

**INCENTIVE EVALUATION COMMISSION
REGULAR MEETING MINUTES
Oct. 4, 2018
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
Jim Denton, CPA, Auditor of Private Firm
Dr. Cynthia Rogers, Economist
Lyle Roggow, President of the OK Professional Economic
Development Council
Commissioner Burrage, Ex Officio; Non-voting (Tax Commission)
Secretary Snodgrass, Ex Officio; Non-voting (Dept. of Commerce)

MEMBERS ABSENT: Carlos Johnson, Certified Public Accountant
Denise Northrup, Ex Officio; Non-voting (OMES)

STAFF/GUESTS: Beverly Hicks, OMES
Mary Ann Roberts, OTC
Randall Bauer, PFM
Shelley Zumwalt, OMES
Kalen Taylor, Senate
David Oakley, Legis OK
Nicole Boyles, OEDC/State Chamber
Michael Davis, ODFA
Jeremy Stoner, ODFA
Molly Fleming, The Journal Record

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

Chairman Roggow called the meeting to order at 10:04 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 Apr. 26, 2018 meeting. [Lyle Roggow]

Mr. Denton moved to approve the meeting minutes of April. Mr. Brown seconded the motion. The following votes were recorded and the motion passed:

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

3. Subcommittee reports. [Lyle Roggow]

Vendor – Scheduling – Criteria – None. No action taken.

4. Discussion and update on report of 2018 incentives (Year Three) by PFM Consultant, Randall Bauer, Deanna Yocco, Kevin Watters and Travis James. [Lyle Roggow]

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

Mr. Bauer presented a total of 11 incentives that were evaluated. HB2182 definitions are guides for evaluation: Business incentives are defined as “A tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma.” Recommendations focus on “how Oklahoma can most effectively achieve the incentive’s goals.” The evaluation should weigh specific versus broad goals related to business location/expansion/investment and jobs. Each incentive is evaluated based on established criteria. Based on the analysis, a recommendation to retain, reconfigure, or repeal is given or, the Commission is free to make their own recommendation. The project team has also provided possible alternative recommendations to guide Commission discussion.

1. ***Energy Efficient Residential Construction Tax Credit [Repeal]*** – The key findings: The number of energy efficient residential properties constructed in the State has declined over time; similar declines have occurred in half of the surrounding states. Recommendation: The project team concurs with the repeal of the program. Changes to improve future evaluations, if the program is re-enacted: Continue to improve the data collection process. Consider making credits refundable instead of transferable. Alternatively, consider replacing tax credits with grants or rebates.
2. ***Small Business Incubators (Sponsors [Repeal] & Tenants [Retain])*** – Key findings: Current tenants of the State’s 31 incubators are primarily manufacturing firms but range from small service companies to high-tech research and development operations. State’s incubators have aided in the creation of more than 3,000 Oklahoma jobs over the lifetime of the program. Payroll of incubator tenants appears to increase over time. Given the data limitations associated with this program, it is difficult to document the annual economic and tax impact of incubators, but it is likely the return on investment to the State is breakeven or positive. Recommendation: Retain the income tax exemption for tenants and repeal the exemption for sponsors.
3. ***New Products Development Income Tax Exemption (Incentives for Inventors) [Repeal]*** – Key findings: Program cost, in terms of individual income tax exempted, has been increasing – from \$58,000 in 2011 to \$344,000 in 2015. The OTC does not calculate the total amount of income excluded by manufacturers as part of this program. Based on available data, the State’s return on investment for the inventor royalty income tax exemption is negative. Two companies have been responsible for over 82 percent of total product registration applications from July 1, 1998 through July 1, 2017. Of the companies registered with OCAST for the royalty tax exemption, 3 of the 24 companies have also received the Investment/New Jobs Tax Credit. Recommendation: Repeal. Improve data processing in order to collect and report the total cost of corporate tax exemptions.

4. **Quick Action Closing Fund [Retain]** – Key findings: Through FY2018, the Fund has been used infrequently and did not have a dedicated funding stream. Projects receiving payments from the Quick Action Closing Fund were expected to create over 1,445 new jobs and \$712 million in capital investment. 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 \$33,000. Four of the six companies that have received Quick Action Closing Fund payments have also been awarded Quality Jobs Program contracts. There are strong administrative protections contained within the program. Contributions to the fund from Quality Jobs and 21st Century Quality Jobs payments should provide more consistent funding and allow for increased use of the program. Recommendation: Retain. Implement a wage threshold for job creation to ensure incentivized jobs are paid higher than average wages.
5. **Technology Business Finance Program [Retain, with changes]** – Key findings: There is insufficient data to determine the economic impact of the program. Lack of appropriations may be dampening the impact of the program. Approximately half of the total amount of advances made have been repaid. Technology Business Finance Program portfolio companies have a four-year survival rate of 63.5 percent, which is above the rate for all businesses in Oklahoma. Based on current trends, the program is projected to be able to operate without appropriations for at least another decade, but it will eventually exhaust its funds. Recommendation: Retain, with changes. Require program participants to respond to annual surveys. Modify the annual survey to collect data determining the Oklahoma presence of program participants.
6. **Technology Transfer Income Tax Exemption [Reconfigure]** – Key findings: The Oklahoma Tax Commission is unable to provide data on the use of the exemption. Other states seeking to support small business technology transfers use different methods. Recommendation: Reconfigure. Based on the lack of comparable programs, and lack of data available to estimate its cost and benefit, the project team recommends requiring additional data to be collected and evaluated prior to determining whether to retain or repeal the program. The following information should be collected by OTC in the future to improve evaluation of the program's impact: - Amount of tax exemptions per year - Number of tax exemptions per year - Amount of gross proceeds from technology transfer associated with the exemption - North American Industry Classification System (NAICS) codes associated with transferors and transferees - Description of the technology being transferred.
7. **Investment /New Jobs Tax Credits [Reconfigure]** – Key findings: There are \$557.4 million of unused carried forward credits, as of 2015. An analysis of 2016 returns claiming the credit shows 245 new claims reporting total capital investment of \$2.0 billion and 737 new jobs. Capital investment associated with new 2016 credit claims accounts for about 88 percent of total manufacturing capital expenditures in the State that year. Almost half of all claims qualify for the doubled credit by locating in an Enterprise Zone or investing \$40 million or more. The nominal tax benefit for a manufacturer receiving both the Investment Tax Credit and the Five Year Ad Valorem Exemption for manufacturers can equal more than 59.5 percent of the original value of a capital investment. Data collected by the Oklahoma Tax Commission (OTC) is sufficient for economic impact analysis. Recommendation: Reconfigure. Benefit changes: Award credits only in the year the investment is made or when new jobs are created. Limit the credit carryforward period to five years. Reduce the credit amount to equal four percent of capital investment or \$2,000 per new job. Implement strict reporting requirements and claw-back provisions. Eligibility: Restrict credit eligibility to specific industries. Restrict the credit to only capital expenditures for new or expanding facilities, rather than capital replacement.

Increase the wage requirement for new jobs. Other changes: Maintain a cap on annual expenditures for tax credits awarded prior to implementation of credit changes. Improve Data Collection. Commissioner Burrage mentioned that the Oklahoma Tax Commission's system is designed to collect information related to tax compliance, primarily. Recommendations are welcome but may not all be achievable.

8. **Oklahoma Health Research [Retain, with modifications]** – Key findings: More than \$85 million in Health Research awards have been made; recipients are primarily public colleges and universities, accounting for between 70 and 89 percent of annual program funding since its inception. A total of 277.5 new or retained jobs are attributable to 138 Health Research awards made between 2010 and 2016. NIH funding in Oklahoma has increased steadily over the past 25 years, but lags other states; State's direct investment in health-related R&D is significant. Recommendation: Retain, with modifications. OCAST should collect more detailed information from current and former grant recipients to allow for consistent analysis. It is critical to track business activity and funding sources prior to obtaining State financial support and after the State monies have been spent to measure the long-term effect of the program. If a successful product or company is developed, the location of where the product is sold, supported and manufactured should be identified.
9. **Oklahoma Applied Research [Retain, with modifications]** – Key findings: OCAST has provided \$96.4 million in OARS awards since the program's inception. A total of 160 new or retained jobs are attributable to 53 OARS awards made between 2012 and 2016. Statewide employment in the scientific R&D services industry decreased by 37.6 percent from 2001 to 2017. Utility patents granted in Oklahoma peaked in 1966 at 937 and have trended downward over time (a CAGR of -0.3 percent during the time period). Recommendation: Retain, with modifications. OCAST should collect more detailed information from current and former grant recipients to allow for consistent analysis. It is critical to track business activity and funding sources prior to obtaining State financial support, and after the State monies have been spent to measure the long-term effect of the program. If a successful product or company is developed, the location where the product is sold, supported and manufactured should be identified.
10. **Quality Jobs Investment Act [Repeal]** – Key findings: The program has a negative balance due to poor investment performance. No program investments have been made since 2007. The variable interest rate on the outstanding bonds creates the potential for the costs of the Program to increase in the future. At the maturity date of the bonds, the Program is projected to have a balance of -\$6.2 million. Recommendation: Repeal.
11. **Affordable Housing Act¹⁴ [Retain, with modifications]** – Key findings: Since the introduction of the State tax credits, the number of new affordable housing projects funded in Oklahoma has increased. Since the introduction of the State credits, the average per-project and per-unit cost of new projects have both increased. By 2024, the State program will cost Oklahoma (in terms of foregone revenue) a total of \$40 million annually. The program results in increased statewide economic activity, but it has a negative net economic impact. Recommendation: Retain, with modifications. Options to lessen the State's financial investment include reducing the \$4.0 million annual allocation for new projects, shortening the 10 year credit period for future allocations or lowering the annual State credit transaction cap from 100 percent. State should also consider removing the statutory provision that precludes housing projects in Oklahoma's most populous counties from receiving funding. Finally, State should consider making the tax credits refundable instead of transferable.

5. New Business [Lyle Roggow] None.

6. Announcement: [Lyle Roggow]

Upcoming meetings discussion:

- Nov. 1st – Public Hearing
- Nov. 15th – Commission recommendations based upon the facts and findings of the reports, the fact and findings of the public hearing, and adopt final drafts.
- Dec. 6th – The schedule of evaluations for “Year Four.” Vote whether to retain PFM for another year.

No action taken.

7. 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 11:30 a.m.