



# Oklahoma Incentive Evaluation Commission

## Incentive Evaluation Update

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## Today's Agenda

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



## Introduction

- The following are the incentives under review in 2024:
  - Oklahoma Rural Jobs Program
  - Invest in Oklahoma Program
  - Seed Capital Fund
  - Small Business Incubator Tenants
  - Technology Business Financing Program (TBFP)
  - Historic Rehabilitation Tax Credit
  - Film Enhancement Rebate
  - Film and Television Production Companies Sales Tax Exemption
  - Enterprise Zone Leverage Act
  - Tourism Development Act
  - Quality Events Act
  - Five Year Ad Valorem Tax Exemption



# Oklahoma Rural Jobs Program

- Intent: Allow greater access to capital for qualifying small businesses located in rural areas of the state.
- Started: November 1, 2022
- Last evaluated: First time evaluated
- Program description: Rural Funds, their affiliates or investors may earn a tax credit on the amount equity that they invest in a Rural Fund, which must then deploy as capital expenditures to provide financing for small businesses in rural Oklahoma. Starting in 2022, this program is for six years, and the tax credits are only offered at 15% in years 3-6 after the capital allocation date. At least 10%, or \$2,000,000, of the \$20,000,000 certified capital investment eligible for tax credits, must be raised from sources including directors, members, employees, officers or affiliates of the approved rural fund.
- Financial impact: No data available yet.
- Benchmarking: Missouri, Pennsylvania, Ohio, and Georgia have similar programs providing access to capital for businesses located in rural areas.



# Invest in Oklahoma Program

- Intent: Provide entities in Oklahoma with funds for opportunities to invest in Oklahoma-based private equity funds, venture capital funds, and growth funds.
- Started: November 1, 2021
- Last evaluated: First time evaluated
- Program description: Public entities (such as the Oklahoma Police Pension and Retirement System and the Oklahoma Public Employees Retirement System) can invest up to five percent of their rolling three-year assets under management in Invest in Oklahoma-approved venture capital and growth funds.
- Financial Impact: No data available yet.
- Benchmarking: the PFM team continues search for comparable programs to use in this analysis



# Seed Capital Fund

- Intent: To provide seed investments to innovative Oklahoma businesses.
- Started: November 1, 1987
- Last evaluated: 2022
- Program description: Provides concept, seed and start-up equity investments to innovative businesses.
- Incentive characteristics: Investment terms are typically convertible debt or preferred equity.
- Financial Impact: \$2.76 million in FY2023
- Benchmarking: Three other states, Vermont, Arkansas, and Colorado, have similar seed capital funding programs for early-stage businesses that have high-growth potential.



# Small Business Incubator Tenants

- Intent: To promote, encourage, and advance economic prosperity and employment through the state by creating a more favorable tax climate for tenants of small business incubators in Oklahoma.
- Started: January 1, 1988
- Last evaluated: 2022
- Program description: The State provides an income tax exemption for up to 10 years (from the date of occupancy) for tenants of small business incubators in Oklahoma.
- Financial Impact: Not available
- Benchmarking: Five other states have similar small business incubator programs – Massachusetts, Missouri, New Mexico, New York, and Texas.



# Technology Business Financing Program (TBFP)

- Intent: To incentivize the transfer of technology from corporations to small businesses in the state.
- Started: July 1, 1998
- Last evaluated: 2022
- Program description: Provides funding and financing for and to assist qualified Oklahoma enterprises to commercialize new products, service, technology, innovations, and processes.
- Incentive characteristics: Capped
- Financial Impact: \$0 in FY2023
- Benchmarking: Other states that have similar funding programs include Connecticut, Missouri, Michigan, and New Mexico. New Mexico's program in particular is a grant program with maximum grant amounts of \$25,000.





# Film Enhancement Rebate

- Intent: To create an incentive rebate program for certain film projects and eligible television series projects filmed or produced in Oklahoma.
- Started: January 1, 2001; new bill signed into law May 24, 2021
- Last evaluated: 2020
- Program description: Tax incentive rebates are available to qualified and eligible television and film productions in Oklahoma.
- Incentive characteristics: Capped at \$30 million
- Financial Impact: Not available
- Benchmarking: Many states have film tax credits, however, program and geographic benchmarking for the purposes of this study will primarily centered on similar programs in Arkansas, Colorado, Louisiana, Missouri, New Mexico, and Texas.



# Film and Television Production Companies Sales Tax Exemption

- Intent: To exempt sales tax associated with an eligible production.
- Started: July 1, 1996
- Last evaluated: First time evaluated
- Program description: Tax on 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 may be exempted.
- Incentive characteristics: N/A
- Financial Impact: Not available
- Benchmarking: Texas, New York, and Tennessee have similar tax exemptions.



# Historic Rehabilitation Tax Credit

- Intent: To encourage the rehabilitation and preservation of historic properties in Oklahoma
- Started: January 1, 2001
- Last evaluated: 2020
- Program description: The state offers a tax credit to supplement the Federal historic rehabilitation program. The credit applies to qualified rehabilitation expenditure in connection with any certified historic structure.
- Incentive characteristics: Transferrable, with a 10-year carryforward
- Financial Impact: \$1.69 million (2021-2022 Tax Expenditure Report)
- Benchmarking: Most states offer some version of this program; our analysis will focus on Kansas, Arkansas, Colorado, Missouri, Texas, Louisiana, and New Mexico



# Local Development and Enterprise Zone Incentive Leverage Act

- Intent: To encourage economic development within designated enterprise zones.
- Started: July 1, 2000
- Last evaluated: 2023
- Program description: An enterprise which locates its facility within an enterprise zone or which expands its existing facility after the designation of an enterprise zone is eligible for the state local enterprise matching payment.
- Incentive characteristics: State local government matching payments cannot support any projects related to gambling establishments or any project that provides for more than ten percent of net leasable space for retail purposes. Matching payments cannot exceed \$200,000 per fiscal year.
- Benchmarking: At least 19 states offer similar programs.



# Tourism Development Act

- Intent: 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.
- Started: November 1, 2017
- Program description: Oklahoma's Tourism Development Act promotes investment in new or expanded tourism sites such as entertainment districts, destination hotels, arenas, museums, theme parks, cultural centers and others. Eligible developments enrich quality of life and attract at least 25% of their visitors from out-of-state. For projects that meet requirements, the eligible companies may receive sales tax credits or a sales tax incentive payment annually for up to 10 years up to the amount that is revenue-neutral to the state or 25% of the approved development costs, whichever is lower.
- Benchmarking: States that have similar programs include Arkansas and West Virginia.



# Quality Events Act

- Intent: To incent the attraction and hosting of high-impact events in local Oklahoma markets.
- Started: July 1, 2012 (sunset date: June 30, 2021)
- Last evaluated: 2020
- Program description: Local governments may apply for reimbursement of certain expenses related to hosting a “Quality Event”. The reimbursements are paid using incremental state sales tax revenue attributable to the event.
- Incentive characteristics: Capped at \$3.0 million annually
- Financial Impact: None listed
- Benchmarking: The Texas Events Trust Fund



## Five Year Ad Valorem Tax Exemption

- Intent: The exemption intends to induce manufacturing and other industries to locate and expand in the State and create job and wage growth.
- Started: April 10, 1985
- Last evaluated: 2020
- Program description: The state offers an exemption from ad valorem tax for up to five years for manufacturing facilities including facilities engaged in research and development.
- Incentive characteristics: It is part of the Oklahoma constitution, although the legislature can change eligibility requirements.
- Financial Impact: \$138.6 million (Tax Year 2021; 2022 Ad Valorem Annual Report to the Oklahoma Tax Commission)
- Benchmarking: Comparable programs exist in Alabama, Kansas, Louisiana, Mississippi, South Carolina, and Texas



## Key Takeaways

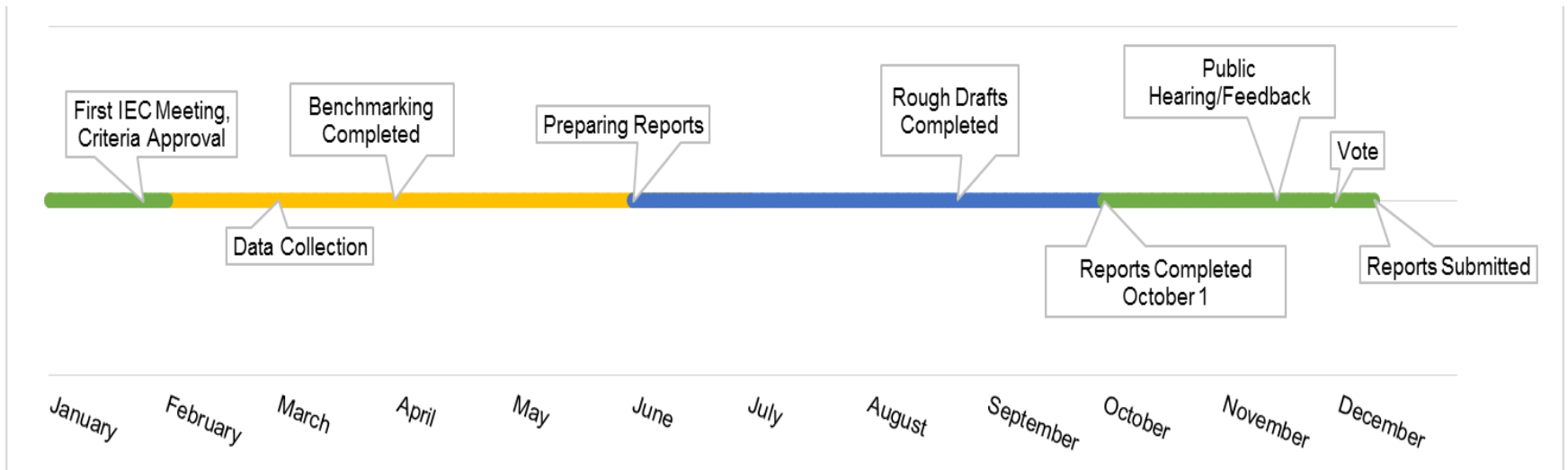
- No states are 'perfect peers' – there are multiple differences in economic, demographic and political factors that must be considered.
- It is exceedingly rare that any two state incentive programs will be exactly the same.
- Generally, Oklahoma's incentive programs are comparable to those offered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





## 2024 Incentive Evaluation Commission Timeline

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





## Next Steps

- We will send a written information request to the entities that administer the programs we are evaluating in the next few weeks.
- We will work with those entities to get the necessary information.
- We will schedule detailed interviews with program leaders and subject matter experts, primarily targeted for once the legislature has completed its 2024 regular session business, but some may occur sooner.
- As in past years, we will provide rough drafts to the Commission in mid-August.
- As the revised statute now provides, draft reports will be submitted by October 1, 2024.



# Questions and Discussion