

**INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
JAN. 26, 2023; 10 a.m.
OKLAHOMA STATE CAPITOL
SENATE CONFERENCE ROOM 4S.9
OKLAHOMA CITY, OK 73105**

MEMBERS PRESENT:

Lyle Roggow, President, Designee of the OK Professional Economic Development Council
Carlos Johnson, Certified Public Accountant
Earl Sears, Bartlesville, OK
Mark Wood, Chairman, Tax Commission, Ex-Officio; Non-Voting
Brent Kisling, Director, Department of Commerce, Ex-Officio; Non-Voting

MEMBERS ABSENT:

Dr. Robert Dauffenbach, Economist
Mandy Fuller, CPA, Auditor of Private Company
Dana Webb, OMES designee, Ex-Officio; Non-Voting

STAFF/GUESTS:

| | |
|---------------------------|----------------------------|
| Beverly Hicks, OMES | Patrick Clanin, ODCTE |
| Randall Bauer, PFM | Megan Holden, OTC |
| Jon Chiappi, ODOC | Amanda Hall, State Chamber |
| Charles Lindsey, Outlaw | Wendy Soares, KOKH |
| Shawn Ashley, Quorum Call | Nii-Mensah Nettey, KOKH |

Office of Management and Enterprise Services (OMES) ♦ Public Financial Management Group Consulting LLC (PFM) ♦ OK Department of Commerce (ODOC) ♦ OK Tax Commission (OTC) ♦ OK Department of Career and Technology Education ♦ KOKH-TV OKC (FOX 25)

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

Chairman Roggow called this regular meeting to order at 10:01 a.m. A roll call was taken, and a quorum was established. A meeting notice was filed with the Secretary of State, and the agenda was posted in accordance with the Open Meeting Act.

2. Approval of minutes from the December 8, 2022, Commission meeting:

Rep. Earl Sears moved to approve the meeting minutes for December. Carlos Johnson seconded the motion. The following votes were recorded, and the motion passed:

Mr. Johnson, aye; Mr. Roggow, aye; Mr. Sears, aye.

3. Discussion and possible action on election of Chairperson. [Chair]

Carlos Johnson moved to elect Lyle Roggow to continue to serve as Chairman of the IEC for 2023. Rep. Earl Sears seconded the motion. The following votes were recorded, and the motion passed:

Mr. Johnson, aye; Mr. Roggow, aye; Mr. Sears, aye.

4. Discussion and possible action on election of Vice-Chairperson. [Chair]

Rep. Earl Sears moved to elect Carlos Johnson to continue to serve as Vice-Chairman of the IEC for 2023. Lyle Roggow seconded the motion. The following votes were recorded, and the motion passed:

Mr. Johnson, aye; Mr. Roggow, aye; Mr. Sears, aye.

Mr. Kisling entered the meeting at 10:04 a.m.

5. Report from the Criteria Subcommittee: [Chair]

Mr. Bauer reported that this year's criteria are similar to those from four years ago in 2019, except for a few changes. Some of which were made by the Department of Commerce on the infrastructure aspects of one of the incentives. PFM and the Commission's Criteria Subcommittee developed a set of criteria for 2023 that will be discussed for consideration in the next agenda item (6).

Report only. No action taken.

6. Presentation and discussion on proposed 2023, Year 8 incentives criteria by PFM Consultant Randall Bauer: [Chair]

PFM provided the Commission members with two memos, one outlining the criteria for this year's evaluation and the comparison criteria used for the 2019 evaluation of these incentives. The other memo recommends exempting four of these twelve incentives scheduled for evaluation due to the lack of fiscal impact or activity.

Mr. Bauer reported that today's incentives were reviewed in 2019, except for the last three incentives, which are new and being evaluated for the first time.

Economic Development Pooled Finance

The incentive intent encourages local government cooperation in developing regional infrastructure and economic development projects. It makes available \$200 million for local government economic development and infrastructure development projects. The incentive targets business expansion projects, including 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 the Infrastructure Pool and the Economic Development Pool shall be used for Oklahoma Development Finance Authority (ODFA) for municipalities that do not exceed 300,000 people. The ODFA may use the remaining 35 percent for any eligible local government.

2023 Criteria for Evaluation:

- Job creation associated with financed projects
- Capital Investment (facilities, machinery, and equipment) associated with financed projects
- Comparison of job creation and capital investment to similar cities/counties not participating in the program
- Contributions to community development, quality of life, or infrastructure

- For infrastructure projects, impact on business/entity's competitive advantage, expansion opportunities, or ability to remain competitive in the geography
- State return on investment

Railroad Reconstruction or Replacement Expenditures

The incentive intent is to enable and encourage private investment in railroad reconstruction or replacement. It 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 life and are freely transferable. Beginning tax year 2016, the calculated credit amount is reduced by 25 percent.

2023 Criteria for Evaluation:

- Program usage, including types of projects funded by the program
- New business activity associated with the railroad improvements
- Private investment associated with the improvements funded by the credits
- Railroad safety associated with the program
- State return on investment

Oklahoma Local Development and Enterprise Zone Incentive Leverage Act

The incentive intent is not indicated in statute. It 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.

2023 Criteria for Evaluation:

- Program usage and the amount of layering with other programs
- Oklahoma employment associated with the program
- Capital Investment Associated with program use
- Results associated with enterprise zones (e.g., changes in assessed value of property within zones, case studies, survey results, comparison to similar non-zone area results)
- Contributions to community development, quality of life, or infrastructure
- State return on investment

Training for Industry Program (TIP)

The incentive intent is not indicated in statute. It provides employee training to new or expanding business and industry. Training is provided at no cost to targeted 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 of goods and/or services and importers of capital.

2023 Criteria for Evaluation:

- Program usage
- Program demand
- Business workforce impacts (e.g., employee retention, earnings or placements, skills development)
- State return on investment

Rural Economic Action Plan

The incentive intent is to remove impediments to economic development in rural areas to alleviate the sometimes-negative effects of lower population density, population decreases, and increased demand for governmental services in order to maintain a desirable quality of life for residents and other legal entities in rural areas. It 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.

2023 Criteria for Evaluation:

- Program usage
- Program demand
- Changes in capital investment for local governments that participate, and comparisons to similar local governments that do not
- Quality of life measures (e.g., changes in median income, poverty rate, employment within local governments that participate, and comparisons to similar local governments that do not)
- Contributions to community development
- State return on investment

Aircraft Facilities Sales Tax Exemption

The incentive intent is to encourage investment in aircraft maintenance and manufacturing facilities. 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, and aircraft repair and modification.

2023 Criteria for Evaluation:

- Changes to industry measures (e.g., 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 Tax Exemption

The incentive intent is not indicated in statute. 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.

2023 Criteria for Evaluation:

- Changes to industry measures (e.g., 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 Tax Refund

The incentive intent is to incentivize the creation of manufacturing jobs in the State of Oklahoma. It 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.

2023 Criteria for Evaluation:

- Changes to industry measures (e.g., 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

The remaining four credits/incentives may be exempted from review by the Commission due to criteria not met for evaluation.

Spaceport Exemption

The incentive intent is to encourage investment in the space industry. It provides various sales tax exemptions for the space industry.

2023 Criteria for Evaluation:

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

Credit for Employees in the Vehicle Manufacturing Industry

The incentive intent is not indicated in statute. Beginning with tax year 2019, a qualified employee is allowed an income tax credit of \$5,000 per year for a period not exceeding five years. [*New Incentive*]

2023 Criteria for Evaluation:

- Number and dollar value of approved credits by year of the program
- Employment growth in state vehicle manufacturing industry – comparison to the period prior to the credit
- Payroll growth in state vehicle manufacturing industry – comparison to the period prior to the credit
- Return on investment

Credit for Tuition Reimbursement for Employers in the Vehicle Manufacturing Industry

The incentive intent is not indicated in statute. Beginning with tax year 2019, a qualified employer is allowed an income tax credit for tuition reimbursement to a qualified employee. The amount of the credit is 50% of the tuition reimbursed to a qualified employee for the first through fourth years. [*New Incentive*]

2023 Criteria for Evaluation:

- Number and dollar value of approved credits by year of the program
- Employment growth in state vehicle manufacturing industry – comparison to the period prior to the credit
- Payroll growth in state vehicle manufacturing industry – comparison to the period prior to the credit
- Growth of firms in Oklahoma vehicle manufacturing industry with qualified credits paid versus firms without
- Comparison of vehicle manufacturing industry growth in Oklahoma to other states/national growth rates
- Reduction in measures of the ‘skills gap’ for engineering and technical skills in the vehicle manufacturing industry
- Return on investment

Credit for Employers in the Vehicle Manufacturing Industry

The incentive intent is not indicated in statute. Beginning with tax year 2019, a qualified employer is allowed an income tax credit for compensation paid to a qualified employee. The amount of the credit is 10% of the compensation paid for the first through fifth years of employment in the vehicle manufacturing industry if the qualified employee graduated from an institution located in Oklahoma; or 5% if the qualified employee graduated from an institution located outside this state. The credit cannot exceed \$12,500 for each qualified employee annually. [*New Incentive*]

2023 Criteria for Evaluation:

- Number and dollar value of approved credits by year of the program
- Employment growth in state vehicle manufacturing industry - Comparison to period prior to the credit

- Payroll growth in state vehicle manufacturing industry – comparison to period prior to the credit
- Return on investment

Presentation only. No action taken.

7. Discussion and possible action to exempt 2023 incentives from evaluation due to no activity or use not meeting the fiscal impact threshold of \$1 million for evaluation established by the Commission in 2021: [Chair]

Spaceport Exemption

Credit for Employees in the Vehicle Manufacturing Industry [New Incentive]

Credit for Tuition Reimbursement for Employers in the Vehicle Manufacturing Industry

Credit for Employers in the Vehicle Manufacturing Industry

Rep. Earl Sears moved to accept the recommendation to exempt the four programs presented to the Commission from evaluation. Carlos Johnson seconded the motion. The following votes were recorded, and the motion passed:

Mr. Johnson, aye; Mr. Roggow, aye; Mr. Sears, aye.

8. Discussion and possible action to approve/adopt or take no action until the March meeting on 2023 evaluation criteria by PFM Consultant Randall Bauer: [Chair]

Rep. Earl Sears moved to approve and adopt the evaluation criteria presented by PFM. Carlos Johnson seconded the motion. The following votes were recorded, and the motion passed:

Mr. Johnson, aye; Mr. Roggow, aye; Mr. Sears, aye.

9. Discussion on legislative activities related to the Incentive Evaluation Commission: [Chair]

Chairman Roggow informed the members of impending legislative activities impacting the Commission during this session.

10. Announcements:

Next meeting date –

The next Incentive Evaluation Committee meeting is on March 23rd, at 10 a.m.

11. New Business. [Chair] None.

12. Adjournment

There being no further business, Rep. Earl Sears made the motion to adjourn. Carlos Johnson seconded the motion. Seeing no opposition, the Chair adjourned the meeting at 10:51 a.m.