

**State of Oklahoma  
Incentive Evaluation Commission  
Industrial Access Road Program  
Draft Report**



**November 1, 2016**

**Prepared by**



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# At a Glance: Industrial Access Road Program

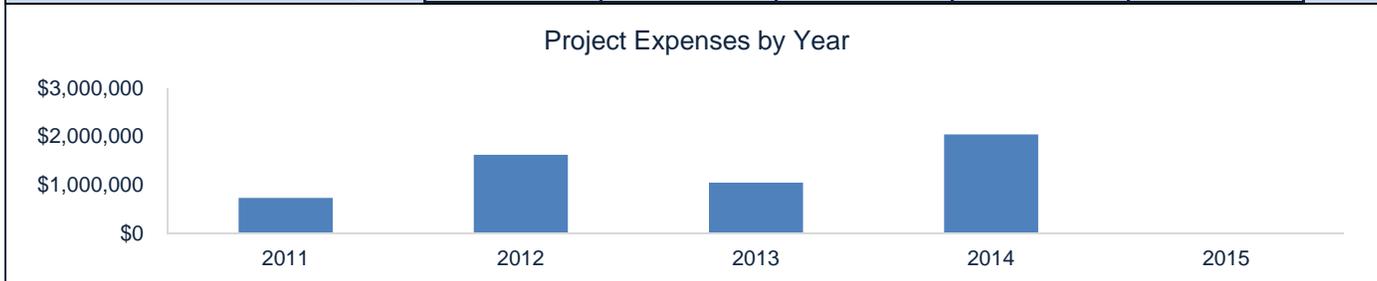
Administrative Code: 730:10-1-14

## Program Goals

- Encourage and assist local efforts toward industrial development

## Fiscal Impact

	2011	2012	2013	2014	2015
ODOT Expense	\$733,000	\$1,625,000	\$1,050,000	\$2,046,000	\$0
Number of Projects	3	3	4	5	0



## Economic Impact

- Available data does not allow for an economic impact analysis

## Adequate Protections for Future Fiscal Impact?

- Yes. Because the program is funded through annual appropriations, there is no requirement for ODOT to fund all (or any) projects. Funding can be limited as needed to align with state budget requirements.

## Effective Administration?

- The program has been designed to minimize the associated administrative burdens. Maximum flexibility has been preserved so that formal metrics do not unintentionally rule out otherwise promising projects.
- However, the lack of lack of formal metrics, economic data verification and monitoring, or standardized reporting procedures raise concerns about transparency, accountability, and program evaluation.

## Achieving its Goals?

- Without more robust data, it is not possible to articulate the economic benefits of this program with any certainty. The data that is available indicated that it is unlikely the Industrial Access Road Program has a meaningful impact on the location decisions of the majority of projects funded.

## Retain, Reconfigure, Repeal?

- Repeal.

## Changes to Improve Future Evaluation?

- If the State opts to retain the program, changes to program application requirements, metrics, and funding criteria would be necessary.

# **Executive Summary**

The Industrial Access Road program was created in the 1970s, with the stated purpose to “encourage and assist local efforts toward industrial development.”<sup>1</sup> The grant program provides state funding for the construction or improvement of direct access roads to specific industrial operations or areas where operations are scheduled to occur, connecting these industrial areas to the state highway or local road system. The program is administered by the Oklahoma Department of Transportation (ODOT), and funded through monies otherwise dedicated to ODOT construction and maintenance projects. Funding expenditures vary based on levels of need, though average annual allocation is approximately \$2.5 million, allocated to an average of four projects each year. Almost half of Oklahoma Counties have benefited from assistance through the Industrial Access Road program in the past decade.

From the outset, the program was designed to give broad flexibility and decision-making latitude to ODOT staff, so that they could be responsive to requests from other departments related to specific project needs. The administrative processes successfully streamline program administration, which minimizes the burdens on ODOT, the local government, and the benefitting industry. Maximum flexibility has been preserved, so that formal metrics do not unintentionally rule out otherwise promising projects. This design allows the program to respond quickly to unanticipated situations and needs that sometimes arise when industries consider locating or expanding in Oklahoma.

Of all comparable state programs reviewed, Oklahoma’s has the lightest administrative burden and the highest levels of administrative flexibility. Features of other states’ programs include annual or project caps, formal application forms or requirements, the involvement of state economic development entities to evaluate the economic benefits of the proposed project, and clawback measures if subsidized measures fail to achieve the estimated level of job creation.

However, the lack of formal metrics, economic data verification and monitoring, or standardized reporting procedures raise concerns about transparency, accountability, and program evaluation. A review of FY2005 – FY2015 application submissions indicates that the data received by ODOT is neither consistent nor specific enough to allow for a comprehensive evaluation of relative economic benefits, one of the primary considerations for funding decisions. Without more robust data, it is not possible to articulate the economic benefits of this program with any certainty.

Absent such data, there is little indication that the program plays an influential role in industrial business’ decisions of whether to move to Oklahoma, where to locate within the state, or whether to remain within the state. The benefits offered by the ODOT program represent less than 1.6 percent of the total investment associated with the projects. Anecdotal reports indicate the benefitting projects received substantial public support from other sources, further reducing the likelihood that Industrial Access Program plays an important role in location decisions. In some (if not most) cases, local governments would likely have taken on the road surfacing costs in absence of ODOT support, indicating that those considerations would still not have been part of the firm’s location decision. Given these factors, it is

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<sup>1</sup> Oklahoma Administrative Code, 730:10-1-14. Available at: <http://ced1.org/wp-content/uploads/2010/03/Industrial-Access-Road-Program.pdf>

unlikely the Industrial Access Road Program has a meaningful impact on the location decisions of the majority of projects funded.

In some instances, it may be appropriate for an incentive to help a struggling local government accommodate the upfront costs associated with an otherwise highly beneficial private investment. However, neither the eligibility criteria nor the applicant data requests allow program administrators to make an informed decision as whether state incentive funding in support of local governments is needed or warranted. Projects are not evaluated based on local governments' ability to pay, nor based on the significance of the proposed investment relative to the local economy.

### **Recommendations**

The project team recommends that the industrial access program be discontinued. Other industrial incentive programs are better aligned with specific state priorities regarding the attraction of specific industries and high quality jobs, and have a demonstrated positive impact on the state economy.

If, however, the Commission believes that the primary purpose of the Industrial Access Road Program is to alleviate some of the upfront cost burdens that local governments must shoulder in order to benefit from the anticipated industrial projects, then it may be beneficial to consider narrowing the program so that funds are allocated only to those local governments that would otherwise face unreasonable fiscal burdens. Changes to program application requirements, metrics, and funding criteria would be necessary. A formal application form should be instituted with guidance on how companies should estimate the economic impact figures, to ensure that the collected data will be comparable across projects. Consideration should be given as to who should be responsible for verifying that the promised levels of economic investment are made within a reasonable timeframe and how such a verification process would occur. In every other benchmark state program reviewed, the State Department of Commerce or other public economic development entity is responsible for reviewing and approving the economic viability of the project in question. Finally, consideration should be given to alternative policy tools that would accomplish the same goal, such as advantageous funding mechanisms.

# Introduction

## Overview

The Oklahoma Incentive Evaluation Commission (the Commission) was established in HB2182, which was enacted and became law in 2015. It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Industrial Access Road Program is one of the incentives reviewed in 2016 by the Commission with recommendations to the Governor and the State Legislature.

## Introduction

The Industrial Access Road program provides state funding for the construction or improvement of direct access roads to specific industrial operations or areas where operations are scheduled to occur. It is designed to encourage and enhance the efforts of localities in stimulating industrial activity. Specifically, the program funds the construction of connections between industrial facilities and the state highway or local road system. The program is administered by the Oklahoma Department of Transportation (ODOT).

The program was initiated in the 1970s, under Oklahoma Administrative Code, Title 730, Chapter 10. From the outset, the program was designed to give broad flexibility and decision-making latitude to ODOT staff, so that they could be responsive to requests from other departments related to specific project needs. This design allows the program to respond quickly to unanticipated situations and needs that sometimes arise when industries consider locating or expanding in Oklahoma. The program has experienced little change over the past three decades.

## Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this program, the overarching purpose is to “encourage and assist local efforts toward industrial development.”<sup>2</sup> The means for achieving this stated purpose is through the provision of funds in support of the construction or improvement of direct access facilities to specific industrial operations or designated industrial areas.

To assist in a determination of the effectiveness of the program, the Incentive Evaluation Commission has adopted the following criteria:

- Change in employment at the state level associated with the road access - comparison to the period prior to the credit
- Change in wages at the state level associated with the road access - comparison to the period prior to the credit
- Change in capital investment at the state level associated with the road access
- Return on investment – economic impact versus incentive cost

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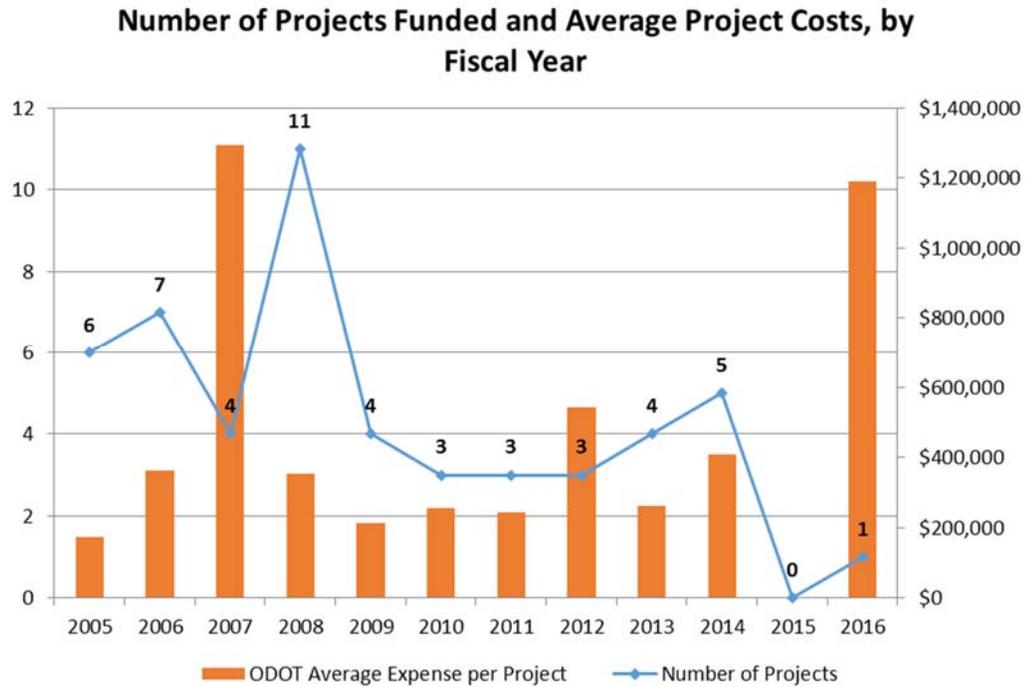
<sup>2</sup> Oklahoma Administrative Code, 730:10-1-14. Available at: <http://ced1.org/wp-content/uploads/2010/03/Industrial-Access-Road-Program.pdf>

As will be explained further throughout this report, the types of data collected as part of the administration of this program do not allow for the types of analyses necessary to address the criteria approved by the Incentive Evaluation Commission. This significantly affects the state's ability to quantify the effectiveness of the program.

# **Program Background and Benchmarking**

## Background

The program is one of many funded through monies otherwise dedicated to ODOT construction and maintenance projects.<sup>3</sup> The budget for the program is approximately \$2.5 million per year, sometimes as much as \$10.0 million per year. Along with the program's budget, its actual program spending has varied in recent years. Since spending over \$5.0 million in 2007, average program spending has been about \$1.3 million per year, funding an average of four projects per year over the same period.

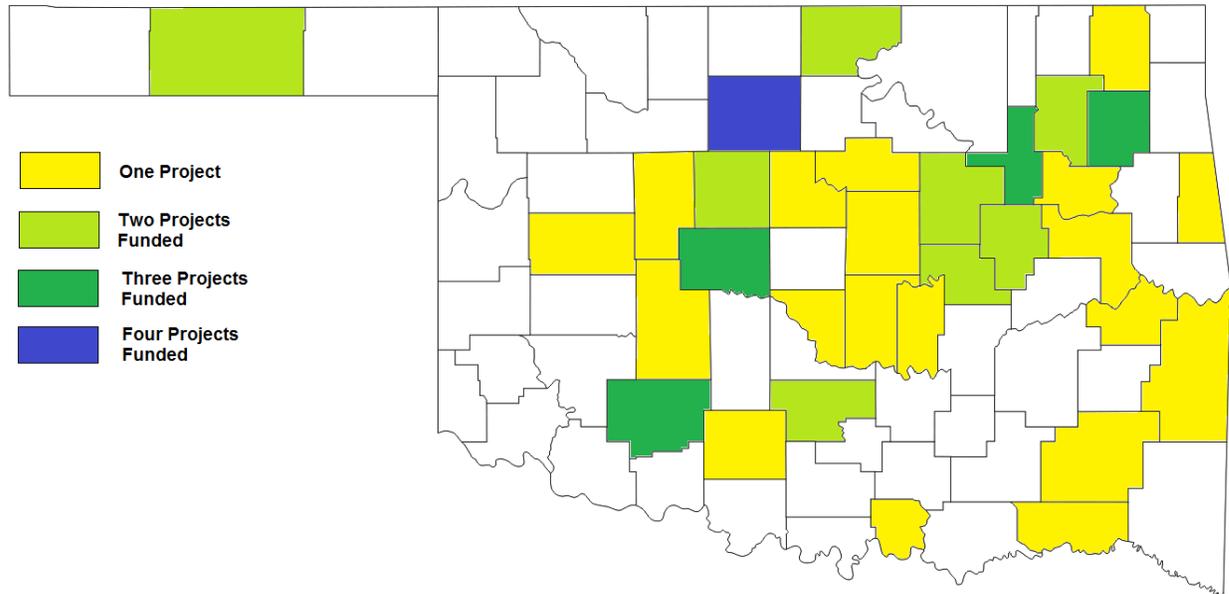


Source: ODOT, 2016

The authorizing legislation recommends minimum single project costs to maximize geographic distribution. Of the 77 Counties in the State of Oklahoma, 32 have received at least one road funded through the Industrial Access program since 2005. Gavin County has been particularly successful in leveraging the resources available to the program over the last decade.

<sup>3</sup> Oklahoma counties also have access to the following sources of road and bridge funding through OTOD: the County Equipment Revolving Fund (average \$4.5 million/year), the Lake/Historic Access fund; the County Improvements for Roads and Bridges allocation (averages \$75 million/year, divided evenly between ODOT field divisions). Counties also directly oversee the County Road & Bridge Improvement Fund (averages \$25 million/year), and the County Highway Fund (averages \$260 million/year).

## Number of Projects Funded by the Industrial Access Project, FY2005 – FY2016



Source: ODOT 2016.

### Benchmarking

Many states provide funding support for local road construction as an economic development tool. Industrial access programs for both rail and road construction that are comparable to Oklahoma’s program are found in a number of other states. To focus on more comparable programs, the analysis includes states that exhibit two important characteristics of Oklahoma’s program:

- Funding is provided in the form of a grant
- There is an articulated purpose related to economic development, as demonstrated by the use of the program to assist with the recruitment and retention of private business activity.

For example, Kansas’ Partnership Fund was not included because it funds programs through low-interest loans. Based on the two bulleted characteristics, the comparable group includes Alabama, New York, Oregon, and Virginia.

As shown in the following table, these state programs are primarily differentiated by funding method, budget, and project caps. While Oklahoma does not have per project caps, its budget is relatively small. It is also worth noting that the New York and Oregon programs are designed for use only if other funding options have been exhausted.

Also important to the analysis are administrative processes and requirements. Alabama's program is set apart from the rest for having an official application form. Oklahoma has only guidelines for what to include in a written application.

A key difference between Oklahoma and every other comparison state program is the involvement of other departments in the application review process. It appears to be common practice for state economic development groups to aid transportation departments in verifying the job creation or retention and economic impact claims of applicants. In other states, applications are sent to the department of transportation, then consultation occurs with economic development groups to determine the economic qualifications of the industrial activity. There is no similar process in place for Oklahoma's program, as this is all done by the ODOT.

The Oregon program is unique in requiring the repayment of funds to the Department of Transportation if the program does not achieve the level of job creation or retention claimed on the application.<sup>4</sup> Oklahoma has no penalty in place for not achieving the economic impacts claimed on applications.

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<sup>4</sup> Oregon Department of Transportation. March 19, 2015. Immediate Opportunity Fund Policy Guidelines. Available at: <https://www.oregon.gov/gov/admin/regional-solutions/Documents/Mid-Valley/4.3.15.MidValley.IOF.Guidelines.pdf>

	Oklahoma	Alabama	New York	Oregon	Virginia
<b>Application</b>	Request Letter	Official Application Form	Suggested Application Format	None Found	Request Letter
<b>Funding Type</b>	Grant	Grant	60% Grant, 40% interest free loan	Grant	Reimbursement
<b>Budget</b>	\$2.5 million	\$11 million	Not Specified	\$7 million, every two years	Not Specified
<b>Per Project Cap</b>	None	None Specified	\$1 million	50% of the cost of road improvement	20% of investment
<b>Per Locality Cap</b>	None	None Specified	None Specified	None Specified	\$500,000
<b>Joint Administration</b>	None	Alabama Department of Commerce	New York Department of Economic Development	Oregon Economic and Community Development Department	Virginia Economic Development Partnership and Virginia Department of Small Business and Supplier Diversity
<b>Other Restrictions</b>			May only be used if conventional funding options do not result in necessary support	May only be used if other sources of funding are insufficient	

# Fiscal Impact

For this evaluation, fiscal impact is considered to be the directly attributable impact of the credit on State revenues and expenditures.

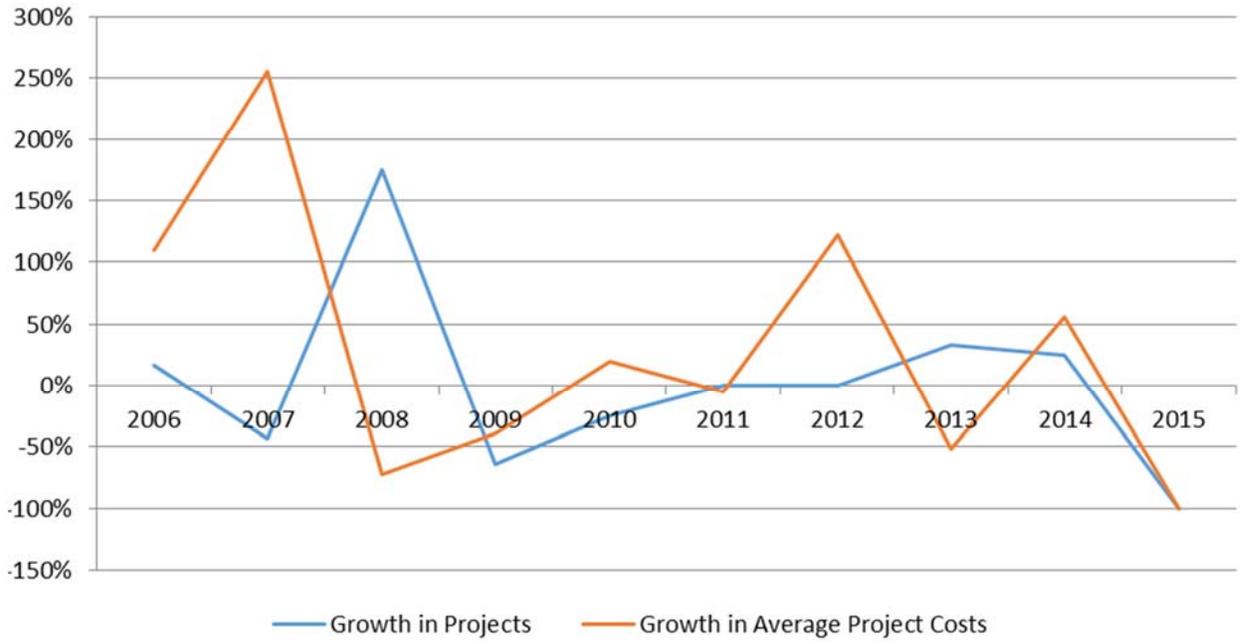
The following table identifies the expenditures associated with this program, by year of project approval.

<b>Year</b>	<b>Number of Projects</b>	<b>ODOT Expense</b>	<b>ODOT Average Expense per Project</b>
2005	6	\$1,037,625	\$172,938
2006	7	\$2,543,600	\$363,371
2007	4	\$5,170,000	\$1,292,500
2008	11	\$3,887,000	\$353,364
2009	4	\$855,000	\$213,750
2010	3	\$768,000	\$256,000
2011	3	\$733,000	\$244,333
2012	3	\$1,625,000	\$541,667
2013	4	\$1,050,000	\$262,500
2014	5	\$2,046,000	\$409,200
2015	0	\$0	-
2016	1	\$1,190,000	\$1,190,000
<b>Total</b>	<b>51</b>	<b>\$20,905,225</b>	<b>\$409,906</b>

It is notable that the costs of program administration are included in the ODOT budget for general administration. As a result, the ODOT expense column included in the table are direct expenses and do not include any indirect costs.

One of the requirements of HB2182 is that each evaluation should determine “whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase substantially beyond the state’s expectations in future years.” As illustrated in the graph below, project costs can vary considerably on a year to year basis, with fluctuations that are not proportional to changes in the number of projects funded. However, there is no requirement for ODOT to fund all (or any) projects that are presented to it. As is generally the case with programs supported by appropriations (as opposed to tax credits), the primary protection in place is the ability of the Governor, legislature or ODOT to limit funding as needed to align with budget requirements.

## Year over Year Growth in Funded Projects and Average Project Costs



Source: ODOT 2016

# **Economic Impact**

## **Economic Impact**

Between 2010 and 2016, the Industrial Access Road Program provided \$7.4 million in funding for 18 projects. These 18 projects were associated with \$454.6 million in investment by the requestors. Assuming this was the only incentive offered to the firms, the State of Oklahoma's investment would be 1.6 percent of the total investment. For the majority of projects, the state investment to requester investment was less than 5.0 percent. Given the level of other incentives offered by the State of Oklahoma, it is unlikely the Industrial Access Road Program has a meaningful impact on the location decision of the majority of projects funded. In addition, the datasets available do not indicate that the requestor or local government would not be willing to make the infrastructure improvement assuming the program did not exist. Therefore, it is not appropriate to estimate the economic impact of this program since it is not possible to determine how this limited investment relates to the overall incentives offered by the State of Oklahoma. It is more appropriate to allocate the jobs and tax revenues with the other incentive programs offered by Oklahoma.

# **Technical and Administrative Issues**

The program is administered by the Oklahoma Department of Transportation. The administrative process can be broken down into the following parts:

**Qualifying Expenses.** Funds cover only paved surfacing of roads or railroad tracks. Local governments must cover costs for the right of way, utility relocation, grading and drainage.

In general, an industrial access road is one where the only justification for its construction or improvement is the existence of a viable industrial operation. Existing general purpose roads serving areas where industry is located are not eligible. The program is restricted to funding roads that are on public property; a road running onto the property of private office parks or industrial parks is not eligible unless the full right-of-way is turned over to a local government. Funded industrial access roads must be off of the state highway system. The road may connect to state roads, but interchanges and ramps with state highways may not be funded. The State of Oklahoma (through ODOT) owns 700 miles of short-line railroad track, so spurs off of those publicly-owned rail lines to industrial facilities are also eligible. However, none of the 51 projects funded since 2005 have included a rail spur.

**Application Process.** ODOT accepts applications from local governments, not from the companies that require expansion of access in order to locate or expand in a community.

In some cases, an outside business considering the possibility of locating and creating new jobs in Oklahoma, makes direct inquiry to the Oklahoma Department of Commerce (ODOC) about possible sites and available incentives. In that case, the ODOC typically calls ODOT to indicate that there is a party considering sites that may need access road assistance, and ODOT writes a letter of general commitment if the business decides to locate in Oklahoma. Then, after the company picks a site in Oklahoma, the selected community can make a formal application for program funding. In either case, local match funding is required as the ODOT funding does not cover all costs associated with a new road construction.

There is no official application form. According to guidelines shared by ODOT, the local government sponsor (city, county or industrial authority) must submit the following information to DOT for a project to be considered?

- A letter from the company planning to locate or expand in Oklahoma, providing estimates of capital, jobs and payroll. In cases where the company does not yet have active operations at the site in question, the letter should indicate a commitment to locate the new facilities at the site.
- A letter from the local government, affirming their responsibility to maintain the road after its completion. This letter should also confirm that the local government will take on any necessary roadwork beyond surfacing. ODOT previously required that local governments submit formal resolutions as part of their applications. ODOT eliminated that requirement to allow for governments to delay the public announcement about a prospective incoming business.
- A map indicating the location of the road, along with an estimate of costs.

In the past, ODOT has not offered guidance on how companies should calculate the estimated capital investments, jobs, and payroll. As a result, the economic impact estimates included in application records are not necessarily directly comparable. In some cases, the figures reflect the net incremental additions to the local economy. In other cases (particularly when the application is in support of the expansion or retention of an existing industrial operation), it is not clear whether the reported figures represent current totals, anticipated totals after expansion, or incremental additions following expansion. Because the application does not request that industries report on other state or local incentives that they might anticipate leveraging, it is not possible to confirm that the provided estimates of capital, jobs, and payroll represent strictly private investments.

Further, industry letters have not consistently provided the requested estimates, resulting in data gaps that preclude the project's inclusion in quantitative analysis. For example, in one instance, when asked to estimate the projected new jobs, an applicant reported "many."

**Funding Decisions.** Following the receipt of application materials, ODOT deploys a division field engineer to evaluate the viability of the project and make any necessary revisions to cost estimates. In some cases, the ODOT engineer may advise the local government that the industry's need for heavy load trucks may make a gravel road more appropriate, in which case ODOT does not proceed with the application review.

As mentioned earlier, the administrative processes associated with the Industrial Access Road Program were specifically designed to give broad flexibility and decision-making latitude to ODOT staff, to allow for a quick response to special situations. Project selection is based on a series of factors that confirm the project's significance and need, though not on consistently applied metrics. The factors considered are:

1. The industry being served
2. Private investment for construction or expansion of plant facilities
3. Magnitude of industrial operation, present and potential (including new jobs and estimated payroll)
4. Existing access serving the industrial area
5. Availability of local participation from other funding sources, such as federal program, other state agencies, local sources, etc. Note that ODOT's information requests as part of the application does not include data that would allow for the project to be evaluated based on the criterion.
6. Number of heavy trucks per day which will serve the industry
7. Estimated capital expenditures for construction or expansion of the plant facilities

ODOT assesses its success in leveraging private sector investment, and it reports that recent project funding has provided a better than a 10:1 ratio of private investment per dollar of public investment in access roads or highways. The program also aims to maximize geographic distribution, and is more flexible in terms of leverage ratios in smaller communities where the anticipated industrial development represents a significant local employer or capital investment. These determinations are qualitative and not documented for future program evaluation.

As previously noted, the types of data requested during the application process are not sufficiently specific to ensure that ODOT is considering net new jobs or the levels of private investment.

It should also be noted that the funding decision process does not include any independent verification of the industry-generated estimates regarding future capital investments, jobs, or payroll.

**Funding Disbursement.** ODOT reimburses the local government for the costs of the road resurfacing once the project has been completed. Because the funds are included in annual departmental allocations and not included in a revolving fund, there is less flexibility than there could be to accommodate unexpected or expedited applications.

**Monitoring.** ODOT monitors local maintenance of previously funded industrial access roads. If ODOT finds that a funded facility is not adequately maintained, then ODOT policy is that no future access road projects are to be approved for that county or community. In practice, such monitoring may occur only when a subsequent application is submitted by the county or community.

ODOT does not monitor whether the industrial development benefiting from the road fulfills or exceeds its anticipated capital investments, job creation, or payroll estimates. The incentive does not include any clawback provisions.

**Reporting.** ODOT has preserved records of original applicant submissions, but does not regularly update a database with the information on funded projections and estimated impacts.

### **Summary**

The described processes successfully streamline program administration, which minimizes the burdens on ODOT, the local government, and the benefitting industry. Maximum flexibility has been preserved, so that formal metrics do not unintentionally rule out otherwise promising projects.

However, the lack of formal metrics, economic data verification and monitoring, or standardized reporting procedures raise concerns about transparency, accountability, and program evaluation. A review of FY2005 – FY2015 application submissions indicates that the data received by ODOT is neither consistent nor specific enough to allow for a comprehensive evaluation of relative economic benefits, one of the primary considerations for funding decisions. Without more robust data, it is not possible to articulate the economic benefits of this program with any certainty.

# Outcomes

## Outcomes

From the prior discussion, the following have been identified as key issues for evaluation:

1. What has been the impact of the credit on identified goals?
2. How does Oklahoma's experience compare to the nation as a whole and other states?
3. How should the identified costs be weighed against the benefits (both quantitative and qualitative)?

## Question about Purpose

An important factor in considering the efficacy of incentives is the consideration of whether the incentive is necessary to spur the investment. Incentives provide benefits to the extent that they change behavior (as opposed to rewarding what a business or individual would have done anyway). In the theory of incentives, the 'but for' test refers to the argument that a project or a capital investment would not be made without the incentive ('but for the incentive' the industrial development project would not occur in Oklahoma). In the case of the industrial road access program, the key question is to what extent the incentive caused industrial development to occur within the state that wouldn't have occurred otherwise.

The stated purpose of this credit is to "encourage and assist local efforts toward industrial development."<sup>5</sup> This broad articulation makes it difficult to identify what specific changes in behavior the program seeks to incentivize. For example, is the intended objective to assist local governments that might otherwise struggle to accommodate a prospective investment? An overlapping but distinct objective might be to help steer industrial developments towards localities that would particularly benefit from the addition to their tax base, independent of those localities' abilities to bear the upfront fiscal costs of the developments. A third goal might be to increase industrial investment statewide, which would focus more on inter-state competition for industrial developments rather than intra-state location decisions. Each goal would entail a slightly different funding allocation focus, different data metrics, and different criteria with which to evaluate whether the program were successful.

Depending on how one interprets the purpose of the incentive program, there are three stand alone "but for" questions:

- But for the public assistance with the road, would the industrial development locate in/remains in Oklahoma?
- But for the public assistance with the road, would the industrial development locate in/remains in the locality envisioned?

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<sup>5</sup> Oklahoma Administrative Code, 730:10-1-14. Available at: <http://ced1.org/wp-content/uploads/2010/03/Industrial-Access-Road-Program.pdf>

- But for the ODOT assistance with the road, would the local government have been invest the upfront road surfacing costs without placing an undue burden on other public services?

Unfortunately, given the data available, none of these questions can be answered with certainty.

### **Impact on the Location of Industrial Development**

The premise underlying the program is that, if a business has already selected a new site in a community, that location decision may be contingent on the community's ability to fund an access road. As indicated in the economic impacts section, it is unlikely the Industrial Access Road Program has a meaningful impact on the location decisions of the majority of projects funded. The benefits offered by the ODOT program represent less than 1.6 percent of the total investment associated with the projects. Though no data is available on how the size of the ODOT per project investment compares with other state and local incentives offered to the same projects, anecdotal reports indicate the benefitting projects received substantial public support from other sources, further reducing the likelihood that Industrial Access Program plays an important role in location decisions. In some (if not most) cases, local governments would likely have taken on the road surfacing costs in absence of ODOT support, indicating that those considerations would still not have been part of the firm's location decision.

As a result, there is little indication that the program plays an influential role in industrial business' decisions of whether to move to Oklahoma, where to locate within the state, or whether to remain within the state.

### **Impact on Local Governments**

Not all state incentives are created to generate net increases in aggregate economic activity statewide; some incentives aim to increase equity and economic opportunity in traditionally underserved and economically struggling parts of the state. In smaller towns or remote counties, a relatively modest business investment can generate an outsized effect on area income, paving the way for additional investment interest and generating a higher multiplier effect than would be seen in larger, more stable communities. For example, the 2005 the industrial access road investment in support of the Garvin County Airport Authority is thought to have contributed to an otherwise pivotal capital investment for the sparsely populated county.

In these instances, it may be appropriate for an incentive to help a struggling local government accommodate the upfront costs associated with an otherwise highly beneficial private investment. However, neither the eligibility criteria nor the applicant data requests allow program administrators to make an informed decision as whether state incentive funding in support of local governments is needed or warranted. Projects are not evaluated based on local governments' ability to pay, nor based on the significance of the proposed investment relative to the local economy.

In other states, local governments turn to different funding mechanisms when struggling with significant upfront capital costs associated with the arrival or expansions of large scale businesses, such as tax increment financing, payment-in-lieu-of-taxation agreements, community benefit agreements, or impact fees. Impact fees, for example, are policy instruments available to Oklahoma local governments under

state law but not used as commonly as in other states. During the permitting process associated with the new development, local governments determine the government's infrastructure costs that would be reasonably attributable to the new development, and charge those costs to the development. The benefit of this approach is that new growth activity does not endanger existing levels of public service, no state or local subsidy is required, and the use of upfront one-time charges ensures that adequate infrastructure is provided to serve new development in a timely manner.

# Recommendation

### **Recommendation: Discontinue (Repeal)**

The Industrial Access Road Program was designed to streamline program administration, minimizing the burdens on ODOT, the local government, and the benefitting industry. Maximum flexibility has been preserved, so that formal metrics do not unintentionally rule out otherwise promising projects.

Unfortunately, as the lack of formal metrics, economic data verification and monitoring, or standardized reporting procedures raise concerns about transparency and accountability. A review of FY2005 – FY2015 application submissions indicates that the data received by ODOT is neither consistent nor specific enough to allow for a robust evaluation of relative economic benefits, one of the primary considerations for funding decisions. Without more robust data, it is not possible to quantify the effectiveness of the program.

Given the magnitude of other industrial incentives offered by the State of Oklahoma, it is unlikely the Industrial Access Road Program has a meaningful impact on the location decision of the majority of projects funded. In addition, the datasets available do not indicate that the requestor or local government would not be willing to make the infrastructure improvement assuming the program did not exist. In other words, based on the data currently available, it is unlikely that the incentive is necessary to spur the investment.

The project team recommends that the industrial access program be discontinued. Other industrial incentive programs are better aligned with specific state priorities regarding the attraction of specific industries and high quality jobs, and have a demonstrated positive impact on the state economy.

If, however, the Commission believes that the primary purpose of the Industrial Access Road Program is to alleviate some of the upfront cost burdens that local governments must shoulder in order to benefit from the anticipated industrial projects, then it may be beneficial to consider narrowing the program so that funds are allocated only to those local governments that would otherwise face unreasonable fiscal burdens. Changes to program application requirements, metrics, and funding criteria would be necessary. A formal application form should be instituted with guidance on how companies should estimate the economic impact figures, to ensure that the collected data will be comparable across projects. Consideration should be given as to who should be responsible for verifying that the promised levels of economic investment are made within a reasonable timeframe and how such a verification process would occur. In every other benchmark state program reviewed, the State Department of Commerce or other public economic development entity is responsible for reviewing and approving the economic viability of the project in question. Finally, consideration should be given to alternative policy tools that would accomplish the same goal, such as advantageous funding mechanisms.