State of Oklahoma
Incentive Evaluation Commission
Quality Events Incentive Act
Draft Report

November 1, 2016

Prepared by

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Financial & Investment Advisors

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At a Glance: Quality Events Incentive Act

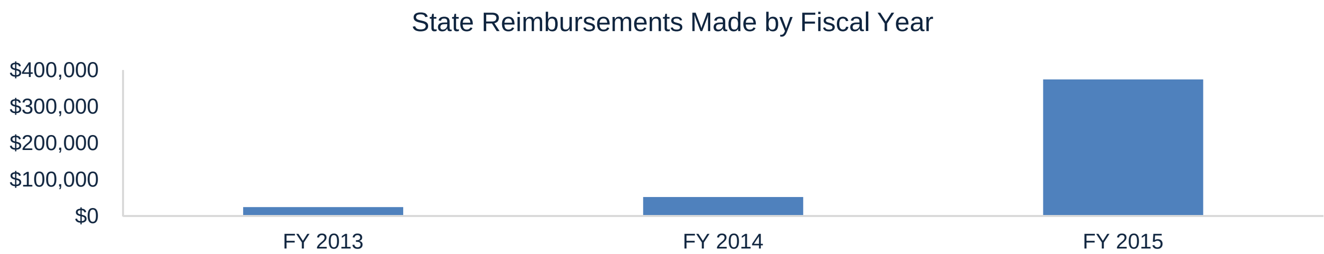
Statute: O.S. 68 Section 4301

Program Goals

- Support eligible counties or municipalities in competing successfully to bring qualifying events to Oklahoma

Fiscal Impact

	FY 2013	FY 2014	FY 2015
Total Reimbursements	$25,000	$52,576	$374,559
Number of Events	1	1	5



Economic Impact

- Available data does not support a full economic impact analysis

Adequate Protections for Future Fiscal Impact?

- Yes. The program has a project cap and an annual cap in place. In addition, communities cannot receive reimbursements in excess of the quantity of sales tax revenues generated by the event.

Effective Administration?

- No. The administrative process were designed to emphasize verification and oversight. Unfortunately, the verification requirements have resulted in a process that is cumbersome, costly, inefficient, and ultimately undermines the ability of the program to achieve its goals.

Achieving its Goals?

- No. The outsized administrative burdens associated with the current processes and requirements generate uncertainty about the magnitude and timeliness of reimbursement. As a result, local hosting entities cannot rely on support from this program when developing bids to compete nationally for events.

Retain, Reconfigure, Repeal?

- Reconfigure. The State should (1) eliminate the process of estimating the projected economic impact prior to the completion of the qualifying event; (2) create a standardized application template with clear guidelines; (3) designate a single point person or office to respond to applicant questions.

Changes to Improve Future Evaluation?

- The State should maintain a database with essential project information.

Executive Summary

Many states seek to incentivize the attraction of large scale events, such as festivals, conventions, or conferences. These events have been found to have a significant positive economic impact on both the hosting locality and the state as a whole; Florida's event attraction program, for example, has generated over $5 in returns for each $1 in state funds invested. Competition among states for major events can be significant, with hosting cities and states offering a variety of incentives to event organizers.

In order to become more competitive in attracting quality events to the state, the Oklahoma Quality Events Incentive Act was passed in 2010 to assist governmental entities with costs related to event attraction and promotion. As both the state and the local government may benefit from a qualifying event, the program seeks to create a means for both the state and the local government to share the costs associated with attracting and promoting events. The Act went into effect on July 1, 2012, and was amended in 2016 to allow an event's impact to be determined by a qualified economic analysis. The program is set to expire on June 30, 2018.[1]

The Quality Events Act allows local convention and visitors bureaus (CVBs), in partnership with their local communities, to capture a portion of the State sales tax generated by the qualifying event. Expenses eligible for reimbursement include government expenses made for the purpose of attracting, promoting, advertising, organizing, conducting or otherwise supporting a quality event. CVBs are eligible to receive up to $250,000 per event from the Oklahoma Tax Commission, based upon the event's economic impact. The total amount that may be spent by the program was capped at $2 million for FY2013, $2.5 million for FY2014, and $3 million annually for fY2015 through FY2018.

The administrative processes associated with the Quality Events program are designed to emphasize verification and oversight. Oklahoma's decision to tie reimbursements to the incremental state sales tax receipts associated with the event essentially serves as a project cap, customized to the magnitude of an individual quality event. This is a positive and important characteristic of the program design, from a budgetary standpoint and for allocation fairness considerations. However, the administratively burdensome process of first estimating this cap prior to the event, then finalizing the rebate amount after the event, is redundant given that statute has already set a project cap and an annual cap.

The project team was able to identify only one other state that links its quality events program payouts to state receipts associated with the event in question. Other states provide support to hosting organizations through traditional grant programs, some of which are formula-driven to improve predictability and circumvent the administrative burdens associated with documenting eligible expenditures. Other state grants provide upfront funding, to allow local entities more flexibility in designing their bids for potential event. Of all the states reviewed, the Oklahoma Quality Events program has the highest administrative burden; processes in place are cumbersome, inefficient, and opaque for both the applicant and the program administrators.

Unfortunately, the outsized administrative burdens associated with the current processes and requirements generate uncertainty about the magnitude and timeliness of reimbursement. As a result, hosting entities cannot count on state support when calculating final bids to prospective event

[1] 68 OS 4301 through 4311

organizations. In other words, due to ongoing struggles with the administrative process, the program has not been able to change the behavior of local hosting entities and allow them to be more competitive nationally. In order to be effective, a reimbursement program must be predictable and transparent.

Recommendations

The project team recommends retaining the Quality Events due to its strong potential to generate significant returns on investment for each state dollar invested, but reconfiguring key parts of the administrative process and requirements, as outlined below:

- **Eliminate the process of estimating the projected economic impact prior to the completion of the qualifying event**, including both the required applicant economic impact submission and ODOC's economic impact evaluation. The purpose of precertification is to provide CVBs with information about the maximum reimbursement amount for which they are likely to be eligible. At present, the administrative burdens imposed on both the State and hosting agencies by this precertification are out of proportion with the value of knowing the maximum reimbursement figure ahead of the event, particularly because timeliness issues preclude the CVBs' ability to modify their behavior based on the information received. One of the benefits of eliminating the precertification process is that program administration can be confined to OTC, which will result in a more streamlined and more transparent process. Under this new design, the cap on the payout would be determined after the event by OTC, based on actual documentation as opposed to estimates.

- **Create a standardized application template and clear guidelines on the types of "proof" documentation that are acceptable**, complete with FAQs that will provide applicants with the information they need to submit all requirement documentation following the completion of the event. Though every event is different, there appear to be a consistent set of best practices in terms of documenting standard data needs, such as the number of out-of-state attendees, the number of hotel nights associated with each out-of-state attendee, etc.

- **Designate a single point person or office at to serve as applicants' primary point of contact** for questions regarding the specific circumstances of an event.

- **Maintain a database on projects**, including such information as: the hosting community, name of the event, number of attendees, number of out-of-state attendees, total number of hotel nights, reimbursement requested, incremental state sales tax receipts associated with the event, approved payout, as well as the dates of the event, the date of documentation submission, and the date of final payout. Annual reports should include this information.

The State may choose to further streamline the incentive by converting it to a straightforward grant program like that run by many other states, designed specifically to support the attraction of events with large numbers of out-of-state attendees. There is particular value in this sort of grant program if it can provide funds upfront (as Texas and Illinois do), or a straightforward way for calculating the exact monies that the CVB can expect to receive (as New York and Mississippi do). Though such a structure would not guarantee a positive ROI, it would be much more effective in helping Oklahoma event bids to be more competitive.

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 Quality Events Incentive Program is one of the incentives reviewed in 2016 by the Commission with recommendations to the Governor and the State Legislature.

Introduction

Many states seek to incentivize the attraction of large scale events, such as festivals, conventions, or conferences. These events have been found to have a significant positive economic impact on both the hosting locality and the state as a whole. Competition among states for major events can be significant, with hosting cities and states offering a variety of incentives to event organizers.

In order to become more competitive in attracting quality events to the state, the Oklahoma Quality Events Incentive Act was passed in 2010 to assist governmental entities with costs related to event attraction and promotion. As both the state and the local government may benefit from a qualifying event, the program seeks to create a means for both the state and the local government to share the costs associated with attracting and promoting events. The Act went into effect on July 1, 2012, and was amended in 2016 to allow an event's impact to be determined by a qualified economic analysis. The program is set to expire on June 30, 2018.[2]

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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 incentive, the goal is to support hosting communities in competing successfully to attract quality events to the state. The statute seeks to create a mechanism by which the local entities charged with promoting such events can tap into a portion of the funds that the state will derive from such events. Much as both the state and the local government will benefit from the quality event, the program seeks to create a means by which both the state and the local government can share the costs associated with attracting and promoting that event.

[2] 68 OS 4301 through 4311

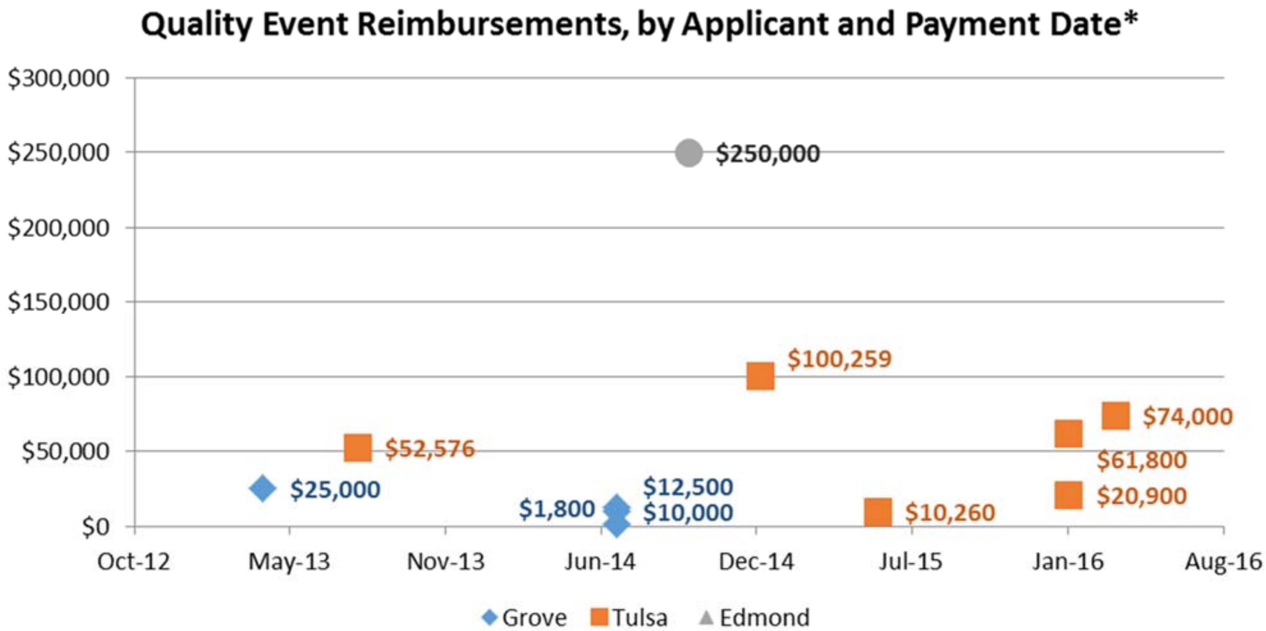
To assist in a determination of the effectiveness of the program, the Incentive Evaluation Commission has adopted the following criteria:

- Economic impact of qualifying events
- Revenue impact of qualifying events
- Existing versus new qualifying events
- Additional quantifiable impacts for the State from qualifying events
- Return on investment for qualifying events

Program Background and Benchmarking

Background

As noted in the following chart, three CVBs have received reimbursements from this program to date: the Cities of Grove, Tulsa, and Edmond. The City of Edmond received a particularly large award ($250,000) in connection with the 2014 U.S. Senior Open Championship, one of five major national championships in senior golf. Excluding that event, the average event reimbursement has been $36,910. The Tulsa Convention and Visitors Bureau has an additional nine applications under review by OTC and ODOC, and the Oklahoma City Visitor's Bureau has its first application currently under review.



*note: The State has not yet issued its FY2016 annual report, so reimbursement data for the period after June 2015 may not be comprehensive.

Source: Oklahoma Department of Commerce, Annual Reports on the Quality Events Initiative, FY2014 and FY2015; Tulsa Convention and Visitors Bureau; 2016.

Benchmarking

Many states have created incentive programs to assist in attracting events to their state. Events can have a positive impact on social aspects of the community in which they take place as well as state and local finances. Methods of funding for these incentives vary. Mississippi, Florida, New York, Wisconsin, and Illinois each have grant programs for qualifying events. Oklahoma's method of reimbursement based on incremental tax revenue is used less often. A review of state incentive programs found that only Texas has a directly comparable incentive funding mechanism.

The following analysis compares and contrasts Oklahoma's Quality Events program with Texas' Events Trust Fund. Texas has three distinct trust funds created to help fund events for municipalities and counties: the Events Trust Fund, Major Events Reimbursement Program, and Motor Sports Racing Trust Fund. The Major Events Reimbursement Program is designed to help Texas host major professional sports events like all-star and championship games. Oklahoma is fundamentally different from Texas in having a smaller number of major professional sports teams and venues. Since Oklahoma's Quality

Events program has mostly been used to host events that would not qualify as major under Texas' rules, the Texas Major Events Reimbursement Program is not used for comparison purposes. Instead, the Oklahoma Quality Events program is compared to the Texas Events Trust Fund, which is more broadly defined to support a range of event types and sizes.

Texas' Events Trust Fund Program

Texas' Events Trust Fund is designed to help counties and municipalities pay costs related to preparing for and conducting an event. Events may qualify as long as it is a one-time event or is held no more than once per year. A site selection organization must select the event location after considering other states in a competitive process. Once a site is selected, the county or municipality where the event is being held may apply for funding through the state Comptroller's office, no later than three months before the event date.

The county or municipality must provide estimates of non-state resident attendance and estimates of the economic impact of the event, as well as any other relevant information requested by the Comptroller. The Comptroller then uses this information to determine the incremental increase in State tax receipts directly attributed to the event over a 30 day period, ending one day after the last day of the event. Within 30 days of receiving this information, the department makes a determination of the incremental impact on state revenue. The applicant remits the amount of local tax revenue that it expects to receive during the 30 day event period to the State Comptroller, and it is deposited in the Events Trust Fund. The State then contributes 6.25 times the amount contributed by the applicant.

The host county or municipality benefits from the funds in the Events Trust Fund by using them to fulfill requirements of contracts made with site selection organizations. For example, they may pay the costs of constructing temporary structures and temporary maintenance of facilities required to host an event.

Following an event, the host county or municipality is provided a disbursement of the incremental tax revenue deposited in the trust fund. The Comptroller reviews attendance estimates with actual attendance figures, and if there is a significant difference, the applicant may not receive the full amount deposited. The maximum amount a county or municipality may receive is $200,000 in a twelve month period.[3]

Texas' Events Trust Fund does not explicitly require that an economic impact study be done on the event in order to apply. Statute provides a guideline that information regarding the economic impact should be provided to the state. Oklahoma's requirement of a state-approved impact study is a more stringent requirement. It should be recognized that providing a professionally conducted economic impact study for each application can be both costly and time consuming for interested host communities.

Beyond the application process, there is a significant difference in the way funding is provided by Texas in comparison to Oklahoma. Texas allows counties and municipalities to access funds upfront, before the event occurs. The Oklahoma program provides reimbursement only after the event has taken place, and after the impact has been confirmed. This is a critical difference, because the upfront funding that Texas provides facilitates spending on improvements needed in order for an event to take place. The host contributes the expected local revenues to the fund and then is provided access to 6.25 times the local

[3] https://fmx.cpa.texas.gov/fm/statewise/archive/rules_attraction_10.php
Texas Civil Statutes, Article 5190.14

contribution, added by the State. This can be a powerful incentive for hosts, as it provides support while they making expenditures needed to host the event, rather than qualifying for reimbursements after the expenditures have been made.

Other State Incentives Related to Event Attraction

Many states administer grant programs to support local hosting organizations in their efforts to attract national conventions, festivals, and other events. Below are a few examples of programs that have comparable overall goals to Oklahoma's Quality Events Program but opt to administer the program though substantially more streamlined and predictable mechanisms.

The Mississippi Meeting and Convention Incentive Program offers grants of between $2,500 and $10,000 to contracting organizations. Funding levels are based on clear and quantified criteria: applicants that guarantee 1,500 room nights are eligible for a grant of $2,500; 2,500 room nights are eligible for grants of $5,000; and 4,500 room nights corresponds to a grant of $10,000. Mississippi requires a significantly longer timeline than Oklahoma. To help ensure that state funds are applied to events that would not otherwise be held, applications are due at least a year prior to the date of the meeting, and no contracts may have been signed with the meeting organizer. Unlike with the Oklahoma program, applicants do not need to inventory and document eligible expenses beyond proof of the number of hotel rooms used as part of the event.[4]

Florida offers a small Minority Convention Grant program with a cap of $40,000. This reimbursable grant program requires applicants (including CVBs but also nonprofits) to submit a proposal and budget of its event attraction marking plan, and estimate the economic impact of the proposed conference. In order to receive reimbursement, applicants must submit documentation of project cost, copies of the deliverables produced, and an estimate of ROI. Unlike in Oklahoma, reimbursement levels are not based on the estimated economic impacts of the event, and therefore applicants face less burdensome documentation and estimate requirements.[5] Wisconsin has a joint effort marking grant program that operates similarly, but with more inclusive eligibility metrics and lower project caps than Florida: new events, existing events targeting new audiences, and one-of-a-kind events are all eligible, but the maximum grant varies between $28,250 and $39,550.[6]

Market New York is another state program that makes grant funding available for the recruitment and execution of conferences, festivals, and athletic competitions. Applicants include a project plan that outlines the specifics of the project, the budget and how the grant funding will be used. Eligible costs are more expansive than in Oklahoma, and include eligible travel costs, 10% administrative costs, website maintenance, etc. The match requirement is generous, with New York State funding up to 75 percent of

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[4] Visit Mississippi "Meeting & Convention Incentive Program." Handout. Available at: http://www.visitmississippi.org/app/webroot/files/MC%20INCENTIVE%20COPY.pdf

[5] Visit Florida. September 27, 2016. "Minority Convention Grant Program Guidelines." Available at: http://www.visitflorida.org/media/28333/minority-convention-grant_application-package_fy1718.pdf

[6] Paul Ferguson. January 2015. State Tourism Promotion. Wisconsin Legislative Fiscal Bureau. Informational Paper 94. Available at: https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2015/0094_state_tourism_promotion_informational_paper_94.pdf

total costs. Grant awards are paid on a reimbursable basis, with a maximum six-month delay associated with payment processing.[7]

Illinois provides financial support to local CVBs through a formula grant program, which provides local organizations with the consistency and reliability that they need to sustain long-term, strategic, and proactive investments. The formula (which excludes the City of Chicago) takes into account populations served, number of hotel rooms in a service territory, and prior year industry economic results. CVBs are required to obtain local matching funds of at least 50 percent of the grant amount. Because a majority of Illinois CVBs access these funds every year, Illinois' program is more costly than Oklahoma's; In FY2014, allocations totaled $12.3 million.[8] The Kentucky Tourism Marketing Incentive Program operates similarly, with a fixed amount of grant funding made available to each county by formula. Counties must then submit reimbursement requests to access the available funding. Kentucky reimburses 80 percent of fees associated with convention bids that guarantee room nights and 50 percent of fees associated with bids with no guarantee of room nights.[9]

In all of the above cases, the decision to provide state support for local event attraction activities through a grant program allows for more straightforward administration processes than those required for the Oklahoma Quality Events program. Reimbursement amounts are dictated by formula or by expenses incurred by the applicant and are not contingent on a state-approved estimate of the economic impacts of the event in question. As a result, local entities are able to better rely on the state-issued funds and upgrade their attraction efforts accordingly.

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[7] New York State Division of Tourism. "Market New York: 2016 – 2017 Program Guidelines." Available at: http://www.iloveny.com/includes/content/docs/media/MarketNYRd6FinalGuidelines.pdf

[8] Tourism Economics. February 201. "Competitive Analysis of Illinois Tourism Marketing Funding." Prepared for the Illinois Council of Convention & Visitor Bureaus. Available at: http://www.iccvb.org/assets/docs/te-il-budget-analysis_2016_feb.pdf

[9] Kentucky Department of Travel. "Tourism Marketing Incentive Program: Allowable Projects Description."

Fiscal Impact

For this evaluation, fiscal impact is considered to be the directly attributable impact of the reimbursement on State revenues and expenditures. The evaluation will discuss but not quantify revenue and expenditure impacts on local governments. There is far less attenuation from these local impacts for a discussion of a state incentive program – for a variety of reasons (including the impact of local decision making outside the state's control on local revenues and expenditures and the widely divergent impacts throughout the state).

The following table identifies the known reimbursements associated with this program, by fiscal year of payment. As already noted, the data available for 2015 reimbursements is provisional, as it includes only payments awarded to the City of Tulsa and may not be comprehensive.

Reimbursement Year	Total Reimbursements	Statutory Cap	Percent of Available Funds Awarded
2013	$77,576	$2,000,000	3.9%
2014	$374,559	$2,500,000	15.0%
2015	$166,960	$3,000,000	5.6%
Total	**$619,095**	**$7,500,000**	**8.3%**

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." The statutory cap eliminates any budgetary concerns regarding runaway future costs. That said, usage of the program has been relatively limited in these first three fiscal years, with less than 10 percent of all available funds being allocated. This may simply be a reflection of the newness of the program – as more CVBs become aware of the incentive, applications may increase. It may also indicate that the total state sales tax revenue benefits derived from quality events are lower than anticipated – in other words, that the amount of revenue eligible to be shared with local CVBs is sufficiently low than a modification to the statutory cap may be appropriate. However, as indicated later in the evaluation, there is also reason to believe that high administrative burdens, extended reimbursement wait periods, and documentation hurdles may be disqualifying valid reimbursement requests and discouraging applicants.

There is, of course, some additional revenue that would be generated from economic activity associated with this credit, which will be discussed in the following chapter. Note that the costs of program administration are born by OTC and ODOC are not included in the above table.

Economic Impact

Economic Impact of Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are "Output" which describes total economic activity and is generally equivalent to a firm's gross sales; "Value Added" which equals gross output of an industry or a sector less its intermediate inputs; "Labor Income" which corresponds to wages and benefits; and "Employment" which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced.

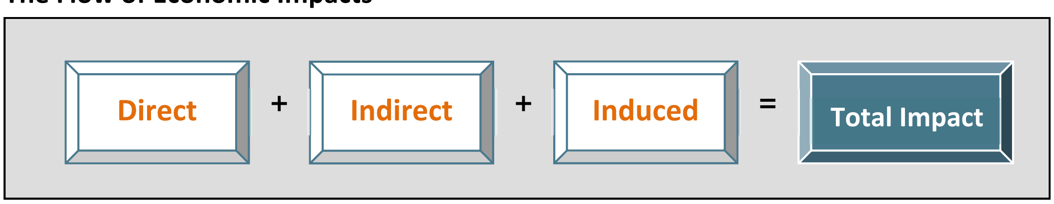
Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every $1,000 injected into the economy, all other sectors produce an additional $400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

The Flow of Economic Impacts



For this analysis, the project team used the IMPLAN online economic impact model with the dataset for the State of Oklahoma (2014 Model).

State of Oklahoma Tax Revenue Estimate Methodology

To provide an "order of magnitude" estimate for state tax revenue attributable to the incentive being evaluated, the project team focused on the ratio of state government tax collections to Oklahoma Gross Domestic Product (GDP). Two datasets were used to derive the ratio: 1) U.S. Department of Commerce Bureau of Economic Analysis GDP estimates by state;[10] and 2) the Oklahoma Tax Commission's *Annual Report of the Oklahoma Tax Commission* reports.[11] Over the past ten years, the state tax revenue as a percent of state GDP was 5.5 percent.

State of Oklahoma Tax Revenue as a Percent of State GDP

Year	Oklahoma Tax Revenue*	Oklahoma GDP	Ratio
2005-06	$8,435,214,025	$136,804,000,000	6.2%
2006-07	$8,685,842,682	$144,171,000,000	6.0%
2007-08	$9,008,981,280	$155,015,000,000	5.8%
2008-09	$8,783,165,581	$143,380,000,000	6.1%
2009-10	$7,774,910,000	$151,318,000,000	5.1%
2010-11	$8,367,871,162	$165,278,000,000	5.1%
2011-12	$8,998,362,975	$173,911,000,000	5.2%
2012-13	$9,175,334,979	$182,447,000,000	5.0%
2013-14	$9,550,183,790	$190,171,000,000	5.0%
2014-15	$9,778,654,182	$180,425,000,000	5.4%
Average	**$8,855,852,065**	**$162,292,000,000**	**5.5%**

Source: U.S. Department of Commerce Bureau of Economic Analysis and Oklahoma Tax Commission

* Gross collections from state-levied taxes, licenses and fees, exclusive of city/county sales and use taxes and county lodging taxes

The value added of an industry, also referred to as gross domestic product (GDP)-by-industry, is the contribution of a private industry or government sector to overall GDP. The components of value added consist of compensation of employees, taxes on production and imports less subsidies, and gross operating surplus. Changes in value added components such as employee compensation have a direct impact on taxes such as income and sales tax. Other tax revenues such as alcoholic beverage and cigarette taxes are also positively correlated to changes in income.

Because of the highly correlated relationship between changes in the GDP by industry and most taxes collected by the state, the ratio of government tax collections to Oklahoma GDP forms the evaluation basis of the fiscal implications of different incentive programs offered by the State. The broader the basis of taxation (i.e., income and sales taxes) the stronger the correlation; with certain taxes on specific activity, such as the gross production (severance) tax, there may be some variation in the ratio year-to-year, although these fluctuations tend to smooth out over a period of several years. This ratio approach is

[10] http://www.bea.gov/regional/

[11] https://www.ok.gov/tax/Forms_&_Publications/Publications/Annual_Reports/index.html

somewhat standard practice, and is consistent with what IMPLAN and other economic modeling software programs use to estimate changes in tax revenue.

Data Collection, Model Inputs, and Other Issues

The project team performed the following steps to derive the economic and tax revenue impact:

1. The project team collected existing data and studies from State of Oklahoma agencies including the Oklahoma Tax Commission and Oklahoma Department of Commerce.

2. There is insufficient data collected (based on the existing statute) to allow the project team to estimate the total economic impact of any event.

3. The Oklahoma Department of Commerce's annual reports provide the most detail on this incentive program.

4. Based solely on examining the sales taxes collected and reimbursed by the State of Oklahoma, the program generates positive tax revenue after subtracting expense reimbursements.

Sales Tax Revenue Retained after Reimbursing Qualified Expenses

Quality Event	Incremental Sales Tax Revenue	Event Expenses Reimbursed	Sales Tax Revenue Retained by State
2012 American Bass Anglers Fishing Tour National Championship	$45,230	$25,000	$20,230
2013 Conference USA Basketball Championship	$1,246,727	$52,576	$1,194,151
2014 EverStart Fishing Tournament	$57,826	$12,500	$45,326
2014 TBF (Bass Federation, Inc.) National Championship	$57,826	$10,000	$47,826
2014 National Bass Anglers Association National Championship	$57,826	$1,800	$56,026
2014 U.S. Senior Open Championship	$340,393	$250,000	$90,393
2014 USA BMX Grand Nationals	$100,259	$100,259	$0
Total	**$1,906,087**	**$452,135**	**$1,453,952**

Source: Oklahoma Quality Events Incentive Annual Reports

Technical and Administrative Issues

The administrative process associated with the Quality Events program is outlined as follows:

Eligibility. Successful applications must comply with eligibility requirements for both the type of event as well as the type of expenses eligible for reimbursement that are incurred by the host community.

Oklahoma State Statute defines a Quality Event as:[12]

1. A new event or a meeting of a nationally recognized organization or its members

2. A new or existing event that is a national, international or world championship, or

3. A new or existing event that is managed or produced by an Oklahoma- based national or international organization

Expenses eligible for reimbursement include government expenses made for the purpose of attracting, promoting, advertising, organizing, conducting or otherwise supporting a quality event.

Pre-qualification process. Six months prior to the start of an event, the community hosting the event must pass an ordinance authorizing the application and submit both the ordinance and an economic impact study on the event to the Tax Commission for approval. The economic impact study must include:

- a description and, if applicable, history of the quality event,
- information regarding the site selection process for the quality event,
- an estimate of the expenses anticipated to be incurred in connection with hosting the quality event,
- an estimate of the total gross sales made by vendors during any period of time during which no quality event activity occurs,
- a detailed estimate of the anticipated increase in sales tax revenue directly attributable to the quality event,
- the general economic impact likely to occur as a result of the preparation for, occurrence of and activity occurring in connection with the dissolution of, a quality event, and
- any additional information the Oklahoma Tax Commission may require

The impact study is then reviewed by the Oklahoma Department of Commerce (ODOC), which may require additional documentation or explanation in order to verify that the estimates and assumptions provided by the applicant are reasonable and consistent with state economic impact modeling practices. ODOC will approve an estimate of the projected economic impacts on state sales tax revenue, which may differ the estimate submitted by the applicant.

As currently administered, the prequalification process is somewhat duplicative. An economic impact assessment must be prepared by the applicant and then replicated or redone by ODOC. This can lead to disputes over economic impact assumptions, at times resulting in time-consuming documentation searches and debates over reasonableness. Though some pertain to the specific nature of a particular

[12] 68 OS 4301 through 4311

event, other disputes have come up repeatedly and could be preempted by better upfront guidance to applicants about documentation needs or the limits of economic impact assessments. Examples of these disputes include how to correctly count the number of out-of-state visitors and visitors' length of stay.

Another frequent dispute is over what are appropriate points of comparison. If a community has lost an event that usually takes place in the month of June and is seeking to leverage the Quality Events program to help attract a new event for the next month of June, the incremental economic impact on State tax receipts will likely not be fully captured in the economic impact assessment. This is because the economic impact assessment relies on year-over-year changes and misses the fact that the lost event revenue will not reoccur in the coming year.

Another consideration is that the program is administered by the Tax Commission, but most conflicts arise during the Department of Commerce's efforts to verify the economic impact assumptions. As a result, applicants are often uncertain who their primary point of contact is at the state level and struggle to gain the clarity needed to develop successful applications.

Post-event verification of economic impact. Following the event, the Tax Commission compares the total amount of eligible expenses to the incremental State sales tax revenues. If the difference between these two is zero, no payment is made to the host community. If the incremental revenues are greater than the expenses, the host community is paid the difference. The local community must provide attendance figures or other public information that the Tax Commission considers necessary to evaluate the actual economic impact of the event. The Tax Commission then has 90 days after the conclusion of a quality event to determine the amount of additional State sales tax revenue located within the designated quality event area.

To date, this verification process has not always met the timeliness standards set out in the administrative rules. This is often due to conflicts with the applicant over documentation.

Given that the Tax Commission must identify the actual incremental sales tax revenues prior to reimbursement, the benefits of the pre-qualification process are unclear. Many of the disputes that arise out of the pre-qualification process arise from disagreements over how to estimate projected attendance figures. Once the event has occurred, the applicant is often able to secure actual receipts, which render the previous disagreements over estimates moot.

Reporting. According to the statute, the Executive Director of the Department of Commerce is to provide a yearly report every December to the Speaker of the House and President Pro Tempore of the Senate regarding the program's impact. Two reports have been submitted to date. The reporting process is not as streamlined or consistent as it could be, since the Tax Commission maintains the data associated with the program, but the Department of Commerce is charged with preparing the reports. Neither entity preserves the original applications or the applicants' economic impact assessments.

Summary

The administrative processes associated with the Quality Events program are designed to emphasize verification and oversight. Under the current system, State reimbursements cannot exceed the State sales tax benefits derived from the event.

However, the verification requirements have resulted in an administrative process that is cumbersome, costly, inefficient, and ultimately undermines the ability of the program to achieve its goals. Both applicants and program administrators have reported that the processes and requirements associated with pre-qualification and expenditure verification are opaque, and communication is disjointed. Even after successfully completing the process at least once, applicants remain uncertain about how to assemble a successful proposal that may be approved with minimal requests for additional information. No application guidelines have been issued with specific information regarding the types of documentation and economic impact assumptions that will be acceptable to the State. One applicant estimates that each application requires at least 70 staff hours to prepare, not counting time devoted to dispute resolution or document submission after the event has concluded. Program administrators at both the Tax Commission and Department of Commerce struggle to provide the level of case management needed to address the specific questions related to the unique characteristics of each separate quality event. Significant staff resources are being expended on compliance at both the state and the local level, undermining the timeliness of all aspects of project administration.

Outcomes

Outcomes

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

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

Potential Impact on Event Attraction and Spinoff Economic Development

In the case of this incentive, the goal is to support hosting communities in competing successfully to attract quality events to the state. The statute seeks to create a mechanism by which the local entities charged with promoting such events can tap into a portion of the funds that the state will derive from such events.

Substantial academic research has been devoted to studying the impacts of significant tourism events, finding that one of the largest benefits of such events is the high spike in resulting tax revenues to all levels of government.[13] Higher levels of tourism promotion spending can trigger higher levels of tourist activity and enhanced employment growth for states. In states like Oklahoma that are less well-known as tourism destinations, the incremental increases in job creation, hotel tax revenues, and sales tax revenues have been shown to be particularly high.[14]

Most events that have qualified to participate in Oklahoma's Quality Event Initiative are sports events, a type of event that can generate significant return on investment so long as neither local governments nor the state undertake major public works projects solely to support sports tourism. The Florida Office of Economic and Demographic Research found that the relatively small grants (average $15,000) allocated in support of sporting events have a return of investment of $5.61 for each dollar invested, largely because the grant monies supported the operational costs of attracting events with large numbers of out-of-state participants, rather than facility construction.[15]

The experience of other states indicates that a program like Oklahoma's Quality Events incentive should be able to increase the number of out-of-state visitor dollars spent in Oklahoma, leading to increased revenues to the hospitality and accommodations sector, to local governments, and to the state.

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[13] Donald Getz. July 31, 2007. "Event Tourism: Definition, Evolution, and Research." Tourism Management 29 (2008) 403 – 428. Available at: http://www.academia.edu/2020851/Event_tourism_Definition_evolution_and_research
[14] Deskins, John and Matthew Seevers. 2011. "Are State Expenditures to Promote Tourism Effective?" Journal of Travel Research 50(2) 154-170
[15] Florida Office of Economic and Demographic Research. January 2015. Return on Investment for the Florida Sports Foundation Grants and Related Programs. Available at: http://edr.state.fl.us/Content/returnoninvestment/SportsGrantsandPrograms.pdf

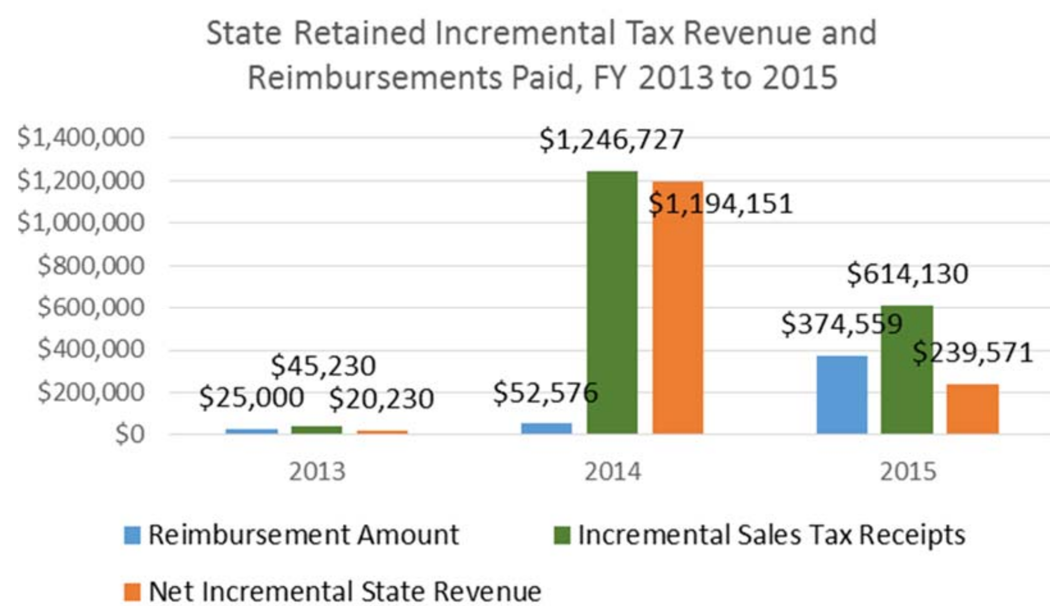
Actual Impact on Event Attraction and Spinoff Economic Development

According to applicants interviewed, the uncertainty and timeliness concerns associated with the program mean that hosting entities cannot count on state support when calculating final bids to prospective event organizations. In other words, due to ongoing struggles with the administrative process, the program has not been able to change the behavior of local hosting entities and allow them to be more competitive nationally.

The project team was able to identify only one other state that links its quality events program payouts to state receipts associated with the event in question. Other states provide support to CVBs through traditional grant programs, some of which are formula-driven to improve predictability and circumvent the administrative burdens associated with documenting eligible expenditures. Of all the states reviewed, the Oklahoma Quality Events program has the highest administrative burden, for both the applicant and the program administrators.

Cost Benefit Analysis

For the purpose of this report, the term return on investment (ROI) is synonymous with economic benefit, and is used in lieu of the statutory term. This measure does not address issues of overall effectiveness or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues and is ultimately conditioned by the state's tax policy.



The financial analysis suggests that the estimated tax revenue to the State of Oklahoma exceeds the level of the tax incentive, substantially so in FY2014. This further confirms that local efforts to attract quality events has significant positive ROI for the State, and investments in such events is a good use those funds insofar as the investments do not exceed anticipated revenues.

Not reflected in the above chart are the net impacts that such events have had on Oklahoma businesses and local governments. Large events spur increased expenditures in hospitality sector businesses (such as hotels, food establishments, rental car companies, etc), as well as impulse/convenience spending at businesses situated in close proximity to the event location. There are also intangible benefits associated with such events, including the heightened level of activity and vitality in the area immediately surrounding the major event site, improved brand awareness associated with the locality, and civic pride.

Recommendations

The Quality Events Program, as currently administered, has not been able to change the behavior of local hosting entities and allow them to be more competitive nationally. This is largely due to the outsized administrative burdens associated with the current processes and requirements, which in turn generate uncertainty about the magnitude and timeliness of reimbursement. In order to be effective, a reimbursement program must be predictable and transparent.

Oklahoma's decision to tie reimbursements to the incremental State sales tax receipts associated with the event essentially serves as a project cap, customized to the magnitude of an individual quality event. This is a positive and important characteristic of the program design, from a budgetary standpoint and for allocation fairness considerations. However, the administratively burdensome process of first estimating this cap prior to the event, then finalizing the rebate amount after the event, may be redundant given that statute has already set a project cap and an annual cap. Should the Commission choose to retain the customized project cap as part of the Quality Events program, the project team recommends the following modifications:

- **Eliminate the process of estimating the projected economic impact prior to the completion of the qualifying event**, including both the required applicant economic impact submission and ODOC's economic impact evaluation. The purpose of precertification is to provide CVBs with information about the maximum reimbursement amount for which they are likely to be eligible. At present, the administrative burdens imposed on both the State and hosting agencies by this precertification are out of proportion with the value of knowing the maximum reimbursement figure ahead of the event, particularly because timeliness issues preclude the CVBs' ability to modify their behavior based on the information received. One of the benefits of eliminating the precertification process is that program administration can be confined to OTC, which will result in a more streamlined and more transparent process. Under this new design, the cap on the payout would be determined after the event by OTC, based on actual documentation as opposed to estimates.

- **Create a standardized application template and clear guidelines on the types of "proof" documentation that are acceptable**, complete with FAQs that will provide applicants with the information they need to submit complete documentation following the completion of the event. Though every event is different, there appear to be a consistent set of best practices in terms of documenting standard data needs, such as the number of out-of-state attendees, the number of hotel nights associated with each out-of-state attendee, etc.

- **Designate a single point person or office at to serve as applicants' primary point of contact** for questions regarding the specific circumstances of an event.

- **Maintain a database on projects**, including such information as: the hosting community, name of the event, number of attendees, number of out-of-state attendees, total number of hotel nights, reimbursement requested, incremental state sales tax receipts associated with the event, payout to the City, as well as the dates of the event, the date of documentation submission, and the date of final payout. Annual reports should include this information.

The State may choose to further streamline the program by converting it to a straightforward grants program like that run by many other states, designed specifically to support the attraction of events with large numbers of out-of-state attendees. There is particular value in this sort of grant program if it can provide funds upfront (as Texas and Illinois do), or a straightforward way for calculating the exact monies that the CVB can expect to receive (as New York and Mississippi do). Though such a structure would not guarantee a positive ROI, it would be much more effective in helping Oklahoma event bids to be more competitive. The grant criteria could be crafted to take into account the historic ROI of local events, for example.