



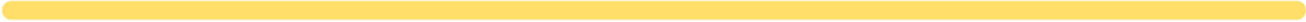
# **State of Oklahoma**

# **Incentive Evaluation Commission**

## **Draft Quick Action Closing Fund Evaluation**

**October 1, 2018**

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**Contents**

Key Findings and Recommendations ..... 3

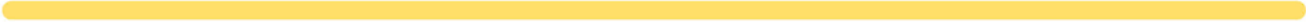
Introduction ..... 6

Incentive Usage and Administration ..... 8

Economic and Fiscal Impact ..... 14

Incentive Benchmarking ..... 17

Appendices ..... 21



# **Key Findings and Recommendations**



## Overview

The Quick Action Closing Fund was established in 2011. The fund provides resources for the Governor to make expenditures to attract high-impact businesses when they are likely to be the deciding factor in a business's location decision. These expenditures typically support infrastructure or capital improvements necessary for relocation of a company, but they can be used for a variety of business needs.

**Overall Recommendation: Based on its review of available data, the project team recommends retaining the program.**

### *Key Findings Related to Established Criteria for Evaluation*

**Through FY2018, the Fund has been used sporadically and did not have a dedicated funding stream.** As a result, the existing data on the program is based on a small sample of projects.

**Projects receiving payments from the Quick Action Closing Fund were expected to create over 1,445 new jobs.** If this number of jobs are created, the State's cost per job would be approximately \$6,500.

**The overall average salary of projected jobs associated with awards is \$68,463 but one project receiving funds projected creating jobs with an average salary of \$33,000.** This is significantly lower than the average annual pay in Oklahoma of \$45,121 per year, detracting from the program's goal of creating high quality employment opportunities in the State.<sup>1</sup>

**Capital investment made by projects receiving payments is over \$712 million.** Capital investments will generally support additional economic activity within the State, although this will vary by the type of capital investment, the industry and its geographic location.

**Three of five companies that have received Quick Action Closing Fund payments have also been awarded Quality Jobs Program contracts.** While incentive 'layering' occurs in many instances, it makes it more difficult to determine the economic impact from any single incentive program.

**There are strong administrative protections contained within the program.** First, awards are required to be revenue neutral (based on a model maintained by the Department of Commerce), this requires that tax revenue is equal to or surpasses funds committed to businesses under the program. Second, there are strong claw-backs in place should the business not meet identified goals for capital investment and jobs, or if the business were to sell the capital investment obtained by the state funding.

### *Other Findings*

**Contributions to the fund from Quality Jobs and 21<sup>st</sup> Century Quality Jobs payments should provide more consistent funding and allow for increased use of the program.** Beginning April 30, 2018, five percent of all Quality Jobs and 21<sup>st</sup> Century Quality Jobs payments made by the Oklahoma Tax Commission for contracts entered into on or after April 30, 2018 will be contributed to the Quick Action Closing Fund. If this policy was implemented in 2012, it would have added a total of \$5.6 million to the fund between 2012 and 2016.

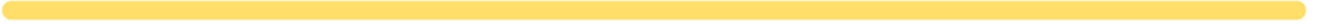
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<sup>1</sup> U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, 2017.



*Changes to improve the program*

**Recommendation 1: Implement a wage threshold for job creation to ensure incentivized jobs are paid higher than average wages.** A stated goal of the program is to provide high quality employment opportunities, but at least one project that has received program funds projected annual salaries for new jobs lower than the statewide average. An official wage threshold would prevent this happening in the future and further the State's interests as high wage employment produces greater return to the State through economic multiplier effects. Benchmarking of similar programs in other states shows four of five comparable programs require wages to be at least equal to the average county wage, while two programs require wages to exceed these averages.



# Introduction



## Incentives Evaluation Commission Process 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. The law also provides that criteria specific to each incentive be used for the evaluation. The first set of 11 evaluations were conducted in 2016, and an additional 12 were conducted in 2017.

The Quick Action Closing Fund is one of 11 incentives scheduled for review by the Commission in 2018. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

## Quick Action Closing Fund Incentive Background

In 2011, the Oklahoma Legislature passed House Bill 1953, creating the Quick Action Closing Fund. There was concern at the time that Oklahoma was at a competitive disadvantage with neighboring states because those states had a closing fund and Oklahoma did not. The fund was created as a way to attract and retain high-impact businesses. The fund provides resources to the Governor to make expenditures to attract high-impact businesses when the expenditures are likely to be the deciding factor in a business's location decision. These expenditures typically support infrastructure or capital improvements necessary for relocation of a company, but they can be used for a variety of business needs.

## 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 legislation is to **attract or retain high-impact businesses to provide high-quality employment opportunities, capital investment, and net economic benefits to the State**. The establishing legislation also notes that without such a fund, the State is at a competitive disadvantage when seeking to attract high-impact businesses.

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

- History of use of the program.
- Jobs/payroll associated with the program.
- Layering of the program with other incentives
- Comparison of job and payroll growth with/without use of this incentive
- Return on investment – economic activity versus financial net cost.

The criteria focus on what are generally considered key goals of incentive programs. Ultimately, incentive programs have to weigh both the benefits (outcomes related to achieving policy goals and objectives) and the costs, and that is also a criterion for evaluation (State return on investment). These will be discussed throughout the balance of the evaluation.



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# Incentive Usage and Administration





## **Program Administration**

The Governor and the Department of Commerce (Department) administer the Quick Action Closing Fund (Fund). While the Department is responsible for the day-to-day administration of the incentive, ultimately all payments made from the Fund must be approved by the Governor.

### *Eligibility*

In order to qualify for payments from the Fund, a company must be engaged in a “basic industry”, as defined in Quality Jobs and 21<sup>st</sup> Century Quality Jobs legislation. The full list of these industries can be found in Appendix B. There are no specific thresholds for job creation, wage or investment levels that must be met in order to qualify for payments. However, as noted in the enacting legislation, the funds are intended for high-impact projects that present major opportunities for the State.

In addition to the industry and the potential impact of a project, the Department also considers the need for additional incentives in order for a prospect to locate or expand in Oklahoma. Quick Action Closing Funds are offered at the discretion of the Department and the Governor only when other State incentive programs, like the Quality Jobs Program, are not enough to close a deal.

The Governor is only able to approve payments after the Department has conducted a full analysis of the project determining that the project will be a net economic benefit to the State. In addition to job creation, average salary, and capital investment, the analysis considers the impact a project may have on the local economy including the likelihood that the project will attract other establishments to the area.

### *Determining Payments*

There is no minimum or maximum payment for qualifying companies, however two factors restrict the amount of payments made. First, the Fund consists of appropriations made by the Legislature and (effective April 30, 2018) five percent of payments made for Quality Jobs and 21<sup>st</sup> Century Quality Jobs Program contracts. This constrains the resources that may be committed by the Governor. Second, the program is designed to be revenue-neutral for the State. This means the award amount must equal the amount of additional tax revenue the State expects to receive, net of increased costs from infrastructure needs and increased public services related to increased employment. The Department is responsible for estimating the State’s net benefit from the project and recommending appropriate award amounts to the Governor.

In order to conduct this analysis, the Department requires the following information in each application for funding:

- Number of jobs to be created or retained
- Average salary of these jobs
- Total capital investment, including the source of investment and whether any investments are pending
- Likelihood of other businesses locating within the same vicinity as a result of the project
- Impact on the economy of the area or community
- Location of the project
- Any necessary infrastructure improvements at the project site
- All investment from local governmental units in support of the project
- History of the company
- NAICS code for qualifying business activity



If the Department determines the project is a net economic benefit to the State, the Director of the Department may recommend to the Governor that funds be awarded. The Governor must present the evaluation and recommendation to the President Pro Tempore of the State Senate and the Speaker of the Oklahoma House of Representatives prior to giving final approval of an award.

If an award is offered, the recipient enters into an agreement with the Department stipulating the following:

- Total amount of funds awarded
- The performance conditions that must be met to obtain the award, including:
  - Net new employment in the State
  - Average salary
  - Total capital investment
  - If appropriate, a baseline of current service and measure of enhanced capability
  - The methodology of validating performance
  - The schedule of payments from the fund, and claw-back provisions for failure to meet performance conditions
  - A requirement that no monies paid from the Oklahoma Quick Action Closing Fund shall be used by a recipient or any other person or entity for purposes of any political contribution to or on behalf of any candidate or for the support of or opposition to any measure including but not limited to an initiative petition or referendum

*Claw-back Provisions*

Each QACF agreement includes claw-back provisions protecting the State against losses in certain situations. In general, if funding is not used for its intended purpose by a date established in the agreement, the award recipient must repay the full award to the State, with interest. Agreements also require that funds used for capital improvements be held in trust for the benefit of the State. If the capital improvement is sold, the award recipient must share a proportionate amount of any profit from the sale and is required to repay all award funds to the State, with interest. Furthermore, each agreement contains requirements for repayment if award recipients fail to meet agreed upon performance conditions.

**Program Funding**

The following table details funding and use over the life of the program. In FY 2012, the initial appropriation to the Fund was made as a transfer from the Economic Development Generating Excellence (EDGE) program, which was discontinued in 2012. The following year, the Oklahoma Legislature appropriated \$3.0 million to the Fund. In FY 2015, an additional \$1.6 million was transferred into the Fund from the Bioenergy Revolving Fund. By 2018, the use of the appropriations had left the Fund with a balance of \$325,000. During the 2018 Legislative Session, \$4.0 million was appropriated for FY 2019 to the Fund.

**Table 1: Appropriations and Payments, FY 2012 to 2018**

| <b>Fiscal Year</b> | <b>Amount Appropriated</b> | <b>Amount Paid</b> | <b>Amount Reserved</b> | <b>Fund Balance</b> |
|--------------------|----------------------------|--------------------|------------------------|---------------------|
| 2012               | \$6,725,049                | \$0                | \$0                    | \$6,725,049         |
| 2013               | \$3,000,000                | \$0                | \$0                    | \$9,725,049         |
| 2014               | \$0                        | \$3,000,000        | \$0                    | \$6,725,049         |
| 2015               | \$1,600,000                | \$0                | \$0                    | \$8,325,049         |
| 2016               | \$0                        | \$4,500,000        | \$0                    | \$3,825,049         |



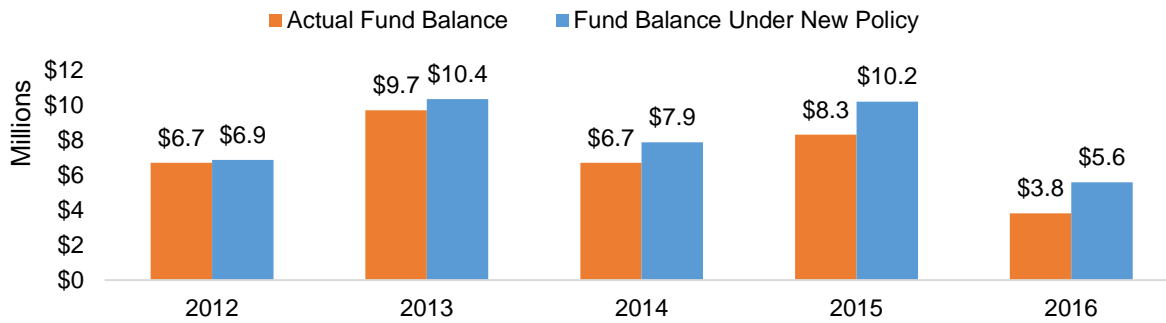
| Fiscal Year  | Amount Appropriated | Amount Paid         | Amount Reserved  | Fund Balance       |
|--------------|---------------------|---------------------|------------------|--------------------|
| 2017         | \$0                 | \$0                 | \$0              | \$3,825,049        |
| 2018         | \$0                 | \$2,650,000         | \$650,000        | \$525,049          |
| 2019         | \$4,000,000         | \$200,000           | \$0              | \$4,325,049        |
| <b>Total</b> | <b>\$15,325,049</b> | <b>\$10,350,000</b> | <b>\$650,000</b> | <b>\$4,325,049</b> |

Source: Oklahoma Department of Commerce

Also during the 2018 Legislative Session, the statute establishing the Fund was amended to require the deposit of five percent of all Quality Jobs and 21<sup>st</sup> Century Quality Jobs payments made by the Tax Commission into the Fund. This requirement only applies to Quality Jobs and 21<sup>st</sup> Century Quality Jobs contracts entered into on or after April 30, 2018. Quality Jobs and 21<sup>st</sup> Century Quality Jobs award payments made to contracts entered into after the effective date are reduced by five percent in order to make this contribution to the Fund.

The new policy should increase the QACF's available funds and reduce the program's reliance on appropriations. Historical data on payments made to Quality Jobs and 21<sup>st</sup> Century Quality Jobs recipients provides some guidance on the resources that will be available to the Fund. For example, if this policy had been implemented in 2012 for contracts starting that year, an additional \$5.6 million would have been contributed to the Fund from 2012 through 2016. In FY 2016, the program's fund balance would have been 46.5 percent higher under the new policy. The following chart illustrates what the impact would have been on Fund balance each year of that period.

**Figure 1: Fund Balance With and Without New Funding Policy**



Source: Oklahoma Tax Commission and Department of Commerce

## Program Use

QACF payments have been made to five companies since 2012. The following are the five:

- General Electric**  
 In March 2013, the Fund's first award was made to General Electric. The company was awarded \$3.0 million to be applied toward the cost of constructing a new facility in Oklahoma City. The full amount of the award was paid in June of 2014.
- Macy's**  
 In March 2014, Macy's was awarded \$1.5 million for the cost of training employees who receive training certificates. The full amount of the award was paid in January 2016.



- *Commercial Metals Company*  
Commercial Metals Company received the Fund’s third award. A total of \$3.0 million was offered to the company to be used toward the cost of a new facility in Durant. The full amount of the award was paid in February 2016.
- *Boeing*  
Boeing was awarded \$2.0 million in July 2015 for an expansion and relocation of its Aircraft Modernization and Sustainment business unit. The full award was paid in August 2017.
- *Sofidel America Corp*  
In October 2017, Sofidel America Corp was awarded \$1.3 million to fund relocation costs related to the construction of a new facility in Rogers County. Half of the award was paid at the time of groundbreaking (June 2018), while the other half is reserved to be paid when 50 percent of the construction is completed.
- *The Greenheck Group*  
The Greenheck Group was awarded \$0.2 million in 2017, and the award was paid in 2018 for building a new facility in Tulsa.

The Department is not able to provide jobs, payroll, and capital investment figures for each individual project for confidentiality reasons, but they have provided aggregate figures as well as more detailed information on four anonymous projects. As of the first quarter of 2018, all projects receiving payments have created or are expect to create 4,820 jobs with a total payroll of \$330 million along with capital investment totaling \$1.1 billion. This represents a cost to the State of \$2,147 per job with payroll per job of \$68,465. It should be noted that these calculations do not account for the additional cost of incentives used in addition to the QACF.

Information regarding the four anonymous projects the Department was able to provide is shown in the following table. Each of these projects present significant opportunities for the State including the creation of hundreds of jobs generally paying high wages. However, Project B’s projected average salary is only \$33,000, 26.7 percent less than the statewide average of annual pay of \$45,000.

**Table 2: Jobs and Employment Data by Project**

| <b>Project</b> | <b>Total Award</b> | <b>Projected Jobs</b> | <b>Projected Average Salary</b> | <b>Capital Investment</b> |
|----------------|--------------------|-----------------------|---------------------------------|---------------------------|
| A              | \$1,000,000        | 575                   | \$146,000                       | \$80,000,000              |
| B              | \$1,500,000        | 420                   | \$33,000                        | \$170,000,000             |
| C              | \$3,000,000        | 230                   | \$119,300                       | \$120,000,000             |
| D              | \$3,000,000        | 220                   | \$60,000                        | \$342,000,000             |

*Source: Oklahoma Department of Commerce*

An analysis of the cost per job associated with these projects shows a wide range of results, from \$1,739 to \$13,636. It also shows the cost per job does not correlate to projected salaries. For example, the cost of Project A’s jobs was \$1,739 at an average salary of \$146,000, while Project B received \$3,571 per job with an average salary of \$33,000.



**Table 3: Salary and Cost per Job by Project**

| <b>Project</b> | <b>Projected Average Salary</b> | <b>Cost per Job</b> |
|----------------|---------------------------------|---------------------|
| D              | \$60,000                        | \$13,636            |
| C              | \$119,300                       | \$13,043            |
| B              | \$33,000                        | \$3,571             |
| A              | \$146,000                       | \$1,739             |

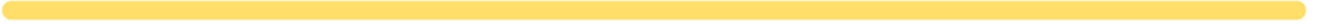
*Source: Oklahoma Department of Commerce*

It should be noted that average salary is just one component of what is considered by the Department in its analysis. Furthermore, each of these projects was determined to be a net benefit to the State in order to receive an award. However, best practices of incentive design suggest incentives should generally be targeted toward high-paying jobs and industries.

### **Program Layering**

Companies receiving more than one incentive is a feature of this program, by design. The incentive is intended for use when other incentive programs are offered, but a relocation or expansion deal is still not closed. QACF awards are meant to finally tip the scale and close a deal. The Department reports that this incentive is often offered in addition to the Quality Jobs program. Both of these programs ensure incented activity is a net benefit to the State as part of the qualification process.

As the Department conducts its net benefit analysis for QACF awards, the value of Quality Jobs incentives is factored into its calculations. Cross-referencing the companies with the Department's Quality Jobs data shows four of six companies that have received Quick Action Closing Fund payments have also been awarded Quality Jobs Program contracts.



# **Economic and Fiscal Impact**



## Economic Impact Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are **Output**, which describes total economic activity and is generally equivalent to a firm's gross sales; **Value Added**, which equals gross output of an industry or a sector less its intermediate inputs; **Labor Income**, which corresponds to wages and benefits; and **Employment**, which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of effects: **direct, indirect, and induced.**

**Direct effects** are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

**Indirect effects** are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

**Induced effects** are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, all other sectors produce an additional \$400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

**Figure 2: The Flow of Economic Impacts**





## Economic and Fiscal Impact

The Department of Commerce uses similar models to assess the net impact of Quality Jobs and Quick Action Closing Fund companies. During the review of the Quality Jobs Program last year, the project team reviewed the Department’s methodology and model to estimate expenses incurred by the State of Oklahoma for employees who will likely move to the state to work at these companies. This approach is a best practice used in many states to help ensure a positive return on investment, while creating an incentive program that achieves its goals of job creation and higher wages. The Department’s methodology is reasonable and consistent with how costs and benefits are calculated in other communities and states. Moreover, the Department excludes the induced impacts from project which is an even more conservative approach to calculating return on investment.

Before offering a Quick Action Closing incentive, the Department calculates the tax impact of the project on the state. The maximum Quick Action Closing incentive that is offered is limited to total taxes generated less any Quality Jobs incentives provided the company. If these two incentive programs are offered to a project, it is likely the project does not have a positive or negative tax revenue impact on the state since the amount offered is closely linked to taxes generated.

To estimate the fiscal impact on the State of Oklahoma, it was assumed the four companies outlined below received the maximum Quality Jobs Program rebate of five percent for newly created taxable payroll.

**Table 4: Use of Oklahoma’s Quick Action Closing Fund**

| Project | Total Award | Jobs Projected | Projected Salary per Job (Avg.) | Private Capital Investment from Incentivized Projects |
|---------|-------------|----------------|---------------------------------|---|
| 1       | \$3,000,000 | 230            | \$119,300                       | \$120,000,000   |
| 2       | \$1,500,000 | 420            | \$33,000                        | \$170,000,000   |
| 3       | \$3,000,000 | 220            | \$60,000                        | \$342,000,000   |
| 4       | \$1,000,000 | 575            | \$146,000                       | \$80,000,000  |

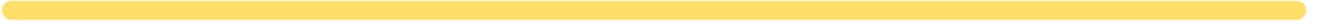
*Source: Oklahoma Department of Commerce*

Using the IMPLAN model, annual economic activity for each company and corresponding tax revenue generated was calculated. Based on the estimated Quality Jobs tax credits received, these projects have a positive ROI for the State of Oklahoma. The following table depicts the statewide annual impact of each project. After taking into consideration the Quick Action Closing Fund, these projects are still cash flow positive for the State within the first few years of the company achieving its required employment and payroll levels.

**Table 5: Total Annual Economic and Tax Revenue Impact per Project**

| Project | Output        | Value Added   | Earnings      | Jobs  | Estimated Quality Jobs Rebate | Est. State of OK Tax Revenue |
|---------|---------------|---------------|---------------|-------|-------------------------------|------------------------------|
| 1       | \$168,100,24  | \$81,272,834  | \$54,726,569  | 840   | \$1,371,950                   | \$3,738,550                  |
| 2       | \$58,918,38   | \$32,661,592  | \$22,668,384  | 628   | \$693,000                     | \$1,502,433                  |
| 3       | \$292,854,230 | \$77,550,598  | \$57,634,680  | 915   | \$660,000                     | \$3,567,328                  |
| 4       | \$803,582,805 | \$231,976,324 | \$150,372,234 | 1,974 | \$4,197,500                   | \$10,670,911                 |





# Incentive Benchmarking



## Benchmarking

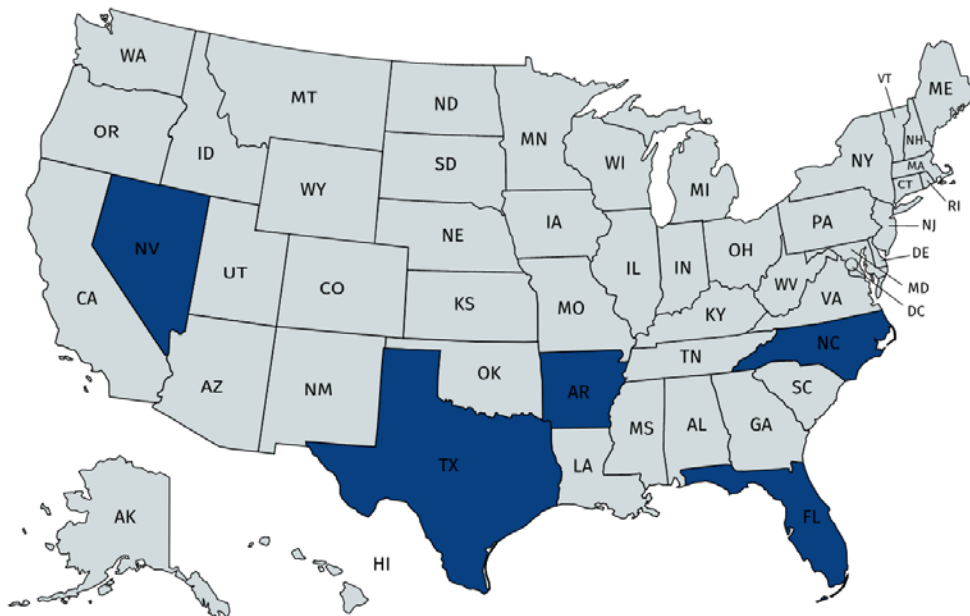
A detailed description of comparable state programs can be found in **Appendix A**.

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.<sup>2</sup> 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.

In the case of the QACF, two neighboring states (Arkansas and Texas) and three additional states (Florida, North Carolina, and Nevada) were found to have similar Quick Action Closing Fund incentive programs. The following discusses some of the key characteristics of these programs.

**Figure 3: States Offering Comparable Investment Tax Credits**



### *Other State Program Background*

**Arkansas'** Quick Action Closing Fund gives the Arkansas Economic Development Commission the authority to use funds to attract business investment in the state when Arkansas is competing with other states for the investment. In FY 2017, the state spent \$8.4 million through the program. Since its creation in 2007, the fund

<sup>2</sup> The primary instances of exactly alike state incentive programs occur when states choose to ‘piggyback’ onto federal programs.



has allocated \$176 million and made payments to 77 projects that have reportedly created or retained 19,860 jobs.

**Florida's** Quick Action Closing Fund is targeted toward industries that are projected to grow, are non-cyclical, high-paying, market and resource independent and adding to State industry diversity. The program provided incentives that averaged \$11.0 million per year from FY 2013 and FY 2015.

**North Carolina's** One North Carolina Fund provides matching grants to local governments to recruit new and expanding businesses. The program is capped at \$28.0 million per fiscal biennium, but expenditures have averaged just \$2.1 million per year from FY 2007 through FY 2016.

**Nevada's** Catalyst Fund is reserved for companies operating in State target sectors.<sup>3</sup> In FY 2017, the program awarded \$8.7 million in state funds.

**Texas'** Enterprise Fund is targeted toward companies that operate in industries that allow them to locate in other states and have the potential to advance the State economy. In FY 2015, \$86.0 million in payments were made by the fund.

*Program Cap*

Only one program in the comparison group, North Carolina's One North Carolina Fund, has a program spending cap (\$28.0 million per biennium). Budget caps are a recommended feature of incentive design to limit the potential fiscal impact of an incentive program. While Oklahoma's QACF does not have a formal cap, it is effectively capped by the availability of appropriations decided by the Legislature and the funding stream of 5 percent of Quality Jobs and 21<sup>st</sup> Century Quality Jobs payments.

*Job Creation Requirements*

Two states, North Carolina and Texas have job creation requirements to receive program benefits. North Carolina requires 20 new jobs while Texas requires at least 75 in urban areas and 25 in rural areas. Oklahoma's Fund does not have a job creation requirement (although the requirement that the awards be revenue neutral would be difficult to achieve without creating or retaining jobs).

*Wage Requirements*

Four states (Florida, North Carolina, Nevada, and Texas) have wage requirements associated with their programs. Oklahoma's Fund has no wage requirements, but has a stated goal of incenting high quality employment opportunities.

**Table 6: Comparable Programs with Wage Requirements**

| State                 | Program Name              | Wage Requirement   |
|-----------------------|---------------------------|--|
| <b>Florida</b>        | Quick Action Closing Fund | Average Annual Wage of at least 125 percent of the areawide or statewide private sector average wage |
| <b>North Carolina</b> | One North Carolina Fund   | At least equal to the county's average wage  |
| <b>Nevada</b>         | Catalyst Fund             | Wages must be "significantly" above the average wage for the relevant occupations in the county      |
| <b>Texas</b>          | Texas Enterprise Fund     | Total average wage for new jobs must meet or exceed the average county wage                          |

<sup>3</sup> Nevada's targeted industries include: aerospace and defense, agriculture, information technology, energy, health care, manufacturing, logistics and operations, mining, tourism/gaming/hospitality



### *Program Cost*

Programs selected for comparison vary widely in cost per year. From 2014 through 2017, on average, Oklahoma paid \$2.4 million per year to QACF award recipients, while Texas' Enterprise Fund spent \$86.0 million in FY 2015.

### *Claw-back Provisions*

Oklahoma's QACF and every comparable state program has a claw-back provision requiring payments to be returned to the State under certain circumstances. These provisions protect States against losses when an award recipient does not properly use funds or fails to meet program requirements.

### **Benchmarking Program Evaluations**

In 2017, a Mercatus Center working paper examined evidence from the Arkansas Quick Action Closing Fund to determine whether it was effective in impacting private employment and establishments. The study found no evidence that the Quick Action Closing Fund created any significant cumulative private employment and establishment benefits at the county level. However, due to the study's focus on county-level impacts, the results do not help to inform the potential impact of the program on state-level benefits.<sup>4</sup>

A 2016 report on North Carolina's One North Carolina Fund examined the cost per job associated with program payments. The report found that from July 2011 through June 2016, the cost per job created by the program was \$7,161. It should be noted that because the One North Carolina Fund provides matching grants to local governments, this is the combined State and local cost per job.<sup>5</sup>

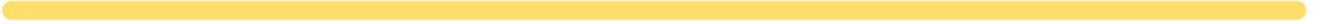
In 2017, Florida House of Representatives Staff conducted an analysis of the impact of repealing several of the State's business tax incentive, including Florida's Quick Action Closing Fund. It estimated the return on investment for the State's Quick Action Closing Fund to be 0.6, meaning for each dollar spent by the fund, the State received \$0.60 in tax revenue.<sup>6</sup>

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<sup>4</sup> Mercatus Center, *Do Business Subsidies Lead to Increased Economic Activity?*, 2017

<sup>5</sup> North Carolina Department of Commerce Labor and Economic Analysis Division, *Economic Development Grant Report*, October 1, 2016

<sup>6</sup> Florida House of Representatives Staff Analysis, March 6, 2017.



# Appendices



## Appendix A: Comparable State Programs

| Quick Action Closing Fund Benchmarking |                           |  |                                    |  |  |  |   |
|--|---------------------------|--|------------------------------------|--|--|--|---|
| State                                  | Program Name              | Industry Requirement   | Aggregate Program Cap              | Annual Program Cost                              | Job Creation Requirements  | Wage Requirements  | Capital Investment Requirements                                     |
| Oklahoma                               | Quick Action Closing Fund | See Appendix B for qualified industries.   | Funding is based on appropriations | \$3 million                                      | No standard requirements   | No standard requirements   | No standard requirements  |
| Arkansas                               | Quick Action Closing Fund | No industry restrictions   | Funding is based on appropriations | \$15 million per year (Average FY 2007-2016)     | No standard requirements   | No standard requirements   | No standard requirements  |
| Florida                                | Quick Action Closing Fund | Industry must be:<br>1. Projected to grow<br>2. Stable, non-cyclical<br>3. High-paying<br>4. Market and resource independent<br>5. Adding to State industry diversity<br>6. Expected to have a positive economic impact<br><br>20 percent of funds dedicated to companies in industries related to aerospace economy | Funding is based on appropriations | \$11.0 million per year (Average FY 2013 - 2015) | No standard requirements   | Average Annual Wage of at least 125 percent of the areawide of statewide private sector average wage | No standard requirements  |
| North Carolina                         | One North Carolina Fund   | No industry restrictions   | \$28,000,000 per fiscal biennium   | \$2.1 million per year (Average FY 2007-2016)    | At least 20 jobs   | At least equal to the county's average wage  | No standard requirements  |
| Nevada                                 | Catalyst Fund             | Must operate in a state target sector  | Funding is based on appropriations | \$8.7 million (FY 2017)                          | No standard requirements   | Wages must be "significantly" above the average wage for the relevant occupations in the county      | No standard requirements  |
| Texas                                  | Texas Enterprise Fund     | Must operate in an advanced industry which affords it other feasible location options nationally and/or internationally  | Funding is based on appropriations | \$86.0 million (FY 2015)                         | Urban areas:<br>more than 75 jobs<br><br>Rural areas:<br>more than 25 jobs | Total average wage for new jobs must meet or exceed the average county wage                          | Must demonstrate "significant" levels of planned capital investment |



Appendix B: Qualified Industries

| <b>Quality Jobs Basic Industries</b>  |                    |
|---|--------------------|
| <b>Industry</b>   | <b>NAICS Codes</b> |
| <b>Adjustment and Collection Services (75% out-of-state debtors)</b>                            | 561440             |
| <b>Agricultural Production</b>  | 112120             |
| <b>Alternative Energy Equipment Installation</b>  | 238160             |
|   | 238220             |
| <b>Alternative Energy Structure Construction</b>  | 237130             |
| <b>Arrangement of Passenger Transportation</b>  | 561510             |
|   | 561599             |
| <b>Central Administrative Offices, Corporate Offices and Technical Services</b>                 | 5611               |
|   | 5612               |
|   | 51821              |
|   | 519130             |
|   | 52232              |
|   | 56142              |
|   | 524291             |
| <b>Certain Communications Services</b>  | 551114             |
|   | 517110             |
|   | 51741              |
| <b>Certain Jobs Related to the Mining of Oil and Gas</b>  | 51791              |
|   | 2111               |
|   | 213111             |
|   | 213112             |
| <b>Certain Refuse Systems that distribute methane gas</b>                                       | 486                |
| <b>Certain Warehouse/Distribution Operations Where 40% of inventory is shipped out-of-state</b> | 5622               |
| <b>Computer Programming, Data Processing and other Computer Related Services</b>                | No Codes Listed    |
|   | 5112               |
|   | 5182               |
|   | 5191               |
|   | 519130             |
|   | 5415               |



Appendix B: Qualified Industries

| <b>Quality Jobs Basic Industries (continued)</b>  |                    |
|---|--------------------|
| <b>Electric Service Companies</b> (90% of energy input sourced in-state, 90% of sales out-of-state)                           | 221111-<br>221122  |
| <b>Engineering, Management and Related Services</b>   | 5412               |
|   | 5414-5417          |
|   | 54131              |
|   | 54133              |
|   | 54136              |
|   | 54137              |
|   | 541990             |
| <b>Federal Civilian Workforce of the FAA</b> Where jobs are migrating to Oklahoma from other Federal sites, or expansion here | No Codes<br>Listed |
| <b>Flight Training Services</b>   | 611512             |
| <b>Grocery Wholesale Distributing</b>   | 4244               |
|   | 4245               |
| <b>Insurance Carriers</b>   | 5241               |
| <b>Insurance Claims Processors Only</b>   | 524210             |
|   | 524292             |
| <b>Manufacturing</b>  | 31                 |
|   | 32                 |
|   | 33                 |
|   | 5111               |
|   | 11331              |
| <b>Miscellaneous Business Services</b>  | 561410             |
|   | 56142              |
|   | 51911              |
| <b>Miscellaneous Equipment Rental</b>   | 5324               |
| <b>Motor Freight Transportation and Warehousing</b>   | 493                |
|   | 484                |
|   | 4884-4889          |
| <b>Offices of Real Estate Agents &amp; Brokers</b> (75% of transaction out-of-state)  | 53120              |
|   | 6215               |
| <b>Other support activities for air transportation</b>  | 488190             |
| <b>Performing Arts Companies</b>  | 7111               |
| <b>Professional Organizations</b>   | 813920             |
| <b>Rail Transportation</b>  | 482                |





Appendix B: Qualified Industries

| <b>Quality Jobs Basic Industries (continued)</b>  |        |
|---|--------|
| Research, development and testing Labs  | 541711 |
|   | 541712 |
|   | 541380 |
| Securities, Commodities, Investments  | 523    |
| Specialty Hospitals   | 62231  |
| Sports Teams & Clubs  | 711211 |
| Support Activities for Rail and Water Transport   | 4882   |
|   | 4883   |
| Transportation by Air, If corporate HQ and some reservation activities are within the state or 75% of air transport sales are to out-of-state consumers | 4811   |
| Transportation of Freight or Cargo  | 541614 |
| Wind Power Electric Generation Equipment Repair & Maintenance   | 811310 |
| <b>50% out-of-state sales requirement for:</b>  |        |
| Funds, Trusts, and other Financial Vehicles   | 525    |
| Insurance Carriers and Related Activities   | 524    |
| Heavy and Civil Engineering Construction  | 237    |
| Motion Picture and Video Industries   | 5121   |
| Professional, Scientific, and Technical Services  | 5411   |
|   | 5412   |
|   | 5413   |
|   | 5414   |
|   | 5418   |
|   | 5419   |
| Sound Recording Industries  | 5122   |