



Oklahoma Incentive Evaluation Commission

Incentive Evaluation Update

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Today's Agenda

- Discussion of activities since the last Commission meeting.
- Observations from the incentive evaluation working drafts.
- Timeline for the incentive evaluation process.
- Next steps.



Introduction

- The following are the incentives under review in 2024, and the last year reviewed::
 - Oklahoma Rural Jobs Program (New)
 - Invest in Oklahoma Program (New)
 - The Oklahoma Leverage Act (2023)
 - Seed Capital Fund (2022)
 - Small Business Incubator Tenants Tax Exemption (2022)
 - Technology Business Financing Program (2022)
 - Five Year Ad Valorem Tax Exemption (2020)
 - Historic Rehabilitation Tax Credit (2020)
 - Film Enhancement Rebate (2020)
 - Film and Television Companies Sales Tax Exemption (New)
 - Tourism Development Act (2023)
 - Quality Events Act (2020)
- As noted in parenthesis, some of these have not be reviewed before, and a couple just last year.
- Groupings this year are Financing/Venture Capital/Early Business related, and Tourism/Film/Quality of Life related.



Activities since the March Commission meeting

- Data and information request was submitted to the internal administering agencies in early April.
- Worked with the administering agencies to complete the data request. There are a few remaining follow-on items, but they are progressing and nearly all complete.
- On-site internal stakeholder meetings were held May 13-14 and June 18-19.
- The project team visited a Leverage Act site on June 17 and two business incubator sites on June 18.
- External stakeholder MS-Teams virtual meetings with the State Chamber and local Chambers of Commerce were held on July 23, 24, 25, and 26.



2024 Incentive Evaluation Working Drafts

- Non-public working drafts were provided to the Commission members on August 16 and 19.
- Working drafts contain no findings or recommendations, and they do not include an economic impact analysis.
- They typically contain about two-thirds of the final content of the draft evaluations, which are public and due this year on or before October 1, 2024.
- The working drafts provide another opportunity for the Commission members to familiarize themselves with each incentive prior to the evaluations arriving *en masse* on October 1st.
- These had been provided by the project team for several years although not required by statute. Last year's revisions made a working draft part of the Commission consultant's statutory required deliverables.



Incentive Evaluation Project Team Observations

- Oklahoma Rural Jobs Program (New):
 - Nearly identical programs have been created in other states through a similar process.
 - This program's creation appears to have been championed by out-of-state consultants/funds who also participate in the program.
 - Evaluations in other states (for example, in Georgia) have found a poor ROI for these programs.
- Invest in Oklahoma Program (New)
 - There is currently no requirement for public pension funds to participate in this program.
 - Due to the presence of Nondisclosure Agreements in participating funds, it can be difficult to track the success of pension funds' investments associated with this program.
 - Some benchmark programs in other states prioritize ROI of the investment over increasing business activity within the state.



Incentive Evaluation Project Team Observations

- The Oklahoma Leverage Act (2023):
 - Oklahoma’s program is unique in that it provides matching payments (as opposed to tax credits or abatements).
 - States should be cautious when defining what is considered an Enterprise Zone, as they may include residents/businesses that may not need or benefit from the incentive.
 - Recent funded projects include a mixed-use center needed because of military growth and a resort being developed on previously underutilized land.
- Seed Capital Fund (2022)
 - In the past five years, the industries with the most funding have been Computer Software/Information Technology and Biotechnology/Pharmaceutical companies.
 - Over those years, of the 28 firms that received investments, 22 remain in business in Oklahoma, 2 are operating in other states, and 4 have gone out of business.
 - In 2021, the most recent year where we have data, the 28 companies that received funding reported 132 FTE, 100 of which were in Oklahoma, with an average annual wage of \$97,636.



Incentive Evaluation Project Team Observations

- Small Business Incubator Tenants Tax Exemption (2022):
 - The number of state-certified incubators has decreased in the last year.
 - The total and average number of tenants have increased in recent years.
 - The actual financial impact is difficult to determine - the line to claim the exemption on the tax form is commingled with several others, making it difficult to estimate the financial impact of just this claim.
- Technology Business Finance Program (2022)
 - Due to increasing management fees and lack of economic return to the state, OCAST will not be accepting any new applications or disbursing any more advances. New legislative action will be required for any action to be taken on the remaining funds available.
 - In 2023, the most recent data year, only \$40,000 was advanced to companies, compared to \$170,000 in 2022, \$240,000 in 2021, and \$390,000 in 2020.
 - As of FY 2023, the cumulative dollar amount of advances was \$13.1 million and cumulative repayments totaled \$7 million.



Incentive Evaluation Project Team Observations

- Five Year Ad Valorem Exemption (2020):
 - After peaking in 2020 at \$161.2 million, the total reimbursement dropped 30 percent to \$110.3 million in FY 2024.
 - Utilization has been inconsistent. After 525 applications in 2019, the state received 630 in 2020; there were two years of decreasing applications, followed by a jump back up to 617 in 2023.
 - When compared to the United States (4.2 percent), Oklahoma is above average in terms of Manufacturing growth (6.8 percent) and was above average among its benchmark group of states.
- Historic Rehabilitation Tax Credit (2020):
 - Since 2010, the program has been associated with more than \$1 billion in qualified real estate expenses in the State.
 - The program has faced significant headwinds, including COVID-19, inflationary pressures on materials costs, and Federal Reserve interest rate increases.
 - Claims peaked in 2020 at 16, and in 2023, the most recent full year of data, there were just six claims made.



Incentive Evaluation Project Team Observations

- Film Enhancement Rebate (2020):
 - One of the most common incentives, with 38 states offering them, and at least 18 creating new or expanded incentives since 2021.
 - State programs vary widely in magnitude, from Georgia’s uncapped program, New York’s \$700 million cap, to Colorado’s \$5 million cap.
 - With a \$30 million cap, Oklahoma has had some notable successes - Killers of the Flower Moon, Reservoir Dogs, Twister, and won Tulsa King from Missouri because of its incentive, but season two is primarily being filmed in Georgia.
- Film and Television Companies Sales Tax Exemption (New):
 - Pre-dates the Film Enhancement Rebate (1996) but has had only sporadic use.
 - It cannot be used in conjunction with the Film Enhancement Rebate, which limits its value.
 - Benchmark states generally do not limit its use in this way.
 - Likely mostly used when cannot qualify for the Film Enhancement Rebate or have very large sales taxable purchases.



Incentive Evaluation Project Team Observations

- Tourism Development Act (2023):
 - While the amount of overall domestic travel has remained stagnant, the number of visitors to Oklahoma grew by 3.3 percent between 2021 and 2022
 - In the census tracts where funded projects are located, there was a 15.7 percent increase in per capita income when adjusted for inflation in the five years since the projects began; the total number of jobs increased 43.4 percent
 - Benchmark programs in other states required approved projects to be at least \$1 million, as opposed to \$500,000 in Oklahoma.
- Quality Events Program (2020):
 - Reimbursed about \$1.5 million to host communities between FY2018 and FY2024, with five events in FY2024 still being evaluated by the Oklahoma Tax Commission.
 - The cost of the program in terms of reimbursements has been just 7.3 percent of the total statutory maximum.
 - Tulsa (14 events) and OKC (3) represent the vast majority of the awards; all but one event in this period was a national or international sporting event.
 - In the external stakeholder focus groups, this Act was among the most popular,



Next Steps

- The project team is available to answer any questions or comments from the Commission members related to the submitted working drafts.
- The draft evaluations will be provided to the Commission by October 1 (which is a Tuesday).
- PFM will present the findings and recommendations from the draft evaluations at the Commission meeting on October 10th.
- As in past years, PFM will be present at the public hearing (scheduled for October 24th).
- PFM will then provide final evaluations to the Commission.
- PFM will be available to answer questions/make comments at the Commission's decision-making meeting on November 14th.
- PFM will also prepare the draft report on changes to incentives resulting from Commission recommendations, on December 5th.



Next Steps (continued)

- The December 5th meeting contents were impacted by last year's passage of SB 745.
- As with last year, there is a requirement that, by December 15th, the Commission provide to the Legislature and Governor 'a review of prior Commission recommendations, and changes to statute or incentive administration related to incentive evaluation recommendations . . .'
- This requires reviewing statutes and administrative processes, which PFM will do as we did last year.



Questions and Discussion