

**INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
Jan. 24, 2019
Oklahoma State Capitol
Rm. 419-C, 10:00 a.m.
Oklahoma City, Oklahoma**

A meeting notice was filed with the Secretary of State and an agenda posted in accordance with the Open Meeting Act.

MEMBERS PRESENT: Ron Brown, Layperson
Jim Denton, CPA, Auditor of Private Firm
Carlos Johnson, Certified Public Accountant
Dr. Cynthia Rogers, Economist
Lyle Roggow, President of the OK Professional Economic
Development Council
Commissioner Burrage, Ex Officio; Non-voting (Tax Commission)
Interim Director, John Budd (OMES)

MEMBERS ABSENT: Interim Director Kisling, Ex Officio; Non-voting (Dept. of Commerce)

STAFF/GUESTS: Beverly Hicks, OMES
Taylor Ferguson, OTC
Leslie Blair, ODOC
Randall Bauer, PFM
Justin Wood, OCAST
Sandra Shelton, OAC

1. Call to order and establish a quorum. [Lyle Roggow, Chairman]

Chairman Roggow called the meeting to order at 10:03 a.m. A roll call was taken and a quorum was established. Chairman Roggow was advised that notice of the meeting was given and an agenda posted in accordance with the Open Meeting Act.

2. Approval of minutes from the December 6, 2018 meeting. [Chair]

Mr. Denton moved to approve the December meeting minutes. Mr. Brown seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Denton, aye; Mr. Johnson, aye; Dr. Rogers, aye; Mr. Roggow, aye.

3. Discussion of the 2018 evaluation process and how to improve the process moving forward. [Chair]

Mr. Bauer shared his insights and suggestions with the Commission to consider when approaching the next four year cycle beginning in 2020.

4. Presentation and discussion of 2019 Year-Four incentives by PFM Consultant, Randall Bauer. [Chair]

- 1) Oklahoma Seed Capital Fund
- 2) Economic Development Pooled Finance
- 3) Railroad Reconstruction or Replacement Expenditures
- 4) The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act
- 5) Training for Industry Program (TIP)
- 6) Rural Economic Action Plan
- 7) Aircraft Facilities Sales Tax Exemption
- 8) Aircraft Maintenance or Manufacturing Facility Use Tax Refund
- 9) Aircraft Repairs and Modifications
- 10) Computer Services/ Data Processing Tax Exemption/ Telecommunications Tax Refund
- 11) Computer Services and Data Processing Tax Exemption
- 12) Construction Materials Tax Refund
- 13) Spaceport Exemption
- 14) Telecommunications Sales Tax Exemption
- 15) Ethanol Sales Tax Exemption

Mr. Bauer gave an overview on the fifteen incentives that were downsized to twelve due to some of them being in close relation to the other. The computer services and data processing are listed in two places, but are considered one exemption, as is the same for the three aircraft sales tax exemptions.

The following three were eliminated from the list:

- Aircraft Maintenance or Manufacturing Facility Use Tax Refund
- Aircraft Repairs and Modification
- Computer Services/Telecommunications Tax Refund

There are two suggested exemptions that may not qualify for evaluation, which are the Spaceport Exemption that have never been used in terms of tax expenditure reports and the Rural Economic Action Plan (REAP) that appears not to qualify under the definition in the house file that establishes the Evaluation Commission as an incentive for evaluation.

Oklahoma Seed Fund:

Program Type: Equity Investment

Administered by: OCAST/i2E

Program Description: Provides concept, seed and start-up equity investments to Oklahoma's innovative businesses. Investments are focused on industry sectors with technologies and proprietary products, processes, and/or know-how that provide high growth opportunities in addressable markets (e.g. advanced materials, aerospace, agri-sciences, biotechnology, communications technologies, energy, software/information technology, medical devices, nanotechnology, robotics, etc.). The Fund focuses on opportunities that show promise of rapid growth in terms of revenue, increased employment and increased private investment capital.

Financial Impact: \$2.9 million appropriated in FY2019

Proposed Evaluation Criteria:

- Program use

- Amount of capital investment
- Comparison of capital investment in general to capital investment in eligible projects
- Oklahoma jobs created by firms receiving incentive
- Financial performance of the fund
- State return on investment

Oklahoma Community Economic Development Pooled Finance Act:

Program Type: Other

Administered by: Department of Commerce/facilitated by ODFA

Program Description: 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.

Financial Impact: \$12.4 million per original IEC estimates

Proposed Evaluation Criteria:

- 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

Railroad Modernization Income Tax:

Program Type: Tax Credit

Administered by: Tax Commission

Program Description: 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.

Financial Impact: \$1.5 million per FY2017-FY2018 Tax Expenditures Report

Proposed Evaluation Criteria:

- Program use
- Private investment associated with use of the program and in comparison to other programs
- Railroad safety: Derailments and/or pedestrian/car accidents as proxy
- Investment: Purchases of railway ties as proxy

- State return on investment

Oklahoma Local Development and Enterprise Zone Incentive Leverage Act:

Program Type: Grant/Loan Guarantee

Administered by: Department of Commerce

Program Description: 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.

Financial Impact: TBD

Proposed Evaluation Criteria:

- 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

Training for Industry Program (TIP):

Program Type: Other

Administered by: Department of Career and Technology Education

Program Description: 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 or goods and/or services and importers of capital.

Financial Impact: \$0.7 million per original IEC estimates

Proposed Evaluation Criteria:

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

Rural Economic Action Plan (REAP):

Program Type: Grant

Administered by: Department of Commerce

Program Description: 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.

Based on initial review, intent (to “maintain a desirable quality of life for residents and other legal entities in rural areas”) may not qualify for incentive review.

Financial Impact: \$9.2 million appropriated in FY2019

Proposed Evaluation Criteria:

- Program usage
- Oklahoma employment performance for local governments that participate, and comparisons to similar local governments that do not
- Changes in capital investment for local governments that participate, 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

Aircraft Facilities Sales and Use Tax Exemptions:

Program Type: Tax Exemptions

Administered by: Tax Commission

Program Description: 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

Financial Impact: \$2.6 million per FY2017-FY2018 Tax Expenditures Report (*Aircraft Repair and Modification Exemption only; financial impact estimates for other exemptions included in this incentive not available*)

Proposed Evaluation Criteria:

- 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

Computer Services and Data Processing Sales and Use Tax Exemption:

Program Type: Tax Exemption

Administered by: Tax Commission

Program Description: 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. A “qualified purchaser” is any new or expanding business which adds and maintains for a period of at least 36 months at least 10 new full-time in-state employees at an average annual salary of \$35,000 per employee, and is a business which derives at least 50 percent of its annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer (or the federal government).

Financial Impact: TBD

Proposed Evaluation Criteria:

- 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

Construction Materials Sales and Use Tax Exemption:

Program Type: Tax Exemption

Administered by: Tax Commission

Program Description: 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.

Financial Impact: TBD

Proposed Evaluation Criteria:

- 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

Space Industry Sales Tax Exemption:

Program Type: Tax Exemptions

Administered by: Tax Commission

Program Description: Provides several tax exemptions pertaining to the space industry, including sales of tangible personal property or services to any spaceport user and the sale, use, storage, consumption, or distribution of any satellite or associated launch vehicle for the purpose of export by means of launching into space and any space facility, space propulsion system or space vehicle, satellite, or station of any kind possessing space flight capacity.

Financial Impact: \$0

According to several years of Tax Expenditures reports, this incentive is not actively being used.

Proposed Evaluation Criteria:

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

Telecommunications Tax Exemptions:

Program Type: Tax Exemptions

Administered by: Tax Commission

Program Description: Sales of the following telecommunications services are exempt from the tax levied by the Oklahoma Sales Tax Code:

- Interstate and international “800 service,” “900 service” and “private communications services”

- “Value-added non-voice data service”
- Interstate and international telecommunications service which is rendered by a company for private use within its organization or used, allocated or distributed by a company to its affiliated group
- Regulatory assessments and charges, including chargers to fund the Oklahoma Universal Service Fund, the Oklahoma Lifeline Fund and the Oklahoma High Cost Fund
- Telecommunications nonrecurring charges

Financial Impact: TBD

Proposed Evaluation Criteria:

- 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

Ethanol Sales Tax:

Program Type: Tax Exemption

Administered by: Tax Commission

Program Description: The portion of ethanol sold and blended with motor fuel is exempt from sales tax.

Financial Impact: TBD

Proposed Evaluation Criteria:

- 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

Discussion only. No action taken.

5. Discussion and possible action to approve/adopt 2019 Evaluation Criteria. [Chair]

Mr. Denton moved to approve to adopt the 2019 Evaluation Criteria. Mr. Brown seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Mr. Denton, aye; Mr. Johnson, absent; Dr. Rogers, aye; Mr. Roggow, aye.

Mr. Johnson exited the meeting at 11:15 a.m.

6. Discussion and possible action regarding updated evaluation criteria for 2019 Incentives Evaluation. [Chair]

No action taken.

7. Announcements. [Chair]

Next meeting date – April 25, 2019 at 10:00 a.m.

8. New Business [Chair] – None.

9. Adjournment

There being no further business, Mr. Brown made the motion to adjourn. Dr. Rogers seconded the motion. Seeing no opposition, the meeting adjourned at 11:18 a.m.