State of Oklahoma
Incentive Evaluation Commission
Draft Industrial Access Road Program Evaluation

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PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

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Key Findings and Recommendations

Overview

The Industrial Access Road program is designed to enhance the efforts of local governments in stimulating industrial activity. The Oklahoma Department of Transportation (ODOT) administers the program and pursues this goal by providing funding for direct access roads from state or local roads directly to new industrial facilities. Funding for the program is appropriated annually by the Legislature and is typically $2.5 million, although program expenses have not exceeded $2.3 million in the last five fiscal years. No changes have been made to the program since it was last evaluated in 2016.

Recommendation: Retain, with modifications

Key Findings Related to Established Criteria for Evaluation

- **The program has provided $5.8 million in funding to 9 qualified road project**s **across 6 counties from FY 2015 through FY 2019.** Tulsa County had the most projects with three, followed by Pottawatomie County with two.

- **Total job creation reported by facilities associated with qualified road projects was 2,105 while $304.5 million of capital investment was reported.** However, there is no post-award reporting or monitoring of whether these job creation and capital investment figures are achieved.

- **The program is appropriated $2.5 million annually but has not awarded its full appropriation in any year from FY 2015 through FY 2019.** Average funding awarded per year was $1.2 million over this period.

- **The Oklahoma Department of Transportation does not collect information related to average wages or total payroll.** This data is critical in determining the program's economic impact.

- **Costs to the State relative to capital investment and job creation provided by projects receiving funding vary widely, from 0.3 percent to 21.0 percent of capital investment and $500 to $59,500 per job.** This may result from the lack of standardized economic development requirements associated with the program. The variance can be addressed through per project caps, such as one the State of Virginia implements for its Road Access Grant Program, which limits funding to 20 percent of qualified investment.

Recommended Program Modifications

- **Incorporate assistance from the Department of Commerce to evaluate the economic impact of projects that are applying for funding.** Some level of joint administration with an economic development agency provides expertise to Departments of Transportation which are typically not well-equipped to evaluate the economic impact of projects. This approach is taken by four of six benchmark programs. A more thorough determination of economic impact would help ODOT prioritize projects and assist in evaluating the impact of the program. Such an arrangement may be similar to Oklahoma's Quality Jobs Program where much of the upfront administration of the program is handled by the Department of Commerce to ensure projects are a net benefit prior to being allowed to receive incentive payments administered by the Tax Commission.

- **Collect average wage of new jobs for each project to further evaluate economic impact.** Wages are a key piece of information missing in what is currently collected by ODOT. Without this information, it is difficult to make a determination of economic impact on the State.

- **Collect information regarding other incentives received by the project.** Formal collection of this information would help evaluators to determine how meaningful the incentive is in inducing location or expansion.

- **Create clear standardized definitions of jobs and capital investment.** One of the challenges of evaluating the economic impact of this program is the lack of detail regarding the jobs and capital investment associated with projects receiving funding. For many of the State's incentive programs, these terms are defined within the program's establishing statute. However, the administrative rules governing the Industrial Access Road Program do not include definitions or requirements for jobs and capital investment. While ODOT has collected jobs and capital investment figures for each of its projects, without these standards there is room for different interpretation from project to project.

- **Create a standard application form.** Four of six benchmark programs provide forms for potential applicants to complete. ODOT currently administers the Industrial Access Road Program via a request letter process. Introducing a standard application form to be completed would streamline administration of the program and provide an opportunity to ask specific questions of applicants. For example, North Carolina's application form asks how the funding would induce the business to locate in North Carolina instead of another state, while Tennessee's application form asks if any property tax breaks were provided to the applying facility.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Industrial Access Road Program, first evaluated in 2016, is one of nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature.

2016 Evaluation Findings and Recommendations

Key findings from PFM's 2016 evaluation of this program are displayed in the following table:

Fiscal and Economic Impact	Available data does not allow for an economic impact analysis.
Adequate Protections for Future Fiscal Impact?	Yes. Because the program is funded through annual appropriations, there is no requirement for ODOT to fund all (or any) projects. Funding can be limited as needed to align with state budget requirements.
Effective Administration?	The program has been designed to minimize the associated administrative burdens. Maximum flexibility has been preserved so that formal metrics do not unintentionally rule out otherwise promising projects. However, the lack of lack of formal metrics, economic data verification and monitoring, or standardized reporting procedures raise concerns about transparency, accountability, and program evaluation.
Achieving Its Goals?	Without more robust data, it is not possible to articulate the economic benefits of this program with any certainty. The data that is available indicated that it is unlikely the Industrial Access Road Program has a meaningful impact on the location decisions of the majority of projects funded.
Changes to Improve Future Evaluation	If the State opts to retain the program, changes to program application requirements, metrics, and funding criteria would be necessary.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this program, the specific goal included in administrative code is to "encourage and assist local efforts toward industrial development".

Additionally, to assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- Change in employment at the state level associated with the road access - comparison to the period prior to the program;
- Change in wages at the state level associated with the road access - comparison to the period prior to the program;
- Change in capital investment at the state level associated with the road access;
- Return on investment – economic impact versus incentive cost;
- Impact on local government cost burden;
- Use with other related business incentives;

- Alignment with local government’s identified economic development and community goals.

Incentive Usage and Administration

Incentive Characteristics

The Industrial Access Road program is designed to enhance the efforts of local governments in stimulating industrial activity. The Oklahoma Department of Transportation (ODOT) administers the program and pursues this goal by providing funding for direct access roads from state or local roads directly to new industrial facilities. Funding for the program is appropriated annually by the Legislature and is typically $2.5 million, although program expenses have not exceeded $2.3 million in the last five fiscal years.

Incentive Administration

Eligibility

An industrial access road is defined in administrative rules as a road "where the only justification for its construction or improvement is the existence of a viable industrial operation at either of its termini." Funds provided by the program cover the paved surfacing of roads. Costs related to the relocation of utilities, grading and drainage must be covered by the local government.

In considering whether to fund an industrial access road project, ODOT reviews criteria mostly related to the details of the road being proposed. For example, the road must provide direct access to an industrial operation from a state or local road, be on a public right-of-way, and be properly maintained by the approved county, city or authority. The only criteria regarding the economic impact of the program is that the magnitude of the industrial operation must be considered in determining funding. In addition to considering the magnitude of a project, ODOT also considers the ratio of capital investment to ODOT funding. According to ODOT, the most common reason a project is denied funding is due to the planned road's route either not taking a direct approach to the planned facility, or not being on public right-of-way.

Despite a limited amount of funding available each year, ODOT has been able to fund each qualifying project that has applied over the last five years. Therefore, there has been no need for a prioritization process in order to rank projects and select qualified projects to fund.

Application

There is no standard application form. To apply for funding through the program, local governments submit an official request letter or email to ODOT. The letter is to include:

- Description of the economic impact of the business or businesses the proposed road will serve;
    - ODOT suggests including the number of new jobs, new investment in the facilities and a construction schedule;
- An indication of local participation in the project;[1]
- A description of the limits of the project including beginning and ending points, length, and industrial facility served;
- A map showing the location of the proposed project.

Administrative Issues

ODOT is thorough in determining the eligibility of proposed projects and is well-qualified to efficiently fund and construct industrial access roads. However, ODOT is not an economic development agency and is not equipped to evaluate the economic impact of proposed projects. Furthermore, the administrative code

[1] Local participation is often a commitment by the local government to cover drainage and grading costs

establishing the incentive offers no guidance as to how to evaluate the economic impact of proposed projects. Despite this lack of guidance, ODOT has collected information on new jobs and capital investment associated with each project it funds. Still, the lack of specificity on how jobs and capital investment should be measured raises several concerns.

As a starting point, there is no definition of new job or capital investment in statute or administrative rules. There is also no payroll requirement, average wage requirement, or qualifying industries list that would typically appear in the establishing statutes of the State's other incentive programs. As a result, no details are known regarding the nature of these jobs, making it challenging to rely on them for economic impact calculations.

Similar concerns are raised for capital investment data. Without a definition of how this is calculated, it is unclear whether these figures can be compared across projects. For industrial park projects, it is especially difficult to draw conclusions from collected data because of the variety of industries and functions the reported jobs and capital investment may apply to.

Critically, there is no definition that stipulates reported new jobs must be new to the State. Local governments apply for program funding and may consider jobs new to their jurisdiction, however it is possible that some of the jobs at a new facility were shifted from another part of the State and should not be considered a new job at the state level.

Historic Use of the Program

From FY 2015 through FY 2019, the Industrial Access program has funded nine projects across six counties. Average funding per project is about $0.6 million, while average capital investment per project is $33.8 million. As discussed previously, a common metric ODOT uses to while evaluating projects applying for funding is the ratio of capital investment to ODOT funds awarded. Across all capital investment and ODOT funding provided over this period, this ratio is nearly 53 to 1.

At the project level, ODOT's costs as a percent of capital investment varies widely, from 0.3 percent to 21.0 percent. Similarly, the cost per job ranges from $500 to $59,500.

Table 1: Program Usage, FY 2015 - FY 2019

Fiscal Year	County	Capital Investment	Jobs	ODOT Cost	ODOT Cost % of Capital Investment	ODOT Cost per Job
2015	Choctaw	$1,000,000	15	$210,000	21.0%	$14,000
2015	Comanche	$50,000,000	700	$960,000	1.9%	$1,371
2015	Tulsa	$160,000,000	1,000	$500,000	0.3%	$500
2016	Tulsa	$20,000,000	80	$235,000	1.2%	$2,938
2017	Garfield	$6,000,000	20	$1,190,000	19.8%	$59,500
2018	Pottawatomie	$2,500,000	40	$357,000	14.3%	$8,925
2019	Kingfisher	$30,000,000	30	$635,000	2.1%	$21,167
2019	Pottawatomie	$10,000,000	100	$275,000	2.8%	$2,750
2019	Tulsa	$25,000,000	120	$1,400,000	5.6%	$11,667

Source: ODOT

Economic and Fiscal Impact

The types of industrial jobs and wages associated with those jobs that might be created by the Industrial Access Program incentive are not reported. The program incentive is generally a very small portion of the overall project investment; as a result, it is unlikely to be a determining factor in the decision to undertake the investment.

At the same time, having quality infrastructure is believed to support operational efficiency and may increase the ad valorem tax value of the facility being served. There is insufficient data available to measure these potential benefits.

Finally, the road construction activity itself provides some amount of direct, indirect and induced economic activity with the associated road construction. This has a measurable and positive economic impact, though it is not associated with permanent industrial job formations.

Incentive Benchmarking

Benchmarking

A detailed description of comparable state programs can be found in **Appendix A.**

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.[2] These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

Many states provide funding for local road development connected to economic development. Benchmarking for this program focused on those programs that are structured similarly to Oklahoma's. These programs include Alabama's Industrial Access Road and Bridge Program, New York's Industrial Access Program, North Carolina's Rail Industrial Access Program, Oregon's Immediate Opportunity Fund, Tennessee's Industrial Access Program, and Virginia's Rail Industrial Access Program. These programs are differentiated by application processes, funding levels, award caps, and administration

Application Process

Alabama, North Carolina, Tennessee and Virginia each have application forms associated with their programs. New York and Oregon have relatively informal application processes, which are similar to Oklahoma's request letter process (although New York provides a very detailed outline of the minimum information required for consideration). New York's program has a suggested application format that outlines in detail the minimum amount of information required for consideration.

Funding Levels

Oklahoma's program is funded through appropriations of $2.5 million per year. This level of funding is relatively low among the comparison group. Tennessee's program is funded by $15 million in FY 2021, Alabama's program is consistently funded at $11 million per year, and Oregon's program receives $7 million in funding each biennium. Despite relatively low funding, ODOT has not denied any awards due to lack of available funds in the last five years.

Award Caps

Oklahoma's program is effectively capped by the $2.5 million appropriation from the Legislature. Other programs control costs through per-project caps. For example, New York has a per-project cap of $1 million while North Carolina limits funding to $400,000 per project. Other caps are based on a percentage of total project costs. Oregon will provide funding up to 50 percent of total road project costs, up to $1 million. Virginia limits funding to $450,000 per locality per fiscal year for its rail grant program. Virginia's road grant program is capped per project in that the grant may cover the full cost of the project up to 20 percent of total investment made by the qualified facility.

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[2] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs.

Administration

Four of the six comparable programs are jointly administered through the department of transportation and an economic development agency. For example, New York's program is administered primarily by the state's Department of Transportation, but each project is also evaluated by the New York Department of Economic Development. In Alabama and Oregon, all applications for funding are processed initially by economic development agencies to evaluate the economic impact and job figures provided by applicants. This joint administration provides some coordination in efforts of the two agencies to enhance economic development around the state. It also provides expertise to transportation agencies in evaluating the economic impact of projects.

There are several other program administration features that are not part of Oklahoma's process. Virginia's program allows the state to clawback awarded funds if certain commitments related to railroad usage are not met. Tennessee collects the average annual wage of new jobs as part of its application in addition to the number of jobs to be created. The State also asks applicants to list any tax abatements received and the value of each. North Carolina requires funding recipients to report job creation and railroad usage metrics to the Department of Transportation for the five years following project completion. Each of these program features provide improved reporting and monitoring of investments, and, in Virginia's case, allows the State to collect funds that were not used as planned.

Benchmarking Program Evaluations

Virginia's Road and Rail Programs

In 2020, Virginia's Joint Legislative Audit and Review Commission (JLARC) evaluated the State's infrastructure and regional incentives including the Road Access Grant Program (Road Program) and the Rail Access Grant Program (Rail Program), both of which are similar in intent and structure to Oklahoma's Industrial Access Road Program.[3] From FY 2010 through FY 2018, the State spent $18.2 million on its Road Program and $8.9 million on its Rail Program. The evaluation determined that the Rail Program returned $0.33 to the State in additional tax revenue for every dollar spent over this period, while this figure was $0.29 for the Road Program. This return rate ranks above average for the State's incentive programs overall, according to JLARC's review.

Similar to Oklahoma's Industrial Access Road Program, Virginia's Road and Rail Programs do not collect follow-up data regarding job creation targets for projects receiving funding, but the evaluation was able to review State employment records to determine if job creation goals were met. The review found that between FY 2010 and FY 2018, 53.0 percent of rail grant-related facilities met their job creation expectations, and this fell to 44.0 percent road grant-related facilities.

To improve the efficiency and impact of the programs, the evaluation's recommendations included:

- Better aligning project selection criteria with Virginia Economic Development Partnership programs to improve economic benefits;
- Collecting actual employment creation in addition to job creation goals in order to improve future evaluations;
- Consider using actual employment performance to determine if grant awards should be recaptured.

New Jersey's Rail Program

[3] Virginia Joint Legislative Audit and Review Commission "Economic Development Incentives Evaluation Series: Infrastructure and Regional Incentives". September 2020. Accessed electronically at: http://jlarc.virginia.gov/pdfs/reports/Rpt536.pdf

New Jersey's Rail Grants Program was evaluated in 2015. The review raised concerns regarding the economic impact of funded projects, similar to those raised in Virginia's evaluation. The economic impact figures reported by applicants are often overstated by applicants. Job creation figures are not verified or subject to reporting in the years following the grant awards. The evaluation recommended considering establishing post-award reporting and monitoring of economic impact goals. This would help to better evaluate the program in the future and create an opportunity for the State to implement a recapture policy based on job creation or other targets. The evaluation also recommended that the New Jersey Department of Transportation, which administers the program, consider either requesting the State's Economic Development Authority (NJEDA) make recommendations on the financial analysis of applicants and post-award monitoring of results, or contract with NJEDA to administer those stages of the program.[4]

[4] New Jersey Department of Transportation "Impact of the Rail Grants Program" March 2015. Accessed electronically at: https://www.nj.gov/transportation/business/research/reports/FHWA-NJ-2015-002.pdf

Appendices

Appendix A: Comparable State Programs

	Oklahoma	Alabama	New York	North Carolina	Oregon	Tennessee	Virginia
Application	Request Letter	Official Application Form	Suggested Application Format	Application Form	Requests Submitted to Business Oregon	Application Form	Application Form
Funding Type	Grant	Reimbursement	60% Grant, 40% interest free loan	Grant	Grant	Grant	Reimbursement
Budget	$2.5 million	$11 million	Not Specified	Not Specified	$7 million, every two years	$15 million	$5.5 million
Per Project Cap	None	None Specified	$1 million	50% of total project costs, up to $400,000	50% of the cost of road improvement, up to $1 million	None Specified	Per locality cap
Per Locality Cap	None	None Specified	None Specified	None Specified	None Specified	None Specified	$450,000
Joint Administration	None	State Finance Director and Treasurer	New York Department of Economic Development	None	Business Oregon	None	Virginia Economic Development Partnership and Virginia Department of Small Business and Supplier Diversity
Other Restrictions			May only be used if conventional funding options do not result in necessary support	Eligible projects must be considering out of state locations; Projects are evaluated based on a point system for the number of new jobs and capital investment associated with the project	May only be used if other sources of funding are insufficient		