State of Oklahoma
Incentive Evaluation Commission
Five Year Ad Valorem Tax Exemption Final Draft Evaluation

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Key Findings and Recommendations

Overview

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

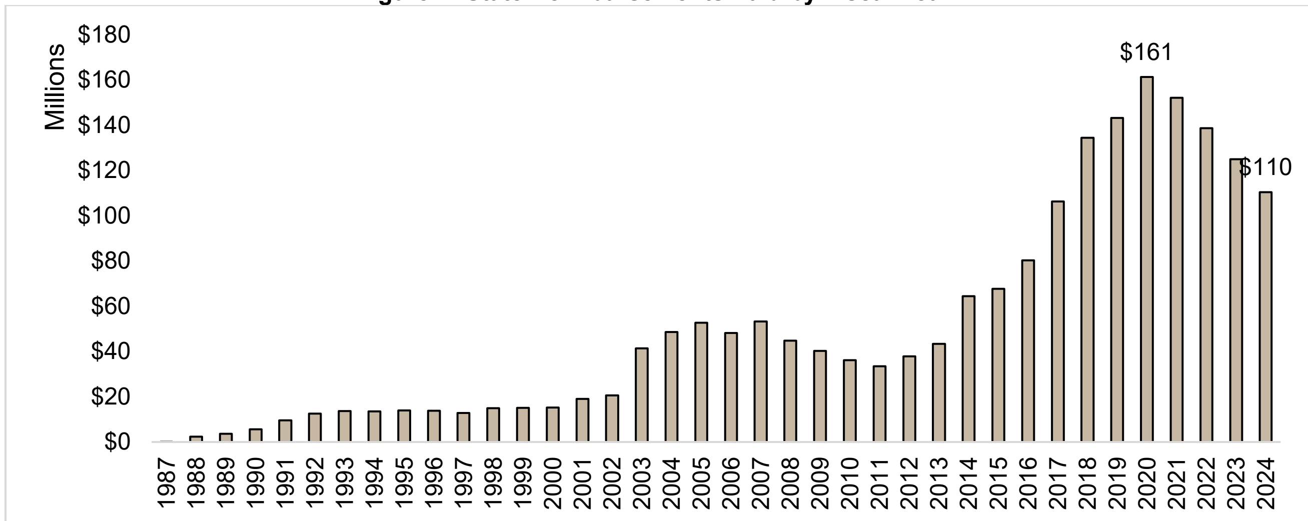
Since the exemption was last reviewed in 2016, the statute has been modified to clarify the definitions of qualifying construction costs and payroll. These changes have not made a significant difference in the administration of the program but has reduced the financial impact of the program. The most 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.

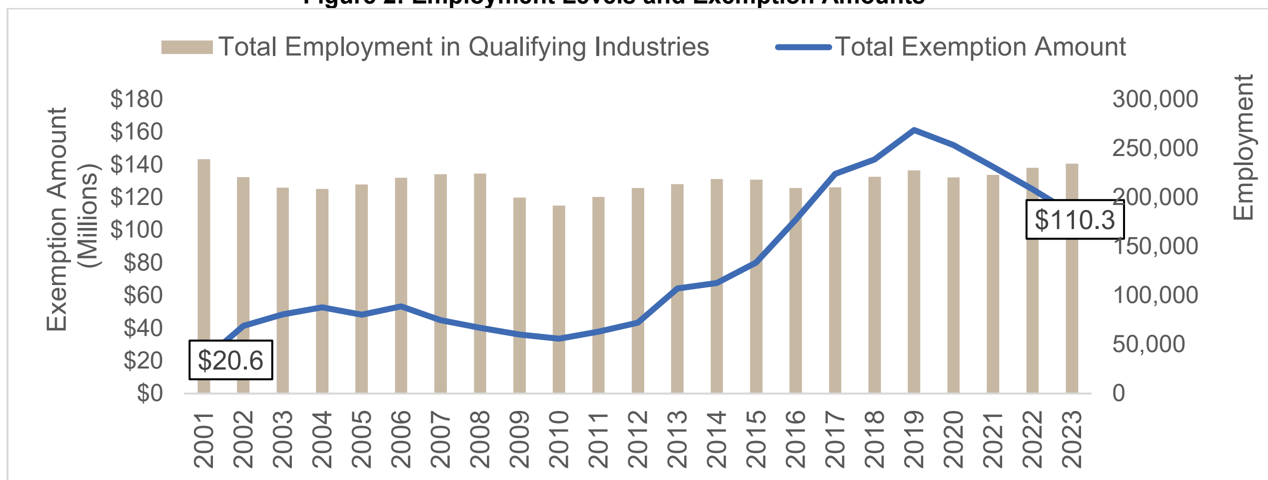
- **The Oklahoma Tax Commission collects payroll information but does not collect the number of jobs associated with exempt manufacturing property as part of its application.** This data would allow for an additional level of analysis in terms of economic impact. Given the ability to report on geographies,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

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.[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.

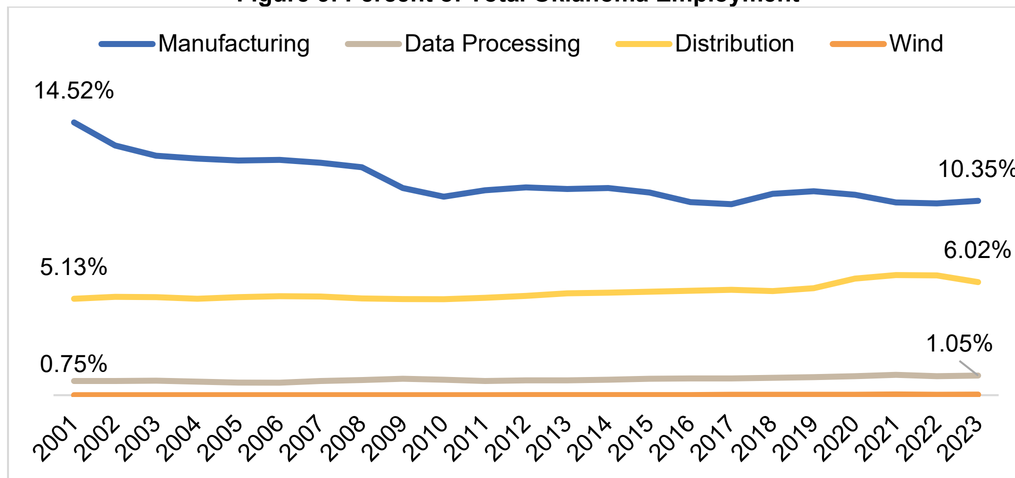
Industry Background

Industry Background

The Five-Year Ad Valorem Tax Exemption is targeted primarily toward manufacturers, but it had been temporarily expanded to include computer data processing, wind electricity generating, and distribution facilities. When combined, these industries accounted for about 17.5 percent of employment in Oklahoma in 2023, according to U.S. Bureau of Labor Statistics (BLS) data.

While data processing and distribution facility employment has shown modest growth since 2001, manufacturing has declined significantly as a percentage of the State's total employment. Manufacturing employment in the State has declined from over 170,000 in 2001 to about 139,000 in 2023.

Figure 3: Percent of Total Oklahoma Employment

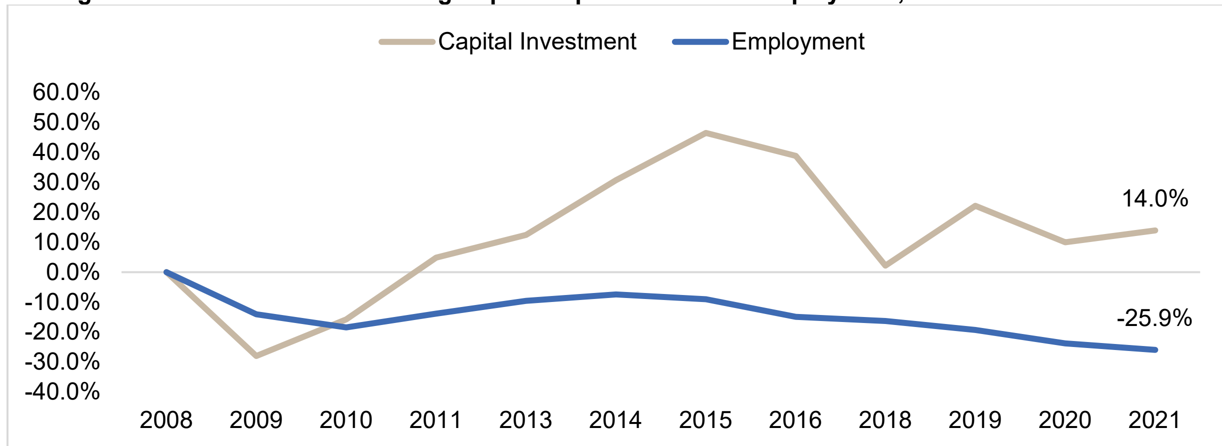


Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

While manufacturing employment declined, total capital expenditures by the sector have increased in recent years. This reflects a national trend as manufacturing has become more capital-intensive, with increasing productivity and less labor cost.[6] According to data collected by the U.S. Census Bureau's Annual Survey of Manufacturers, total capital expenditures by the sector in Oklahoma were $1.2 billion in 2009 and increased to $1.8 billion by 2021 – a compound annual growth rate (CAGR) of 6.8 percent. This represents a drop from 2015 when expenditures peaked at $2.4 billion. While capital expenditures in the sector showed a strong recovery since the Great Recession, employment levels in the sector still have not recovered to pre-recession levels. In 2008, manufacturing employment in Oklahoma was about 151,000 and declined to 123,000 in 2010; after the Great Recession, it rebounded somewhat and reached 141,000 in 2019, its highest level since 2008.

[6] US Bureau of Labor Statistics. "The Fall of Employment in the Manufacturing Sector" August 2018. Accessed electronically at: https://www.bls.gov/opub/mlr/2018/beyond-bls/the-fall-of-employment-in-the-manufacturing-sector.htm

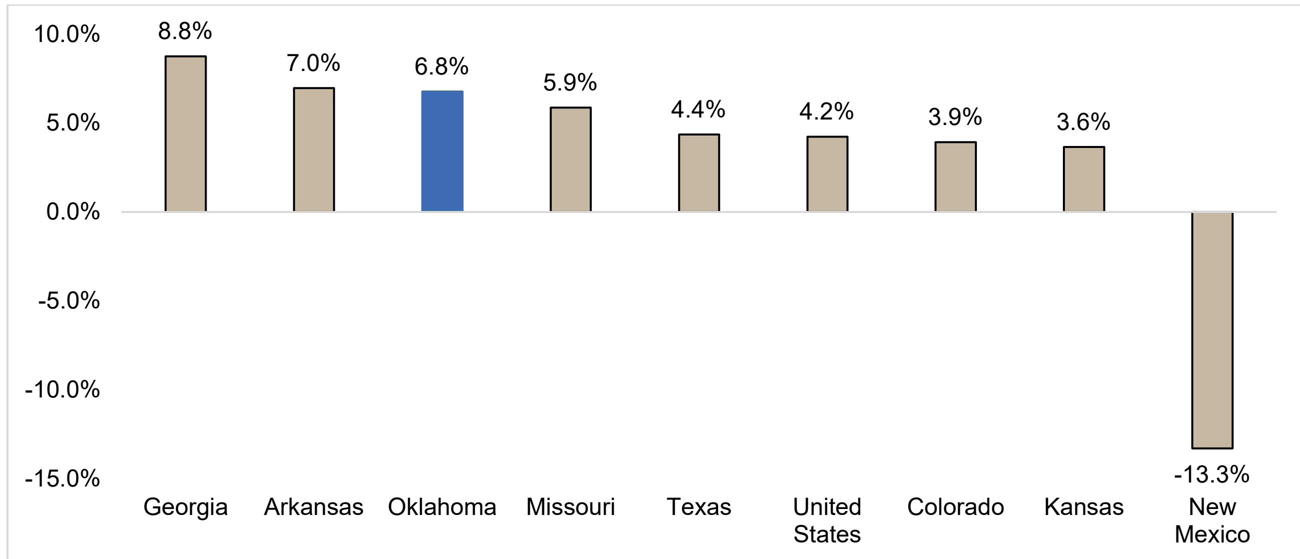
Figure 4: Oklahoma Manufacturing Capital Expenditures and Employment, Indexed to 2008 Levels[7]



Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages; U.S. Census Bureau Annual Survey of Manufacturers

The growth of capital expenditures in Oklahoma's manufacturing sector is about one-third higher than the U.S. overall, but it lags neighboring Arkansas. Among all states, Georgia has the highest growth rate over this period and is more than double the U.S. growth rate.[8]

Figure 5: Total Manufacturing Capital Expenditures CAGR 2009-2021



Source: U.S. Census Bureau, Annual Survey of Manufacturers

Another analysis that can measure employment changes and the underlying factors at work is a shift share analysis. This examines employment within the target sectors of the Ad Valorem Tax Exemption within the State and in the U.S. The following table shows the 10 most recent years where complete data is available through the Quarterly Census of Employment and Wages. In terms of total employment, the U.S. grew by 10.9 percent over the observed period compared to 2.7 percent in Oklahoma. Distribution and Wind Power

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[7] 2016 is the latest data available by state for the Annual Survey of Manufacturers. 2012 data not available from the Annual Survey of Manufacturers and is excluded from this chart.

[8] While Georgia does not offer a similar ad valorem tax credit, it does provide a host of manufacturing incentives including an Investment Tax Credit, Sales and Use Tax Exemptions on many manufacturing expenditures, and Inventory Tax Exemptions.

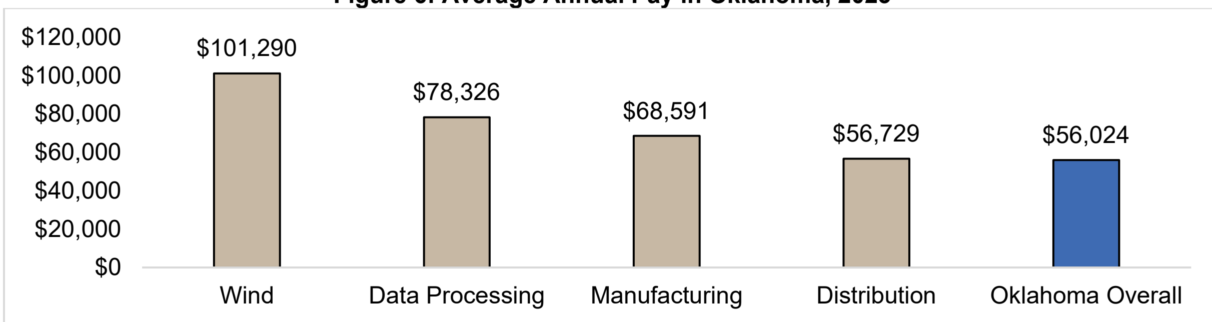
Generation employment grew faster in Oklahoma than in the rest of the country, but Manufacturing and Computer and Data Processing jobs grew at a slower rate.

Table 1: Shift Share Analysis of Key Industries 2012 – 2021

	2012	2021	Share Component	Mix Component	Competitive Component
US Overall	110,645,869	122,716,652			
Oklahoma Total Jobs	**1,222,393**	**1,255,233**			
Manufacturing	135,165	128,694	14,746	-10,230	-10,986
Computer	9,732	13,590	1,062	4,388	-1,591
Distribution	64,590	80,262	7,046	3,749	4,877
Wind	59	387	6	71	250

Despite the decline in jobs, manufacturing jobs continue to pay above-average wages. Data processing and wind powered electricity generating facilities are the highest paying industries qualifying for the exemption, but wind power facilities are not significant sources of direct job growth or employment. Wind power has experienced rapid growth in the state over the last fifteen years, but these facilities employed relatively few workers (429in 2023, according to BLS data).

Figure 6: Average Annual Pay in Oklahoma, 2023



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Incentive Usage and Administration

Incentive Characteristics

The exemption was approved by voters as an amendment to the State Constitution via state question 588 in April 1985. The property tax exemption applies to all real and personal property necessary for the manufacture of a product and facilities engaged in qualifying industries, and the Oklahoma Legislature has implemented it via multiple pieces of state legislation.[9] 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.

Facilities apply for the exemption through the county assessor in the county where the facility is located. The State then reimburses the county in full for qualifying facilities' abated property taxes.

In its inception, the program focused on what might be considered 'traditional' manufacturing of durable goods, but other industries have qualified as well. These include aircraft repair and rebuilding, computer services and data processing, distribution and warehousing, research and development, and electric power generation.[10]

Program changes effective in calendar year 2022added inflationary increases to the minimum dollar value of investment costs. The 2022 amount was set at $500,000, which is to be increased by the rate of inflation in subsequent years. The Exemption's annualized wage minimums were also aligned with the Oklahoma Quality Jobs Act. From calendar year 2022 onward, entities receiving the Exemption must pay wages to new, direct jobs that equal or exceed the wage requirement set by Quality Jobs.[11]

Historic Use of the Credit

Firms requesting the Ad Valorem Exemption must submit a completed application. Over the last five years, an average of 540 applications have been received per year, with an acceptance rate of 84.2 percent.[12] According to the OTC, the vast majority of denied applications are due to failure to maintain or increase payroll as required. The following table provides the total number of applications received and approved for the five most recent years.

Table 2: Applications Approved and Denied, 2019-2023

	2019	2020	2021	2022	2023
Total Applications	525	630	607	571	617
Approved	459	535	520	526	527
Denied	66	95	87	45	90
Percent Approved	87.4%	84.9%	85.7%	92.1%	85.4%

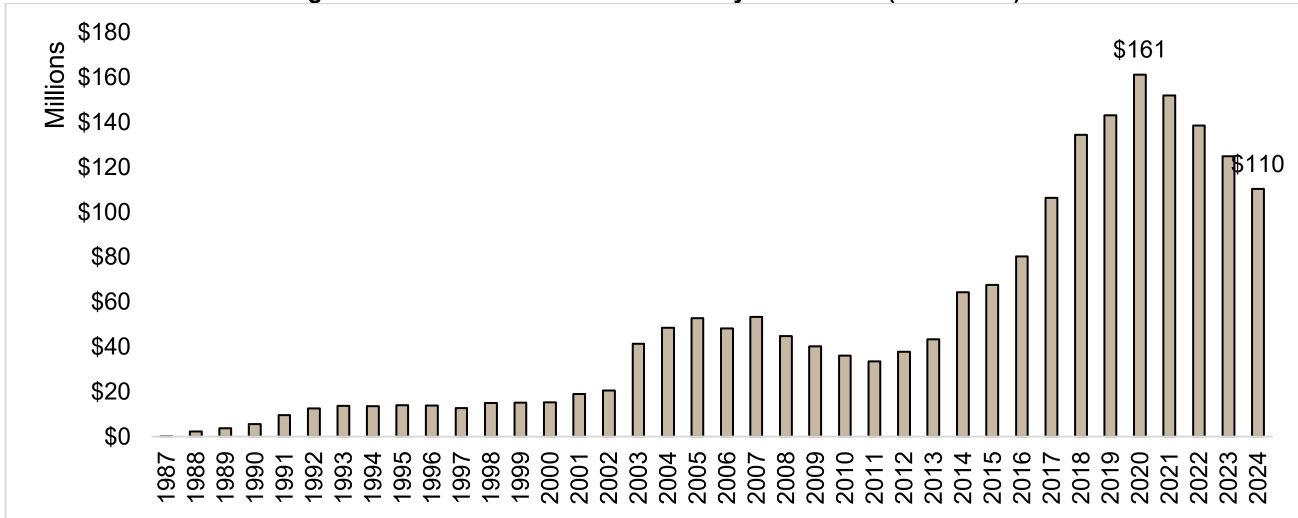
Source: Oklahoma Tax Commission

The State made its first reimbursement payment to counties in tax year 1986. Reimbursements were relatively stable from 1991 through 2002. In 2003, reimbursements increased significantly after wind electric

[9] The implementing language has been revised numerous times. It may be found in Oklahoma Revised Statutes, Chapter 68, Section 2902.
[10] No electric power generation facilities may qualify after December 31, 2017;
[11] The Department of Commerce maintains minimum average wages by county, which must be exceeded to qualify; the statewide maximum required regardless of county is $41,742 in 2024.
[12] This includes facilities re-applying each year of the five-year eligibility period

power generating facilities were made eligible. The Great Recession temporarily reduced use – it took until 2014 to return to 2007 levels. Additional changes to include and then exclude wind generation caused the amount of reimbursements to peak in 2020 at $161 million. With that eligibility expiring, the program awards decreased to about $110 million in 2024.

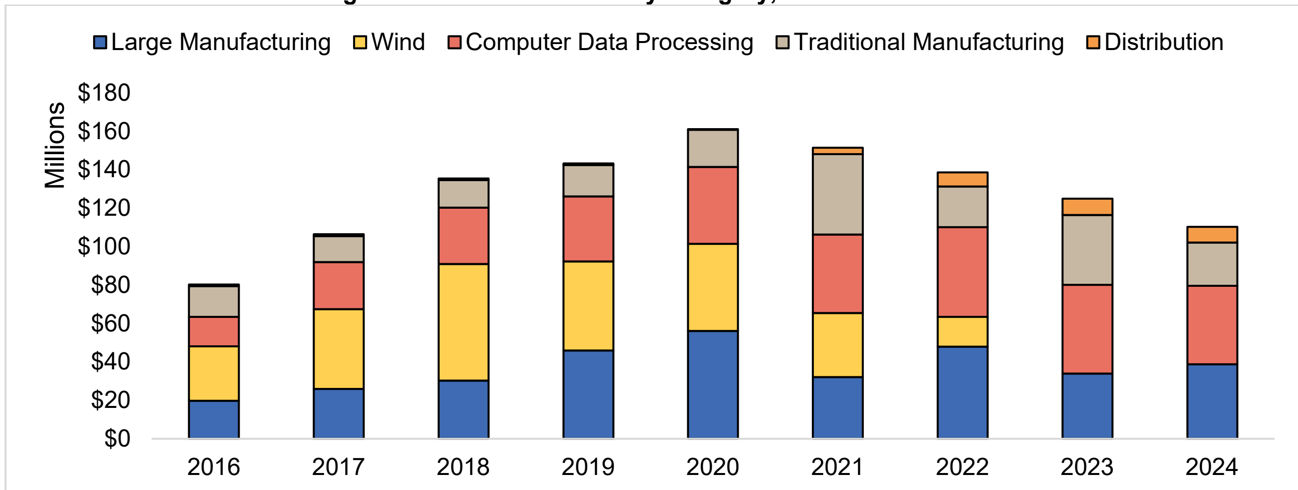
Figure 7: State Reimbursements Paid by Fiscal Year (in millions)



Source: Oklahoma Tax Commission

The OTC groups qualifying facilities into one of five categories: Traditional Manufacturing, Large Manufacturing, Wind, Distribution, and Computer Data Processing.[13] In recent years, wind power facilities have been a major driver of program costs. From FY 2016 to FY 2020, total exemptions for wind power facilities increased at a compound annual growth rate (CAGR) of 28.4 percent, from $17.4 million to $60.5 million. Statutory changes have since made wind facilities ineligible, and total exemptions have decreased accordingly. The final wind facility exemption reimbursement was made in FY 2022.

Figure 8: Reimbursements by Category, FY 2016 - FY 2024



Source: Oklahoma Tax Commission

[13] The OTC defines Large Manufacturing as facilities with exemptions near or exceeding $1 million

As wind facility exemptions have declined, manufacturing and data processing facility exemptions have increased. Total exemptions for manufacturing facilities have more than doubled, from $35.1 million in FY 2014 to $76.3 million in FY 2020. Most of this growth occurred between FY 2018 and FY 2020 due to an influx of first-year exemption applications from manufacturing facilities. They increased from 81 facilities in FY 2018, to 114 in FY 2019, and 118 in FY 2020.

Data processing exemptions similarly increased rapidly, from $15.1 million in FY2016 to $40.5 million in FY 2020. However, data processing exemptions are driven almost entirely by one facility. Google's facility in Mayes County received $39.9 million in exemptions in FY 2020. From FY 2016 to FY 2020, Google has received a total of $139.6 million for its facility in Mayes County, accounting for 97.6 percent of total data processing exemptions during that period.

Table 3: Reimbursements by Category (Millions), FY 2016 - FY 2024

Category	2016	2017	2018	2019	2020	2021	2022	2023	2024
Traditional Manufacturing	$16.1	$13.6	$14.4	$16.3	$19.4	$41.7	$21.2	$36.3	$22.4
Large Manufacturing	$19.8	$25.9	$30.4	$46.0	$56.2	$32.0	$47.9	$34.0	$38.8
Wind	$28.3	$41.5	$60.5	$46.3	$45.3	$33.4	$15.6	$0.0	$0.0
Distribution	$0.7	$0.9	$0.9	$0.8	$0.2	$3.3	$7.3	$8.5	$8.2
Computer Data Processing	$15.3	$24.4	$29.4	$33.9	$40.1	$41.0	$46.6	$46.1	$40.8
Total	**$80.3**	**$106.4**	**$135.5**	**$143.2**	**$161.1**	**$152.0**	**$138.6**	**$124.9**	**$110.3**

Source: Oklahoma Tax Commission

Reimbursements have been paid to 60 counties across the state from FY 2016 through FY 2024. 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. Mayes County has the highest exemption amount of all counties over the last five years, driven by Google's facility, which accounts for 98.6 percent of all Mayes County exemptions during that period.

Table 4: Top 10 Counties by Total Exemption Amount, in millions, FY 2016 - FY 2024

	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Mayes	$14.1	$24.5	$29.2	$34.4	$40.4	$40.5	$46.0	$45.7	$40.9	**$315.8**
Tulsa	$7.5	$9.3	$11.0	$11.4	$13.8	$13.5	$18.3	$18.1	$18.2	**$121.2**
Garfield	$3.6	$5.5	$9.7	$17.1	$16.9	$17.9	$15.1	$11.7	$3.2	**$100.8**
Grady	$3.3	$5.2	$8.5	$8.6	$11.8	$10.4	$7.5	$5.0	$4.2	**$64.6**
Kingfisher	$0.0	$0.6	$3.4	$5.0	$6.5	$6.7	$7.1	$5.5	$4.0	**$38.8**
Oklahoma	$3.8	$3.1	$4.7	$4.9	$5.4	$4.0	$3.1	$3.9	$4.0	**$36.9**
Comanche	$2.1	$2.5	$1.6	$2.3	$2.5	$2.6	$2.7	$3.7	$3.5	**$23.5**
Carter	$1.2	$1.2	$1.1	$1.1	$2.9	$3.1	$3.1	$2.9	$3.8	**$20.5**
Cleveland	$0.4	$0.3	$0.1	$0.2	$0.4	$3.1	$3.0	$3.1	$3.2	**$14.0**
Coal	$0.9	$0.8	$0.6	$0.6	$0.6	$1.4	$2.5	$2.9	$3.1	**$13.3**

Source: Oklahoma Tax Commission

Potential for Layering

The exemption is one of several Oklahoma incentive programs targeted toward manufacturers. Other major state programs include the Quality Jobs Program and the Investment-New Jobs Tax Credit. The program most likely to be combined with this exemption is the Investment-New Jobs Tax Credit. This program offers a credit equal to 1.0 percent of capital investment costs each year for five years if total investment costs are at least $50,000. A review of the Investment-New Jobs Tax Credit found combining it with the ad valorem exemption can yield tax benefits exceeding 10.0 percent of the original value of a capital investment.

It is less likely that the exemption is combined with the Quality Jobs Program. The Quality Jobs Program requires a payroll increase of $2.5 million, which is more than twice the payroll increase required by the Ad Valorem Exemption. The Quality Jobs Program is also targeted toward job creation at relatively high wages. The Ad Valorem Exemption has very low new payroll requirements and has no requirements related to average wages paid to new employees.

All three of these programs can be claimed at once for manufacturers who meet Quality Jobs Program requirements and make a capital investment greater than $40 million. Under these conditions, the benefit of the Investment-New Jobs Tax Credit doubles to 2.0 percent of qualified capital investment per year for five years.

Incentive Administration

Eligibility Requirements

Companies apply for the exemption through the county assessor in the county where the facility is located. If approved, the State then reimburses the county for the amount of abated property tax. Per statute, qualifying facilities include those which have received an Oklahoma manufacturer exemption permit, facilities engaged in manufacturing or repair of aircraft, and computer data processing facilities. As of January 1, 2018, no new applications for wind facilities were be accepted.

In order to qualify for the exemption, facilities must generally make a capital investment of at least $250,000. The facility must also increase payroll by $250,000 (if the facility is in a county with population less than 75,000) or at least $1 million in counties with population greater or equal to 75,000. Facilities must also provide healthcare to employees within 180 days of hire, where the employee pays no more than 50 percent of premiums. Applications must be submitted in each year of the five-year period and must provide proof that the facility has maintained the required initial payroll increase.

Additional requirements apply to certain industries. For example, there are significant out-of-state sales requirements for some industries. Computer data processing facilities operating in NAICS codes 5112, 5415, 334611, and 519130 must derive at least 50 percent of sales from out-of-state customers. Computer data processing facilities operating in NAICS code 5142 must derive at least 80 percent of sales from out-of-state customers.

There are also heightened requirements for distribution facilities. These facilities must make a capital investment of at least $5 million, have at least 100 employees, and pay wages to those employees greater than or equal to 175 percent of the federally mandated minimum wage.[14]

[14] Manufacturing facilities defined as establishments primarily engaged in North American Industry Classification System (NAICS) industry numbers 49311, 49312, 49313, 49319, and sector 42.

Qualified facilities located within a tax incentive district in a county with population of at least 500,000 may delay the five-year eligibility period to start the year following the expiration of the exemption, abatement, or other incentive offered by the tax incentive district. Effective November 1, 2017, any facility operating in a tax incentive district, regardless of county population, may similarly delay its five-year exemption period if it creates at least 100 new jobs at the state index wage and invests at least $2.5 million in new depreciable property.

The application forms issued by the OTC (Form 900XM) collect thorough information on each applicant, including:

- NAICS code;
- Indication of whether the company was engaged in business in Oklahoma in the last 12 months;
- Indication of whether the facility is one of multiple facilities a company operates in the State;
- Whether the facility is an expansion of an existing facility;
- Whether the business acquired an unoccupied facility;
- The type of property which may be exempted (land, building, machinery & equipment, leasehold improvement);
- Facility payroll information, including initial payroll and any net increase in payroll.

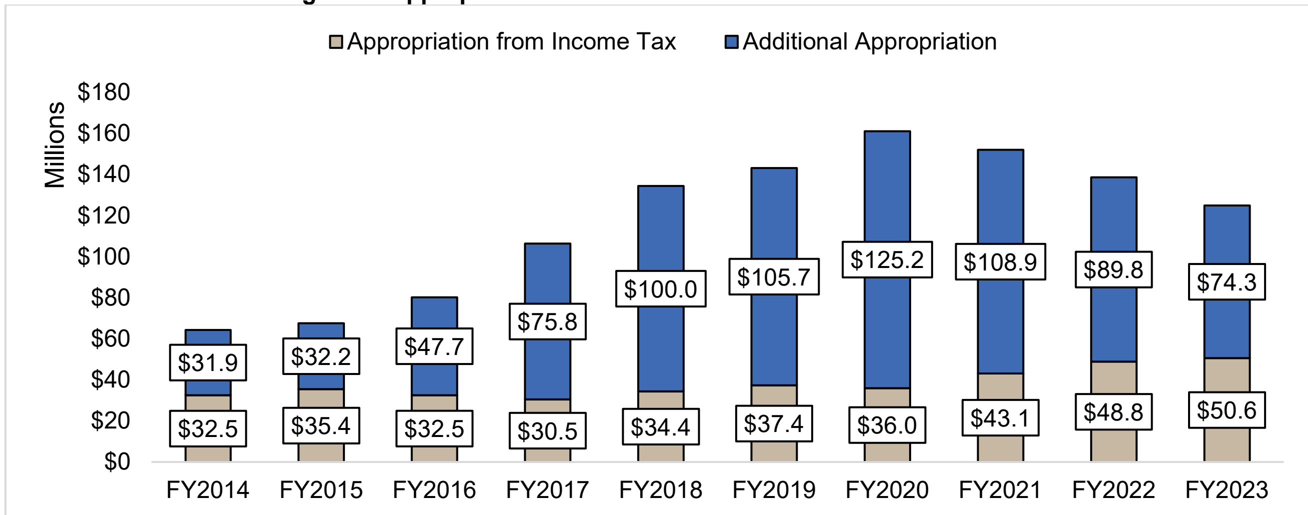
The application also requires an affidavit stating that, from the start of construction to the end of construction or three years from the start of construction (whichever occurs first), the project will result in the required payroll increase. The OTC works with the Oklahoma Employment Security Commission to verify payroll amounts reported on applications. If the payroll requirement is not met within that timeframe, or any other requirement is not met, all granted exemptions must be repaid to the OTC.

If a facility is applying for an exemption related to an expansion, it is required to meet the all payroll increase requirements while maintaining increases associated with its previously approved exemptions.

Qualifying facilities are exempt from local property taxes, and the State reimburses local authorities for exemptions granted. Reimbursement payments to local authorities are paid through the Ad Valorem Reimbursement Fund. The State has dedicated one percent of each year’s net personal and corporate income tax revenue to the Ad Valorem Reimbursement Fund.

This dedicated revenue stream was sufficient to cover annual reimbursement payments until FY 2003, when the Legislature made its first appropriation of additional funds to the Ad Valorem Reimbursement Fund to cover costs exceeding the dedicated one percent of income tax revenue. Since then, additional appropriations have been made each year to cover reimbursement payments. From FY 2019 through FY 2024, the dedicated one percent of income tax revenue has fallen especially short of total costs, averaging just 30.5 percent of total reimbursement payments. Of course, as utilization dropped, additional appropriations have decreased as well. They decreased from $105.7 million in FY 2019 to $74.3 million in FY2023.

Figure 9: Appropriations to the Ad Valorem Reimbursement Fund



Source: Oklahoma Tax Commission

Data Collection Issues

The OTC collects a significant amount of data during the application process and subsequent on-site reviews of qualifying facilities. The data collected is deemed necessary for the OTC to perform its statutory responsibility to ensure the qualifications of facilities applying for the exemption. However, the OTC data collection and storage method is not conducive to program evaluation. Despite collecting extensive information about each applicant, the OTC had considerable difficulty sharing requested information with the project team. In some cases, the difficulty was due to confidentiality constraints on applicant information. In others, the data was not stored in an easily accessible and transmissible format.

Critically, the OTC has not been able to provide payroll increase information by facility to the project team. Instead, this information has been aggregated at the industry category level. While this is helpful for evaluation, it lacks the level of detail that would enable the evaluation to report which types of manufacturers are generating payroll increases. That detail is key to economic impact evaluation, because average annual pay among subsectors of manufacturing in Oklahoma ranges from $32,594 (Textile Product Mills) to $105,215 (Petroleum and Coal Products Manufacturing).[15] This information would help more accurately describe and calculate the impact of the program on the State economy. The Tax Commission's official response to data in this category is provided below:[16]

> "Much of the requested information is confidential per 68 OS § 205. A review of the Incentive Evaluation Committee statute related to contractors allows for information to be received unless prohibited by the Oklahoma Constitution, Oklahoma Statutes, or federal law. Here, the OTC is subject to 68 OS § 205, which does not provide an exemption to provide the information requested."

[15] U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, 2019 data. Average annual pay range is based on 21 subsectors of manufacturing, represented by the first 3 digits of the NAICS code.
[16] Text provided by Oklahoma Tax Commission in document labeled "PFM2.pdf", received electronically on August 5, 2024.

Incentive Design Best Practices

The Ad Valorem Tax Exemption program was created by a constitutional amendment. This makes it difficult to change some of its design features. It is generally necessary to pass legislation to adjust program design and administration, as was done in 2021. That being said, the program does follow some best practices, including being discretionary through an application process. It is also targeted to specific industries that generally fit well together and are targes of incentives in other states. The program leverages significant private capital, and has a relatively limited timeframe when compared to benchmark programs. It is reasonably transparent with an annual report created and posted each year. This could be improved through additional data collection. The program falls short in that it does not have an annual cap, and may not perform well on the question of the “but for” test.[17]

[17] Additional detail and the full list of Best Practices can be found in Appendix B.

Economic and Fiscal Impact

Economic and Fiscal Impact

Methodology

The ad valorem tax exemption is a five-year award granted to manufacturing and other selected facilities as a result of a capital facilities expansion and maintaining associated payroll increases. Because the increases may occur in each year of the exemption, the ad valorem rebate amounts grow, as does the aggregate amount of payroll of companies benefitting from the ad valorem rebates. The economic impacts of the annually recurring payroll maintained, and newly qualified payroll, is quite substantial. It should also be noted that these impacts are incomplete, as data limitations allow for only manufacturing facilities to be included (excluding wind facilities, data processing and distribution). Impact reporting in 2024 is identical to 2020 impact data – no new fields or totals were made available, as referenced in the Data Challenges section. If the recommended enhancements are implemented, a more complete analysis can be accomplished.

Specifically, the program tracking does not allow for confirmation of how much payroll is increased rather than maintained from year to year at qualifying facilities. This means tracking the economic impacts of total payroll increases, and comparing this with total exemptions, over the five-year qualifying period, likely reflect some activity not due to the exemption program and thereby overstate total economic impacts. To address this possibility, the project team provided an upper and lower bound analysis. The economic impacts of total payroll increase including five years of qualified exemptions represents the upper bound analysis. The economic impacts of first-year ad valorem exemptions only have been calculated for each of the five years examined from tax year 2019-2023 and this represents the lower bound analysis.

Finally, the analysis also includes the qualified expenses associated with capital facilities expansion. Each year, as part of the ad valorem rebate program, companies spend millions of dollars on physical expansion of facilities, as well as property and equipment. In addition to the jobs and permanent payroll created, the economic impacts of plant expansion and construction are also calculated as part of this review. The economic impacts of facilities expansion do not include land purchases* or equipment and machinery. Capital expenditure impacts reflect only building construction activity for new industrial facilities in Oklahoma, which occur in the first exemption period (XM1) of the qualifying program across each year. These impacts are in addition to the permanent payroll impacts.

Impacts

The upper bound qualified ongoing payroll amounts range from $2 billion to $6.2 billion per year, each year from 2019-2023. The payroll amounts correspond to direct economic activity which ranges from $7.9 billion to $25.9 billion annually, in activity associated only with qualified facilities. The multiplier effect of this activity results in $12.6 billion to $41.5 billion in total economic impact annually, from 2019-2023 as shown in Table 3. Direct manufacturing employment hovers from 20,000 to 64,000 manufacturing employees, averaging 31,000 manufacturing jobs supported by the rebate program. Total employment, including the multiplier effects, has averaged 71,000 jobs over this period. This represents the upper bounds of the rebate program impacts.

Under the lower bounds estimate using data from first year exemptions only (XM1), we find direct annual payroll impacts average $630 million, supporting 6,500 manufacturing jobs. Total impacts including the multiplier effects generates $1.1 billion in annual wages, supporting 15,000 jobs. Total lower bound economic impacts average $4.5 billion annually.

In addition to manufacturing employment, there is construction employment related to capital expenditures for facilities expansion. Annual construction employment, which is also associated with the rebate program, averages 8,000 construction workers and $454 million in payroll per year; expanding to 12,000 jobs annually including multiplier effects, with payroll averaging $704.2 million annually. Total economic impacts of building

construction averaged $1.8 billion per year, for the 2019-2023 period. It should be noted here that 2020 and 2021 were exceptional years of program performance, with approximately ten times the construction investment as the remaining years in the study.

For analysis purposes, the tables compare total impacts with total estimated tax revenue and total claimed credit. These comparisons are provided only at the total impact level and not for the component elements, because there are no corresponding credits at the component levels. Tax revenue generated to the State of Oklahoma was estimated by applying the long-term ratio of Oklahoma's gross state tax collections to Gross State Product (GSP) and averaging this figure with the IMPLAN estimate of state taxes. A discussion of the IMPLAN methodology and definition of terms is found in Appendix C.

* Note: building construction represents 80% of building and real property as reported; 20% is removed reflecting no impact from real estate sales.

Table 5: Total Manufacturing Payroll – Upper Bound Impact

Year	Effect	Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue	Total Exemption	Ratio: Output/ Rebate	Ratio: Revenue/ Rebate
2019	Direct Effect	$11,550,361,108	$2,943,658,292	$2,106,339,706	22,463				
	Indirect Effect	$3,958,776,662	$1,881,941,953	$1,215,567,339	20,672				
	Induced Effect	$2,376,855,646	$1,271,426,641	$698,772,526	15,064				
	Total Effect	**$17,885,993,417**	**$6,097,026,887**	**$4,020,679,570**	**58,199**	**$274,551,645**	**$62,256,078**	**$287**	**$4.41**
2020	Direct Effect	$13,051,194,991	$3,487,860,058	$2,463,287,991	25,522				
	Indirect Effect	$4,021,263,550	$1,954,197,878	$1,287,984,699	21,604				
	Induced Effect	$2,380,374,639	$1,290,777,544	$730,924,043	15,151				
	Total Effect	**$19,452,833,180**	**$6,732,835,480**	**$4,482,196,734**	**62,277**	**$241,711,197**	**$75,531,849**	**$258**	**$3.20**
2021	Direct Effect	$7,989,433,480	$2,439,329,034	$2,022,664,727	21,770				
	Indirect Effect	$2,598,740,215	$1,247,348,810	$787,251,090	12,915				
	Induced Effect	$2,048,464,717	$1,103,846,991	$602,677,796	12,225				
	Total Effect	**$12,636,638,412**	**$4,790,524,835**	**$3,412,593,613**	**46,909**	**$197,052,454**	**$73,767,456**	**$171**	**$2.67**
2022	Direct Effect	$8,413,988,199	$2,328,374,602	$2,011,899,997	20,773				
	Indirect Effect	$2,839,842,886	$1,306,581,278	$800,040,610	12,973				
	Induced Effect	$2,215,482,085	$1,191,242,754	$630,522,475	12,456				
	Total Effect	**$13,469,313,170**	**$4,826,198,635**	**$3,442,463,082**	**46,202**	**$230,657,942**	**$69,040,070**	**$195**	**$3.34**
2023	Direct Effect	$25,935,956,041	$7,177,169,721	$6,201,642,865	64,033				
	Indirect Effect	$8,753,760,822	$4,027,511,543	$2,466,109,720	39,988				
	Induced Effect	$6,829,180,718	$3,671,982,772	$1,943,573,347	38,395				
	Total Effect	**$41,518,897,582**	**$14,876,664,035**	**$10,611,325,932**	**142,416**	**$710,998,649**	**$70,256,684**	**$591**	**$10.12**

Source: IMPLAN copyright 2024; PFM Group Consulting LLC

Table 62: Total Manufacturing Payroll – Lower Bound Impact

Year		Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue	Total Exemption	Ratio: Output/ Exemption	Ratio: Revenue/ Exemption
2019	Direct Effect	$2,913,388,511	$742,489,362	$531,289,528	5,666				
	Indirect Effect	$998,536,265	$474,688,887	$306,606,857	5,214				
	Induced Effect	$599,522,722	$320,696,447	$176,253,870	3,800				
	Total Effect	**$4,511,447,498**	**$1,537,874,696**	**$1,014,150,255**	**14,680**	**$69,251,134**	**$11,217,433**	**$402**	**$6.17**
2020	Direct Effect	$1,520,497,965	$406,344,716	$286,979,421	2,973				
	Indirect Effect	$468,487,602	$227,669,106	$150,053,548	2,517				
	Induced Effect	$277,319,801	$150,378,922	$85,154,541	1,765				
	Total Effect	**$2,266,305,367**	**$784,392,743**	**$522,187,510**	**7,255**	**$28,159,980**	**$7,594,984**	**$298**	**$3.71**
2021	Direct Effect	$152,339,536	$46,512,216	$38,567,416	415				
	Indirect Effect	$49,551,809	$23,783,982	$15,011,010	246				
	Induced Effect	$39,059,361	$21,047,742	$11,491,635	233				
	Total Effect	**$240,950,706**	**$91,343,940**	**$65,070,062**	**894**	**$3,757,323**	**$7,190,582**	**$34**	**$0.52**
2022	Direct Effect	$1,191,440,652	$329,703,357	$284,889,803	2,942				
	Indirect Effect	$402,128,477	$185,015,003	$113,287,645	1,837				
	Induced Effect	$313,717,509	$168,682,795	$89,283,475	1,764				
	Total Effect	**$1,907,286,638**	**$683,401,154**	**$487,460,923**	**6,542**	**$32,661,711**	**$8,277,664**	**$230**	**$3.95**
2023	Direct Effect	$8,408,383,977	$2,326,823,765	$2,010,559,950	20,759				
	Indirect Effect	$2,837,951,380	$1,305,711,016	$799,507,734	12,964				
	Induced Effect	$2,214,006,441	$1,190,449,315	$630,102,509	12,448				
	Total Effect	**$13,460,341,797**	**$4,822,984,096**	**$3,440,170,194**	**46,171**	**$230,504,310**	**$10,041,763**	**$1,340**	**$22.95**

Source: IMPLAN copyright 2024; PFM Group Consulting LLC

Table 7: Capital Expenditures for Manufacturing Facilities XM1

Year	Effect	Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue	Total Exemption	Ratio: Output/ Exemption	Ratio: Revenue/ Exemption
2019	Direct Effect	$291,621,369	$143,354,952	$145,593,798	2,429				
	Indirect Effect	$113,903,208	$52,042,075	$34,210,628	489				
	Induced Effect	$128,572,271	$68,775,449	$37,825,414	816				
	Total Effect	**$534,096,848**	**$264,172,476**	**$217,629,841**	**3,734**	**$12,108,314**	**$33,965,237**	**$15.72**	**$0.41**
2020	Direct Effect	$2,161,576,817	$962,747,934	$871,863,655	15,726				
	Indirect Effect	$937,741,984	$449,428,589	$289,899,163	4,301				
	Induced Effect	$762,868,992	$413,722,294	$234,254,330	4,862				
	Total Effect	**$3,862,187,793**	**$1,825,898,817**	**$1,396,017,148**	**24,889**	**$63,537,189**	**$26,391,228**	**$146.34**	**$3.65**
2021	Direct Effect	$2,278,739,262	$1,101,200,525	$1,060,900,782	18,591				
	Indirect Effect	$967,899,549	$521,614,851	$284,730,064	5,784				
	Induced Effect	$951,674,684	$440,950,013	$268,639,981	3,974				
	Total Effect	**$4,198,313,496**	**$2,063,765,390**	**$1,614,270,827**	**28,349**	**$77,334,949**	**$31,851,469**	**$131.81**	**$3.42**
2022	Direct Effect	$218,990,108	$105,590,324	$98,652,846	1,803				
	Indirect Effect	$98,025,806	$52,728,424	$27,893,194	552				
	Induced Effect	$93,055,802	$40,981,303	$24,133,054	354				
	Total Effect	**$410,071,716**	**$199,300,051**	**$150,679,094**	**2,709**	**$9,479,515**	**$20,451,761**	**$20.05**	**$0.51**
2023	Direct Effect	$208,557,995	$99,986,827	$93,008,367	1,695				
	Indirect Effect	$92,824,076	$49,930,285	$26,413,070	523				
	Induced Effect	$89,617,493	$39,506,649	$23,267,242	341				
	Total Effect	**$390,999,564**	**$189,423,760**	**$142,688,680**	**2,559**	**$9,003,205**	**$22,126,175**	**$17.67**	**$0.45**

Source: IMPLAN copyright 2024; PFM Group Consulting LLC

Incentive Benchmarking

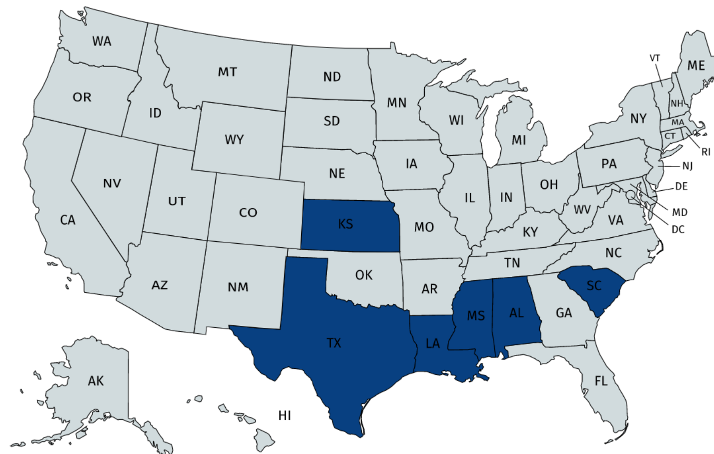
Benchmarking

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.[18] These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic, or political structures that lend themselves to comparison.

For the Five-Year Ad Valorem Exemption, benchmarking focused on a mix of states neighboring Oklahoma as well as southeastern states the Oklahoma often competes with for economic development opportunities. The comparison group includes Alabama, Kansas, Louisiana, Mississippi, South Carolina, and Texas.

Figure 10: Program Comparison Group



Program comparisons were done across major characteristics of the incentive including qualifying capital investment and payroll increases, the benefit amount provided by the program, and the duration of the benefit.

Oklahoma has a relatively short exemption period among the comparison group. Four of the six comparable programs offer benefits for up to 10 years, while Alabama offers its exemption for up to 20 years for most industries and 30 years for data centers. Only South Carolina matched Oklahoma's 5-year exemption period. Alabama, Kansas, Mississippi, and South Carolina's programs offer a full exemption from property tax, which is similar to Oklahoma's. Texas provides a variable limitation on taxable value specifically for its School District Maintenance and Operations tax. Starting in FY 2019, Louisiana modified its program to reduce its benefit from a full exemption to an 80 percent exemption from property tax.

[18] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs.

Table 8: Top 10 Counties by Total Exemption Amount, FY 2016 - FY 2024

	Oklahoma	Alabama	Kansas	Louisiana	Mississippi	South Carolina	Texas
Incentive Type	**Exemption**	Exemption	Exemption	80% Exemption	Exemption	Exemption of 20% to 50%	Limitation on Taxable Value
Applies to	**Property Tax**	Property Tax (non-educational)	Property Tax	Property Tax	Property Tax (excluding school district taxes)	Property Tax, excluding school taxes	Property Tax (School District M&O)
Cap	**None**	None	None	None	None	None	None
Capital Investment	**$250,000 minimum; $5 million minimum for distribution facilities; $7 million minimum for certain data processing facilities**	At least $100 million for alternative energy projects ($5 million for hydropower); Expansions must cost at least 30% of the original facility or $2 million	No state standard	None	None	$50,000 minimum	$1 million to $100 million depending on school district
Duration	**5 years**	Up to 20 years, or up to 30 years for data processing centers. For data centers:10 years for facilities with capital investment up to $200 million within 10 years; 20 years for facilities with capital investment between $200 million and $400 million within 10 years; 30 years for facilities that invest $200 million within 10 years and more than $400 million within 20 years	10 years	Initial 5-year period may be extended to 10 years	10 years	5 years	10 years
Payroll Requirement	**Net payroll increase of $250,000 in counties with population under 75,000; Increase of $1,000,000 required in counties with population over 75,000**	None	No state standard	None	None	None	Varies based on school district
Job Creation Requirement	**Distribution facilities must employ at least 100 FTEs**	At least 20 new jobs for Data Processing facilities; 50 new jobs for headquarters facilities	No state standard	None	None	At least 75 new jobs	Varies based on school district
Wage Requirement	**Distribution facilities must pay wages at least 175% of federal minimum wage**	At least $40,000 per year for data processing facilities	No state standard	None	None	None	Varies based on school district

Comparing qualification requirements is difficult because most comparable programs have an approval and evaluation process conducted at the local level, where local governments have discretion over whether a facility qualifies for an exemption. Oklahoma offers its exemption “as of right” rather than through a discretionary review process. If a facility meets all statutory requirements, it is entitled to the exemption. South Carolina is the only other state in this group that offers an abatement that qualified facilities are entitled to.

A key distinction between Oklahoma and the rest of the comparison group is that in each comparable program, local jurisdictions bear at least part of the cost of the exemption. In Oklahoma, the State bears the full cost of each exemption through its reimbursement payments to local governments.

Other evaluations

Louisiana

According to 2022 evaluation, the Industrial Tax Exemption Program (ITEP) cost local governments $1.5 billion in foregone revenues in calendar year 2021. In 2018 the total was $1.4 billion, $1.3 billion in 2019, and $1.2 billion in 2020. Chemical manufacturers accounted for more than 80 precent of ITEP exemptions overall (more than $1.1 billion).[19]

[19] “Industrial Tax Exemption Program: Program Statistics and Fiscal Impact on Local Governments.” Louisiana Legislative Auditor, October 2022.

Appendices

Appendix A: **68 O.S. § 2902 (OSCN 2024)**

A. Except as otherwise provided by subsection H of Section 3658 of this title pursuant to which the exemption authorized by this section may not be claimed, a qualifying manufacturing concern, as defined by Section 6B of Article X of the Oklahoma Constitution, and as further defined herein, shall be exempt from the levy of any ad valorem taxes upon new, expanded or acquired manufacturing facilities including facilities engaged in research and development, for a period of five (5) years. The provisions of Section 6B of Article X of the Oklahoma Constitution requiring an existing facility to have been unoccupied for a period of twelve (12) months prior to acquisition shall be construed as a qualification for a facility to initially receive an exemption, and shall not be deemed to be a qualification for that facility to continue to receive an exemption in each of the four (4) years following the initial year for which the exemption was granted. Such facilities are hereby classified for the purposes of taxation as provided in Section 22 of Article X of the Oklahoma Constitution.

B. For purposes of this section, the following definitions shall apply:

1. "Manufacturing facilities" means facilities engaged in the mechanical or chemical transformation of materials or substances into new products and except as provided by paragraph 6 of subsection C of this section shall include:

a. establishments which have received a manufacturer exemption permit pursuant to the provisions of Section 1359.2 of this title,

b. facilities including repair and replacement parts, primarily engaged in aircraft repair, building and rebuilding whether or not on a factory basis,

c. establishments primarily engaged in computer services and data processing as defined under Industrial Group Numbers 5112 and 5415, and U.S. Industry Number 334611 and 519130 of the NAICS Manual, latest revision, and which derive at least fifty percent (50%) of their annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer, and as defined under Industrial Group Number 5182 of the NAICS Manual, latest revision, which derive at least eighty percent (80%) of their annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer. Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Oklahoma Tax Commission, by annually filing an affidavit with the Tax Commission stating that the facility so qualifies and such other information as required by the Tax Commission. For purposes of determining whether annual gross revenues are derived from sales to out-of-state buyers, all sales to the federal government shall be considered to be an out-of-state buyer,

d. facilities that the investment cost of the construction, acquisition or expansion is Five Hundred Thousand Dollars ($500,000.00) or more with respect to assets placed into service during calendar year 2022. For subsequent calendar years, the investment required shall be increased annually by a percentage equal to the previous year's increase in the Consumer Price Index-All Urban Consumers ("CPI-U") and such adjusted amount shall be the required investment cost in order to qualify for the exemption authorized by this section. The Oklahoma Department of Commerce shall determine the amount of the increase, if any, on January 1 of each year. The Oklahoma Tax Commission shall publish on its website at least annually the adjusted dollar amount in order to qualify for the exemption authorized by this section and shall include the adjusted dollar amount in any of its relevant forms or publications with respect to the exemption. Provided, "investment cost" shall not include the cost of direct replacement, refurbishment, repair or maintenance of existing machinery or equipment, except that "investment cost" shall include capital expenditures for direct replacement, refurbishment, repair or maintenance of existing machinery or equipment that qualifies for depreciation and/or amortization pursuant to the Internal

Revenue Code of 1986, as amended, and such expenditures shall be eligible as a part of an “expansion” that otherwise qualifies under this section,

e. establishments primarily engaged in distribution as defined under Industry Numbers 49311, 49312, 49313 and 49319 and Industry Sector Number 42 of the NAICS Manual, latest revision, and which meet the following qualifications:

(1) construction with an initial capital investment of at least Five Million Dollars ($5,000,000.00),

(2) employment of at least one hundred (100) full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission,

(3) payment of wages or salaries to its employees at a wage which equals or exceeds the average wage requirements in the Oklahoma Quality Jobs Program Act for the year in which the real property was placed into service, and

(4) commencement of construction on or after November 1, 2007, with construction to be completed within three (3) years from the date of the commencement of construction,

f. facilities engaged in the manufacturing, compounding, processing or fabrication of materials into articles of tangible personal property according to the special order of a customer (custom order manufacturing) by manufacturers classified as operating in North American Industry Classification System (NAICS) Sectors 32 and 33, but does not include such custom order manufacturing by manufacturers classified in other NAICS code sectors, and

g. with respect to any entity making an application for the exemption authorized by this section on or after January 1, 2023, the establishment making application for exempt treatment of real or personal property acquired or improved beginning January 1, 2022, and for any calendar year thereafter, the entity shall be required to pay new direct jobs, as defined by Section 3603 of this title for purposes of the Oklahoma Quality Jobs Program Act, an average annualized wage which equals or exceeds the average wage requirement in the Oklahoma Quality Jobs Program Act for the year in which the real or personal property was placed into service. The Oklahoma Tax Commission may request verification from the Oklahoma Department of Commerce that an establishment seeking an exemption for real or personal property pays an average annualized wage that equals or exceeds the average wage requirement in effect for the year in which the real or personal property was placed into service. For purposes of this subparagraph, it shall not be necessary for the establishment to qualify for incentive payments pursuant to the Oklahoma Quality Jobs Program Act, but the establishment shall be subject to the wage requirements of the Oklahoma Quality Jobs Program Act with respect to new direct jobs in order to qualify for the exempt treatment authorized by this section.

Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Tax Commission, by annually filing an affidavit with the Tax Commission stating that the facility so qualifies and containing such other information as required by the Tax Commission.

Provided, eating and drinking places, as well as other retail establishments, shall not qualify as manufacturing facilities for purposes of this section, nor shall centrally assessed properties.

Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Tax Commission, by annually filing an application with the Tax Commission stating that the facility so qualifies and containing such other information as required by the Tax Commission;

2. “Facility” and “facilities”, except as otherwise provided by this section, means and includes the land, buildings, structures and improvements used directly and exclusively in the manufacturing process. Effective January 1, 2022, and for each calendar year thereafter, for establishments which have received a manufacturer exemption permit pursuant to the provisions of Section 1359.2 of this title, or facilities engaged in manufacturing activities defined or classified in the NAICS Manual under Industry Nos. 311111 through 339999, inclusive, but for no other establishments, facility and facilities means and includes the land, buildings, structures, improvements, machinery, fixtures, equipment and other personal property used directly and exclusively in the manufacturing process; and

3. “Research and development” means activities directly related to and conducted for the purpose of discovering, enhancing, increasing or improving future or existing products or processes or productivity.

C. The following provisions shall apply:

1. A manufacturing concern shall be entitled to the exemption herein provided for each new manufacturing facility constructed, each existing manufacturing facility acquired and the expansion of existing manufacturing facilities on the same site, as such terms are defined by Section 6B of Article X of the Oklahoma Constitution and by this section;

2. No manufacturing concern shall receive more than one five-year exemption for any one manufacturing facility unless the expansion which qualifies the manufacturing facility for an additional five-year exemption meets the requirements of paragraph 4 of this subsection and the employment level established for any previous exemption is maintained;

3. Any exemption as to the expansion of an existing manufacturing facility shall be limited to the increase in ad valorem taxes directly attributable to the expansion;

4. All initial applications for any exemption for a new, acquired or expanded manufacturing facility shall be granted only if:

a. there is a net increase in annualized base payroll over the initial payroll of at least Two Hundred Fifty Thousand Dollars ($250,000.00) if the facility is located in a county with a population of fewer than seventy-five thousand (75,000), according to the most recent Federal Decennial Census, while maintaining or increasing base payroll in subsequent years, or at least One Million Dollars ($1,000,000.00) if the facility is located in a county with a population of seventy-five thousand (75,000) or more, according to the most recent Federal Decennial Census, while maintaining or increasing base payroll in subsequent years; provided, the payroll requirement of this subparagraph shall be waived for claims for exemptions including claims previously denied or on appeal on March 3, 2010, for all initial applications for exemption filed on or after January 1, 2004, and on or before March 31, 2009, and all subsequent annual exemption applications filed related to the initial application for exemption, for an applicant, if the facility has been located in Oklahoma for at least fifteen (15) years engaged in marine engine manufacturing as defined under U.S. Industry Number 333618 of the NAICS Manual, latest revision, and has maintained an average employment of five hundred (500) or more full-time-equivalent employees over a ten-year period. Any applicant that qualifies for the payroll requirement waiver as outlined in the previous sentence and subsequently closes its Oklahoma manufacturing plant prior to January 1, 2012, may be disqualified for exemption and subject to recapture. For an applicant engaged in paperboard manufacturing as defined under U.S. Industry Number 322130 of the NAICS Manual, latest revision, union master payouts paid by the buyer of the facility to specified individuals employed by the facility at the time of purchase, as specified under the purchase agreement, shall be excluded from payroll for purposes of this section.

In order to provide certainty with respect to investments in manufacturing facilities pertaining to all initial applications for exemption filed on or after January 1, 2016, the following definitions shall apply:

(1) “base payroll” shall mean total payroll adjusted for any nonrecurring bonuses, exercise of stock option or stock rights and other nonrecurring, extraordinary items included in total payroll, and

(2) “initial payroll” shall mean base payroll for the year immediately preceding the initial construction, acquisition or expansion.

The Tax Commission shall verify payroll information through the Oklahoma Employment Security Commission by using reports from the Oklahoma Employment Security Commission for the calendar year immediately preceding the year for which initial application is made for base-line payroll, which must be maintained or increased for each subsequent year; provided, a manufacturing facility shall have the option of excluding from its payroll, for purposes of this section:

i. payments to sole proprietors, members of a partnership, members of a limited liability company who own at least ten percent (10%) of the capital of the limited liability company or stockholder-employees of a corporation who own at least ten percent (10%) of the stock in the corporation, and

ii. any nonrecurring bonuses, exercise of stock option or stock rights or other nonrecurring, extraordinary items included in total payroll numbers as reported by the Oklahoma Employment Security Commission. A manufacturing facility electing either option shall indicate such election upon its application for an exemption under this section. Any manufacturing facility electing either option shall submit such information as the Tax Commission may require in order to verify payroll information. Payroll information submitted pursuant to the provisions of this paragraph shall be submitted to the Tax Commission and shall be subject to the provisions of Section 205 of this title, and

b. the facility offers, or will offer within one hundred eighty (180) days of the date of employment, a basic health benefits plan to the full-time-equivalent employees of the facility, which is determined by the Department of Commerce to consist of the elements specified in subparagraph b of paragraph 1 of subsection A of Section 3603 of this title or elements substantially equivalent thereto.

For purposes of this section, calculation of the amount of increased base payroll shall be measured from the start of initial construction or expansion to the completion of such construction or expansion or for three (3) years from the start of initial construction or expansion, whichever occurs first. The amount of increased base payroll shall include payroll for full-time-equivalent employees in this state who are employed by an entity other than the facility which has previously or is currently qualified to receive an exemption pursuant to the provisions of this section and who are leased or otherwise provided to the facility, if such employment did not exist in this state prior to the start of initial construction or expansion of the facility. The manufacturing concern shall submit an affidavit to the Tax Commission, signed by an officer, stating that the construction, acquisition or expansion of the facility will result in a net increase in the annualized base payroll as required by this paragraph and that full-time-equivalent employees of the facility are or will be offered a basic health benefits plan as required by this paragraph. If, after the completion of such construction or expansion or after three (3) years from the start of initial construction or expansion, whichever occurs first, the construction, acquisition or expansion has not resulted in a net increase in the amount of annualized base payroll, if required, or any other qualification specified in this paragraph has not been met, the manufacturing concern shall pay an amount equal to the amount of any exemption granted including penalties and interest thereon, to the Tax Commission for deposit to the Ad Valorem Reimbursement Fund;

5. Except as otherwise provided by this paragraph, any new, acquired or expanded computer data processing, data preparation or information processing services provider classified in U.S. Industry Number 518210 of the North American Industrial Classification System (NAICS) Manual, 2017 revision,

may apply for exemptions under this section for each year in which new, acquired, or expanded capital improvements to the facility are made for assets placed in service not later than December 31, 2021, if:

a. there is a net increase in annualized payroll of the applicant at any facility or facilities of the applicant in this state of at least Two Hundred Fifty Thousand Dollars ($250,000.00), which is attributable to the capital improvements, or a net increase of Seven Million Dollars ($7,000,000.00) or more in capital improvements, while maintaining or increasing payroll at the facility or facilities in this state which are included in the application, and

b. the facility offers, or will offer within one hundred eighty (180) days of the date of employment of new employees attributable to the capital improvements, a basic health benefits plan to the full-time-equivalent employees of the facility, which is determined by the Department of Commerce to consist of the elements specified in subparagraph b of paragraph 1 of subsection A of Section 3603 of this title or elements substantially equivalent thereto.

An establishment described by this paragraph, the primary business activity of which is described by Industry No. 518210 of the North American Industry Classification System (NAICS) Manual, 2017 revision, that has applied for and been granted an exemption for personal property at any time within five (5) years prior to November 1, 2021, may apply for exemptions for items of eligible personal property to be located within improvements to real property and such real property and improvements having been exempt from ad valorem taxation prior to November 1, 2021, pursuant to the provisions of this section if such personal property is placed in service not later than December 31, 2036. No additional personal property of such establishment placed in service after such date shall qualify for the exempt treatment otherwise authorized pursuant to this paragraph;

6. Effective January 1, 2017, an entity engaged in electric power generation by means of wind, as described by the North American Industry Classification System, No. 221119, shall not be defined as a qualifying manufacturing concern for purposes of the exemption otherwise authorized pursuant to Section 6B of Article X of the Oklahoma Constitution or qualify as a “manufacturing facility” as defined in this section. No initial application for exemption shall be filed by or accepted from an entity engaged in electric power generation by means of wind on or after January 1, 2018;

7. An entity or applicant engaged in an industry as defined under U.S. Industry Number 324110 of the NAICS Manual, latest revision, which has applied for or been granted an exemption for a time period which began on or after calendar year 2012 and before calendar year 2016 but which did not meet the payroll requirements of subparagraph a of paragraph 4 of this subsection because of nonrecurring bonuses, exercise of stock option or stock rights or other nonrecurring, extraordinary items included in total payroll in the previous year, shall be allowed an exemption, beginning with calendar year 2016, for the number of years including the calendar year for which the exemption was denied, remaining in the entity’s five-year exemption period, provided such entity attains or increases payroll at or above the initial or base payroll established for the exemption;

8. A facility engaged in manufacturing defined under U.S. Industry Number 327310 of the NAICS Manual shall have the payroll requirements of paragraph 4 of this subsection waived for tax year 2021, which is based in part on the 2020 calendar year payroll reported to the Oklahoma Employment Security Commission, and may continue to receive the exemption for the five-year period provided in this section only if all other requirements of this section are met; and

9. A facility engaged in manufacturing which otherwise qualifies for the exemption or exemptions pursuant to the provisions of this section shall have the payroll requirements of paragraph 4 of this subsection waived for tax year 2021, which is based in part on the 2020 calendar year payroll reported to the Oklahoma Employment Security Commission, and for tax year 2022, which is based in part on the 2021

calendar year payroll reported to the Oklahoma Employment Security Commission, and may continue to receive the exemption for the five-year period provided in this section only if all other requirements of this section are met.

D. 1. Except as provided in paragraph 2 of this subsection, the five-year period of exemption from ad valorem taxes for any qualifying manufacturing facility property shall begin on January 1 following the initial qualifying use of the property in the manufacturing process.

2. The five-year period of exemption from ad valorem taxes for any qualifying manufacturing facility, as specified in subparagraphs a and b of this paragraph, which is located within a tax incentive district created pursuant to the Local Development Act by a county having a population of at least five hundred thousand (500,000), according to the most recent Federal Decennial Census, shall begin on January 1 following the expiration or termination of the ad valorem exemption, abatement, or other incentive provided through the tax incentive district. Facilities qualifying pursuant to this subsection shall include:

a. a manufacturing facility as defined in subparagraph c of paragraph 1 of subsection B of this section, and

b. an establishment primarily engaged in distribution as defined under Industry Number 49311 of the North American Industry Classification System for which the initial capital investment was at least One Hundred Eighty Million Dollars ($180,000,000.00); provided, that the qualifying job creation and depreciable property investment occurred prior to calendar year 2017 but not earlier than calendar year 2013.

E. Any person, firm or corporation claiming the exemption herein provided for shall file each year for which exemption is claimed, an application therefor with the county assessor of the county in which the new, expanded or acquired facility is located. The application shall be on a form or forms prescribed by the Tax Commission, and shall be filed on or before March 15, except as provided in Section 2902.1 of this title, of each year in which the facility desires to take the exemption or within thirty (30) days from and after receipt by such person, firm or corporation of notice of valuation increase, whichever is later. In a case where completion of the facility or facilities will occur after January 1 of a given year, a facility may apply to claim the ad valorem tax exemption for that year. If such facility is found to be qualified for exemption, the ad valorem tax exemption provided for herein shall be granted for that entire year and shall apply to the ad valorem valuation as of January 1 of that given year. For applicants who qualify under the provisions of subparagraph b of paragraph 1 of subsection B of this section, the application shall include a copy of the affidavit and any other information required to be filed with the Tax Commission.

F. The application shall be examined by the county assessor and approved or rejected in the same manner as provided by law for approval or rejection of claims for homestead exemptions. The taxpayer shall have the same right of review by and appeal from the county board of equalization, in the same manner and subject to the same requirements as provided by law for review and appeals concerning homestead exemption claims. Approved applications shall be filed by the county assessor with the Tax Commission no later than June 15, except as provided in Section 2902.1 of this title, of the year in which the facility desires to take the exemption. Incomplete applications and applications filed after June 15 will be declared null and void by the Tax Commission. In the event that a taxpayer qualified to receive an exemption pursuant to the provisions of this section shall make payment of ad valorem taxes in excess of the amount due, the county treasurer shall have the authority to credit the taxpayer's real or personal property tax overpayment against current taxes due. The county treasurer may establish a schedule of up to five (5) years of credit to resolve the overpayment.

G. Nothing herein shall in any manner affect, alter or impair any law relating to the assessment of property, and all property, real or personal, which may be entitled to exemption hereunder shall be valued

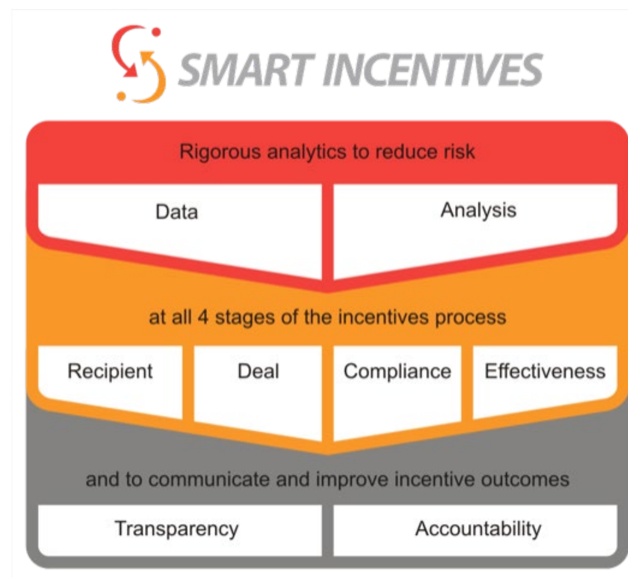
and assessed as is other like property and as provided by law. The valuation and assessment of property for which an exemption is granted hereunder shall be performed by the Tax Commission using one or more of the cost, income and expense and sales comparison approaches to estimate fair cash value in accordance with the Uniform Standards of Professional Appraisal Practice.

H. The Tax Commission shall have the authority and duty to prescribe forms and to promulgate rules as may be necessary to carry out and administer the terms and provisions of this section.

Appendix B: Business Incentives Best Practices

There has been extensive writing around what constitute business incentives best practices. From the project team's review of many sources,[20] it has identified 10 important best practices and sought to incorporate them into the analysis and discussion of this incentive.

As a starting point, business incentives should be viewed as a process, not an event. The award of an incentive and the incentive features are part of that process, and many of the identified best practices reflect that. The process itself should take into consideration each of these factors, which PFM's subcontractor, Smart Incentives, demonstrates in the following illustration:



While the project team believes this is a strong set of best practices, there may well be others that are as (or more applicable) in specific situations. It is also likely that some of the best practices will come into conflict in some situations. For example, application and reporting requirements may reduce the simplicity of business compliance. As a result, these will always be subject to analysis on a case-by-case basis.

The 10 best practices are:

1. **For maximum impact, incentives should be targeted.** Examples of useful targeting include companies or industries that export their goods or services out-of-state; high economic impact companies or industries – such as those with higher wages and benefits, significant job creation, or significant capital investment.

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[20] Three resources in particular were relied upon on putting together the list of best practices. They are "What Factors Influence the Effectiveness of Business Incentives?" The Pew Charitable Trusts, April 4, 2019, accessed electronically at https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/what-factors-influence-the-effectiveness-of-business-incentives; "Improving Economic Development Incentives," Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, 2018, accessed electronically at https://research.upjohn.org/cgi/viewcontent.cgi?article=1000&context=up_policybriefs; "Best Practices for the Design and Evaluation of State Tax Incentives Programs for Economic Development," Matthew N. Murray and Donald J. Bruce, January 2017, included within another evaluation at https://media.al.com/news_mobile_impact/other/AL%20ENTERTAIN%20NEWMKTS%203%209%2017.pdf

2. **Incentives should be discretionary.** In most instances, an application process enables the state government to require company disclosure of information related to eligibility criteria and enables the state to reject applications that do not meet its standards.

3. **Incentives should leverage significant private capital.** Ideally, the incentive should leverage private investment that is at least several multiples of the state investment.

4. **Incentives should provide most of the benefit within 1-3 years and have a limited duration.** Company discount rates are much higher than for the state, and businesses will significantly devalue incentive payments in later years.

5. **Incentives should take into consideration state and/or local as well as industry economic conditions.** Incentives that are provided in high performing areas or for stable and profitable businesses or industries will likely fail the ‘but for test’ – meaning the activity would likely occur without the state incentive.

6. **‘Smart’ incentives help businesses overcome practical barriers to growth.** In particular, customized assistance for locally owned, small and medium-sized businesses can have significant impact.

7. **Incentives should be transparent.** The incentive purpose should be clearly articulated, as are eligibility requirements, and regular, detailed reporting should be required from all program recipients.

8. **Incentives should require accountability.** When upfront financial incentives are offered in return for job creation, retention, or capital investment, there should be contract language in place that allows the state to ‘claw back’ state resources should the company not meet performance requirements.

9. **Incentives should have caps.** To ensure the state’s financial health, program dollar caps or limits should be in place. Incentive programs should also have a limited duration, with sunsets in place to require regular review of incentive performance.

10. **Incentives should be simple and understandable.** The state should be able to easily and effectively administer the incentive, and users should be able to readily comply with its requirements.

Appendix C: IMPLAN Economic Impact Methodology

The economic impact methodology utilized to determine the multiplier effects is IMPLAN (Impact Analysis for PLANning), a proprietary model; PFM has obtained a license for use of the IMPLAN model for these evaluations.

IMPLAN's Social Accounting Matrices (SAMs) capture the actual dollar amounts of all business transactions taking place in a regional economy as reported each year by businesses and governmental agencies. SAM accounts are a better measure of economic flow than traditional input-output accounts because they include "non-market" transactions. Examples of these transactions would be taxes and unemployment benefits.

Multipliers

SAMs can be constructed to show the effects of a given change on the economy of interest. These are called Multiplier Models. Multiplier Models study the impacts of a user-specified change in the chosen economy for 440 different industries. Because the Multiplier Models are built directly from the region-specific SAMs, they will reflect the region's unique structure and trade situation.

Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects which are displayed in the final report. These are the direct, indirect, and induced changes within the economy.

- **Direct** effects are determined by the Event as defined by the user (i.e., a $10 million order is a $10 million direct effect).
- The **indirect** effects are determined by the amount of the direct effect spent within the study region on supplies, services, labor, and taxes.
- Finally, the **induced** effect measures the money that is re-spent in the study area as a result of spending from the indirect effect.

Each of these steps recognizes an important leakage from the economic study region spent on purchases outside of the defined area. Eventually, these leakages will stop the cycle.

Fiscal Impacts

The IMPLAN tax report captures all tax revenue in the study area, across all levels of government that exist in that study area, for the specific industries and institutions affected by an event or group of events. Tax Impact results are based on the collected and reported taxes within the region for the given data year. IMPLAN taxes shown (and collected) are industry and geographically specific. The IMPLAN tax impact report splits the tax impacts into the various tax categories based on the picture of that region's economy. But, there is no industry-specific profile for taxes paid by tax category, so the distribution across tax categories is an all-industry average. While this is a limitation of the IMPLAN fiscal reporting, the IMPLAN tax report serves as an appropriate measure of jurisdictional tax results in the aggregate. Tax results cannot be added to any summary or detailed results as they are already included as a portion of Output. State taxes do not include taxes or district assessments levied by Federal, county, sub-county, city or township governments.

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