March 22, 2021

Memorandum

To: Oklahoma Incentive Evaluation Commission

From: Randall Bauer, Dr. Ellen Harpel, PFM

RE: Business Incentive Evaluations and Layering

As has been discussed in past Commission meetings, in many instances, more than one business incentive is provided to a business seeking to locate into or expand its Oklahoma operations. This 'layering' of incentives can make it difficult to isolate the impact of a specific business incentive. The project team has addressed this issue in past evaluations, and there has been discussion about approaches to further account for layering among different incentive programs within the evaluation process.

The project team believes there may be an opportunity (or opportunities) to further identify the level of overlap among different incentives with similar targets, obtain insight into whether layered incentives work well together or are redundant, and incorporate the implications of layering multiple incentives into individual program evaluations. In response, the project team has identified the following methods for the Incentive Evaluation Commission's (IEC's) feedback and consideration.

1. The current approach is to include in each evaluation a section on the potential for layering where overlap among target recipients (such as manufacturers) has been identified. Data and time limitations may hinder a complete listing of the projects receiving multiple incentives and estimating the potential effect on outcomes.
2. Currently, the schedule for evaluation of incentives provides some grouping of similar or overlapping incentives. The current statutory requirement that incentives be evaluated at least once every four years limits additional grouping beyond what was done in the initial 2016 schedule (although the legislature may revise the statute to allow further revision). Allowing more grouping during evaluation periods may make it easier to identify both redundancy and value. For example, in Colorado, a state legislator describing findings from recent evaluations explained, "Our manufacturing tax credit by itself sounds great but when seen in combination with a bunch of others, the benefits look different." (NCSL Evaluators Roundtable 2020)
3. A third approach would be to work with state agencies, primarily the Department of Commerce and the Oklahoma Tax Commission, to identify a set of major projects that have received multiple incentives. The project team could then prepare standalone case studies that would allow the Commission to examine more thoroughly the process through which multiple incentives are offered and the reasons for doing so, their relative value to recipients, and perspectives on effectiveness and efficiency from both the public and private sector. This is not currently part of the incentive evaluation process and may require legislative direction.
4. Alternatively, the project team could prepare a separate report (in lieu of case studies) compiling outcomes for selected projects that receive incentives from multiple programs separately from those that receive only a single program incentive. This approach would

provide less insight into process, value and rationale than the case study approach, but it would still offer valuable information on characteristics and outcomes among projects receiving layered incentives. This also differs from the current statute, which requires each incentive to be evaluated separately and in the aggregate. This ‘project-by-project’ view would also involve local factors that are not currently generally considered for the statewide evaluations.

5. States are increasingly undertaking a strategic review of their incentive portfolio in addition to conducting individual incentive evaluations. The objectives are typically to ensure that incentives are being used in accordance with state economic development priorities and to update programs as needed for an evolving economic and competitive environment. While not a business incentive evaluation per se, this type of review would allow Oklahoma to identify redundancies and clarify how different incentive programs are intended to work together. The findings and recommendations from past IEC program evaluations would play an important role in any strategic review. This, however, is also outside the scope of the statutory charge for the IEC.
6. The project team could pursue more advanced analytical and/or modeling methods to understand the impact associated with interactions among tax incentive programs. Our review of the academic literature has identified several options that may be worth exploring in more detail. For example, it may be possible to adapt the regression methods used by Serrato and Zidar (2018) in their examination of the heterogeneous effects of tax rate changes. Methods and findings related to the federal Housing and Urban Development (HUD) “subsidy layering rule,” associated with the Low Income Housing Tax Credit (Abravenel et al 2010, citing McClure 2000) and other housing programs (Federal Register 2020), may also be applicable.

Resources

NCSL Roundtable on Evaluating Economic Development Tax Incentives. October 2020.

Serrato, Juan Carlos Suarez, and Owen Zidar. 2018. “The Structure of State Corporate Taxation and Its Impact on State Tax Revenues and Economic Activity.” Working Paper Working Paper 23653. NBER Working Paper Series. Cambridge, MA: National Bureau of Economic Research.

Abravanel, Martin, Nancy Pindus, and Brett Theodos. 2010. “Evaluating Community and Economic Development Programs. A Literature Review to Inform Evaluation of the New Markets Tax Credit Program.” Washington, DC: Urban Institute.

https://www.federalregister.gov/documents/2020/02/28/2020-04147/administrative-guidelines-subsidy-layering-review-for-project-based-vouchers