

**INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
Oct. 31, 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
Mandy Fuller, CPA, Auditor of Private Company
Dr. Cynthia Rogers, Economist
Carlos Johnson, Certified Public Accountant
Lyle Roggow, President Designee of the OK Professional Economic Development Council
Comm. Charles Prater, Ex Officio; Non-voting (Tax Commission)
Dow Hughes, Ex Officio; Non-voting (OMES)

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

STAFF/GUESTS: Beverly Hicks, OMES
Taylor Ferguson, OTC
Josh McGoldrick, ODOC for Director Kisling
Randall Bauer, PFM
Jake Lowrey, OMES
Victor Bird, Aeronautics
Ryan Pidde, Mickelson & Co. /Railroad
Nathan Champion, WATCO/SLWC
Judy Petry, Farmrail
Lori Peterson, Okla. Railroad Assoc.
Chad Donoley, AOK Railroad
John Montgomery, Senate
Pat Wall, American Airlines
Jonna Kirschner, Chickasaw Nation Industries
David Oakley, Legis OK
Michael Davis, OK Finance Authority
Amy Walton, OCAST
Lyle Walters, OCAST
Matthew Weaver, ACOG
Max McKnight, ODCTE
Maureen Hammond, Norman
Cliff Branan, Guest
Shawn Ashley, ECapitol

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 Oct. 3, 2019 meeting. [Lyle Roggow]

Ron Brown moved to approve the meeting minutes for October 3rd. Cynthia Rogers seconded the motion. The following votes were recorded and the motion passed:

Mr. Brown, aye; Ms. Fuller, aye; Dr. Rogers, aye; Mr. Roggow, aye.

3. Discussion and public comment on the 2019 Ten Incentives. [Lyle Roggow]

1. Aircraft Facilities Sales Tax Exemption [PFM recommendation: *Reconfigure*]

2. Spaceport Exemption [PFM recommendation: *Reconfigure*]

Mr. Victor Bird, Director of The Oklahoma Aeronautics Commission spoke on both the Aircraft Facilities Sales Tax and Spaceport Exemptions.

3. Railroad Reconstruction or Replacement Expenditures (Railroad Modernization Tax Credit) [PFM recommendation: *Retain*]

Nathan Champion, Stillwater Central Railroad:

Mr. Champion serves as the General Manager of the Stillwater Central Railroad. He informed that many of the short lines operating here in Oklahoma were once part of the larger Class I railroad network. In the 80s and 90s, the lines we now call short line railroads were often marginal, low density lines headed for possible abandonment. Companies like his saw these lines as an opportunity. Instead of them being abandoned, they bought them, did their best to restore and market them to the shippers who make up their customer base today. Many remain marginal in terms of the track infrastructure and, given their high cost of capital, they use the tax credit to help deploy dollars in a manner that best suits their customers' needs. The credit also allows them to compete against other modes of transportation that are highly subsidized by taxpayer dollars.

Chad Donoley, Arkansas Oklahoma:

Mr. Donoley is the Vice President of Marketing for the Arkansas-Oklahoma railroad located in Wilburton, OK. One of the challenges his company faces, like many other short lines, is the cost of improving and rehabilitating track to accommodate the needs and demands of customers. Access to capital is a challenge, making them prudent when budgeting and prioritizing investments on an ongoing basis. Short lines cannot afford maintenance to lapse due to a down year from an otherwise reliable shipper. The tax credit allows them the ability to undertake projects that might otherwise be out of reach and more capital flexibility to meet regular

maintenance to stay ahead of maintenance curve, or add capacity to increase operating efficiencies (ie handle heavier “fully loaded cars”). It has enabled them to undertake several projects to accommodate customer needs. The mechanics of the program have allowed them to complete track work and reinvest. In order to generate tax credits the company must first spend the funds. If the program had a higher per mile cap they could take on additional reinvestment work. It is a critically important program that helps them to budget and plan for the future. As the State looks to attract new business and larger scale industrial development projects it is critical to consider ways to boost this program so short lines are in position to help capitalize on opportunities when they arise. This program will help accelerate critical reinvestment in the rail infrastructure that will lead to new opportunities for the customers and communities.

Judy Petry, Farmrail System, Inc.:

Ms. Petry is President and General Manager of Farmrail System in Clinton, OK. They are an employee owned short line railroad holding company headquartered in Clinton, Oklahoma and operate two Class III short line railroads in Western, Oklahoma. They have been in business since 1981 and got their start by taking over rural low-density track that was previously under-maintained by the Class I's headed for abandonment. Freight railroading is capital intensive. The 2018 of Oklahoma Rail Plan estimates over \$245 million is needed in long-term freight rail funding needs for Oklahoma short line railroads. Short lines have utilized the railroad tax credit to install hundreds of thousands of ties to stabilize and upgrade track. The State needs to continue to invest in heavier rail and upgraded bridges to support heavier railcars. Most Oklahoma short lines can only carry a maximum of 268,000-pound railcars rather than the new industry standard 286,000-pound car. The 70-pound rail needs to be replaced with a minimum of 115-pound rail to carry the heavier loads to assist their shippers in order to maintain competitive. The program is a proven solution that drives private reinvestment and is not a handout, but rather a revolving hand-up as it requires them to invest their own money, allows the transfer of the credit earned and the short lines reinvest the funds received from the transfer back into the track infrastructure. The transferability component is critical as it allows smaller railroads with insufficient cash flow to fund expensive rehabilitation that would otherwise be out of reach. In past, Farmrail has been able to transfer the tax credit to a customer (Halliburton), which gave them the ability to fund more track improvements that enable them to handle more rail business.

Commissioner Johnson entered the meeting during Mr. Donoley's presentation at 10:19 a.m.

4. Rural Economic Action Plan (REAP)[PFM recommendation: *Retain*]

Matthew Weaver, Association of Central Oklahoma Governments (ACOG):

Mr. Weaver, CED Coordinator of Economic Development supports all changes to REAP with the following comments:

- Increase REAP funding AND/OR
- Pair REAP funds with other rural economic development strategies
- Eliminate split sharing provisions between ACOG and INCOG

- Require communities to provide additional information regarding impact of REAP-funded projects.

The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act [PFM recommendation: *Retain*] No public speaker.

Computer Services and Data Processing Tax Exemption [PFM recommendation: *Repeal*] No public speaker.

Construction Materials Tax Exemption [PFM recommendation: *Repeal*] No public speaker.

5. **Economic Development Pooled Finance** [PFM recommendation: *Retain*]

Pat Hall, American Airlines spoke at the meeting.

The Commission received two support letters from the following:

- Maureen Hammond, Interim President and CEO, Norman Economic Development Coalition
- George Wilson, President, Hitachi Computer Products (America) Inc.
- John Cunningham, Manufacturing Director and Melinda Madden, Finance Business Partner, with Goodyear-Lawton Tire & Rubber Company.

6. **Oklahoma Seed Capital Fund** [PFM recommendation: *Retain*]

Amy Walton, Oklahoma Center for the Advancement of Science and Technology (OCAST); Ms. Walton, Director of Government Relations and Strategic Initiatives provided the following:

PFM Seed Capital Fund Report – Working Draft

“Data collection and reporting improvements are needed. Data reported by i2e is collected via an annual survey of all participating firms. The response rate of firms varies from year to year, so there can be no time-series trend drawn from the data. There is also no information collected that identifies the sector where each job is created in or at what stage in the investment’s lifecycle it was created. Other key data for measuring the impact the investment made on each company would be reports of growth in sales and measures of profitability. This cannot be ascertained from aggregate level data collected from the annual survey and reported annually by i2e.”

OCAST/ i2E Comments

“There is also no information collected that identifies the sector where each job is created in or at what stage in the investment’s lifecycle it was created.”

i2E does collect and identify the industry sector of each client company responding to the annual survey. When a company is entered into the i2E CRM database, it is assigned an Industry Code. As companies report new and existing jobs each year, those jobs are associated with the industry sector that is assigned, however, it has not been specifically requested as a part of the reported data for the OSCF in the annual Economic Impact Report submitted to OCAST.

When a company is entered into the i2E CRM database, it is also assigned a Business Stage from a set of six (6) stages that include: Proof of Concept, Seed, Startup, Early, Growth and Mature. Business Stage data is captured at the time of OSCF investment; however, it has not been specifically requested as a part of the reported data for the OSCF in the annual Economic Impact Report submitted to OCAST.

“Other key data for measuring the impact the investment made on each company would be reports of growth in sales and measures of profitability. This cannot be ascertained from aggregate level data collected from the annual survey and reported annually by i2e.”

Sales and profitability data on a company by company basis cannot be reported under i2E’s Confidentiality and Non-Disclosure Agreements with its clients. As a result, sales and revenue data are only reported in the aggregate.

Training for Industry Program (TIP) [PFM recommendation: *Retain*] No public speaker.

The Commission received eight support letters from Ms. Marcie Mack, Director of Career Tech

- Tulsa Tech – Alfa Laval Inc., Broken Arrow
- Aircraft Structures International Corporation (ASIC)
- Great Plains Tech Center – Silver- Line Plastics
- Southern Oklahoma Tech Center – MAC Trailer of Oklahoma
- Great Plains Tech Center – Good Year Tire & Rubber Company
- Tri Country Tech – SP Foundry
- Tulsa Tech – Greenheck Group
- Tulsa Tech – Nordam

4. New Business [Lyle Roggow] None.

5. Adjourn. [Lyle Roggow]

There being no further business, Mr. Brown made the motion to adjourn. Ms. Fuller seconded the motion. Seeing no opposition, the meeting adjourned at 11:13 a.m.