State of Oklahoma
Incentive Evaluation Commission
Evaluation: Construction Materials Tax Exemption

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Key Findings and Recommendations

Incentive Overview

The Construction Materials Tax Exemption offers a full exemption from sales tax on purchases of tangible personal property by a qualified manufacturer that is used in the expansion or construction of a new manufacturing facility meeting new jobs and investment requirements.

Recommendation: Retain, with modifications. While the 2019 evaluation recommended repealing the program, the Department of Commerce (Commerce) indicates that there has been some interest in the exemption in discussions of some major projects. Given that the one use of the exemption in recent years had a positive impact for the state, there is no real point in repealing it.

Key Findings

- **The exemption has only been claimed once in the last four fiscal years.**
  - One manufacturing business has been the only beneficiary of the exemption.
  - Eligible companies are more likely to use other state incentives, such as the Quality Jobs Act or the Investment Tax Credit.
  - Statute prohibits the use of this exemption with other state incentives.
  - As a result, there is little danger that the incentive use will increase substantially beyond the state's expectations in future years.
- **The State should expect a return on investment from this tax exemption.**
  - Based on the minimum job requirements of this exemption, the state is estimated to receive $1 million in tax revenues, greater than the $583,000 in foregone revenue remitted through this program.
- **The economic impact of the jobs created associated with this exemption has been $90.3 million in the last four fiscal years.**
  - This is the total output from direct, indirect, and induced economic impacts from the single user of the exemption.
- **The administrative work to submit claims is burdensome for companies.**
  - Statute requires the following information to be submitted to the OTC in order for the claim to be processed:
    - Invoices indicating the amount of state and local tax billed;
    - Affidavit of each vendor that sales tax charged has been collected by the vendor and remitted to the Oklahoma Tax Commission (OTC);
    - Affidavit from the contractor or subcontractor making purchases stating that the sales tax refund claimed by the qualified manufacturer is based on state and local sales tax paid by the contractor or subcontractor on qualified purchases.
  - As a result, the company must maintain a significant number of records while being uncertain of its ability to qualify for the exemption.
  - At the same time, the OTC's administration of the program closely aligns with its statutory requirements.
- **This is a situation where incentive best practices make it difficult for the incentive to be used.** The state has a legitimate interest in determining the financial impact and the economic impact of the

incentive, which requires companies to maintain and present records and receipts. In contrast, blanket exemptions are generally issued by the state revenue department for qualified purchasers, and that certificate is then presented at the time of purchase, and no sales tax is collected. That makes it more difficult to determine financial and economic impact. This is an incentives conundrum that will likely always limit its use.

- **The state with the most similar program, South Carolina, also has had little utilization of the tax exemption.**
  - Most other states with construction materials tax exemptions have more restrictions than Oklahoma.
  - South Carolina, the most similar program, does not indicate within their tax expenditure report that the exemption has been claimed within the last three fiscal years.

Recommendations

- **Expand the qualifications beyond manufacturing companies.**
  - If more companies could qualify for this exemption, other than just manufacturing companies, it might increase the utilization of the exemption.

Introduction

Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by HB 2182 in 2015 to conduct objective evaluations of the State of Oklahoma's wide array of business incentives. The Commission is made up of five appointed voting members along with ex officio representatives of the Department of Commerce, Office of Management and Enterprise Services, and Tax Commission.

Under the enabling legislation, each of the State's economic incentives must be evaluated once every four years according to a formal set of general criteria, including (but not limited to) economic output, fiscal impact, return on investment, and effectiveness of administration, as well as criteria specific to each incentive as determined by the Commission.

Since the Commission's inception, it has contracted with PFM Group Consulting LLC (PFM) to serve as the independent evaluator of each incentive scheduled for review in that year. PFM issues a final report on each incentive with recommendations as to how Oklahoma can most effectively achieve the incentive's goals, including recommendations on whether the incentive should be retained, reconfigured, or repealed; as well as recommendations for any changes to State policy, rules, or statutes that would allow the incentive to be more easily or conclusively evaluated in the future.

The Commission considers the independent evaluator's findings and recommendations – as well as all public comments – before voting to retain, repeal, or modify the recommendations for each incentive under review. It then submits a final report to the Governor and the Legislature.

Summary of 2019 Evaluation Findings and Recommendations

In accordance with the four-year evaluation cycle described in the preceding, the Construction Materials Tax Exemption was first reviewed by the Commission in 2019.[1] Significant findings and recommendations from PFM's evaluation of the program are summarized in the following table:

Table 1: Summary of 2019 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	The exemption had not been claimed in the previous five fiscal years prior to the evaluation.
Fiscal and Economic Impact	No economic or fiscal impact generated.
Future Fiscal Impact Protections	No future fiscal impact protections noted.
Administrative Effectiveness	It was noted that the documentation process required to submit claims was quite burdensome given all the information needed.
Retain, Reconfigure or Repeal	The project team recommended repealing the program.
Other Recommendations	None

Source: State of Oklahoma Incentive Evaluation Commission, Tax Incentive Evaluation Report 2019

[1] The 2019 Tax Incentive Evaluation Report is available on the Commission's website at https://iec.ok.gov/sites/g/files/gmc216/f/OKConstructionMaterials09272019Draft.pdf

Based on PFM's analysis and consideration of other factors, the Commission voted 6-0 to repeal the incentive.

2023 Criteria and Evaluation Approach

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 and as noted previously, the provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation.

In the case of the Construction Materials Tax Exemption, the purpose or goal of the incentive is to incent the creation of manufacturing jobs in the State of Oklahoma. The Commission has adopted the following criteria to assist in a determination of program effectiveness:

- Job creation associated with financed projects;
- Capital investment (facilities, machinery and equipment) associated with financed projects;
- Comparison of job creation and capital investment to similar cities/counties not participating in the program;
- Contributions to community development;
- State return on investment.

To conduct its 2023 review of the Economic Development Pooled Finance Program, the PFM team undertook several project tasks, including (but not limited to) the following:

- Requested, reviewed, and analyzed data from the Department of Commerce.
- Conducted subject matter expert and internal stakeholder interviews.
- Participated in project site visits with the Department of Commerce and ODFA.
- Met with leadership from the State, Oklahoma City, and Tulsa Chambers of Commerce, and interested industry representatives.
- Benchmarked Oklahoma to other states.

Incentive Usage and Administration

Incentive Characteristics

Related Statutory Changes

No changes were noted in the statute since the last incentive evaluation.

Historic Use of the Credit

According to the Oklahoma Tax Commission (OTC), from FY 2019 through FY 2022, only one manufacturer qualified for the sales tax exemption for constructions materials. Two likely reasons for this are the availability of more generous incentives and the potentially burdensome documentation associated with claiming the exemption.

Table 2: Construction Materials Exemption Detail

Fiscal Year	Sales Tax	Use Tax	Total
2021	$19,381.48	$105,767.31	$125,148.79
2022	$141,489.35	$81,468.43	$222,957.78
2023	$182,233.62	$52,953.31	$235,186.93
Total	**$343,104.45**	**$240,189.05**	**$583,293.50**

Incentive Administration

The State offers a full exemption from sales tax on purchases of tangible personal property by a qualified manufacturer that is used in the expansion or construction of a new manufacturing facility. The following table outlines the requirements for a qualified manufacturer's construction:

Table 3: Construction Materials Exemption Qualification Levels

Construction Cost	New Jobs	Combined Cost of Construction, material, machinery, equipment and other tangible personal property
$5,000,000	100	No requirement
$10,000,000	75	$50,000,000
$300,000,000	1,750[2]	No requirement

The program's statute was modified in 2005 to allow qualified general wholesale distributors of groceries to benefit from the exemption. In order to qualify for the exemption as a distributor, the facility had to have been constructed between July 1, 2005, and December 31, 2005 and have a total cost of construction exceeding $40 million with 50 new employees. Aside from this brief window, only manufacturers have been eligible to claim the exemption.

The exemption applies to sales directly to the qualified manufacturer and to contractors or sub-contractors associated with the construction. Recipients of the exemption must file applications with the OTC. Both state and local sales taxes are exempt for qualified manufacturers, so the governing body of the municipality where the firm is located must approve a resolution in support of the construction project before any exemption is granted.

[2] For this construction cost level, statute requires that 1,750 jobs be maintained at the facility, but does not specifically require that they are new jobs.

The exemption is administered as a refund of sales taxes on qualified purchases. The qualified manufacturer may file claims for a refund on a monthly, quarterly, semi-annual, or annual basis with the OTC. Claims must be filed within 36 months of the date of the first purchase.

The following information is required to be provided to the OTC as part of all claims:

- Invoices indicating the amount of state and local tax billed;
- Affidavit of each vendor that sales tax charged has been collected by the vendor and remitted to the OTC;
- Affidavit from the contractor or subcontractor making purchases stating that the sales tax refund claimed by the qualified manufacturer is based on state and local sales tax paid by the contractor or subcontractor on qualified purchases.

When claims are presented, the OTC estimates the amount necessary to make refund payments and transfers that amount from sales tax collections into a separate account. All refunds are made from this separate account. Approved claims allow for a full refund of sales and use tax paid on qualified purchases.

Claimants also receive accrued interest associated with the principal refund amount, as determined by the amount earned as invested by the State Treasurer's Office. If at any time within 36 months of certification by the Oklahoma Employment Security Commission new jobs decline below the required amount, any sales and use tax and interest refunded to the taxpayer will be assessed against the taxpayer.

State statute prohibits the simultaneous use of the exemption and the Quality Jobs Program. When faced with a choice between the two programs, firms will likely choose the Quality Jobs Program based on the more generous benefits it offers. At each construction cost level, the Quality Jobs Program appears to offer a more generous benefit in present value terms. A potential benefit comparison is detailed in Table 4.

Table 4: Construction Materials Tax Exemption and Quality Jobs Program Estimated Benefits

	Scenario 1	Scenario 2	Scenario 3
Total Construction Cost	$5,000,000	$50,000,000	$300,000,000
Median Total Sales Tax Rate[3]	6.33%	6.33%	6.33%
Sales tax exemption savings	**$316,500**	**$3,165,000**	**$18,990,000**
Potential Quality Jobs Benefit Rate	5.00%	5.00%	5.00%
New Jobs	100	75	1,750[4]
Wage of New Jobs[5]	$65,444	$65,444	$65,444
Total New Payroll	$6,544,400	$4,908,300	$114,527,000
Potential Quality Jobs Annual Benefit	**$327,220**	**$245,415**	**$5,726,350**
Investment Tax Credit %		2.00%	2.00%
Annual Investment Tax Credit[6]		**$1,000,000**	**$6,000,000**
Present Value of 10 Years of QJ Annual Benefit	**$1,848,866**	**$1,386,649**	**$32,355,155**
Present Value of 5 Year Investment Tax Credit	**N/A**	**$3,604,776**	**$21,628,657**
Total Present Value of QJ+ITC	**$1,848,866**	**$4,991,426**	**$53,983,812**
State Sales Tax Exemption Savings	**$316,500**	**$3,165,000**	**$18,990,000**

This assumes a business discount rate of 12 percent, that the company pays the average annual pay in Oklahoma for manufacturing, NAICS codes 31 through 33, as of 2022, and received the Quality Jobs

[3] Includes State, County and City tax rates as of August 2023

[4] For this construction cost level, statute requires that 1,750 jobs be maintained at the facility but does not specifically require that they are new jobs.

[5] This is the average annual pay in Oklahoma for manufacturing (NAICS code 31 through 33) according to the US Bureau of Labor Statistics.

[6] Companies qualify to combine an investment tax credit of 2% with the Quality Jobs Program if $40 million of qualified depreciable property is invested. Qualified depreciable property includes machinery, fixtures, equipment, buildings, or substantial improvements thereto.

Program full benefit of 5 percent of new payroll. This analysis assumes the median total sales tax rate as of August 2023 in each scenario, but total sales tax rates range from 4.5 percent to 11.5 percent. Under the second and third scenarios, the manufacturer would qualify to combine the Quality Jobs Program with the Investment Tax Credit. Combining these incentives results in a greater benefit than the sales tax exemption for the manufacturer.

Another factor potentially discouraging participation in the program is the documentation required in order to claim the exemption. State statute requires that the invoices of all state and local tax billed, affidavits from each vendor associated with purchases, as well as the contractors that make purchases on behalf of manufacturers.

Incentive Best Practices

The prior section has identified some of the challenges posed by the program as it is currently constituted. From the project team's perspective, this is a perfect example of a situation where incentives best practices come into conflict.[7]

This incentive seeks to provide a sales tax exemption in situations where eligible businesses make a substantial capital investment and create a significant number of new jobs. That is a reasonable expectation, given the extent of the sales and use tax exemption claimed by the one recent business that has used the incentive in recent years. Targeting incentives to high impact industries or projects is a best practice, as is leveraging significant private capital. At the same time, the practical difficulties of keeping records related to the exemptions (because they really act as a rebate and require significant documentation be provided to the OTC to generate the repayment of the sales and use tax already paid) is substantial. Given that a business may not be certain that it will meet the statutory requirements, it is likely that they will choose other state programs instead. In this case, the program is far from simple, and that is an incentive best practice.

This appears to be something of a conundrum. It is likely, as a result, that the program use will be sporadic, and that may be a reasonable and expected outcome.

[7] A discussion of business incentives best practices is found in Appendix D.

Economic and Fiscal Impact

Economic and Fiscal Impact

The methodology used to calculate the economic impact can be found in Appendix A.

The economic impact analysis is based on estimated jobs created by the manufacturer eligible to utilize this exemption. Data was not provided in actual number of jobs created, however, in order to qualify for this exemption, a company must create at least 100 new jobs. The one exception is if there is a total investment of at least $50 million, then only 75 new jobs must be created. This analysis was conducted based on the assumption of 100 new jobs being created by the qualifying manufacturer.

The total output generated by the economic impact of this program is estimated to be $90.3 million. The total jobs created, including the 100 in order to qualify for the exemption, are estimated to be 233 with an associated $14.4 million in labor income. Total tax revenue from this program is projected to be $4.6 million, with $1.0 million generated at the state level. Table 5 details the economic impacts from the program.

Table 5: Construction Materials Tax Exemption Economic Impact

Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax Revenue
Direct	100	$6,769,733	$15,002,199	$65,575,535	$356,074
Indirect	81	$5,113,250	$8,658,067	$18,050,215	$462,941
Induced	52	$2,542,518	$4,656,637	$8,635,069	$253,854
Total	233	$14,425,500	$28,316,903	$90,260,819	$1,072,868

There is an additional expected economic impact from the investment from the qualifying project due to the construction activity itself. However, because this investment number was not provided, this economic impact was not calculated or included here. The additional construction-related economic impact from the capital investment is temporary, lasting only as long as the construction activity, but it would increase the total economic output and tax revenue to the state.

Incentive Benchmarking

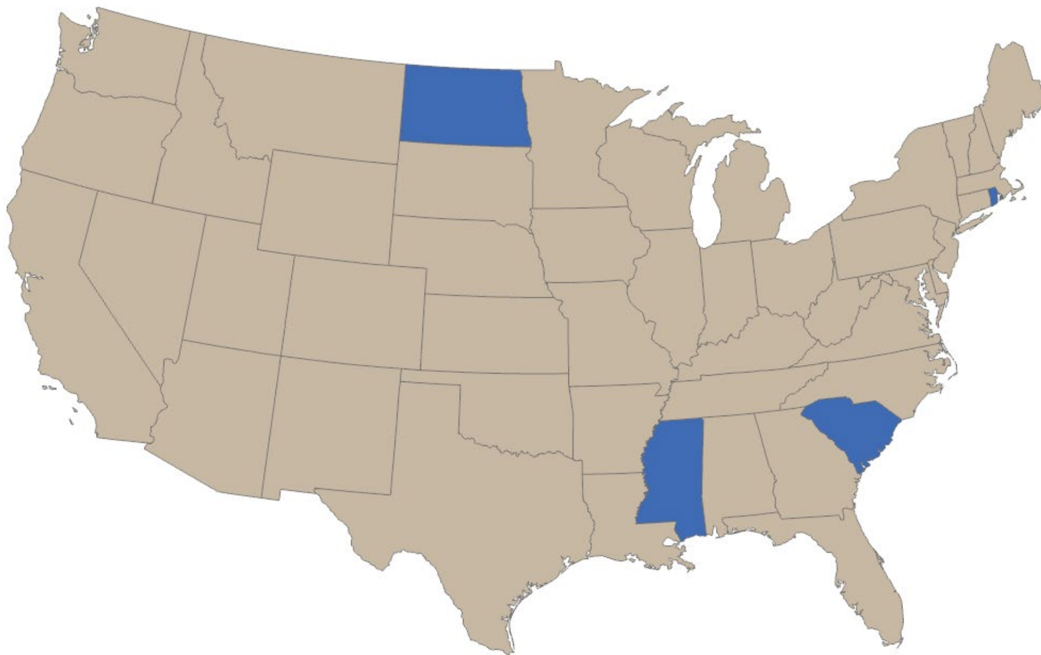
Benchmarking

A detailed description of comparable state programs can be found in Appendix B.

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.[8] These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison. In the case of the Construction Materials Tax Exemption, no bordering states were found to have a comparable program. However, after expanding the search, four states were found to have comparable programs.

Figure 1: States with Comparable Programs



Comparable programs are differentiated by target recipients, qualifying purchases, and the level of exemption or refund provided. Of the four comparable state programs, two were more narrowly targeted than Oklahoma's. North Dakota is specifically targeted toward agricultural commodity processing plants, and Rhode Island's program is aimed toward farm equipment and farm structures. Programs in Mississippi and Rhode Island allow machinery and equipment to be exempt from sales tax in addition to construction

[8] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs.

materials, while Oklahoma's program does not. While Oklahoma and three comparable programs offer a full exemption, Mississippi offers a 50 percent exemption for most applicants.

South Carolina's program is the most similar to Oklahoma's. In order to qualify for the sales tax exemption in South Carolina a company must have a minimum capital investment of at least $100 million in an 18-month period or qualify under one of the following two conditions: a) they invest at least $750 million in real or personal property or both comprising or located at the facility over a seven-year period, or, b) they create at least 3,800 full-time new jobs at the facility during that seven-year period. South Carolina's tax expenditure report does not specify any use of this exemption in the previous three fiscal years.

It should be noted that some states have a more broad exemption for construction materials. Some states treat construction contractors like reseller, who purchase materials for resale to an end user. The states that provide this exemption for lump sum contracts are Arizona, Hawaii, Mississippi, and New Mexico. There are also states that exempt construction materials from sales tax on itemized contracts. Those states are Arizona, Colorado, Hawaii, Indiana, Mississippi, Nebraska, New Mexico, and Texas.

Appendices

Appendix A: 68 O.S. § 1359 (7) – Construction Materials Tax Exemption

§68-1359 (7). Exemptions - Manufacturing.

7. Except as otherwise provided by subsection I of Section 3658 of this title pursuant to which the exemption authorized by this paragraph may not be claimed, sales of tangible personal property to a qualified manufacturer or distributor to be consumed or incorporated in a new manufacturing or distribution facility or to expand an existing manufacturing or distribution facility. For purposes of this paragraph, sales made to a contractor or subcontractor that has previously entered into a contractual relationship with a qualified manufacturer or distributor for construction or expansion of a manufacturing or distribution facility shall be considered sales made to a qualified manufacturer or distributor. For the purposes of this paragraph, "qualified manufacturer or distributor" means:

a. any manufacturing enterprise whose total cost of construction of a new or expanded facility exceeds the sum of Five Million Dollars ($5,000,000.00) and in which at least one hundred (100) new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, are added and maintained for a period of at least thirty-six (36) months as a direct result of the new or expanded facility,

b. any manufacturing enterprise whose total cost of construction of a new or expanded facility exceeds the sum of Ten Million Dollars ($10,000,000.00) and the combined cost of construction material, machinery, equipment and other tangible personal property exempt from sales tax under the provisions of this paragraph exceeds the sum of Fifty Million Dollars ($50,000,000.00) and in which at least seventy-five (75) new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, are added and maintained for a period of at least thirty-six (36) months as a direct result of the new or expanded facility,

c. any manufacturing enterprise whose total cost of construction of an expanded facility exceeds the sum of Three Hundred Million Dollars ($300,000,000.00) and in which the manufacturer has and maintains an average employment level of at least one thousand seven hundred fifty (1,750) full-time-equivalent employees, as certified by the Employment Security Commission, or

d. any enterprise primarily engaged in the general wholesale distribution of groceries defined or classified in the North American Industry Classification System (NAICS) Manual under Industry Groups No. 4244 and 4245 and which has at least seventy-five percent (75%) of its total sales to instate customers or buyers and whose total cost of construction of a new or expanded facility exceeds the sum of Forty Million Dollars ($40,000,000.00) with such construction commencing on or after July 1, 2005, and before December 31, 2005, and which at least fifty new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, are added and maintained for a period of at least thirty-six (36) months as a direct result of the new or expanded facility.

For purposes of this paragraph, the total cost of construction shall include building and construction material and engineering and architectural fees or charges directly associated with the construction of a new or expanded facility. The total cost of construction shall not include attorney fees. For purposes of subparagraph c of this paragraph, the total cost of construction shall also include the cost of qualified depreciable property as defined in Section 2357.4 of this title and labor services performed in the construction of an expanded facility. For the purpose of subparagraph d of this paragraph, the total cost of construction shall also include the cost of all parking, security and dock structures or facilities necessary to manage, process or secure vehicles used to receive and/or distribute groceries through such a facility. The employment requirement of this paragraph can be satisfied by the employment of a portion of the required number of new full-time-equivalent employees at a manufacturing or distribution facility that is related to or supported by the new or expanded manufacturing or distribution facility as long as both facilities are owned by one person or business entity. For purposes of this section, "manufacturing facility" shall mean building and land improvements used in manufacturing as defined in Section 1352 of this title and shall also mean building and land improvements used for the purpose of packing, repackaging, labeling or assembling for distribution to market, products at least seventy percent (70%) of which are made in Oklahoma by the same company but at an offsite, in-state manufacturing or distribution facility or facilities. It shall not include a retail outlet unless the retail outlet is operated in conjunction with and on the same site or premises as the manufacturing facility. Up to ten percent

(10%) of the square feet of a manufacturing or distribution facility building may be devoted to office space used to provide clerical support for the manufacturing operation. Such ten percent (10%) may be in a separate building as long as it is part of the same contiguous tract of property on which the manufacturing or distribution facility is located. Only sales of tangible personal property made after June 1, 1988, shall be eligible for the exemption provided by this paragraph. The exemption authorized pursuant to subparagraph d of this paragraph shall only become effective when the governing body of the municipality in which the enterprise is located approves a resolution expressing the municipality's support for the construction for such new or expanded facility. Upon approval by the municipality, the municipality shall forward a copy of such resolution to the Oklahoma Tax Commission;

Added by Laws 1981, c. 313, § 2, emerg. eff. June 29, 1981. Amended by Laws 1983, c. 275, § 8, emerg. eff. June 24, 1983; Laws 1987, c. 203, § 154, operative July 1, 1987; Laws 1988, c. 9, § 1, operative June 1, 1988; Laws 1988, c. 37, § 1, operative July 1, 1988; Laws 1990, c. 280, § 3, emerg. eff. May 25, 1990; Laws 1991, c. 133, § 1, emerg. eff. April 29, 1991; Laws 1991, c. 191, § 1, emerg. eff. May 15, 1991; Laws 1991, c. 342, § 17, emerg. eff. June 15, 1991; Laws 1992, c. 189, § 1, emerg. eff. May 8, 1992; Laws 1992, c. 403, § 44, eff. Sept. 1, 1992; Laws 1993, c. 10, § 11, emerg. eff. March 21, 1993; Laws 1994, c. 120, § 1, emerg. eff. April 28, 1994; Laws 1994, c. 278, § 16, eff. Sept. 1, 1994; Laws 1995, c. 349, § 5, emerg. eff. June 9, 1995; Laws 1996, c. 3, § 14, emerg. eff. March 6, 1996; Laws 1996, c. 289, § 5, eff. July 1, 1996; Laws 1997, c. 294, § 18, eff. July 1, 1997; Laws 1997, c. 390, § 5, eff. July 1, 1997; Laws 1998, c. 301, § 7, eff. Nov. 1, 1998; Laws 2000, c. 3, § 1, emerg. eff. March 2, 2000; Laws 2000, c. 314, § 16, eff. July 1, 2000; Laws 2001, c. 5, § 39, emerg. eff. March 21, 2001; Laws 2002, c. 299, § 12, emerg. eff. May 23, 2002; Laws 2003, c. 472, § 15; Laws 2005, c. 413, § 1, eff. July 1, 2005; Laws 2006, c. 327, § 5, eff. July 1, 2006; Laws 2006, 2nd Ex. Sess., c. 44, § 8, eff. July 1, 2007; Laws 2011, c. 358, § 1; Laws 2013, c. 334, § 4, eff. July 1, 2013; Laws 2016, c. 317, § 2, eff. Nov. 1, 2016. NOTE: Laws 1992, c. 225, § 1 repealed by Laws 1993, c. 10, § 16, emerg. eff. March 21, 1993. Laws 1995, c. 285, § 20 repealed by Laws 1996, c. 3, § 25, emerg. eff. March 6, 1996. Laws 2000, c. 273, § 1 repealed by Laws 2001, c. 5, § 40, emerg. eff. March 21, 2001.

Appendix B: IMPLAN Economic Impact Methodology

The economic impact software used to determine the multiplier effects is IMPLAN (**IM**pact Analysis for **PLAN**ning), a proprietary model; PFM has obtained a license for use of the IMPLAN model for these evaluations.

Overview

IMPLAN uses Social Accounting Matrices (SAMs) to capture the actual dollar amounts of all business transactions taking place in a regional economy, as reported each year by businesses and government agencies. SAM accounts are a better measure of economic flow than traditional input-output accounts, because they include "non-market" transactions. Examples of these transactions include taxes and unemployment benefits.

Multiplier Models

SAMs can be constructed to show the effects of a given change on the economy. These are called Multiplier Models. Multiplier Models study the impacts of a user-specified change in the chosen economy for 440 different industries. Because the Multiplier Models are built directly from the region-specific SAMs, they will reflect the region's unique structure and trade situation.

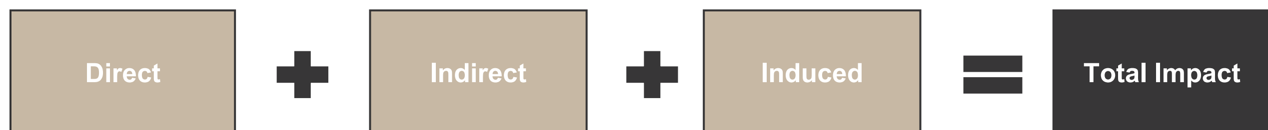
Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects within the economy: direct, indirect, and induced.

- **Direct effects** are one or more production changes or expenditures made by producers/consumers as a result of an activity or policy.

- **Indirect effects** are the business to business purchases in the supply chain taking place in the region that stem from the initial industry input purchases. Typically, they are additional purchases to produce additional output..

  Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. The induced effects are generated by the spending of the employees within the business' supply chain.

Figure 2: The Flow of Economic Impacts



Each of these steps takes into consideration leakage from the economic study region spent on purchases outside of the defined area. Eventually, these leakages will stop the cycle.

Fiscal Impacts

The IMPLAN tax impact report identifies all tax revenue in the study area, across all levels of government that exist in that study area, for the specific industries and institutions affected by an event or group of events. Tax Impact results are based on the collected and reported taxes within the region for the given data year. IMPLAN taxes shown (and collected) are industry and geographically specific.

The IMPLAN tax impact report splits the tax impacts into the various tax categories based on the region's economy. There is no industry-specific profile for taxes paid by tax category, so the distribution across tax categories is an all-industry average. While this is a limitation of the IMPLAN fiscal reporting, the IMPLAN tax report serves as an appropriate measure of jurisdictional tax results in the aggregate. Tax results cannot be added to any summary or detailed results, as they are already included as a portion of Output. State taxes do not include taxes or district assessments levied by federal, county, sub-county, city or township governments.

Taxes paid include payments from businesses and households. Personal income and employment taxes paid by the employer are included in the tax results and allocated according to the taxing jurisdiction. In detailed IMPLAN analyses, all payroll taxes typically paid at the place of employment are shown as household payments. Property tax and personal property tax reflects a combination of property and personal property taxes paid by both businesses and households.

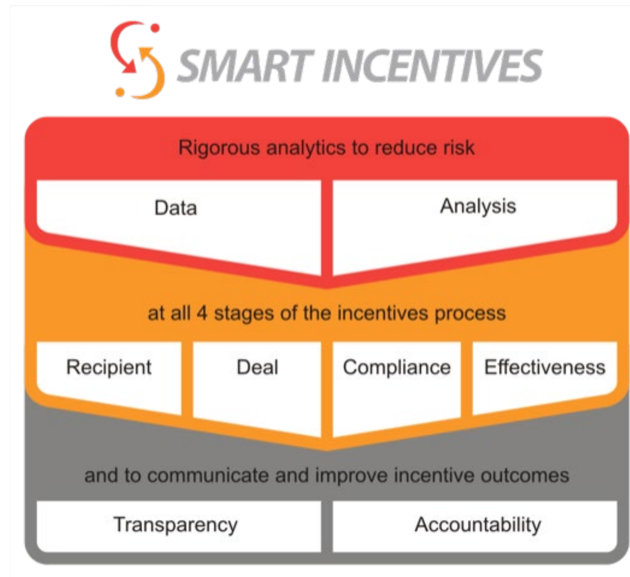
Appendix C: Comparable State Programs

Construction Materials Sales and Use Tax Exemption			
State	**Program Name**	**Incentive Details**	**Eligibility**
Oklahoma	Construction Materials Sales and Use Tax Exemption	Refunds sales taxes paid on construction materials for new or expanding manufacturing facilities.	Eligible manufacturing facilities include: • Facilities with construction costs exceeding $5 million which create 100 new manufacturing jobs and are maintained for a minimum of 36 months. Construction costs include building and construction costs, and engineering and architectural fees, but not legal fees. • Facilities with construction costs exceeding $10 million, and with combined total costs of material, construction, and machinery exceeding $50 million, which add 75 new employees who are retained for 36 months. • Facilities with construction costs exceeding Three Hundred Million Dollars ($300,000,000) which maintain an employment level of a least 1,750 full time equivalent employees.
Mississippi	Sales and Use Tax Exemption for Construction or Expansion	Tax exemption is for component building materials, machinery, and equipment. The amount of the exemption depends on the location of the new facility. A full exemption from sales tax is available for those in less developed counties (as outlined by the Mississippi Dept. of Revenue); all other areas of the state are eligible for a one-half exemption.	Businesses constructing a new facility or expanding an existing facility in Mississippi
North Dakota	Agricultural Commodity Processing Plant Construction Materials Sales Tax Exemption	Construction materials used to construct an agricultural commodity processing facility are exempt from sales and use taxes.	Tangible personal property must be incorporated in the structure of the facility or used in the construction process to the point of having no residual economic value.
Rhode Island	Farm Equipment and Farm Structure Construction Materials Exemption	Applies to the sale (including lease or rental) and to the storage, use, or other consumption of machinery and equipment which is primarily and directly for commercial farming and agricultural production. Also exempt is lumber, hardware, and other materials used in the new construction of farm structures, including production facilities.	The exemption applies if the farm equipment, machinery, or other materials are used for ancillary uses or is temporarily used for nonfarming or a non-agricultural purpose. However, in order to maintain the exemption, ancillary use or temporary nonfarming or non-agricultural use of any farm equipment and machinery must be less that 50 percent of the use of the equipment or machinery.
South Carolina	Construction Materials Sales Tax Incentives	Construction material used in the construction of a single manufacturing or distribution facility.	There is a minimum capital investment of at least $100 million in an 18-month period to qualify for the sales tax exemption.

Appendix D: Business Incentives Best Practices

There has been extensive writing around what constitute business incentives best practices. From the project team's review of many sources,[9] it has identified 10 important best practices and sought to incorporate them into the analysis and discussion of this incentive.

As a starting point, business incentives should be viewed as a process, not an event. The award of an incentive and the incentive features are part of that process, and many of the identified best practices reflect that. The process itself should take into consideration each of these factors, which PFM's subcontractor, Smart Incentives, demonstrates in the following illustration:



While the project team believes this is a strong set of best practices, there may well be others that are as (or more applicable) in specific situations. It is also likely that some of the best practices will come into conflict in some situations. For example, application and reporting requirements may reduce the simplicity of business compliance. As a result, these will always be subject to analysis on a case-by-case basis.

The 10 best practices are:

1. **For maximum impact, incentives should be targeted.** Examples of useful targeting include companies or industries that export their goods or services out-of-state; high economic impact companies or industries – such as those with higher wages and benefits, significant job creation, or significant capital investment.

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[9] Three resources in particular were relied upon on putting together the list of best practices. They are "What Factors Influence the Effectiveness of Business Incentives?" The Pew Charitable Trusts, April 4, 2019, accessed electronically at https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/what-factors-influence-the-effectiveness-of-business-incentives; "Improving Economic Development Incentives," Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, 2018, accessed electronically at https://research.upjohn.org/cgi/viewcontent.cgi?article=1000&context=up_policybriefs; "Best Practices for the Design and Evaluation of State Tax Incentives Programs for Economic Development," Matthew N. Murray and Donald J. Bruce, January 2017, included within another evaluation at https://media.al.com/news_mobile_impact/other/AL%20ENTERTAIN%20NEWMKTS%203%209%2017.pdf

2. **Incentives should be discretionary.** In most instances, an application process enables the state government to require company disclosure of information related to eligibility criteria and enables the state to reject applications that do not meet its standards.

3. **Incentives should leverage significant private capital.** Ideally, the incentive should leverage private investment that is at least several multiples of the state investment.

4. **Incentives should provide most of the benefit within 1-3 years and have a limited duration.** Company discount rates are much higher than for the state, and businesses will significantly devalue incentive payments in later years.

5. **Incentives should take into consideration state and/or local as well as industry economic conditions.** Incentives that are provided in high performing areas or for stable and profitable businesses or industries will likely fail the 'but for test' – meaning the activity would likely occur without the state incentive.

6. **'Smart' incentives help businesses overcome practical barriers to growth.** In particular, customized assistance for locally owned, small and medium-sized businesses can have significant impact.

7. **Incentives should be transparent.** The incentive purpose should be clearly articulated, as are eligibility requirements, and regular, detailed reporting should be required from all program recipients.

8. **Incentives should require accountability.** When upfront financial incentives are offered in return for job creation, retention, or capital investment, there should be contract language in place that allows the state to 'claw back' state resources should the company not meet performance requirements.

9. **Incentives should have caps.** To ensure the state's financial health, program dollar caps or limits should be in place. Incentive programs should also have a limited duration, with sunsets in place to require regular review of incentive performance.

10. **Incentives should be simple and understandable.** The state should be able to easily and effectively administer the incentive, and users should be able to readily comply with its requirements.