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## Business Incentives and Economic Development Expenditures: An Overview of Oklahoma's Program Investments and Outcomes

### Summary

The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the C2ER State Business Incentives Database, which features detailed information about nearly 2,000 state-administered incentive programs from every state; and the C2ER State Economic Development Expenditures Database, a compilation of economic development expenditure budget data from every state.

This report adds to that body of work by taking a more in-depth look into Oklahoma's complete catalog of incentive programs, and includes an analysis of the available outcome data that is used by state policy makers and program administrators to gauge program effectiveness.

The Center for Regional Economic Competitiveness (CREC) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states, including Oklahoma. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

To better understand the economic development landscape in Oklahoma, we reviewed data from a range of state statutes, reports, and websites, including annual tax reports and annual state budgets. The numbers used in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level.

In FY 2012, the most recent year for which spending data were available for all business incentive types, Oklahoma spent \$67 million on economic development programs. Additionally, economic development tax expenditures totaled \$485 million in the same year.<sup>1</sup> According to the Tax Policy Center and for the purposes of this report, tax expenditures are defined as "revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures."<sup>2</sup>

### Overview of Business Incentives

Oklahoma has a total of 61 active programs in 2014 (including the state's enterprise zone program which packages extended benefits from other programs for targeted geographic areas).<sup>3</sup> The C2ER State

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<sup>1</sup> See Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

<sup>2</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm)

<sup>3</sup> Please note that data regarding state spending on economic development was gathered through reviewing state budget publications. This data is not linked to the individual business incentives described in this section.



**Figure 1: Oklahoma State Business Incentives by Agency, 2014**

Agency	Number of Programs
Oklahoma Tax Commission	32
Oklahoma Department of Commerce	5
Oklahoma Development Finance Authorities	5
Oklahoma Department of Agriculture	4
i2E	4
Oklahoma Capital Investment Board	2
Oklahoma Department of Environmental Quality	2
Oklahoma State Bond Advisor's Office	1
Oklahoma State Treasurer's Office	1
Oklahoma Department of Transportation	1
Oklahoma Insurance Department	1
State Historic Preservation Office	1
Oklahoma Department of Career and Technology Education	1
Oklahoma Film & Music Office	1

Source: C2ER State Business Incentives Database

Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.<sup>4</sup>

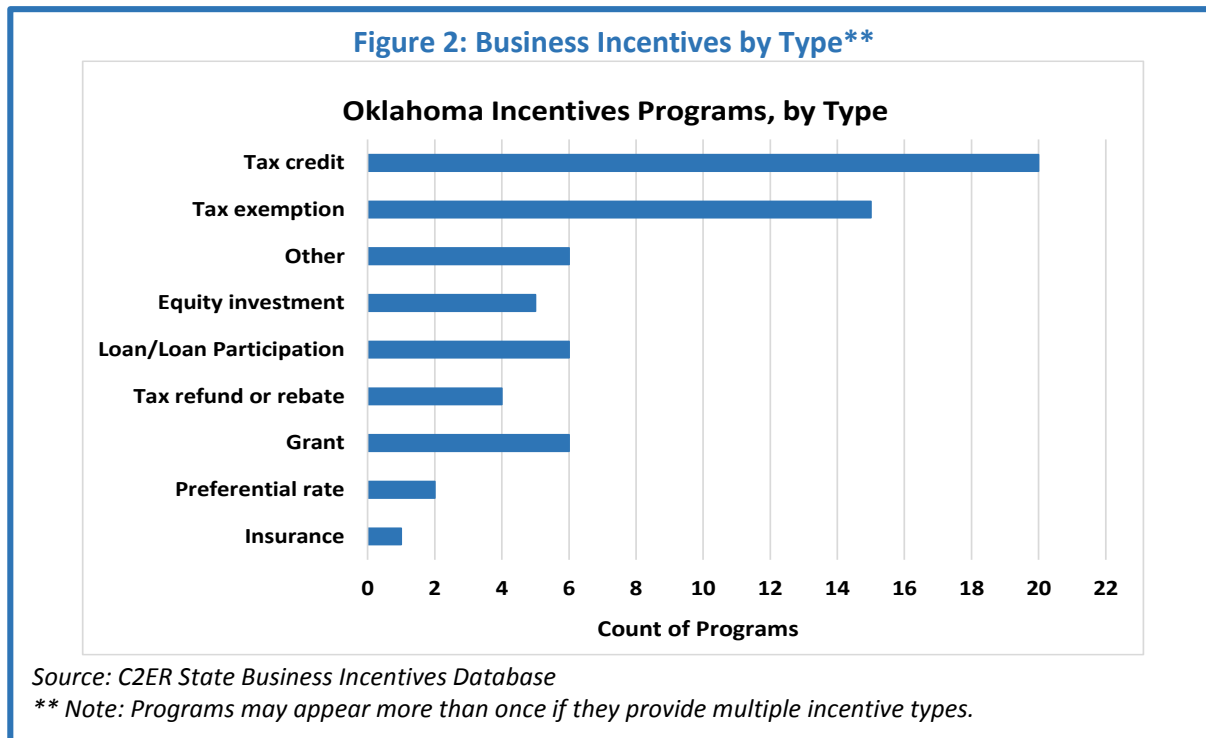
According to the C2ER State Business Incentives Database, there are 15 state agencies responsible for the administration of Oklahoma’s business incentives. The majority of Oklahoma’s business incentives are administered by the Oklahoma Tax Commission (OTC) and the Oklahoma Department of Commerce (ODOC). (See Figure 1.)

OTC administers 32 programs, and ODOC administers 5 programs (including enterprise

**State Economic Development Expenditures  
Function Areas**

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

<sup>4</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the State of Oklahoma.

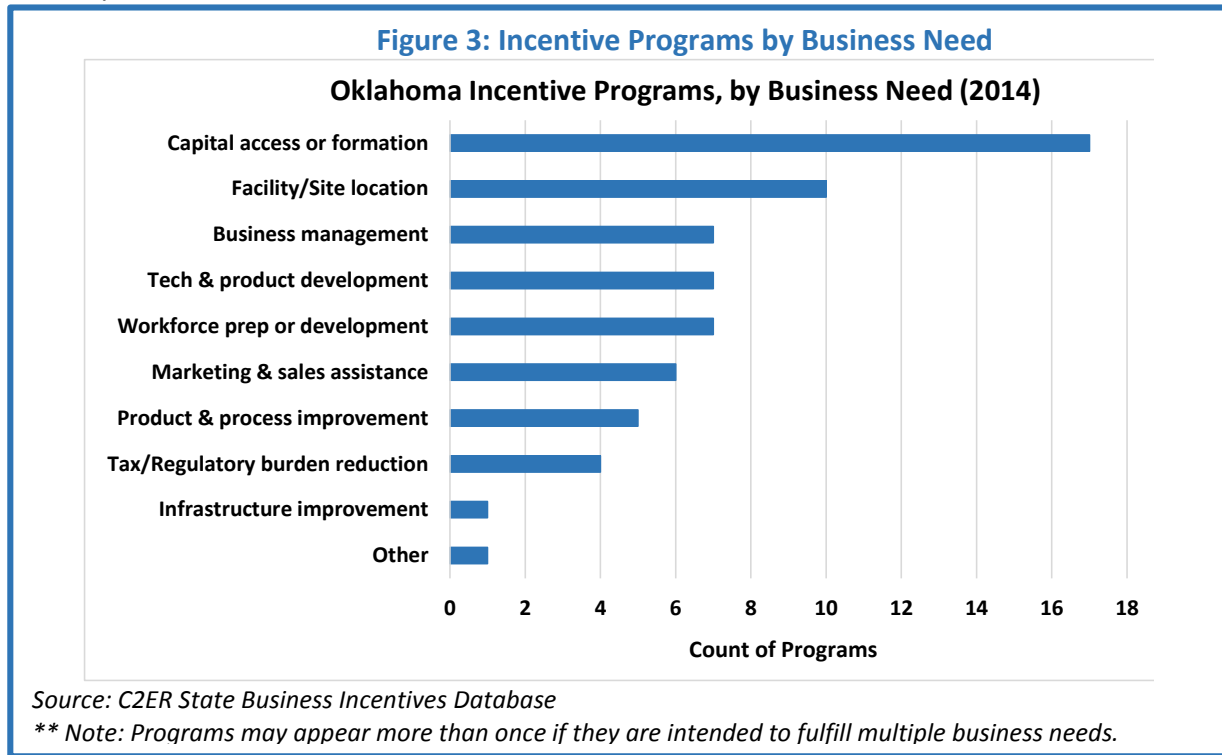


zones). The programs managed by ODOC are discretionary, meaning that each potential project is reviewed by an advisory group that considers its economic and fiscal value before executing a contract.

The business incentives administered by OTC are available for any company to claim as long as the investment meets the minimum criteria outlined in the corresponding statute. Currently, about one-third of Oklahoma’s incentive programs provide a tax benefit, while the remaining business incentives offer direct or indirect business financing. (See Figure 2.) By comparison, tax incentives represent 45 percent of all state business incentive programs nationally.

The most common business needs addressed by Oklahoma’s programs are capital access, facility location, business management assistance, technology and product development, and workforce development. (See Figure 3.) Over half of Oklahoma’s business incentives target a specific industry; the most common are transportation, manufacturing, and agriculture.

An example of Oklahoma’s targeted approach towards economic development is the Quality Jobs (QJ) program. The QJ program is designed to target specific industries to advance and set job-creation goals within those sectors. QJ contracts are constructed with a cost benefit analysis and are performance based, which means that there is not any state expenditure until performance requirements are achieved. The cost benefit analysis and requirement for performance ensures that economic and fiscal objectives are addressed.

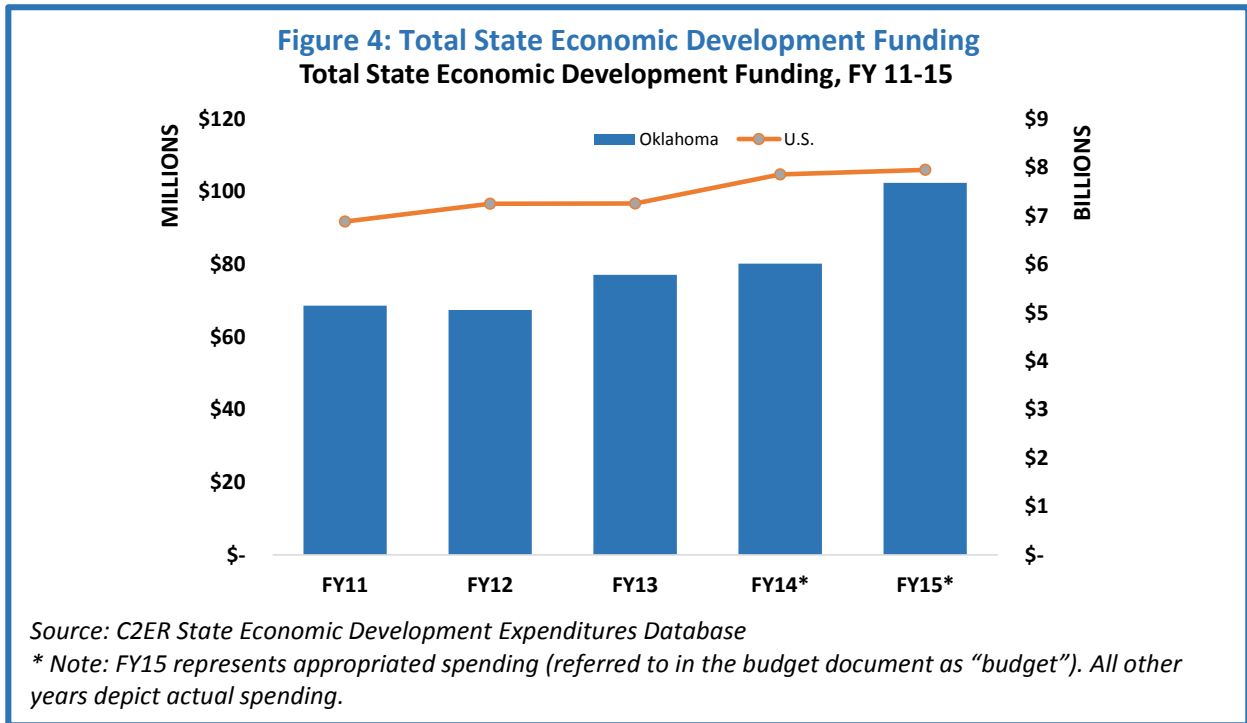


## Economic Development Program Expenditures

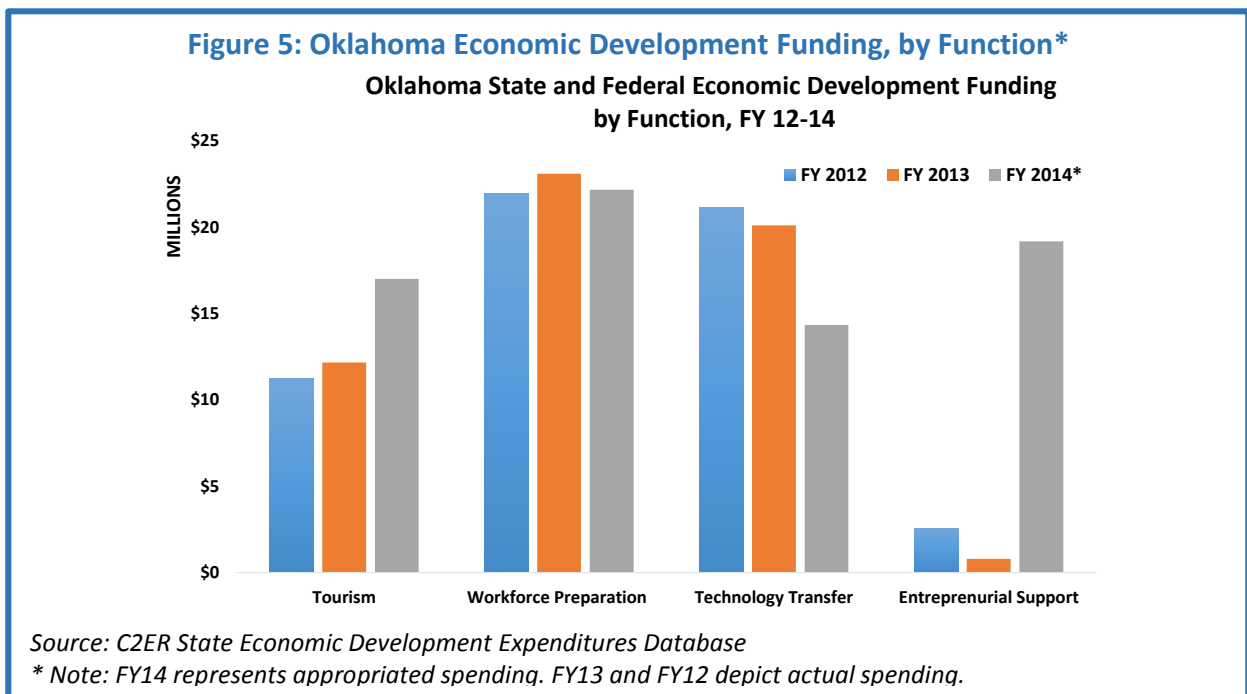
Examining Oklahoma’s state budget reveals how the state appropriates money for economic development programs. All expenditures examined here fall into the fifteen functional areas for economic development defined by the C2ER State Economic Development Database.<sup>5</sup>

According to [historical budget data](#), the state spent \$67 million on economic development in FY 2012. (See Figure 4.) This level of spending represents an average of approximately \$645 spending per business establishment, which is below the national median investment of \$791 per business establishment for that fiscal year. Oklahoma’s annual spending on economic development in recent years has largely been consistent with national trends showing gradual gains between FY 2013 and FY 2015.

<sup>5</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)



Compared to other states in FY 2012, the state spent a higher proportion of its economic development budget than average in the functional areas of community assistance, technology transfer, entrepreneurial support, and workforce preparation. (See Figure 5.) Oklahoma spent a lower proportion





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of its economic development budget than the average of other states on business assistance, business finance, special industry assistance, and tourism and film.<sup>6</sup>

## Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”<sup>7</sup> *Economic development tax expenditures* in this context represent those provisions that use the state tax system to promote business investments that promote state economic priorities.

OTC publishes a biennial Tax Expenditure report that includes the commission’s best estimate of the amount of state revenue that would have been collected but for the existence of each tax incentive allowed by law during the previous fiscal year, as well as information about the number of claimants per program. The [Oklahoma Tax Expenditures Report for 2011-2012](#) was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report *related to economic development*, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors.

For FY 2012, approximately 86 percent of Oklahoma’s economic development tax expenditures were for sales and use taxes, while about 7 percent were for corporate income taxes and 8 percent were for other tax types. The primary economic development functional goals of these tax expenditures were to address the business needs of business assistance, community assistance, domestic recruitment, special industry assistance, technology transfer, and tourism and film.

In FY 2012, 94 percent of Oklahoma’s tax expenditures went towards special industry assistance. Out of these tax expenditures, 79 percent went towards manufacturing; the remaining 15 percent was distributed between mining (oil and gas) and the agricultural sector. Other functional areas addressed by tax expenditures included business assistance, community assistance, domestic and out-of-state recruitment, technology transfer, and tourism/film.

With regard to tax expenditures, Oklahoma has made a concerted effort to improve transparency. The state maintains a public facing website called [Open Books](#) that contains a wealth of information about where tax dollars come from and how they are used; this includes a list of all tax credits claimed and used in every fiscal year. ODOC also publishes an annual [Tax Guide](#) that describes all of the state’s incentive programs.

## Analysis of Outcome Data

The Quality Jobs (QJ) program is unique among the state’s programs because of its requirements for data collection, reporting, and analysis. The pay-for performance program requires companies to report on the outcome of its cash rebates.

Using these data, ODOC regularly publishes two types of [QJ reports](#). A triennial report measures the economic and fiscal impact of the program as a whole. The report lists historical enrollment and

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<sup>6</sup> This section of the analysis, Appendix B and Figure 5 include both state and federal funding.

<sup>7</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm)



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performance data on a fiscal year basis. It includes data on the industries served, actual jobs created, and average wages of those jobs (verified by Employment Security Commission [ESC]). It also lists companies that have completed their ten-year participation in the program and their location (by county). The report concludes with a complete fiscal analysis of the program, comparing incentives paid to participating companies with the benefits accruing to the state in terms of income taxes received from new employees.

Interim reports are published quarterly to monitor the performance of specific companies participating in the program. ODOC monitors performance by asking companies for data on job-creation, average wages, capital investment, and export sales. By comparing these figures to the business' performance before it began participating in the QJ program, the state can better assess whether or not a company is compliant and project goals are being met.

OTC's biennial Tax Expenditure Report estimates the fiscal impact of each of the tax credits and deductions in use in the state. The report focuses exclusively on the fiscal impact of the programs, rather than their economic impact.

## Conclusion

Oklahoma's current economic development structure is notable for having many state agencies administer incentives. Therefore, there may be efficiency gains and cost savings to be had by reviewing the number of state agencies responsible for state incentives. The state's economic development incentive portfolio favors tax programs over non-tax programs. Oklahoma spends below the national average on economic development expenditures per business establishment. With increased transparency of these data, Oklahoma will be better able to focus on analyzing the relative impacts of various state incentives to help guide policymakers on the most effective ways to encourage economic development. Also, in February 2015, Oklahoma Governor, Mary Fallin, in her fifth annual State of the State Address proposed passing legislation requiring every tax credit and economic incentive be evaluated through an objective process developed in partnership with the Pew Charitable Trusts through the Business Incentives Initiative.



## Appendix A: Full List of OK State Business Incentives (2014)

Program Name	Program Provider	Business need	Type
Oklahoma Seed Capital Fund	i2E	Capital access or formation	Equity investment
StartOK Accelerator Fund	i2E	Capital access or formation	Equity investment
GrowOK Fund	i2E	Capital access or formation	Equity investment
OKAngel Sidecar Fund	i2E	Capital access or formation	Equity investment
Venture Investment Program	Oklahoma Capital Investment Board	Capital access or formation	Grant
Oklahoma Capital Access Program	Oklahoma Capital Investment Board	Capital access or formation	Loan/Loan Participation
Basic and Applied Research Loan/Grant	Oklahoma Department of Agriculture	Product & process improvement	Loan/Loan Participation
Farm Diversification Grant	Oklahoma Department of Agriculture	Product & process improvement	Grant
Marketing and Utilization Loan	Oklahoma Department of Agriculture	Business management; Marketing & sales assistance; Product & process improvement	Loan/Loan Participation
Cooperative Marketing Loan	Oklahoma Department of Agriculture	Marketing & sales assistance; Product & process improvement	Loan/Loan Participation
Safety and Health Training	Oklahoma Department of Career and Technology Education	Workforce prep or development	Grant
Oklahoma Export Finance Program	Oklahoma Department of Commerce	Capital access or formation	Insurance
Quality Jobs and Investment Tax Credit	Oklahoma Department of Commerce	Workforce prep or development	Tax credit





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Quality Jobs Program	Oklahoma Department of Commerce	Workforce prep or development	Tax refund or rebate
Opportunity and Enterprise Zones	Oklahoma Department of Commerce	Capital access or formation	Tax credit
21st Century Quality Jobs	Oklahoma Department of Commerce	Workforce prep or development	Tax refund or rebate
Recycling, Reuse And Source Reduction Incentive Act	Oklahoma Department of Environmental Quality	Capital access or formation; Facility/site location	Tax credit
Biofuels Construction and Permitting Assistance	Oklahoma Department of Environmental Quality	Business management; Product & process improvement	Other
Industrial Access Road Program	Oklahoma Department of Transportation	Facility/site location; Infrastructure Improvement	Grant
Private Activity Bond Allocation	Oklahoma Development Finance Authorities	Product & process improvement; Capital access or formation	Other
Quality Jobs Investment Program	Oklahoma Development Finance Authorities	Workforce prep or development	Equity investment
Economic Development Pooled Finance	Oklahoma Development Finance Authorities	Infrastructure Improvement	Other
Credit Enhancement Reserve Fund	Oklahoma Development Finance Authorities	Capital access or formation	Loan guarantee
Finance Authority Programs	Oklahoma Development Finance Authorities	Capital access or formation	Other
Oklahoma Film Enhancement Rebate Act	Oklahoma Film & Music Office	Tax/Regulatory burden reduction	Tax refund or rebate
Insurance Premium Tax Credit	Oklahoma Insurance Department	Facility/site location; Tax/Regulatory burden reduction	Tax credit



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General Obligation Limited Tax Bonds (GOLTBs)	Oklahoma State Bond Advisor's Office	Facility/site location	Other
Small Business Linked Deposit Program	Oklahoma State Treasurer's Office	Capital access or formation	Preferential rate
Aerospace Engineer Tax Credit	Oklahoma Tax Commission	Tech & product development; Workforce prep or development	Tax credit
Incubator Site Tenant Tax Exemption	Oklahoma Tax Commission	Business management; Facility/site location; Marketing & sales assistance	Tax exemption
The Oklahoma Local Development and Enterprise Zone Incentive Leverage Act	Oklahoma Tax Commission	Facility/site location	Grant; Loan guarantee
Investment/New Jobs Tax Credits	Oklahoma Tax Commission	Workforce prep or development	Tax credit; Tax exemption; Tax refund or rebate
Tax Increment Financing (TIF)	Oklahoma Tax Commission	Other	Other
Energy Efficient Residential Construction Tax Credit	Oklahoma Tax Commission	Tax/Regulatory burden reduction	Tax credit
Gas Usage Tax Credit for Manufacturing	Oklahoma Tax Commission	Capital access or formation; Product & process improvement	Tax credit
Commercial Space Industry Credit	Oklahoma Tax Commission	Facility/site location	Tax credit
Manufacturers Tax Exemption	Oklahoma Tax Commission	Capital access or formation; Product & process improvement	Tax exemption
Aircraft Facilities Sales Tax Exemption	Oklahoma Tax Commission	Marketing & sales assistance	Tax exemption
Computer Services And Data Processing Tax Exemption	Oklahoma Tax Commission	Tech & product development	Tax exemption
New Products Development Income Tax Exemption	Oklahoma Tax Commission	Tech & product development	Tax exemption
Freeport Exemption	Oklahoma Tax Commission	Marketing & sales assistance; Product & process improvement	Tax exemption
Telecommunications Sales Tax Exemption	Oklahoma Tax Commission	Business management	Tax exemption
Construction Materials Tax Refund	Oklahoma Tax Commission	Facility/site location	Tax refund or rebate



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Ethanol Fuel Retailer Tax Credit	Oklahoma Tax Commission	Marketing & sales assistance	Tax credit
Income Tax Credit For Investment In Oklahoma Producer-Owned Agriculture Processing	Oklahoma Tax Commission	Capital access or formation	Tax credit
Technology Transfer Income Tax Exemption	Oklahoma Tax Commission	Tech & product development	Tax exemption
Research and Development New Jobs Credit	Oklahoma Tax Commission	Workforce prep or development	Tax credit
Aircraft Maintenance or Manufacturing Facility Use Tax Refund	Oklahoma Tax Commission	Facility/site location	Tax refund or rebate
Excise Tax Exemption on Aircraft Sales	Oklahoma Tax Commission	Marketing & sales assistance	Tax credit
Spaceport Exemption	Oklahoma Tax Commission	Marketing & sales assistance	Tax exemption
Agricultural Commodity Processing Facility Income Tax Exemption	Oklahoma Tax Commission	Facility/site location; Capital access or formation	Tax exemption
Five Year Ad Valorem Tax Exemption	Oklahoma Tax Commission	Product & process improvement; Tech & product development	Tax exemption
Tax Credit for Provision of Child Care	Oklahoma Tax Commission	Facility/site location; Product & process improvement	Tax credit
Computer Services / Data Processing / Telecommunications Equipment Tax Refund	Oklahoma Tax Commission	Tech & product development	Tax exemption
Clean Burning Fuel Vehicle Credit	Oklahoma Tax Commission	Tech & product development	Tax credit
Clean Burning Fuel Vehicle Infrastructure Credit	Oklahoma Tax Commission	Tech & product development; Infrastructure Improvement	Tax credit
Biofuels Tax Exemption	Oklahoma Tax Commission	Product & process improvement	Tax exemption
Credit for Electricity Generated by Zero-Emission Facilities	Oklahoma Tax Commission	Tax/Regulatory burden reduction; Product & process improvement	Tax credit
Aircraft Repairs and Modifications	Oklahoma Tax Commission	Business management	Tax exemption
Ethanol Sales Tax Exemption	Oklahoma Tax Commission	Tax/Regulatory burden reduction	Tax exemption
Historic Rehabilitation Tax Credit	State Historic Preservation Office	Facility/site location	Tax credit



## Appendix B: OK Economic Development Program Expenditures (2012)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$7,861,000
Business Assistance	Business retention/expansion	\$970,000
Business Assistance	Other Business Assistance	\$953,000
Business Finance	Fund Management	\$2,934,000
Community assistance	Community development	\$88,123,000
Community assistance	Other Community assistance	\$461,000
Entrepreneurial Development	Seed/venture capital	\$2,571,000
International Trade and Investment	Export promotion (excl. overseas representation)	\$926,000
Program Support	Other Program Support	\$1,199,000
Technology Transfer	Research & development	\$9,670,000
Technology Transfer	Other Technology Transfer	\$7,065,000
Technology Transfer	Technology commercialization	\$2,743,000
Technology Transfer	Modernization/mfg. extension	\$1,679,000
Tourism/Film	Tourism development	\$8,076,000
Tourism/Film	Tourism promotion (exc. Advertising)	\$1,526,000
Tourism/Film	Tourism advertising	\$1,207,000
Tourism/Film	Film Promotion	\$457,000
Workforce Preparation & Dev.	Other Workforce Preparation & Dev.	\$21,967,000



## Appendix C: OK Economic Development Tax Expenditures (2012)

Description	Total Funds
Agricultural Commodity Processing Facilities	\$0
Agricultural Processing Facilities	\$1,100,000
Agricultural Sales	\$123,990,000
Agricultural Use	\$0
Agricultural Vehicles	\$0
Aircraft and Aircraft Parts	\$0
Aircraft Maintenance Facility	\$0
Aircraft Owned by Commercial Airlines	\$0
Aircraft Repair and Modification	\$2,264,000
Aircraft Used for Agricultural Purposes	\$0
Biomedical Research Foundations	\$0
Businesses Engaged in Repair of Electronic Goods	\$0
Child Care Service Providers	\$69,000
Child Care Services – Employers	\$0
Commercial Space Industries Credit	\$0
Computer Industry Credit	\$0
Computer Services	\$0
Computer Services and Data Processing	\$0
Computer Services and Data Processing	\$0
Credit for Donations to Biomedical Research Institute	\$514,000
Credit for Electric Vehicle Manufacturers	\$0
Credit for Electricity Generated by Zero-Emission Facilities	\$2,917,000
Credit for Eligible Biodiesel Facility	\$0
Credit for Eligible Expenditures Incurred by a Contractor in the Construction of Energy Efficient Residential Property	\$3,856,000
Credit for Employees in the Aerospace Sector	\$950,000
Credit for Financial Institutions Making Loans under the Rural Economic Development Loan Act	\$0
Credit for Manufacturers of Advanced Small Wind Turbines	\$1,377,000
Credit for Qualified Ethanol Facilities	\$0
Credit for Small Business and Rural Small Business Capital Companies	\$61,000
Credit for Tuition Reimbursement for Employers in the Aerospace Sector* and Credit for Employers in the Aerospace Sector	\$30,000
Deduction for Discharge of Farm Indebtedness Income	\$0
Electricity Used in Oil De-watering Projects	\$2,264,000
Energy Conservation Assistance Fund	\$19,000



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Enhanced Oil Recovery Deduction	\$1,398,000
Enhanced Recovery Methods	\$1,662,000
Farm Vehicles	\$4,107,000
Film and Music Profit Reinvestment Credit	\$11,000
Forestry Vehicles	\$302,000
Fuel Used for Agricultural Purposes	\$0
Gas Marketing Deduction	\$21,144,000
Gas Used in Manufacturing	\$19,000
Gross Production Tax Incentives (Rebates)	\$34,668,000
Gross Production Tax Incentives (Reduced Rates)	\$103,854,000
Investment in Equipment Used for Recycling, Reuse, or Source Reduction of Hazardous Waste	\$0
Investment in Qualified Small Business Capital Companies and Small Business Ventures	\$9,178,000
Investment in Rural Venture Capital Companies and Rural Small Business Ventures	\$23,294,000
Investment Incentive Credit	\$0
Investments in Clean-Burning or Electric Motor Vehicles	\$5,454,000
Lease Interest Exemptions	\$8,119,000
Leases of Aircraft	\$0
Leases of Motor Vehicles	\$0
Local Industrial Development Act	\$0
Low Point Beer Manufactured for Export	\$0
Machinery and Equipment Used in Manufacturing	\$4,828,000
Manufacturers of Low-Point Beer	\$0
Motion Picture and Television Production Companies	\$10,800
New Motor Vehicle Dealer	\$581,000
Newspapers and Periodicals	\$10,797,000
Oklahoma Capital Investment Board	\$0
Oklahoma Center for the Advancement of Science and Technology	\$0
Oklahoma Coal Production	\$293,000
Oklahoma Industrial Finance Authority – State Industrial Finance Bonds	\$0
Oklahoma Investment/New Jobs	\$22,679,000
Oklahoma Research and Development Incentives Act	\$6,500
Oklahoma Source Capital Gain Deduction	\$89,240,000
Poultry Litter Tax Credit	\$93,000
Prewritten Computer Software	\$2,264,000
Privately Owned Scientific and Educational Libraries	\$229,000
Qualified Recycling Facility	\$2,200
Qualified Refinery Property	\$0
Sales Tax Credit for Tourism Attraction Operators	\$0
Scientific/Educational Lab Printing	\$0



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Small Business Guaranty Fee	\$42,000
Small Business Incubators – Sponsors	\$0
Small Business Incubators – Tenants	\$0
Spaceport Operations	\$0
Swine and Poultry Producers	\$0
Tax Credit for Qualified Rehabilitation Expenditures	\$631,000
Tax Incentives for Inventors	\$0
Tourism Broker Transportation Services	\$515,000
Tourism Promotion Credit	\$0
Transfers of Technologies to Small Business	\$0
Venture Capital	\$122,000
Water Treatment & Pollution Control Facility	\$0
Web Search Portals	\$0
Wireless Telecommunication Equipment	\$0