INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
April 26, 2018
Oklahoma State Capitol
Rm. 419-C, 1:00 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, CPA, Auditor of Private Firm
Carlos Johnson, Certified Public Accountant
Dr. Cynthia Rogers, Economist
Lyle Roggow, President of the OK Professional Economic Development Council
Secretary Snodgrass, Ex Officio; Non-voting (Dept. of Commerce)

MEMBERS ABSENT: Commissioner Burrage, Ex Officio; Non-voting (Tax Commission)
Denise Northrup, Ex Officio; Non-voting (OMES)

STAFF/GUESTS: Beverly Hicks, OMES
Mary Ann Roberts, OTC
Randall Bauer, PFM
Denise White, OMES
Joe Gappa, OTC
Kalen Taylor, Senate
Jamie Herrera, ODOC

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

   Chairman Roggow called the meeting to order at 1:03 p.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 Jan. 17, 2018 meeting. [Lyle Roggow]**

   Mr. Johnson moved to approve the meeting minutes of January, as amended. Dr. Rogers seconded the motion. The following votes were recorded and the motion passed:

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

3. **Subcommittee reports. [Lyle Roggow]**
   Vendor – None. **Scheduling** – None. **Criteria** – None.

   No action taken.

4. Discussion and update on the progress that include benchmarking and timelines for the incentive being reviewed by PFM Consultant, Randall Bauer. [Lyle Roggow]

1. Energy Efficient Residential Construction Tax Credit
2. Small Business Incubators – Sponsors
3. Small Business Incubators – Tenants
4. Incentives for Inventors
5. New Products Development Income Tax Exemption
6. Quick Action Closing Fund
7. Technology Business Finance Program
8. Technology Transfer Income Tax Exemption
9. Investment/New Jobs Tax Credits
10. Basic and Applied Research Loan/Grant
11. Oklahoma Health Research
12. Oklahoma Applied Research
13. Quality Jobs Investment Act
14. Affordable Housing Act14

Mr. Bauer provided a brief memo to commission members on April 18, 2018 and at the meeting in his presentation is the *Basic and Applied Research Loan/Grant program*. PFM concluded, based on the criteria established in terms of the dollar threshold established by this body during the June 2016 meeting for evaluation, it does not come near to meeting the amount set. He requested that the Commission not evaluate the Basic and Applied Research Loan/Grant program this year.

Mr. Bauer reported that the *Incentives for Inventors* program is essentially the same as the *New Products Development Income Tax Exemption* and has combined the both to one.

He provided the benchmarking results on the thirteen incentives:

1. The *Energy Efficient Residential Construction Tax Credit* is to promote construction on energy efficient residential property. Although it sunset in 2016, it is still subject for review. There is still fiscal impact because the credits are transferrable and can carry forward for four years and impacts on the overall program. The legislature can revisit even though it has sunset.
   - The standards are set for contractors, construction of certain types of property and credit based on efficiency rating. PFM found States with similar programs that have credits, grants, rebates and those that have a slightly different take on the impact. The Congressional Research Service (CRS) had recently reviewed the federal tax credit and in a recent report found it difficult to determine how much of the investment is incented by the credit. People that are interested in this kind of construction would likely do so, even without the incentive. CRS found it difficult to do a cost benefit analysis to determine an amount that incents the amount of activity that would not occur if the incentive did not exist.
2. The *Small Business Incubators* – these types of programs are common. The goal is to incubate a firm, grow it, so that it can be self-sufficient and free standing. It is a long time program, and the incentive is a reduction in income tax while in the incubator state. In Oklahoma the tenant and the sponsor are exempt from State income tax for up to ten years. There is a different qualification in the years six through ten (6-10), where the business has to produce/manufacture products for services to be exported to out of state buyers. There is also a sponsor incentive that is income earned by the sponsor if they are charging rent for their service. Almost all incubators are non-profit if they are hosted by a governmental entity or a 501(c)(3) type of organization.

  - PFM determined the financial impact related to the tenant incentive is how PFM will evaluate it. The position is consistent with the information received from the Tax Commission. There are other States with comparable programs such as Missouri, which are structured differently; it can be as a grant, credit or exemption. In terms of the Missouri study, the program had attracted a significant amount of capital in return for the credits provided by the State. There were recommendations similar to Oklahoma.
3. The *New Products Development Income Tax Exemption* is a significant exemption. The financial impact in 2015 was tremendous. It is a long-standing program and is similar to the other programs in terms of ventures that have royalty income that may be exempt from state taxes for a period of seven years. There can be an exclusion for the cost of depreciable property purchased to manufacture products. The exclusions can carry forward for four years, which is often the case for these type of programs.
   - PFM found three similar programs with minimal variation. Of the three, the West Virginia program is most similar. PFM looked at exempting income vs. tax credits – what the advantages and disadvantages are of those different approaches.
4. The *Quick Action Closing Fund* is a more recent program that is in place in several competing states; most notable is Texas. The financial implications are minimal as is for most states.
   - PFM has had discussions with Department of Commerce and program administrators for the thirteen programs that are looking at a method to provide regular funding or to increase funding in coming years as it relates to the Quality Jobs Program and how those dollars from that program get sent back to the State. Some funds would no longer get sent back to future qualified businesses. Instead, the Quality Jobs Program would be used as a mechanism to fund this program. There were several studies reviewed and the most recent was done on the Arkansas Quick Action Closing Fund. Arkansas did not benefit from the program in terms of increased employment or increased job activity and the types of jobs. PFM will look at attributes that are different or same.
5. The *Technology Business Finance Program* is an arrangement that exist through i2E, a non-profit entity that administers the program. There are awards provided that precede financing of early stage risk capital. These awards are repaid with royalties likely to occur because of investments and the technologies that are developed and is how the program continues to sustain itself.
   - PFM is looking at comparable programs, in particularly at, early stage funding.
6. The *Technology Transfer Income Tax Exemption* allows corporations to exempt up to ten percent (10%) of their revenue that are for qualified small businesses.
   - PFM is working to determine what the financial impact will be to the general fund. Arkansas has a comparable program, but still is quite a bit different.
7. The *Investment /New Jobs Tax Credits* is the biggest program this year in terms of the dollar impact. It is a long-standing program dating back to the 1980 period and is primarily for manufacturers. It is a five-year tax income credit. The credit is the larger of one percent (1%) of qualified investment or five hundred dollars per new employee. The program is capped at twenty-five million dollars and can carry forward for fifteen years or even indefinitely if it generates capital investment. Most credits are generated by jobs as opposed to the capital investment, which is typical and can be found in many States.
   - Oklahoma has a different practice, in that, it allows the credit to be taken over time, as most taxpayers apply for the credit in the first year. On the other hand, the benefit is smaller than what is the median percentage of the comparison group. PFM suspects that on a net-present-value basis, the credit is probably about the same and is based on

how you structure the program. No other program has the spending cap that Oklahoma has put into place. Such cap is often considered a best practice from a finance perspective limiting the impact on a year-to-year basis.

8. The *Oklahoma Health Research* is a 1987 program focused on health and is a significant fiscal income impact of around four million dollars. Several States fund this research. It is a high impact area and the economy is moving more into health as a primary service that people purchase.
   - PFM is able to compare it to three other similar programs.
9. The *Oklahoma Applied Research* is another area that fits in to the programs that were developed in the late 1980s. It provides for matching funding, for non-state dollar investments. The financial impact is in the three to five million-dollar range.
   - PFM found several states with similar kinds of programs. The Maryland program found a two to one return that the state invested in terms of what it generated in economic activity. The Montana review suggested that it was useful for expanding their economy.
10. The *Quality Jobs Investment* is through the Oklahoma Development Finance Authority (ODFA) and has a forty million dollar limitation on the amount that ODFA can put into the program in terms of its resources. There are quite a few programs like this across the country. One comparable is Iowa; when Mr. Bauer at the time was budget director, Iowa put in place a fund-of-funds approach of how to incent more investment in the State.
    - PFM will look more at these. The funding in Oklahoma is significantly less than some of the other states. Ohio's funding is about three times the size, PFM is familiar in terms with how it was funded through tax credits, and PFM will use that knowledge.
11. The *Affordable Housing Act14* credit is new and will be difficult to analyze as to effectiveness, because it only started in fiscal year 2016. It is for populations of less than one hundred and fifty thousand people. There are three counties in Oklahoma that would not qualify. The credit has a four million dollar cap and funding cannot be carried forward for five years. The credits are transferrable because insurance companies are using it to apply credit against their Oklahoma premium taxes. Insurance companies look for an opportunity to purchase a credit that can be transferred. Most are based on federal low income housing tax credit and often a percent of the federal credit can piggyback on the regulations. The Missouri State Auditor in 2017 did an audit on their program and did not find it was a particularly good return on the states investment.
    - PFM will look at the analysis and how it compares to the program in Oklahoma.

Mr. Bauer concluded that through benchmarking PFM has done, PFM found peers for all programs. There are always differences in how programs are administered, what the benefits are and how they are reported. PFM did not find Oklahoma to be outlier in many of the programs and is generally similar in how the other programs operate.

5. Discussion and possible action to exempt the Basic and Applied Research Loan/Grant. [Lyle Roggow]

Mr. Denton made a motion to exempt the Basic and Applied Research Loan/Grant evaluation. Dr. Rogers seconded the motion. The following votes were recorded and the motion passed:

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

6. **Discussion and possible action to approve/adopt 2018 Evaluation Criteria (Year Three) being evaluated by PFM Consultant, Randall Bauer. [Lyle Roggow]**

   The Commission viewed the same criteria in the January 2018 meeting. Notable changes were made and discussed in the meeting as mentioned above in agenda item four.

   Chairman Roggow noted that at the last meeting the Commission failed to accept the criteria when it was presented and that is why it is on the agenda and some changes needed to be made.

   Mr. Brown motioned to approve/adopt the 2018 Evaluation Criteria of Year Three. Dr. Rogers seconded the motion. The following votes were recorded and the motion passed:

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

7. **Announcement: [Lyle Roggow]**

   The next meeting is Thursday, August 23, 2018 at 1:00 p.m., in Capitol Conference Room 419-C.

   No action taken.

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 1:48 p.m.