

**Special Meeting Minutes  
Incentive Evaluation Commission  
Sept. 29, 2016  
Oklahoma State Capitol  
Rm. 419-C, 2:00 p.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  
Jim Denton, Auditor of Private Firm  
Carlos Johnson, Certified Public Accountant  
Dr. Cynthia Rogers, Economist  
Lyle Roggow, President of the OK Professional Economic Development Council  
Secretary Doerflinger, Ex Officio; Non-voting  
Commissioner Cash, Ex Officio; Non-voting  
Secretary Snodgrass, Ex Officio; Non-voting

**MEMBERS ABSENT:** None.

**STAFF/GUESTS:** John Estus, OMES Public Information Officer  
Beverly Hicks, OMES Recording Secretary  
Randall Bauer, PFM  
Byron Schlomach, 1889 Institute  
Jon Chiappe, Commerce  
Zack Lee, FKG  
Jordan Perdue, State Bond Advisors Office  
Lisette Barnes, Barnes Consulting  
Jeremy Stoner, OK Finance Authority  
Shawn Ashley, eCapitol

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

The meeting was called to order by Chairman Roggow at 2:03 p.m. A roll call was taken and a quorum was established. He 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 August 3, 2016, Commission meeting. [Lyle Roggow]**

Mr. Johnson moved to approve the August meeting minutes as clarified by Mr. Denton. Mr. Brown seconded the motion; the motion passed and the following votes were recorded:

Mr. Brown, aye; Mr. Denton, aye; Mr. Johnson, aye; Dr. Rogers, aye; Mr. Roggow, aye.

### **3. Sub-Committee Reports. [Lyle Roggow]**

***Vendor Committee.* [Dr. Rogers, Mr. Brown]**

No updates.

***Scheduling Committee.* [Mr. Roggow, Mr. Johnson]**

No updates.

***Criteria Committee.* [Dr. Rogers, Mr. Denton]**

Dr. Rogers reported that the subcommittee had several meetings with PFM and was appreciative of the consultant's diligence in addressing her many questions. The amount of work that was done was intensive on the consultants' part, as well as the subcommittee doing their due diligence in asking the right questions in developing a good evaluation criteria.

### **4. Discussion and possible action to modify 2016 evaluation criteria for Zero Emission Tax Credit. [Lyle Roggow]**

A memo from PFM was provided to all the members. Mr. Bauer spoke to the fact that based on their continued conversations with subject matter experts and stakeholders related to the eleven incentives that are up for evaluation during this year, the subcommittee reached a conclusion that the criteria for evaluation for the Zero Emission Tax Credit would be better served with some modification. He presented two new criteria for evaluation and suggested two previous criteria be taken off of the list.

New Criteria:

The Zero Emission Tax Credit provides for both economic and financial revenue effect for the State of Oklahoma. Based on what has been identified as goals for incentive, the new criteria is recommended as follows:

- Lease revenue generated by zero emission facilities. Lease payments are subject to personal income tax and will have some impact on the overall tax collections for the State of Oklahoma.
- Change in average price of electricity before / after the tax credit for zero emission facilities. Due to the fact that you are incenting additional facilities; how is that then impacting the supply and price of electricity?
- Previous Criteria:  
In terms of managing the criteria, PFM suggests taking off the list the following two:
  - Reduced carbon emissions related to energy generated by incented facilities – comparison to the period prior to the credit. Such a criteria would be introducing a subject not specifically identified by the Legislature.

- Internal rate of return of eligible projects. This particular credit has a sunset, as such the subcommittee is not certain that it is an area of evaluation that is as necessary as the other two that they suggest to changes.

Mr. Bauer pointed out that when the Commission first adopted the initial evaluation criteria it was always under the impression that it is a working document. As more information was discovered in doing further research that lead them to this recommendation.

Mr. Denton moved that the Commission accept the new criteria and that certain criteria be removed. Mr. Brown seconded the motion; the motion passed and the following votes were recorded:

Mr. Brown, aye; Mr. Denton, aye; Mr. Johnson, aye; Dr. Rogers, aye; Mr. Roggow, aye.

**5. Discussion and possible action to establish annual evaluation report format. [Lyle Roggow]**

The report covers PFM envisioning of how each of the eleven will look in accordance with HB 2182. In a memo that was provided by PFM to the members showed how they envisioned three looks at the data for written evaluations.

There will be a one page or dashboard that identifies both in table, chart and bullet form in terms of questions answered in the evaluations, what recommendations are made, and ultimately the Commission's recommendations to the legislature as it relates to maintaining current programs, removing or modifying them. PFM took each of the requirements in HB 2182 and put it into a format that would allow them to demonstrate in one page through bullets and graphs with tables. The name of the incentive would be displayed at the top, program goals would follow along with table format for five years and in graph format PFM would provide both fiscal and economic impact. For some incentives, ten years information could be presented if needed.

Next, a two to three page executive summary that captures the essence of the sections within the larger report, in much less detail.

Last, the overall report will be around thirty pages.

As much as possible they are going to have a common frame work understanding that some of the programs are different. As in the case of tax incentives vs. grant programs they operate and function differently with a little bit of variation.

Mr. Bauer made known this is a work in progress with a lot of internal discussion and some feedback from stakeholders that are involved in the process.

Mr. Bauer laid out the seven substantial areas of discussion as it relates to HB 2182:

- 1) The criteria and methodology in giving an explanation of what exists and why it exists as it relates to the incentives of the Oklahoma economy or aspects of it that are meant

- to have some positive impact on and investigating the world the incentive lives in, that would include key changes in the program.
- 2) Benchmarking relating to features of the Oklahoma program and how they compare to other states, and what other states have done in the study of their incentives.
  - 3) All evaluations have a fiscal impact analysis. The PFM consultants, as much as possible, have been targeting ten year history of incentive expenditures or disbursements. There are some programs that have not been in existence for ten years and they will work with the data available in those instances. Some analysis will be impacted by legislative changes that have been made during that time frame. PFM will look at the history of source revenues and other impacts, such as lease revenues from zero to facilities that has a financial impact that will not be necessarily be captured by data from the tax expenditure report. There will be an assessment of whether there are adequate protections in place to ensure that the future fiscal impact incentives will not get out of control for the State.
  - 4) Economic Impact will be handled by PFM's colleagues, TXP, who will do input, output modeling as it relates to economic impacts. A quantitative analysis is an important counter weight when talking about cost-benefit analysis, generally looking at the fiscal impact, which often is a cost to the state and then looking at the economic impact which should be a benefit to the state. TXP will recognize and weigh in on qualitative impacts, which does not lend itself as readily to the 'apple-to-apple' comparison.
  - 5) Technical and administrative issues related to each of the incentives where they generally look at them as involving the front end when you come in the door for incentives that have some form of eligibility requirements or some form of application process. While the incentive is in place, PFM will examine what kind of monitoring exists and on the back end, what kind of reporting requirements exist, rather it is tax reporting or something more broad. Some of the programs that are under evaluation do annual reports and they will look at what information is collected for those. It is part of the determination as to whether there are improvements that could be made to the administrative processes that would improve the overall operation of the incentive.
  - 6) PFM will weigh the outcomes to the extent that the legislature has identified them for each of the programs. In some instances there are not readily defined outcomes. PFM is working with those in Oklahoma government to determine what the intended outcomes are.
  - 7) The final category is where the consultant, PFM will make their recommendations to the Commission. Then the Commission determines if they will accept PFM's recommendations as it relates to any reconfiguring of repeal on the incentives in question. There could be changes in the way the program can be administered or structured that would improve the Commission's ability to weigh and evaluate these programs in the future.

Mr. Brown moved to accept as presented. Mr. Denton seconded the motion; the motion passed and the following votes were recorded:

Mr. Brown, aye; Mr. Denton, aye; Mr. Johnson, aye; Dr. Rogers, aye; Mr. Roggow, aye.

**6. Discussion and possible action regarding evaluation criteria for 2017 incentive evaluations.**

Mr. Bauer informed the Commission that his team is looking ahead on the fourteen incentives under consideration for 2017 in developing criteria. PFM has begun the process by having meetings with Dr. Rogers and Mr. Denton and have met with Commissioner Cash and her staff at the Tax Commission and also with internal stakeholders, Mr. Estus, Mr. Messer and Mr. Chiappe. There are multiple iterations in the document that was shown in today's meeting that are still a work in progress, using the same format that was developed for the 2016 criteria.

Mr. Bauer noted the importance of starting to work through the criteria so when it is time to start working on 2017 incentives, his team can get a head start. Therefore, the process becomes an eleven month experience rather than a four month process for the overall review as in 2016.

Mr. Bauer gave a brief background of what PFM's envisions as staff start rating the criteria. He noted, it is unnecessary to cover every single line of the document provided in the meeting. He informed the criteria established is patterned after the 2016 list, due to most incentives having the same kind of overarching goals. It gives the Commission and all parties involved the chance to provide feedback and will help initiate the process early.

He gave an overview on each of the fourteen 2017 evaluations.

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|---|---|
| 1. Capital Gain Deduction                 | 8. Production Enhancement Rebate                            |
| 2. Home Office Tax Credit                 | 9. Economically At-risk-Lease                               |
| 3. Quality Jobs Program                   | 10. Reestablished Production Rebate                         |
| 4. 21 <sup>st</sup> Century Quality Jobs  | 11. Coal Production   |
| 5. Small Employer Quality<br>Jobs Program | 12. Energy Efficient Residential<br>Construction Tax Credit |
| 6. High Impact Quality Jobs<br>Program    | 13. Ethanol Fuel Retailer Tax Credit                        |
| 7. Clean Burning Fuel Vehicle<br>Credit   | 14. Alternative Fuel Vehicle Loans                          |

No action taken.

*Secretary Snodgrass entered the meeting at 2:58 p.m.; Secretary Doerflinger exited the meeting at 3:03 p.m.; Mr. Johnson exited the meeting at 3:12 p.m.*

**7. Updates and Discussion. [Lyle Roggow]**

Chairman Roggow encouraged the members to share their knowledge with members that may need more clarification on some of the incentives and to remember to keep it at two members present when doing so in order to keep with the ethics rule.

The website for the Commission is <http://iec.ok.gov/>

**8. Adjourn. [Lyle Roggow]**

There being no further business, Mr. Brown made the motion to adjourn. Mr. Denton seconded the motion. Seeing no opposition, the meeting adjourned at 3:31 p.m.