 71.[1] The Act is intended to encourage economic development within designated enterprise zones. All investments or improvements made within an enterprise zone and must begin no later than December 31, 2029 and must be completed before December 31, 2034. It provides funding for local units of government to match local tax revenue dedicated to support a project located in an enterprise zone, in support of a major tourism destination, or in support of a military growth impact. Enterprise Zones can be designated in disadvantaged counties, cities, or portions of cities. The state local government matching payment is made for the six-month periods preceding March 1 and September 1 of each calendar year and is equal to the lesser of the amount of local sales taxes that have been apportioned under the project plan or the net benefit rate multiplied by the actual gross sales derived from the project.

Recommendation: Retain, with Modifications

Key Findings

- **The Leverage Act provides specific eligibility requirements for companies to receive the matching payments.** To be eligible, it must meet one of the following: 1) it must locate its facility within an Enterprise Zone or expand its existing facility after an Enterprise Zone is designated, 2) it must be in an Enterprise Zone or in support of a "major tourism destination project" which will "significantly benefit" contiguous or nearby enterprise zone census tracts, or 3) it must be in a community experiencing military growth impacts as the result of a nearby base.

- **There are limitations within each geographic area to how much of the incentive projects can receive.** For example, the maximum amount of aggregate investment projects within each county can receive cannot be more than the $200 per individual residing in the county. The total amount within each county cannot exceed $40 million, unless the population is less than 100,000 people, in which case the county is eligible for at least $20 million.

- **Applicants must prove their eligibility for Leverage Act funding**. Companies must submit an estimate of incremental revenues likely to be derived from the project and a certification that all projects described within the related project plan will generate, in the aggregate, a minimum of either $1 million in payroll or $4 million in investment.

- **To receive the matching payment, the business should obtain a certification from the local government that created the Enterprise Zone proving that it is qualified for the sales tax exemption.** The certification document should include the start and end dates of the exemption, as well as the total projected amount of investment to construct or expand the facility and the legal name and business entity classification of the entity receiving the sales tax credit.

- **The Enterprise Zone Incentive Leverage Act currently has six TIF Districts in its portfolio; five are enterprise zones located in Oklahoma City and one is a military growth area in Lawton.** The Department estimates that these zones will have 373,000 out-of-state visitors, employ 2,400 individuals, and contribute $283 million in payroll. They will attract a combined $536 million in investment.[2]

- **Three matching payments have been issued in 2023**, two of which were for the development of a resort in Oklahoma City. These payments totaled over $500,000.

[1] The complete statute is provided in Appendix D.
[2] Oklahoma Department of Commerce

Table 1: Leverage Act Issued Matching Payments

Date of Refund	Matching Amount	City-Project	6 Month Matching Period
August 26, 2023	$33,331	OKC-#14 OKANA Project	June 1, 2022 - December 31, 2022
August 26, 2023	$912	OKC-#14 OKANA Project	January 1, 2022 - June 30, 2022
August 28, 2023	$507,747	Lawton-#2 Town Center Project	July 1, 2022 - December 31, 2022

Source: Oklahoma Tax Commission

- **Two of these payments have been related to the construction of an indoor resort**. The resort will open in 2025 and will offer 400 rooms for visitors. It is also next to the American Indian Cultural Center Museum, potentially increasing its visitors as well.

- **Current confidentiality requirements prevent an economic impact analysis of individual projects.** Employment and payroll data is only able to be shared in the aggregate, preventing an analysis of individual projects.

- **The program had a net positive fiscal impact to the State.** However, these calculations are estimates given that employment and payroll data cannot be disaggregated by project.

Table 2: Estimated Net Impact

Year	Total Appropriation	Estimated Oklahoma Tax Revenue	Net Impact
2023	$541,990	$18,466,429	$17,924,439

- **Since its last evaluation, the Leverage Act has improved its reporting capacity to evaluate the success of the program.** Beginning July 2024, active TIF Districts are required to report progress to the Department of Commerce (Department). Additionally, the Department now uses the foot traffic software Placer Labs to measure the number of visitors from out of state before and after the project completion for tourism projects.

- **Inclusive of Oklahoma, a total of 18 states were found to have programs similar to the Leverage Act.** These states offer programs to encourage economic development in TIF Districts or Enterprise Zones. However, none of them offered matching payments as Oklahoma does. Other programs primarily use tax credits or abatements as the incentive for economic growth.

- **One benchmark program evaluation, in the state of Maryland, found that its similar economic development program may not effectively meet its primary purpose.** The Maryland Office of Policy Analysis found that Maryland's Enterprise Zone Tax Credit Program does not accurately target economically distressed areas of the state because it only requires one measure of economic need: poverty level, employment rate, median household income, or population loss. The evaluators found that only using one measure to determine whether an area is economically weaker allows areas that generally do not qualify to be included in the incentive. The evaluators found that the most economically distressed areas of the state received $1 of tax credits for every $3 to $4 provided.

- **The Leverage Act includes many identified best practices for incentive programs.**[3] **The** Leverage Act incentives incents private capital in defined, targeted areas. It has adopted the use of foot traffic software to track visitors and added another layer of accountability to recipients.

Recommendations

- Create requirements to allow for more specific reporting regarding payroll and employment information. Due to confidentiality requirements, the Department of Commerce is not able to disaggregate payroll and employment information for each individual project. This affects the ability to conduct economic impact analyses of these projects separately, and therefore understand the performance of the program.

[3] A list of these best practices is provided in Appendix C.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Commission has completed two cycles of qualified evaluations, from 2016-2019 and 2020 through 2023. This is now the first year of a new four-year cycle.

In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[4] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

The evaluation of the Enterprise Zone Incentive Leverage Act ("the Leverage Act") tax credit, administered by the Oklahoma Department of Commerce ("the Department") and the Oklahoma Tax Commission (OTC) is one of 12 evaluations being conducted by the Commission in 2024.

Incentive Background

The Enterprise Zone Incentive Leverage Act went into effect on July 1, 2000 through the passage of SB 71. The Act is intended to encourage economic development within designated enterprise zones. All investments or improvements made within an enterprise zone and must begin no later than December 31, 2029 and must be completed before December 31, 2034.

This incentive was last evaluated in 2023, when it was recommended that the program be retained with certain modifications. Key findings from the last evaluation include:

- The incentive has been used in four projects since 2019, with three located in Oklahoma City.
- From 2020-2022, the incentive has contributed to the creation of 8,510 jobs in the state.
- Total matching payments made by the Oklahoma Tax Commission from September 2019 to December 2022 were $8.94 million.
- Due to data limitations and non-disclosure requirements, data received from the Department and the OTC regarding employment and payroll for specific projects could not be reconciled to illustrate a fully informed economic impact analysis.
- The program is intended to be fiscally neutral to the State.
- It is possible that eligible projects utilize this incentive along with others.
- There is some administrative difficulty for users of the incentive when submitting information to both the Department and OTC.

[4] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

- This incentive is uncommon among other states in that the state match associated with this program appears to be unique to Oklahoma.

There have been no changes to the statute since the last review in 2023.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this tax credit, the specific goal included in legislation is to encourage economic development within designated enterprise zones.

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

- Program use
  - Number of new projects
  - Annual amount of matching funds associated with the program
  - Number of projects outside of Oklahoma City
- State return on investment
- Job creation associated with the program
- Positive project net benefit rate
- Results associated with enterprise zones (such as increases in property values or enhanced infrastructure within the zone)

State of Oklahoma
Incentive Evaluation Commission

Seed Capital Fund Final Draft Evaluation

November 14, 2024

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Contents

Key Findings and Recommendations

Overview

The Oklahoma Seed Capital Fund (OSCF) provides concept, seed, and start-up equity investments to innovative Oklahoma businesses. It is funded through legislative appropriations to the Oklahoma Center for the Advancement of Science and Technology (OCAST). Fund investments are focused on industry sectors with technologies and proprietary products, processes, and/or know-how that provide high growth opportunities in addressable markets (e.g. advanced materials, aerospace, agri-sciences, biotechnology, communications technologies, energy, software/information technology, medical devices, nanotechnology, robotics, etc.).

OSCF focuses on opportunities that show promise of rapid growth in terms of revenue, increased employment and increased private investment capital. It also includes a pre-seed component that is intended to address the needs of companies requiring smaller seed capital investment that may develop into larger investment opportunities.

Recommendation: Retain

Key Findings

- **From FY 2018 to FY 2023, appropriations from OCAST to the seed capital fund were similar and averaged $2.9 million per year.** The fund is sustained from these state appropriations as well as returns on previous investments.

- **From FY 2019 to FY 2023, OSCF made a total of 41 investments.** These investments were distributed to 28 companies and amounted to $16.6 million.

- **From FY 2019 to FY 2023, total capital investment in Oklahoma by companies receiving OSCF funding has reached $192 million.** This is additional private investment leveraged independently of OSCF funds.

- **From FY 2019 to FY 2023, firms receiving seed capital funds created or retained 213 jobs in Oklahoma with $14.5 million in payroll.** These jobs and payroll were directly reported by companies receiving funds in an annual survey conducted by OCAST.

- **The most common OSCF investment recipients are companies operating in the computer software/information technology or biotechnology/pharmaceutical industries,** accounting for 9 and 5 firms respectively. Other common industries that received funding were manufacturing, and healthcare services, systems, and devices.

- **Most firms receiving funding are located in Oklahoma City or Tulsa,** accounting for 16 of 22 firms that are still operating.

- **The economic impact of OSCF in 2023 created 913 jobs, had $39.7 million in labor income, $124.0 million in economic activity, and $2.6 million of state tax revenue.** Accounting for the $16.6 million of funds advanced, for every $1.00 of seed capital funds advanced, $7.47 was generated in economic activity and $0.16 in state tax revenue.

- **Comparable programs were found in five other states, including the bordering states of Arkansas, Missouri, and Colorado.** Nebraska and Vermont were also found to have similar programs. Some of the key differences were that some other states may have larger investment ranges, allowing for smaller investments, as well as the option for convertible debt as part of the investment terms.

- **The pre-seed component of OSCF is intended to replace the Technology Business Finance Program (TBFP).** The TBFP, another program administered by OCAST, was discontinued as of July 1, 2024 and provided funding to qualified businesses, typically in the range of $20,000 to $50,000.

Recommendations

- Clearly communicate the new changes to the Seed Capital Fund to past and prospective users and how it is now designed to meet the needs that the Technology Business Finance Program was meeting prior to it being discontinued.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Commission has completed two cycles of qualified evaluations, from 2016-2019 and 2020 through 2023. This is now the first year of a new four-year cycle.

In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[1] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Seed Capital Fund ("the Program") administered by the Oklahoma Center for Advancement of Science and Technology ("OCAST") is one of 12 evaluations being conducted by the Commission in 2024 and fits within the financing/venture capital/early business-related incentives. This Program was last evaluated in 2022. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

Summary of 2022 Evaluation Findings and Recommendations

Overall Recommendation: Retain the program, with modifications.

Key Findings:

- From 2008 to Q3 2022, OSCF closed 83 investments totaling $31 million in 44 companies.
- From 2008 to Q3 2022, total capital investment in Oklahoma by companies receiving OSCF funding has reached $272 million.
- Since establishing the firs fund Series in 2007, the OSCF has leveraged more than $700 million of private capital in total.
- From 2008 to 2021, for economic impact that can be measured, the OSCF has in internal ROI that is negative.
- The most common OSCF investment recipients are companies operating in the biopharmaceutical or computer software industries.
- Oklahoma ranks low among nearby states and the nation in terms of venture capital funding disbursed.
- Data collection and reporting improvements are needed.

[1] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

Other 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.
- Improve data collection and reporting.

2024 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. Amount of private investment leveraged.
4. Oklahoma jobs created by firms receiving incentive
5. Year-over-year revenue growth of invested businesses.
6. Financial performance of the fund.
7. Interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem.
8. Case studies or other longitudinal tracking of program recipient growth outcomes.
9. State return on investment.
10. Urban vs. rural investment levels and outcomes.
11. Market growth, gain of market share.
12. Scale-up metrics, such as hiring growth, investment growth, etc.

State of Oklahoma
Incentive Evaluation Commission

Small Business Incubators Income Tax Exemption Draft Evaluation

November 14, 2024

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Contents

Key Findings & Recommendations

Overview

The State of Oklahoma provides a corporate income tax exemption for up to 10 years for tenants of small business incubators, from the date of occupancy. Small business incubators must be certified by the Department of Commerce. The purpose of the incentive is to promote, encourage, and advance economic prosperity and employment through the state by creating a more favorable tax climate for the tenants, particularly as they graduate from the incubators.

Recommendation: Retain, with modifications

Key Findings Related to Established Criteria for Evaluation

- **In 2023, 405 full-time jobs were provided by tenants and 1,135 full-time jobs were provided in 2022.** The number of certified incubators was 25 in 2023, down from 29 certified incubators in 2022. The number of certified incubators has decreased in recent years, thereby increasing the average number of tenants per incubator.

- **Nearly half of the incubators serve "mixed-use" tenants,** accounting for 12 of the 25 certified incubators. Of the remaining incubators, six target technology-centered businesses and five indicate they focus on manufacturing/distribution businesses.

- **For tenants generating income, their total payroll in 2023 was $25.4 million.** 114 tenants generated income in 2023 and accounted for 292 jobs.

- **In 2023, income-generating tenants produced $66.6 million in revenue,** qualifying for $3.3 million of income tax eligible for exemption.

- **Case studies or other longitudinal tracking of program recipient growth outcomes show that 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.

- **The incubator managers maintain close relationships and connections among themselves to better serve their tenants.** They act as a resource hub to each other and to their tenants to help their tenants succeed.

- **The Department does not currently track the interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem**, however, the incubator managers keep their tenants aware of other state programs and opportunities.

- **The economic activity associated with eligible income from 2022 – 2023 generated 86 jobs and $12.7 million.** For every $1.00 of income eligible for the exemption, it is estimated that $1.95 of economic output was generated in the State in 2022 and $1.97 of economic output was generated in the State in 2023.

- **The economic activity associated with eligible income from 2022 – 2023 generated $0.3 million in State tax revenue.** This represents a roughly estimated state return on investment of $0.06 for every $1.00 of eligible income in 2022 and $0.04 for every $1.00 of eligible income in 2023. While the return on investment is negative, there are other qualitative benefits from the incubators themselves that should also be taken into consideration.

- **Nearly half of the incubators serve tenants in rural areas.** 11 of the 25 incubators are located in rural counties and 14 are located in urban counties. Four incubators operate in Oklahoma City and three incubators operate in Tulsa, Oklahoma's two largest cities.

- **Comparable programs were found in three other states, including the neighboring state of Missouri.** Montana and New York were also found to have similar programs, with New York having two such programs. Some differences in other programs were the taxes being exempted and the length of exemption eligibility.

Recommended Program Changes

- Update the statute language to require participation in the Department's data collection survey, including in post-program years, as a condition of continued tenancy, while applicable, and eligibility for the income tax exemption.

- Revise the OTC's tax forms to allow for disaggregation of the exempted income tax from incubator residents. The incentive evaluation statute requires the evaluation to make recommendations on ways to better evaluate the incentive when data is not available to do so. In this case, the OTC tax forms do not allow for ready disaggregation of the data, and to be able to do so, the forms should be modified. While the OTC believes that it is important to limit the lines on the tax forms, most taxpayers now use electronic tax preparation software or professional services, which negates the concern about additional form complexity.

Introduction

Incentive Evaluation Commission Overview

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In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[1] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Oklahoma Small Business Incubators Income Tax Exemption ("the Program"), administered by the Oklahoma Department of Commerce ("the Department") and the Oklahoma Tax Commission ("OTC"), is one of 12 evaluations being conducted by the Commission in 2024 and fits within the financing/venture capital/early business-related incentives. This Program was last evaluated in 2022. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

Summary of 2022 Evaluation Findings and Recommendations

Overall Recommendation: Retain, with modifications

Key Findings:

- On average, incubators collectively have 149 tenants per year.
- 16 of the 36 incubators categorize themselves as "mixed use", 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 show that 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.
- Between 2018 and 2021, employment associated with tenants nearly doubled.
- The Department does not currently track the interaction or coordination with other programs or service offerings in the economic development or entrepreneurial support ecosystem.
- The economic activity associated with program funding from 2015 – 2019 was 96 jobs and $26.3 million.

[1] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

- When considering the direct impacts of the incubator companies, the net state revenue is negative at -$34,000. When examining the total economic impacts (direct, indirect, and induced), the net state revenue is estimated at $186,400.
- 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.

Other recommendations:

- Establish standards for tenant occupancy to qualify for the tax exemption.
- Increase data collection requirements.
- Consider requiring participation in the survey, including in post-program years, as a condition of tenancy and/or eligibility for the exemption.

2024 Criteria for Evaluation

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

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

- 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
- Urban vs. rural participation levels and outcomes

State of Oklahoma
Incentive Evaluation Commission
Technology Business Finance Program Draft Evaluation

November 14, 2024

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Contents

Key Findings and Recommendations

Overview

The Oklahoma Center for the Advancement of Science and Technology (OCAST) was authorized to develop and implement a technology business financing program to provide funding and financing for and to assist qualified Oklahoma enterprises to commercialize a new product, service, technology, innovation, or process. Awards generally range from $20,000 to $50,000 and repayments are made through royalty payments.

The program was terminated, effective July 1, 2024.

Recommendation: Repeal.

Key Findings Related to Established Criteria for Evaluation

- **The program was last granted state appropriations in 2020, totaling $1.0 million.** Since then, the program has been funded from its return on investments.
- **As of FY 2023, the cumulative dollar amount of advances was $13.1 million.** In that same time period, there was a total of $7.0 million in repayments, representing a negative return on investment, or about $0.53 for every $1 advanced.
- **Data from the 2023 survey indicated the program supported 6 full-time equivalent employees working in Oklahoma.** This reflects responses from companies that had received advances from 2019 to 2023. Not all companies that received advances responded to the survey, reasonably indicating that this is an undercount.
- **Data from the 2023 survey indicated $0.4 million in payroll.** This reflects responses from companies that had received advances from 2019 to 2023. Not all companies that received advances responded to the survey, reasonably indicating that this is an undercount.
- **15 companies received funding from the program from FY 2020 to FY 2023.** Of those companies, 2 have since gone out of business and 13 continue to operate in state. 12 of those companies are located in an urban area with 1 located in a rural area.
- **The economic activity associated with program funding based on responses to the 2023 survey generated 39 jobs, $9.4 million in economic activity, and $0.2 million in state tax revenue.** For every $1.00 of state investment, $10.56 of economic activity and $0.25 of state tax revenue was generated.
- **Comparable programs were found in three other states – Oregon, New Jersey, and Vermont.** The main differences in the programs was the financing available was typically in larger amounts than what Oklahoma offers, and each state had different repayment terms.
- **The program has ended and OCAST will not be accepting any new applications or disbursing any more advances.**
- **New legislative action will be required for any action to be taken on the remaining funds available.**

Recommended Program Changes

Not applicable

Introduction

Incentive Evaluation Commission Overview

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In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[1] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Technology Business Financing Program ("the Program") administered by the Oklahoma Center for Advancement of Science and Technology ("OCAST) is one of 12 evaluations being conducted by the Commission in 2024 and fits within the financing/venture capital/early business-related incentives. This Program was last evaluated in 2022. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

Summary of 2022 Evaluation Findings and Recommendations

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

Key Findings:

- There is insufficient data to determine the economic impact of the program.
- About half of the total amount of advances made have been repaid.
- TBFP portfolio companies have a four-year survival rate of 66.2 percent.

Other recommendations:

- Require program participants to respond to annual surveys.

[1] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

2024 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. A key factor is evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated foals 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.
5. Percentage of funding provided that is repaid with one, three, and five years, respectively, as well as the percentage that has been deemed uncollectable.
6. State return on investment.
7. Case studies or other longitudinal tracking of program recipient growth outcomes.
8. Return on investment from an equity standpoint.
9. Urban vs. rural participation levels and outcomes.

State of Oklahoma

Incentive Evaluation Commission

Five Year Ad Valorem Tax Exemption Final Draft Evaluation

November 14, 2024

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Contents

Key Findings and Recommendations

Overview

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

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

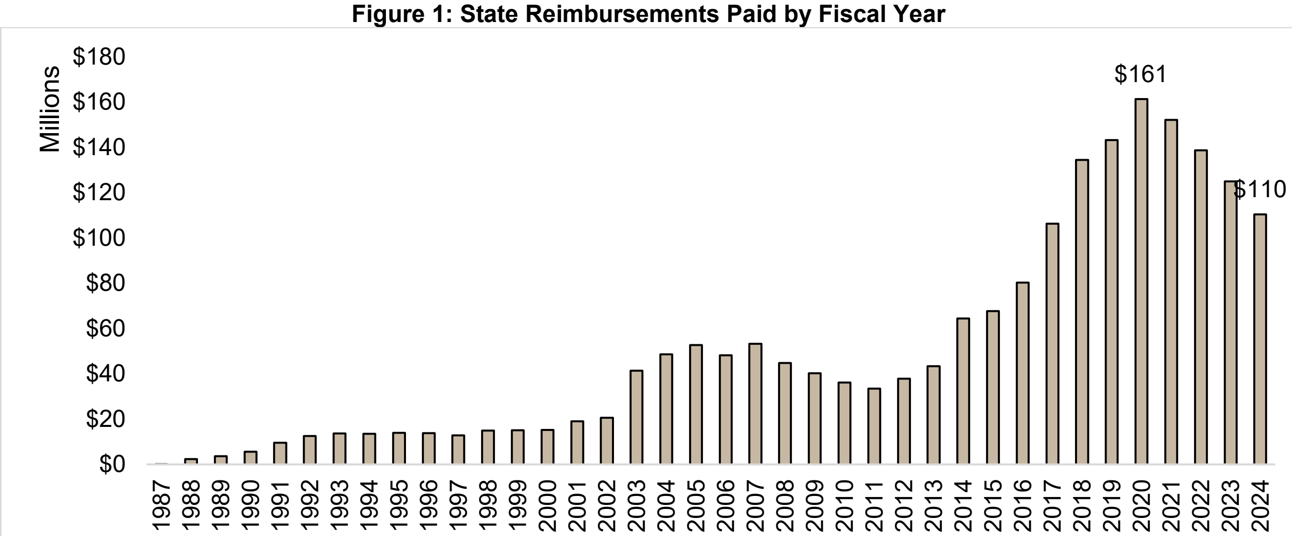
Since the exemption was last reviewed in 2016, the statute has been modified to clarify the definitions of qualifying construction costs and payroll. These changes have not made a significant difference in the administration of the program but has reduced the financial impact of the program. The most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

Recommendation: Retain, with modifications.

Key Findings Related to Established Criteria for Evaluation

- **From FY 2020 to FY 2024, total exemption reimbursement payments made by the State decreased more than 30 percent , from \$161.2 million to \$110.3 million.** The decrease is largely driven by statutory changes that removed certain industries (particularly wind generation) from the program. In FY2021, the state paid its final credits to wind generation firms.

Figure 1: State Reimbursements Paid by Fiscal Year



Source: Oklahoma Tax Commission

[1] The implementing language has been revised numerous times. It may be found in Oklahoma Revised Statutes, Chapter 68, Section 2902.
[2] No electric power generation facilities may qualify after December 31, 2017.

- **Qualifying manufacturing facilities in the first year of exemption increased payroll by an average of $642.2 million, in aggregate, from FY 2020 through FY 2024.** This figure is inflated by a significant increase in FY24 of more than $2 billion. The average for the prior years is $286.9 million.

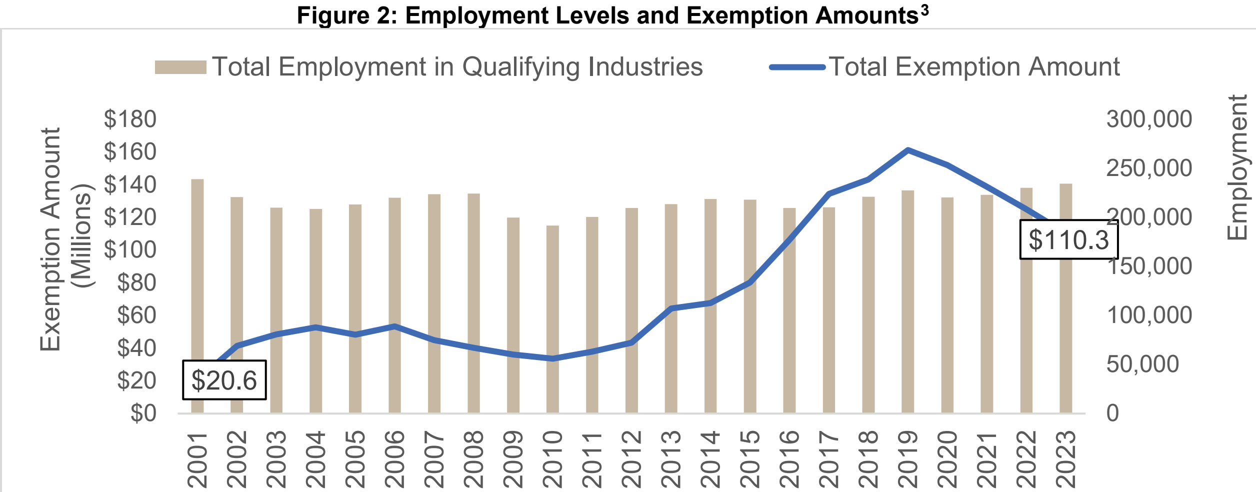
- **The Oklahoma Tax Commission collects payroll information but does not collect the number of jobs associated with exempt manufacturing property as part of its application.** This data would allow for an additional level of analysis in terms of economic impact. Given the ability to report on geographies, too, it would improve transparency with county and local governments.

- **Aggregate capital investment by qualifying manufacturing facilities in the first year of exemption averaged $2.5 billion from FY 2020 through FY 2024.** That represents an increase from $1.9 billion in the 2020 evaluation.

- **Economic impact analysis suggests exemptions for manufacturing facilities provide a net return to the State.** In this study period, the average return on $1.00 of tax exemption was $9.42 (based on total payroll increase) or $1.78 (based on construction related to facilities) in state tax revenue. This likely represents an underestimate of benefit due to data limitations on non-manufacturing facilities.

- **Since 2001, increases in costs to the State have not coincided with significant employment increases in eligible industries.** However, payrolls associated with the exemption have increased, as is required by the design of the program.

Figure 2: Employment Levels and Exemption Amounts[3]



Source: Tax Commission and US Bureau of Labor Statistics Data

- **Exemptions for wind facilities peaked in their last year of eligibility, at $60.5 million in FY 2018 and have been declining.** The last reimbursement payments for wind facilities were made in FY 2022.

- **From FY 2016 through FY 2024, reimbursements have been paid to 60 counties.** Total exemption amounts among counties receiving reimbursements over this period range from $20,322 (in Major County) to $315.8 million (in Mayes County), with a median of $5.7 million.

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

- **Exempt manufacturing property accounted for 71.2 percent of all manufacturing capital expenditures in 2015, and 89.9 percent in 2016.**[4] The value of all exempt manufacturing property was $1.7 billion in 2015 and $2.0 billion in 2016.

- **The Ad Valorem Reimbursement Fund's dedicated funding equal to 1.0 percent of annual income tax collections continues to be insufficient to cover the cost of reimbursements.** From FY 2019 through FY 2024, the dedicated one percent of income tax revenue averaged just 30.5 percent of total reimbursement payments, necessitating additional appropriations each year, which have grown from $105.7 million in FY 2019, peaking in $125.2 million in FY 2020, and reduced to $74.3 million in FY2023. The Legislature and Governor have funded the entirety of the exemption in every year of the program.

Recommended Program Modifications

- **Data Collection Enhancements** – The Oklahoma Tax Commission is responsible for collecting and reporting on the data associated with applications for the Exemption. However, the current methodologies do not offer an efficient or comprehensive way to access and report on data. The project team recommends an evaluation of these methods, tools, and process to establish a plan to improve and enhance data associated with this program. There are also instances where data collection could be reasonably expanded. For example, the number of jobs created is not currently provided as part of the application and data collection process. This would be a valuable indicator of the impacts of the Exemption on the economy.

  Additionally, the OTC has established that the project team may not review individual project level data, particularly as it relates to payrolls, as it "could result in the unauthorized disclosure of information about specific taxpayers." This lack of visibility limits the ability to evaluate the project accurately, and therefore is limited to aggregate analyses at the industry level.

[4] U.S. Census Bureau Annual Survey of Manufacturers

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One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[5] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Five-year Ad Valorem Tax Exemption ("the Exemption") tax credit administered by the Oklahoma Tax Commission (OTC) is one of 12 evaluations being conducted by the Commission in 2024 and fits within the financing/venture capital/early business related incentives. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

2020 Evaluation: Key Findings and Recommendations

Fiscal and Economic Impact	▪ From FY 2016 to FY 2020, total exemption reimbursement payments made by the State more than doubled, from \$80.3 million to \$161.2 million – equal to 2.5 percent of the State's budgeted FY 2020 general revenue. ▪ Qualifying manufacturing facilities in the first year of exemption increased payroll by an average of \$249.3 million, in aggregate, from FY 2016 through FY 2020.
Adequate Protections for Future Fiscal Impact?	▪ The Ad Valorem Reimbursement Fund's dedicated funding equal to 1.0 percent of annual income tax collections continues to be insufficient to cover the cost of reimbursements.
Effective Administration?	▪ The program is well administered through the Oklahoma Tax Commission, though data collection and reporting should be enhanced.

[5] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

Achieving Its Goals?	▪ Increases in costs to the State have not coincided with significant employment increases in eligible industries since 2001. ▪ Aggregate capital investment by qualifying manufacturing facilities in the first year of exemption averaged $1.9 billion from FY 2016 through FY 2020. ▪ Exempt manufacturing property accounted for 71.2 percent of all manufacturing capital expenditures in 2015, and 89.9 percent in 2016.
Changes to Improve Future Evaluation	▪ Establish requirements that better target the program toward the State's economic development goals. ▪ Establish minimum wage requirements for qualifying facilities. ▪ Require qualified facilities to at least maintain employment levels in addition to payroll throughout the five-year exemption period. ▪ Require advanced notification in order to qualify for an exemption. ▪ Increase program transparency. ▪ Improve annual reporting by including metrics on program benefits. ▪ Report exemption data based on North American Industry Classification System (NAICS) code rather than OTC categories.

2024 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In this case, the original state question that was approved by voters and placed into the Constitution provides that:

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

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

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

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

State of Oklahoma Incentive Evaluation Commission

Historic Rehabilitation Tax Credit Final Draft Evaluation

November 14, 2024

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Contents

Key Findings and Recommendations

Overview

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

Recommendation: Retain.

Key Findings

- **As of 2024, most states (37) provide historic rehabilitation tax credits, though significant variation exists in how these programs are structured.** At 20 percent of qualified rehabilitation expenditures, the amount of Oklahoma's credit ranks in the middle among other states, whose credits range from 5 to 50 percent. With a minimum investment requirement of $5,000, Oklahoma's qualification threshold is among the lowest. Unlike Oklahoma, many states provide credits for non-income-producing properties.

- **As of July 2024, Oklahoma has 1,419 properties in 77 counties listed on the National Register of Historic Places.**[1] Oklahoma County accounts for 170 properties (12.0 percent of the total) and Tulsa County accounts for an additional 105 properties (7.4 percent).[2]

- **Between tax years 2019 and 2024, claims activity associated with the incentive decreased.** Claims peaked in 2020 at 16, and in 2023 the most recent full year, six claimants were approved.

- **Since 2010, the program has been associated with more than $1 billion in qualified expenses.** In this evaluation period, 2019 to 2024, the total was $505 million.

- **Changes to federal tax law and increases in the federal funds rate may be impacting the use of the credit.** The Tax Cuts and Jobs Act (TCJA) modified the timing for claiming the 20 percent federal credit effective for taxable years beginning after 2017. Under the new rules, the federal credit is claimed over a five-year period beginning with the taxable year that the certified historic building is placed in service after substantial rehabilitation. In addition, inflation concerns have caused the Federal Reserve Bank to raise interest rates, which has a direct impact on financing costs for real estate transactions. Finally, inflation related to land values, construction materials and labor, plus supply chain disruptions all brought about by the COVID-19 pandemic have also limited demand.

- **The credit appears to generate significantly more economic activity than what the State forgoes in revenue.** IMPLAN estimates a $1.5 billion output associated with the program between 2014 and 2024. That includes more than 9,000 jobs.

[1] The National Register of Historic Places is a catalog of buildings, sites, structures, districts and objects significant to history and is the foundation for all of the Oklahoma State Historic Preservation Office's programs. Listing in the National Register of Historic Places provides recognition, limited protection and, in some cases, financial incentives for these properties.
[2] National Register of Historic Places, "Spreadsheet of NRHP Listed Properties," (listings up to July 10, 2024). Available at https://www.nps.gov/subjects/nationalregister/data-downloads.htm

- **However, the program's fiscal return to the State is generally negative.** On a pure fiscal basis, the program has paid more in awards than it has generated in direct revenues. IMPLAN estimates this net loss at $20,8 million over the study period.

- **The State historic rehabilitation tax credit is increasingly combined with the State's affordable housing tax credit.** This strategy, which is also allowable under for the federal-level incentives, nayt account for the growth in housing-related projects as a share of total projects and total qualified expenditures in recent years (as opposed to multi-use, commercial, office, hotel or other projects).

- **The incentive is effectively administered.** The program is among the most efficient nationwide because it is directly tied to the federal program with little additional administrative burdens or costs. The policies and procedures in place are timely, transparent and accountable.

- **While protections are not in place to restrain the incentive's fiscal impact, recent experience suggests this isn't a major concern at present.** Because Oklahoma's program has no annual cap, the cost burden on the State could grow beyond the point of desirability. It is notable, however, that – as explained previously – credit usage has declined in recent years. As a result, the possibility that the obligations associated with credit claims will impose an unanticipated cost burden to the State is unlikely.

Recommendations

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

Anecdotally there have been instances of using the program in conjunction with affordable housing tax credits and providing housing for low-income seniors in rural areas. This is not an explicit goal of the Historic Rehabilitation Tax Credit, however it is a positive externality. Many states seek to incentivize this type of development, with mixed results. If the State determines that these outcomes are critical to the health of the housing market and overall economy, it could consider adding "bonus" categories to the program that encourage these particular uses. However, it may be that adding directly to affordable housing programs would yield a greater return on investment, so the project team is not putting this forward as a recommendation.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Commission has completed two cycles of qualified evaluations, from 2016-2019 and 2020 through 2023. This is now the first year of a new four-year cycle.

In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[3] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

The Historic Rehabilitation Tax Credit fits within the Quality of Life category. It is one of the 12 incentives up for evaluation in 2014. Based on this evaluation and additional information, the Commission will make a recommendation related to this tax credit to the Governor and the Legislature.

2020 Evaluation Findings and Recommendations

Significant findings from the 2020 evaluation of this program are displayed in the following table:

Table 1: Summary of Findings, 2020 Evaluation

Fiscal and Economic Impact	Fiscal Impact: Between 2014 and 2018, a total of $26.8 million tax credits was claimed – the amount of foregone revenue to the State. Economic Impact: Between 2014 and 2018, the incentive generated $567.1 million in economic output, $230.3 million in labor income, nearly 4.500 jobs and $15.9 million in State tax revenue.
Adequate Protections for Future Fiscal Impact?	No. Without an annual cap in place, the cost burden on the State could grow beyond the point of desirability.
Effective Administration?	Yes. The program is among the most efficient nationwide because it is directly tied to the federal program with no additional administrative burdens or costs. The policies and procedures in place are timely, transparent and accountable.

[3] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

Achieving Its Goals?	Yes. Since 2005 (the year the program was tied to the federal process), the average number of historic rehabilitation projects has quadrupled, and total development investment has increased by 82 times. This level of growth far exceeds that of most other states.
Changes to Improve Future Evaluation	None

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

2024 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this incentive, while the specific goal was not included in legislation, its purpose is presumably to increase private sector investment in historic rehabilitation activity.

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

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

2024 Evaluation Approach

To conduct its 2024 review of the Historic Rehabilitation Tax Credit, the project team conducted the following activities:

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

Benchmarked Oklahoma to other states.

State of Oklahoma
Incentive Evaluation Commission
Film Enhancement Rebate Final Draft Evaluation

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Key Findings and Recommendations

Incentive Overview

The State of Oklahoma Film Enhancement Rebate Program provides a base incentive for qualified productions of 20 percent of qualified spend and uplifts that can increase the rebate to a maximum of 30 percent. There are multiple uplifts as well as limits on eligible expenses subject to the rebate. The program was modified substantially since the last evaluation in 2020.

Recommendation: Retain, with modifications.

Key Findings:

- **Most states provide incentives specific to the entertainment industry, generally targeting motion picture and television production.** Louisiana was the first state to create these types of incentives (1992), Oklahoma first enacted its rebate via the Compete with Canada Act in 2001. As of April 2024, 38 states and the District of Columbia provide this type of incentive (or in some states, more than one incentive).

- **Oklahoma uses a common form of incentive, which reimburses eligible productions for a percentage of eligible production costs.** There is wide variation among states, including the percentage of reimbursement; the types of costs that are eligible for reimbursement; requirements for use of state workers, or the percentage of a production located within the state; floors and ceilings on the production budget and amount of reimbursement; whether (in the case of tax credits) they are transferrable or refundable; and whether there are annual caps on program credits or reimbursements. Oklahoma uses rebates rather than tax credits, which removes the need to deal with tax credit refundability or transfer issues.

- **Oklahoma, as with many states, provides 'uplifts' for certain production activities.** Uplifts increase the percentage of eligible expenses that are rebated and are meant to further incent specific types of economic activity. Oklahoma has a number of uplifts that can increase the standard percent of rebated expenses from 20 percent to as much as 30 percent. The uplifts are provided for, among others, filming in a rural or less populated county or municipality, Oklahoma post-production or soundstage, and multi-film deals.

- **Oklahoma updated its program to the Filmed in Oklahoma Act in 2021.** While this significantly changed the levels and percentages of rebate for eligible expenses, the preceding Filmed in Canada Act is still making eligible reimbursements but has not been authorized to make additional awards as of July 2, 2021. Among the notable features was an increase in the cap on annual rebates to $30 million from the prior $8 million.

- **While the program cap is in place, the actual reimbursements have not approached that level since it was raised.** Of course, the industry has dealt with COVID-related disruptions in production in 2020 and 2021, and screenwriters and actors strikes during much of 2023. As a result, it will likely be 1-3 years before activity returns to expected levels.

- **In general, Oklahoma's program cap falls into the middle of a range that includes states with no cap or very large dollar caps and other states with significantly lower caps.** Among the major players are Georgia, with no cap and years with tax credits of over $1 billion, and New York ($700 million) and California ($330 million).

- **While Oklahoma has attracted several noteworthy film and television productions, the industry is still dominated by California and New York.** While these two states' share of the market is eroding, it was still two-thirds of the market in 2022 – but down from 82 percent in 1975. Oklahoma has a negligible share of the national market, and establishing additional production infrastructure will be a requirement to grow the industry in relationship to the rest of the states.

- **The Department's OF+MO has dramatically improved its administration of the program.** In the 2016 evaluation of the program, it was noted that data necessary to undertake evaluation was not available, and the data that was available had internal inconsistencies or was incomplete. To its credit, the OF+MO revised its data collection processes, and the data they collect is quite useful for evaluation purposes. There are opportunities for some refinement in the data collection that would improve the confidence level of the calculations of economic impact.

- **The incentive aligns with several incentive best practices.** Among these are the fact that the incentive is discretionary, and the OF+MO is selective in determining program eligibility. The available data and information makes the program relatively transparent, although some aspects of the scoring process are not available to the general public. The program has a dollar cap, and through the uplifts it seeks to take into consideration local economic conditions in its awards. At the same time, the statute is complicated, which leads to complexity, but that is not the fault of OF+MO in terms of administration. Perhaps most telling, from an incentives best practice standpoint, is that this incentive answers the 'but for test' (whether the incentive is necessary for the economic activity to occur). It is generally accepted that this is a nomadic industry, and it will, in many cases, locate where incentives are readily available.

- **On a purely quantitative basis, the incentive does not yield a positive return on investment for the state.** When comparing economic activity that generates state tax revenue, the incentive returns about $0.25 for every $1.00 of rebate. Of course, that does not include local tax revenue, and there are positive qualitative impacts associated with the industry and the publicity it may generate for the state. However, given the 'nomadic' nature of the industry and the generally small number of Oklahoma employees associated with it on a permanent basis, it is unlikely that the incentive will change significantly in terms of return on investment in the near future. It remains to be seen whether the industry can build the necessary infrastructure in the state to allow for significant growth.

Recommendations:

- **Target the credit more directly at post-production activities.** Film and other productions are generally the largest portion of the rebates, but they tend to support surges of economic activity that are temporary. To the extent that the state can grow its post-production industry, there is the opportunity to create longer-lasting economic impact. The location quotient data suggests Oklahoma falls in the middle of the states based on employment and wages, and post-production activities are one opportunity to improve on that. Currently, the state allows for an uplift for post-production activities in Oklahoma (3 percent if at least 3 percent of qualified expenditures are for Oklahoma-based post-production), and it also has a differing set of requirements for post-production, but they all compete for the same $30 million in capped rebates. In some states, there is a specific program for post-production (New York is an example). Setting up a portion of the program for post-production could focus more attention on it, and it may provide some assurance that those activities won't get 'crowded out' by large productions that do no Oklahoma post-production.

- **Expand the content creation eligible for the rebate.** The current program is primarily geared toward film, television, streaming content, and commercials. Other states have expanded eligible activities, for example to video game production. That industry is growing - the video game industry is projected to see a rise in revenue from $262 billion in 2023 to $312 billion in 2027.[1] To the extent that the state is interested in growing its footprint in the entertainment sphere, this may be one opportunity.

- **Build out the content on the OF+MO website.** While there is a lot of information available on the website, including a useful FAQ, it requires visiting several locations to get complete information on eligibility, uplifts, the application process, etc. Also, at least one hyperlink to information on the incentive leads to an 'under construction' page.[2]

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[1] "Top 5 developments driving growth for video games," pwc, January 11, 2024, accessed electronically at https://www.pwc.com/us/en/tech-effect/emerging-tech/emerging-technology-trends-in-the-gaming-industry.html
[2] https://dev.okfilmmusic.org/incentives

- **Refine the existing data collection.** As noted, the OF+MO has made remarkable improvements in its data collection. To build on that, the project team recommends that OF+MO include the year that funds were spent in the reporting requirements for productions. This will be used to determine when the economic impacts took place as different productions have different timelines and are awarded funds over different time periods. As part of the reporting requirements, OF+MO should include the full-time equivalent of all jobs associated with the production, including extras. This may be calculated by OF+MO based on data provided by applicants, or by applicants themselves. For example, it may be given as an estimate based on average number of hours worked per day or per production for jobs where the individual number is high, such as extras. This will be used to enhance the economic impact associated with the reported jobs. Currently each job is treated equally for reporting purposes, even extras, which would not come close to being a full-time equivalent (FTE) job. In industries such as this, where positions are often part-time and/or temporary, an FTE calculation is necessary to identify the associated impact on jobs and labor income.

- **Maintain the existing $30 million program cap.** While this is a popular program (as exhibited by the number of letters of support that were directed to the program team), it is also notable that current award activity has not approached the program cap. Even if that would be the case, the state should focus on aspects of the industry that will create recurring, regular activity and should demonstrate that for several years before considering to raise the cap. It is also notable that the state will have a hard time competing with the biggest players among the states. While Oklahoma was able to attract the television series Tulsa King (originally slated for Missouri, a state without an incentive at that time), most of season two of that popular series is now being filmed in Georgia – and Oklahoma is unlikely to be able to win that incentive war when Georgia routinely provides over $1 billion in tax credits for the industry.

Introduction

Incentive Evaluation Commission Overview

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In 2023, the Legislature approved, and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[3] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Film Enhancement Rebate, administered by the Oklahoma Department of Commerce Film and Music Office ("the Department" and the "OF+MO") and the Oklahoma Tax Commission ("OTC") is one of 12 evaluations being conducted by the Commission in 2024 and fits within Tourism/Film/Quality of life incentives category. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

This program was evaluated in 2016 and again in 2020. While the 2016 recommendation of the Commission was to repeal the program, the 2020 evaluation, which was impacted by COVID-19's effect on the program, was to retain the program and revisit it once the film and television industry returned to a more normal state. That makes the current evaluation timely and appropriate.

2020 Evaluation Findings and Recommendations

Key findings from the 2020 evaluation of this program are displayed in the following table:

Table 1: Summary of Findings, 2020 Evaluation

Topic Area	Findings
Fiscal and Economic Impact	**Fiscal Impact:** For the period 2017-2020, the state tax revenue return was \$0.52 for every \$1.00 of rebates. This was, however, an improvement on the \$0.05 for every \$1.00 of rebates for 2013-2016. **Economic Impact:** Total economic activity generated was \$2.41 for every \$1.00 of rebates, a multiplier of 2.41:1.00.

[3] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

Topic Area	Findings
Adequate Protections for Future Fiscal Impact?	Yes. The program has a cap of $8 million per fiscal year; claims exceeding the cap can be paid in following years.
Effective Administration?	Yes. The Oklahoma Film and Music Office (OF+MO) has established processes that are smooth, fair and verifiable. A clear and comprehensive set of guidelines is available to applicants.
Achieving Its Goals?	To some extent yes. There is evidence that total qualified payroll associated with incentive productions increased meaningfully between FY2013 and FY2019. At the same time, the average 'below the line' employee wage growth declined. It was anticipated that FY2020 productions would lead to a significant increase in production activity, but COVID-19 prevented most filming.
Changes to Improve Future Evaluation	

Based on these findings, the 2020 recommendation was to retain and revisit in the future. While the program has a potentially low return on investment and is limited to a small group of beneficiaries, the project team's analysis notes that there has been an increase in activity since the program cap was raised and the sunset extended. Given that the OF+MO has improved program administration and some of the expected economic activity for FY2020 has, because of COVID-19 been put on hold, the project team recommends that this incentive "stay the course," and revisit the program after the impacts of increasing the annual cap to $8 million can be more fully analyzed and understood.

2024 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this incentive, the specific goal included in legislation is to "increase film production in the State of Oklahoma by providing an incentive that will stand out among those of other states."

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

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

2024 Evaluation Approach

To conduct its 2024 review of the Film Enhancement Rebate, the project team conducted the following activities:

- Submitted an information request to OF+MO;
- Reviewed and analyzed OF+MO-provided data;

- Completed subject matter expert/internal stakeholder interviews with representatives from OF+MO;
- In collaboration with the Oklahoma City, Tulsa and State Chambers of Commerce, conducted external stakeholder interviews with industry representatives;
- Benchmarked Oklahoma's incentive relative to peer state programs;
- Conducted an economic impact analysis of the incentive.

State of Oklahoma
Incentive Evaluation Commission

Point-of-Sale Motion Picture Sales Tax Exemption
Final Draft Evaluation

November 14, 2024

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Contents

Key Findings and Recommendations

Incentive Overview

On or after July 1, 1996, the state of Oklahoma exempts sales of tangible personal property or services to a motion picture or television production company to be used or consumed in connection with an eligible production from the state and local sales and use tax. To qualify for the exemption, the motion picture or television production company must file required documentation and information with the Oklahoma Tax Commission (OTC).

Recommendation: Reconfigure

Key Findings:

- **The sales tax exemption pre-dates the Film Production Rebate, and the rebate may not be taken in conjunction with the sales tax exemption.** This was a requirement of the Film Rebate when it was enacted as the Compete with Canada Act. The relevant section of that legislation reads "A production company shall not be eligible to receive both a rebate payment pursuant to the provisions of Section 3621 et seq. of this title and an exemption from sales taxes pursuant to the provisions of paragraph 23 of Section 1357 of this title." The requirement was also included in the subsequent Filmed in Oklahoma Act. It is clear that the Legislature intended that the programs not be layered.

- **The sales tax exemption has been relatively little used.** The Oklahoma Tax Expenditure Report identifies the high-water mark for the incentive as the 2022 biennium, with estimated foregone revenue of $763,000. Since 2006, no other tax expenditure report has estimated the foregone revenue as reaching $150,000.

- **There are no minimum requirements related to film production budget, wages and salaries paid, or number of Oklahoma residents employed on the project.** It is an 'as of right' credit, meaning if the necessary documentation is provided to the OTC, the production is eligible for the exemption. As a result, the incentive criteria for evaluation related to job creation or employment and wages cannot be quantified.

- **Most productions will choose the tax rebates under the Film Production Rebate.** Because the two credits cannot be taken together, it becomes a process of determining which provides the better return. The Film Production Rebate is 20-30 percent of qualified expenditures, which includes a large share of crew salaries. By contrast, the sales tax exemption will forego sales taxes for taxable purchases (primarily tangible goods). The average combined state and local sales tax rate in Oklahoma is 9 percent. Productions that might choose the sales tax exemption might have budgets that do not meet the threshold for the Film Production Rebate, might not be awarded a rebate by the Department of Commerce, might not meet statutory requirements of that program, or might have significant up-front sales taxable purchases that make it beneficial to take the sales tax exemption. Given the activity within the two programs, the sales tax exemption is generally not the first choice.

- **Oklahoma is not alone in offering this type of sales tax exemption, but a few states target film production infrastructure.** Benchmarking identified nine states with some form of sales tax exemption for the motion picture industry. These can be split into those similar to Oklahoma's (for film production taxable purchases) and those that apply to film production infrastructure. Of the latter, Texas allows for an exemption for the construction, maintenance, expansion, improvement or renovation of a qualified media production facility. California has a similar exemption.

- **The return on investment, in terms of foregone state sales tax revenue compared to economic activity that translates into state tax revenue, is negative.**

- **The administrative aspects of the program are straightforward.** The statute identifies the requirements for a film production to receive the credit, which are clear. When that is the case, the OTC certifies the exemption.

- **The exemption is neutral on incentive best practices.** It does target a specific industry, although it is probably not the right tool for that targeting. The OTC tax expenditure report does estimate its foregone revenue (transparency). It is an 'as of right' credit and not discretionary. There is no dollar cap associated with it (although past use suggests this isn't a major issue).

- **Given its limited use, it is worth considering alternatives to the current construction.** In general, the project team identified and analyzed the following:

  - Maintain the current exemption with no changes. The current exemption does get some use, even if usually minimal, so some film productions are finding it useful.

  - Allow it to be layered with the Film Production Rebate. This has the potential to significantly expand the foregone revenue associated with the incentive. From the project team's perspective, this expansion would carry risk associated with the cost that could not be readily ameliorated with a dollar cap. The project team does not view this as an effective way to add to film production activity.

  - Dedicate it to infrastructure associated with the film post-production industry. This appears to have the greatest potential to be additive and provide growth opportunities for the film industry. As is discussed in the Film Production Rebate, one of the challenges for Oklahoma is developing the industry infrastructure that will make film production more than a 'one off' major project from year to year. One way to grow the industry is to create the infrastructure around it.

- **The project team recommends modifying the sales tax exemption to apply to film production infrastructure.** A model is Texas, which provides its exemption for the construction, maintenance, expansion, improvement, or renovation of a qualified media production facility. As discussed in the separate evaluation of the Film Production Rebate, a continuing challenge is to grow the industry in a way that is sustainable. While several major motion pictures and/or television series have been filmed in Oklahoma, the employment, salary and wages associated with the permanent aspects of the industry is still very small. Targeting industry infrastructure is probably the most strategic way to use this exemption.

Introduction

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- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the sales tax exemption for a motion picture or television production company, administered by the Oklahoma Tax Commission (OTC) is one of 12 evaluations being conducted by the Commission in 2024 and fits within Tourism/Film/Quality of life incentives category. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

This sales tax exemption has not been evaluated in either prior incentive evaluation cycle. The actual dollar value associated with the incentive is well under the $1 million of financial impact per year threshold set by the Incentive Evaluation Commission. At the recommendation of PFM, the Commission chose to evaluate it this year, but some of the assumptions for evaluating it have proven to not be the case.

2024 Criteria for Evaluation

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

- Marginal wages and salaries paid to Oklahoma residents by films eligible for the exemption– comparison to period prior to the exemption.
- Film-related expenditures in Oklahoma by films eligible for the exemption – comparisons to period prior to the exemption.
- Growth in employment and wages in the industry in Oklahoma compared to nationally and benchmark states (shift share analysis).
- Additional identifiable business activity directly or indirectly produced by films eligible for the exemption.
- Additional identifiable benefits that accrue to the State by films eligible for the exemption.
- Return on investment (economic activity versus rebates paid).

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2024 Evaluation Approach

To conduct its 2024 review of the Film Enhancement Rebate, the project team conducted the following activities:

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

State of Oklahoma
Incentive Evaluation Commission
Tourism Development Act Final Draft Evaluation

November 14, 2024

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Contents

Key Findings & Recommendations

Overview

This is the first evaluation of the Tourism Development Act. The Tourism Development Act is a sales tax credit intended to create new or expand existing tourism attractions in Oklahoma. It provides a tax credit of up to 10 percent of approved costs, capped at $1 million, to companies who spend at least $500,000 on tourism attractions, such as cultural or historic sites, recreational facilities, or destination hotels. These projects must attract at least 25 percent of visitors from outside the state and produce significant revenues. No credits will be awarded after January 1, 2026.

Recommendation: Retain

Key Findings

- **Tourism spending can be a significant revenue source for both state and local governments.** Statewide spending on tourism was $11.8 billion in Oklahoma and $1.2 trillion nationally in 2022. Traveling spending between 2021 and 2022 increased by 12.3 percent, supporting an approximate gain of 5,230 jobs.

- **Tourism in Oklahoma has grown, despite national trends.** While domestic tourism on the national level has remained stagnant, the number of visitors to Oklahoma grew by 3.3 percent between 2021 and 2022.

- **The Tourism Development Act provides a specific definition of what constitutes a tourism attraction.** It is defined as one of the following: a cultural or historic site, a recreational or entertainment facility, an area of natural phenomena or scenic beauty, a theme park, an amusement or entertainment park, an indoor or outdoor play or music show, a botanical garden, a cultural or educational center, an Entertainment District, or a destination hotel whose location and amenities make the hotel itself a destination for tourists.

- **In order to qualify for the program, applicants must submit a portfolio of documents that provide evidence that as a result of the project the company will invest capital into the project, will create jobs, and improve the quality of life in the area.** This application allows the Department of Commerce (“the Department”) to ensure the program only provides tax credits to applicants that meet the intent of the program. Companies must also present evidence that at least 25 percent of visitors originate from outside Oklahoma.

- **There are checks in place to ensure fiscal accountability.** Once approved, a company is eligible for up to $1 million in sales tax credits if it spends at least $500,000, or a tax credit of up to 25 percent of the project costs if the company spends more than $1 million. The sales tax credits are not transferable or assignable and the Tax Commission must receive proof of expenditures.

- **All participating projects in the program are hotels undergoing renovations.** Two are located in Oklahoma City, and two are located in Tulsa.

- **In most cases, there were quality of life improvements in census tracts with participating tourism projects.** When adjusted for inflation, on average there was a 15.7 percent increase in per capita income in the census tracts that contained participating projects. The total number of jobs increased by 43.4 percent.

- **The Tourism Development Act has produced a positive impact for the State.** Through 2023, the State has provided $4.7 million in program tax incentives for projects that total $184 million in expenditures. The Department estimates that these projects have produced $33 million in state tax revenue. There is significant importing of tax revenue, as 28 percent of the visitors to these sites originate from out of state.

- **The program generated $8 million more in state tax revenue than was appropriated:**

Figure 1: Estimated Net Impact of the Tourism Development Act

Year	Total Appropriation	Estimated Oklahoma Tax Revenue	Net Impact
2023	$4,740,085	$13,260,490	$8,520,405

- **The two benchmark programs identified in other states, Arkansas and West Virginia, have higher minimum project costs than Oklahoma.** Both states have a minimum project cost of $1.0 million, compared to $0.5 million in Oklahoma. Arkansas allows a minimum $0.5 million project cost if the project is located in a high unemployment county.

- **The tax credit amount offered in Oklahoma is similar to Arkansas and West Virginia.** All three states offer credits in the amount of 25 percent of the project costs if they meet certain requirements; Arkansas offers a credit in the amount of 15 percent of project costs if the project is not in a high unemployment county.

- **The Tourism Development Act incorporates multiple best practices[1] that support its intent as a mechanism to promote improve the "material well-being" of Oklahoma's residents.** First, the program is capped at a maximum allocation of $15.0 million each year, ensuring it does not create a large financial liability to the State. It requires participants to demonstrate they meet multiple requirements, such as the percent of visitors to each site that originate from out-of-state, the minimum amount invested in each project, and the forecasted economic impacts of the project. It requires companies to submit expenditures as part of the application for the tax credit, allowing for full accountability of tax credits issued.

Recommendations

- The Tourism Development Act is accomplishing what it is intended to accomplish and should be retained. Since all projects using the program are in urban areas, the State may consider targeting certain areas, such as rural or underdeveloped communities.

[1] A list of these best practices is provided in Appendix B.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Commission has completed two cycles of qualified evaluations, from 2016-2019 and 2020 through 2023. This is now the first year of a new four-year cycle.

In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[2] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Tourism Development Act "the Act" tax credit administered by the Oklahoma Department of Commerce (Department) and the Oklahoma Tax Commission (OTC) is one of 12 evaluations being conducted by the Commission in 2024.

Incentive Background

The Oklahoma Tourism Development Act took effect on November 1, 2017 and is located at §68-2390-7[3] in the Oklahoma State Statutes. In the Act, the Legislature found that "the general welfare and material well-being of the citizens of the State of Oklahoma depend, in large measure, upon the development of tourism attractions in the state."[4] In 2021, the administration of the Act was transferred from the Oklahoma Tourism Department to the Department of Commerce.[5]

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this credit, the specific goal included in legislation is to induce the creation of new or the expansion of existing tourist attractions to relieve unemployment and create a new source of tax revenue to support public services.

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

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[2] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf
[3] The complete statute is provided in Appendix D.
[4] §68-2392
[5] SB739

- Program use
  - Number of visitors to participating sites that originate from out-of-state
  - Number of new participating sites on an annual basis
  - Amount of capital investment in participating sites
- Improved quality of life measures in surrounding areas
  - Changes in employment, including salaries and wages
  - Changes in capital investment
- State return on investment

State of Oklahoma
Incentive Evaluation Commission
Quality Events Incentive Act Final Draft Evaluation

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Key Findings and Recommendations

Overview

The Quality Events Incentive Act program was created in 2010 and launched in 2012, and it has been updated significantly twice since 2018. The amount of the incentive is determined by the Oklahoma Tax Commission (OTC) based on incremental sales tax revenues associated with a “quality” event. These events must be a new or existing event or meeting of a nationally recognized organization; national, international, or world championship; or managed or produced by an Oklahoma-based national or international organization.

The Incentive requires an ordinance of support prior to the event, and an economic impact study to demonstrate its impacts. Local incentives must be disclosed and are included in calculations of awards by the OTC. The program is capped at $250,000 per event and $3,000,000 per year.

Recommendation: Retain

Key Findings Related to Established Criteria for Evaluation

- **Oklahoma communities have been reimbursed about $1.5 million for events hosted from FY 2018 through FY 2024, with five events still to be evaluated.** Pending the additional event awards, which include Cattleman’s Congress and a Korn Ferry Tour professional golf tournament, FY 2024 could be the largest single year of awards since the program’s inception.
- **The Quality Events program has reimbursed hosts for 25 events from FY 2018 through FY 2024, including three events that repeated three times each in the period.** Only one event in the period is not a sporting event (the Cattlemen’s Congress).
- **The Oklahoma Tax Commission (OTC) reimbursed about 7.3 percent of the statutory maximum from FY 2018 through FY 2024.**
- **The change in the requirement for an economic impact study has improved the quality of data and reporting.** However, there is no comprehensive data source for inputs related to the individual event analyses. Therefore, the evaluation does not include a full IMPLAN analysis.
- **The program has demonstrated a positive ROI in the study period, with a net gain of $395,000 in state sales tax revenues.** This net gain is due to incremental sales tax revenues exceeding eligible expenses reported for certain events.
- **Additional data retained by the Department of Commerce (Department) would enable additional analysis and reporting.** As mentioned, the collection of input data related to event attendance, hotel room nights, etc. would allow for a comprehensive look at economic impacts, as opposed to isolated analyses using inconsistent methodologies.

Other Recommendations

- **Aggregate collected data to better help determine the program’s economic impact on the State.** The required economic impact reports are already collecting data such as the number of event attendees, the number of event participants (note: in some cases, attendees and participants can be lumped together), length of the event (days), ratio of local to non-overnight attendees, ratio of local to non-overnight participants, average daily spending (not including event registration fees), and total cost of the event. As an enhancement to the process, the Department should work to standardize and aggregate these data to provide reporting on total impacts. According to its 2023 Annual Report, the Department is working to update the application process through OTC to enable this level of reporting.

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In 2023, the Legislature passed and Governor Stitt signed into law SB 745, which made a number of changes to the incentive evaluation process that were recommended by the Commission. Among them was the ability of the Commission to review qualified incentives within the four-year evaluation cycle. In prior cycles, incentives had to be reviewed at least once every four years, which effectively locked in place the order that incentives would be evaluated. As a result, some incentives in this cycle may be reviewed in less or more than four years.

One reason for the change in the evaluation cycle was to allow incentives with similar purposes or that are targeted to specific industries or parts of the state to be evaluated in the same year. This allows for continuity in the discussion and comparisons of effect and effectiveness. This grouping is considered an evaluation best practice.[1] For 2024, there are two broad categories of evaluated incentives:

- Financing/Venture Capital/Early Business related.
- Tourism/Film/Quality of Life related.

This evaluation of the Quality Events Incentive Act ("the Act") administered by the Oklahoma Department of Commerce ("the Department") and the Oklahoma Tax Commission (OTC) is one of 12 evaluations being conducted by the Commission in 2024 and fits within the tourism/film/quality of life related incentives. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

2020 Evaluation Findings and Recommendations

Key findings from the 2020 evaluation of this program are displayed in the following table:

Table 1: Summary of Findings, 2020 Evaluation

Fiscal and Economic Impact	▪ Oklahoma communities have been reimbursed about $1.3 million for 32 events hosted from FY 2015 through FY 2020.
Adequate Protections for Future Fiscal Impact?	▪ The program is capped at $3 million per year and a has a maximum of $250,000 per award.
Effective Administration?	▪ The definition of "actual documentation" is not clearly defined and leads to confusion on what information should be submitted by stakeholders.
Achieving Its Goals?	▪ The economic impact of the Quality Events program cannot be computed due to insufficient data.

[1] "Best Practices for Planning Tax Incentive Evaluations: Lessons Learned from Indiana's Evaluation Process," Pew Charitable Trusts, August 2022, p.3. Accessed electronically at www.pewtrusts.org/-/media/assets/2022/08/best-practices_incentiveeval-planning_2022-3-24_final.pdf

Changes to Improve Future Evaluation	▪ Replace “actual documentation” with a standardized economic impact study form that identifies all the information needed to determine economic impact. ▪ Remove the statutory requirement that host communities submit the actual documentation 30 days after the event ends. ▪ Collect data that will better help determine the program’s economic impact on the State.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this incentive, the specific goal included in legislation is to “provide a method by which eligible municipalities and counties utilize a portion of the state sales tax revenues derived from taxable transactions occurring within a designated area to promote certain qualifying events.”

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

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