

# Memorandum

**To:** Oklahoma Incentive Evaluation Commission

**From:** Randall Bauer, Deanna Kimball, PFM

**RE:** Draft 2023 Incentive Evaluation Criteria

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The project team, in conjunction with the Commission's criteria for evaluation subcommittee (Mandy Fuller and Dr. Dauffenbach), has reviewed the incentives that are scheduled for evaluation and recommends the following draft criteria. For comparison, we have also the criteria used for the 2019 evaluations of these incentives.

In reviewing the criteria for evaluation, it is useful to consider the legislative definition of a business incentive that is subject to evaluation. Oklahoma State Statutes, §62-7002 defines an incentives as "a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma." In other words, an incentive is focused on business location, expansion and investment or hiring and retaining employees in Oklahoma. As a result, it is not surprising that most criteria are focused on those outcomes.

## **Economic Development Pooled Finance**

Intent: To encourage local government cooperation in the development of regional infrastructure and economic development projects.

Synopsis: Makes available \$200 million for local government economic development and infrastructure development projects. The incentive targets business expansion projects which include job creation and significant investment in facilities, machinery, and equipment. For debt obligations issued under the Act, there is a maximum maturity of 25 years and a maximum coupon rate of 14 percent. Sixty-five percent of the net proceeds from both the Infrastructure Pool and the Economic Development Pool shall be used by ODFA for municipalities that do not exceed 300,000 people. The remaining 35 percent may be used by the ODFA for any eligible local government.

### 2019 Criteria for Evaluation:

- Job creation associated with financed projects
- Capital investment (facilities, machinery, and equipment) associated with financed projects
- Comparison of performance of similar cities/counties in job creation and capital investment without using the program
- State return on investment

### 2023 Criteria for Evaluation:

- Job creation associated with financed projects
- Capital investment (facilities, machinery, and equipment) associated with financed projects
- Comparison of job creation and capital investment to similar cities/counties not participating in the program
- Contributions to community development, quality of life, or infrastructure
- For infrastructure projects, impact on business/entity's competitive advantage, expansion opportunities, or ability to remain competitive in the geography
- State return on investment

## **Railroad Reconstruction or Replacement Expenditures**

Intent: To enable and encourage private investment in railroad reconstruction or replacement.

Synopsis: Provides an income tax credit equal to 50 percent of qualified railroad reconstruction or replacement expenditures of Class II or Class III railroads. The credit is limited to the product of \$2,000 and the number of miles of railroad track owned or leased within Oklahoma at the close of the tax year. An election may be made to increase the \$2,000 limit to an amount equal to three times the limit, provided only 1/3 of the credit is claimed in any one taxable period. A taxpayer who elected to increase the limitation on the credit is not granted additional credits during the period of election. Credits allowed but not used have a five-year carry-forward and are freely transferable. Beginning tax year 2016, the amount of the calculated credit is reduced by 25 percent.

### 2019 Criteria for Evaluation:

- Program usage
- Private investment associated with the program
- Railroad safety associated with the program
- State return on investment

### 2023 Criteria for Evaluation:

- Program usage, including types of projects funded by the program
- New business activity associated with the railroad improvements
- Private investment associated with the improvements funded by the credits
- Railroad safety associated with the program
- State return on investment

## **The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act**

Intent: Not indicated in statute.

Synopsis: Provides funding for local units of government to match local tax revenue dedicated to support a project located in an enterprise zone, in support of a major tourism destination or in support of a military growth impact. Enterprise Zones can be designated in disadvantaged counties, cities, or portions of cities.

### 2019 Criteria for Evaluation:

- Program usage and amount of layering with other programs
- Oklahoma employment associated with the program
- Capital investment associated with program use
- Results associated with enterprise zones – changes in assessed value of property within zones, case studies, survey results, comparison to similar non-zone area results
- State return on investment

### 2023 Criteria for Evaluation:

- Program usage and amount of layering with other programs
- Oklahoma employment associated with the program
- Capital investment associated with program use
- Results associated with enterprise zones (e.g., changes in assessed value of property within zones, case studies, survey results, comparison to similar non-zone area results)

- Contributions to community development, quality of life, or infrastructure
- State return on investment

## **Training For Industry Program (TIP)**

Intent: Not indicated in statute.

Synopsis: Provides employee training to new or expanding business and industry. Training is provided at no cost to targeted business and industry in selected manufacturing, processing and national or regional offices of business and industry that are creating new employment opportunities or others that have significant economic impact on Oklahoma's economy. These companies are traditionally considered exporters of goods and/or services and importers of capital.

### 2019 Criteria for Evaluation:

- Program usage
- Program applications
- Business workforce impacts – retention before and after program, employee satisfaction survey, evidence of skills development
- State return on investment

### 2023 Criteria for Evaluation:

- Program usage
- Program demand
- Business workforce impacts (e.g., employee retention, earnings or placements, skills development)
- State return on investment

## **Rural Economic Action Plan**

Intent: To remove impediments to economic development in rural areas, in order to alleviate the sometimes-negative effects of lower population density, population decreases, and increased demand for governmental services and in order to maintain a desirable quality of life for residents and other legal entities in rural areas.

Synopsis: Assists small communities, towns, counties, and unincorporated areas with populations under 7,000 by providing funds that can be used in a flexible manner for the general improvement of living and working conditions in predominantly rural areas for which an identifiable need has been determined.

### 2019 Criteria for Evaluation:

- Demand for and usage of the program
- Oklahoma jobs created for participating local governments, and comparisons to similar local governments that do not
- Changes in capital investment for participating local governments, and comparisons to similar local governments that do not
- Quality of life measures – changes in median income, poverty rate, employment within local governments that participate, and comparisons to similar local governments that do not
- State return on investment



2023 Criteria for Evaluation:

- Program usage
- Program demand
- Changes in capital investment for local governments that participate, and comparisons to similar local governments that do not
- Quality of life measures (e.g., changes in median income, poverty rate, employment within local governments that participate, and comparisons to similar local governments that do not)
- Contributions to community development
- State return on investment

## **Aircraft Facilities Sales Tax Exemption**

Intent: To encourage investment in aircraft maintenance and manufacturing facilities.

Synopsis: The Oklahoma Sales Tax Code provides several tax exemptions pertaining to aircraft maintenance or manufacturing facilities:

- Aircraft facility technology
- Aircraft facility construction/expansion
- Aircraft and aircraft parts
- Aircraft repair and modification

2019 Criteria for Evaluation:

- Changes to industry measures – size sector GDP, employment compared to other sectors
- Comparisons of changes in sector versus states with/without similar exemptions
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment
- State return on investment

2023 Criteria for Evaluation:

- Changes to industry measures (e.g., size sector GDP, employment compared to other sectors)
- Comparisons of changes in sector versus states with/without similar exemptions
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment
- State return on investment

## **Computer Services and Data Processing Tax Exemption**

Intent: Not indicated in statute.

Synopsis: As part of the Oklahoma Research and Development Incentives Act, the State provides a sales and use tax exemption on qualified purchases for qualified purchasers primarily engaged in computer services and data processing or research and development.



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- Changes to industry measures – size sector GDP, employment compared to other sectors
- Comparisons of changes in sector versus states with/without similar exemptions
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment
- State return on investment

2023 Criteria for Evaluation:

- Changes to industry measures (e.g., size sector GDP, employment compared to other sectors)
- Comparisons of changes in sector versus states with/without similar exemptions
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment
- State return on investment

## **Construction Materials Tax Exemption**

Intent: To incent the creation of manufacturing jobs in the State of Oklahoma.

Synopsis: Provides a tax exemption on the sales of tangible personal property to a qualified manufacturer or distributor to be consumed or incorporated in a new manufacturing or distribution facility or to expand an existing manufacturing or distribution facility.

2019 Criteria for Evaluation:

- Changes to industry measures – size sector GDP, employment compared to other sectors
- Comparisons of changes in sector versus states with/without similar exemptions
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment
- State return on investment

2023 Criteria for Evaluation:

- Changes to industry measures (e.g., size sector GDP, employment compared to other sectors)
- Comparisons of changes in sector versus states with/without similar exemptions
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment
- State return on investment



## **Spaceport Exemption**

Intent: To encourage investment in the space industry.

Synopsis: Provides various sales tax exemptions for the space industry.

2019 Criteria for Evaluation:

- Change in industry employment over time
- Industry employment relative to other states

2023 Criteria for Evaluation:

- Change in industry employment over time
- Industry employment relative to other states

## **Credit for Employees in the Vehicle Manufacturing Industry**

Intent: Not indicated in statute

Synopsis: Beginning with tax year 2019, a qualified employee is allowed an income tax credit of \$5,000 per year for a period of time not to exceed five years.

2023 Criteria for Evaluation:

- Number and dollar value of approved credits by year of the program
- Employment growth in state vehicle manufacturing industry – comparison to period prior to the credit
- Payroll growth in state vehicle manufacturing industry – comparison to period prior to the credit
- Return on investment.

## **Credit for Tuition Reimbursement for Employers in the Vehicle Manufacturing Industry**

Intent: Not indicated in statute

Synopsis: Beginning with tax year 2019, a qualified employer is allowed an income tax credit for tuition reimbursement to a qualified employee. The amount of the credit is 50% of the tuition reimbursed to a qualified employee for the first through fourth years of employment.

2023 Criteria for Evaluation:

- Number and dollar value of approved credits by year of program
- Employment growth in state vehicle manufacturing industry – comparison to the period prior to the credit



- Payroll growth in state vehicle manufacturing industry – comparison to the period prior to the credit
- Growth of firms in Oklahoma vehicle manufacturing industry with qualified credits paid versus firms without
- Comparison of vehicle manufacturing industry growth in Oklahoma to other states/national growth rates
- Reduction in measures of the 'skills gap' for engineering and technical skills in the vehicle manufacturing industry
- Return on investment

### **Credit for Employers in the Vehicle Manufacturing Industry**

Intent: Not indicated in statute

Synopsis: Beginning with tax year 2019, a qualified employer is allowed an income tax credit for compensation paid to a qualified employee. The amount of the credit is 10% of the compensation paid for the first through fifth years of employment in the vehicle manufacturing industry if the qualified employee graduated from an institution located in Oklahoma; or 5% if the qualified employee graduated from an institution located outside this state. The credit cannot exceed \$12,500 for each qualified employee annually.

2023 Criteria for Evaluation:

- Number and dollar value of approved credits by year of the program
- Employment growth in state vehicle manufacturing industry – comparison to period prior to the credit
- Payroll growth in state vehicle manufacturing industry – comparison to period prior to the credit
- Return on investment.