Incentive Evaluation Commission
Special Meeting Minutes
Oct. 12, 2017
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
Carlos Johnson, Certified Public Accountant
Dr. Cynthia Rogers, Economist
Lyle Roggow, President of the OK Professional Economic Development Council
Commissioner Burrage, Ex Officio; Non-voting (Tax Commission)

MEMBERS ABSENT: Denise Northrup, Ex Officio; Non-voting (OMES)
Secretary Snodgrass, Ex Officio; Non-voting (Dept. of Commerce)

STAFF/GUESTS: Shelley Zumwalt, OMES Public Affairs Director
Beverly Hicks, OMES Recording Secretary
Mary Ann Roberts, OK Tax Commission
Randall Bauer, PFM
Deanna Yocco, PFM
Kevin Watters, PFM
Leslie Blair, ODOC
Jamie J. Herrera, ODOC
Jon Chiappe, ODOC
Ryan Kilpatrick, FKG Consulting
Dennis Adkins, AES Shadypoint
Daniel Jeffries, Tulsa Area Clean Cities
Michael Gunter, CMA Strategies
Scott Minton, OnCue
Dave Miller, ONG
Justis Huddleston, Guest
Andrew Messer, OST
Nicole Boyles, OEDC
Haley Blood, A&A Advocates
Dennis Adkins, A&A Advocates
Lundy Kiger, AES Shady Point
Shawn Ashley, ECapitol

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

   Chairman Lyle Roggow called the meeting to order at 10:05 a.m. A roll call was taken and a quorum established. The Chair 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 Sept. 21, 2017 Commission meeting. [Lyle Roggow]**

   Mr. Denton moved to approve meeting minutes of September. Mr. Brown seconded the motion; the motion passed and the following votes recorded:

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

3. **Subcommittee reports. [Lyle Roggow]**

   No reports from the Vendor, Scheduling or Criteria subcommittees.

4. **Presentation by PFM, Randall Bauer of the 2017 draft evaluation reports on facts and findings. [Lyle Roggow]**

   Mr. Bauer reported on the twelve, 2017 draft evaluations. The recommendations focus on how Oklahoma can most effectively achieve each incentive's goals and weigh specific versus broad goals related to business location/expansion/investment and jobs. Each incentive is weighed based on established criteria, the analysis, and recommendation to retain, reconfigure, or repeal is given.

   A. **Quality Jobs** – *Retain, with modifications*. PFM recommends that the State should require companies to file information for payment each quarter, establish a schedule for regular review of eligible industries and maintain a centralized database of information collected by the Department of Commerce and the Oklahoma Tax Commission.
   Key Findings: The program is a net benefit to the State in terms of economic impact, cost controls associated with the administrative process have been effective, industries incentivized by Quality Jobs have shown slower growth in employment, and annual average pay and data collection and storage methods complicate the evaluation process.

   B. **Small Employer Quality Jobs** – *Retain, with modifications*. PFM recommends that the State should require companies to file information for payment each quarter, establish a schedule for regular review of eligible industries and maintain a centralized database of information collected by the Department of Commerce and the Oklahoma Tax Commission.
   Key Findings: The program is a net benefit to the State in terms of economic impact, cost per job over the life of the program is approximately $6,700.00, and cost controls associated with the administrative process have been effective. Industries incentivized by the Small Employer Quality Jobs program have exhibited slower growth in employment and average annual pay over the last five years, compared to the State as a whole. About half the payments made over the last five years has been to

establishments in industries outperforming the growth of the State overall and the data collection and storage methods complicate the evaluation process.

C. **21st Century Quality Jobs –** *Retain, with modifications*. PFM recommends that the State should require companies to file information for payment each quarter, establish a schedule for regular review of eligible industries and maintain a centralized database of information collected by the Department of Commerce and the Oklahoma Tax Commission.
Key Findings: The program is a net benefit to the State in terms of economic impact, cost per job over the life of the program is approximately $45,000., and cost controls associated with the administrative process have been effective. Industries incentivized by the 21st Century Quality Jobs Program have exceeded or matched overall State growth in employment, average annual wages, and total wages over the last five years. Almost all payments over the last five years have gone to industries outperforming State growth, and data collection and storage methods complicate the evaluation process.

D. **High Impact Quality Jobs –** *Reconfigure*. PFM recommends that the State should decrease the job creation requirement and increase the benefit rate.
Key Finding: The program has never been used, the benefit rate is lower than all other Quality Jobs variations and the program has had no fiscal or economic impact.

E. **Capital Gains Deduction –** *Repeal*. If retained, PFM recommends that the State should target the incentive to a specific industry, require gains to be re-invested in Oklahoma and improve data aggregation for evaluation.
Key Findings: The program has been a significant net cost to the State. After an initial spike in the second year, deduction claims have decreased and individuals reporting $200,000. or more in income account for the majority of deductions.

Commissioner Johnson voiced concern that a recommendation to repeal was made without appropriate (“but for”) data available.

F. **Home Office Tax Credit –** *Reconfigure*. PFM indicated that if the intent of the State is to attract insurance industry jobs to Oklahoma, the program should be reconfigured to better relate to job creation. The State should collect payroll data from companies receiving credits to improve future evaluations.
Key Findings: The credit appears to have had little impact on the State’s insurance industry employment in recent years, program benefits show little connection to employment growth and the program is a net cost to the State.

G. **Clean-Burning Fuel Vehicle Credit** – *Reconfigure*. PFM recommends that the State should retain the infrastructure credit; sunset the vehicle credit, structure the program to phase out and improve reporting on the credit.
Key Findings: Total credits claimed peaked in 2013 but declined in the most recent two tax years. The number of compressed natural gas (CNG) and electric fueling stations has increased significantly in recent years. Oklahoma has an above average share of CNG stations. There is insufficient data to accurately estimate or verify the

total economic or tax revenue impacts of the clean-burning fuel vehicle credit. Oklahoma's program is comparable to other states and was not found to be an outlier in any aspects. Adequate protections are not in place and data collection and reporting issues exist, but improvements are being made.

H. **Ethanol Fuel Retailer Tax Credit –** *Repeal*. If program is retained, PFM recommends reconfigure the tax credit application process.
Key Findings: Consumption of ethanol in Oklahoma has increased significantly, while consumption of gasoline has flattened, previously lagging the nation, per capita ethanol consumption in Oklahoma now mirrors the U.S., but its per capita gasoline consumption continues to exceed the national average and the return on investment for this program is negative. Oklahoma's program is not as robust as other states' incentives. The program does not provide specific financial protections – but the State is unlikely to be at risk of significant increases. Actually, the program is a loss to the state economy since Oklahoma does not produce much corn. Reporting and administrative issues exist.

I. **Economically At-Risk Lease Tax Credit –** *Repeal*. If the program were resumed, PFM recommends that the State explore the new Oklahoma Tax Commission electronic filing system as a method for improving reporting and data collection and improve the data collection process**.**
Key Findings: Data to evaluate the program based on approved criteria was not available. The return on investment for this program was positive. The State is not currently at risk of significant increases in tax expenditures associated with the program. Relative to other states, Oklahoma's program was competitive, yet less comprehensive.

J. **Production Enhancement Rebate –** *Repeal.* If the program were resumed, PFM recommends that the State explore the new Oklahoma Tax Commission electronic filing system as a method for improving reporting and data collection and improve the data collection process**.**
Key Findings: The return on investment for this program was positive. The State is not currently at risk of significant increases in tax expenditures associated with the program. Data to evaluate the program based on approved criteria was not available and relative to other states, Oklahoma's program was competitive, yet less comprehensive.

K. **Re-Established Production Rebate –** *Repeal.* If the program were resumed, PFM recommends that the State should explore the new Oklahoma Tax Commission electronic filing system as a method for improving reporting and data collection and improve the data collection process.
Key Findings: Data to evaluate the program based on approved criteria was not available. The return on investment for this program was positive. The State is not currently at risk of significant increases in tax expenditures associated with the program and the State is taking steps toward improving oil and gas data collection. Relative to other states, Oklahoma's program was competitive, yet less comprehensive.

L. **Coal Tax Credit Program –** *Repeal.* If program is retained, PFM recommends that the State should reconfigure and continue to improve data collection associated with the credits.
Key Findings: Coal production employment in Oklahoma has declined over time since the 1970's, to the point where the state is subsidizing year-by-year somewhere under 200 jobs per year, specifically in the Oklahoma coal industry. Employment since 2009 decreased by a combined annual growth rate of negative 7.7% and there is really no evidence that the particular credit that exist now for producers and consumers, is in any way, enhancing employment levels with the State and continue to decline. Average annual pay in the mining industry is consistently higher than the average annual pay across all private industries in the State. There is no evidence of increased capital investment associated with the coal credits. It is difficult to evaluate the importance of the coal tax credits on the long-term outlook for this sector and it is not possible to evaluate the State's return on investment due to data limitations.

Presentation only. No action taken.

5. Updates and discussion. [Lyle Roggow]

Website – A work in progress.

Public Hearing Process – Instructions were provided for those wishing to speak at the Friday, November 3, 2017 public hearing meeting at 1:00 p.m., information is located on the IEC website.

http://IEC.ok.gov

6. Adjourn. [Lyle Roggow]

There being no further business, Mr. Johnson made the motion to adjourn. Mr. Brown seconded the motion. Seeing no opposition, the meeting adjourned at 12:14 p.m.