

March 13, 2006



Mr. Jeff A McMahan
Office of the State Auditor and Inspector
2300 North Lincoln Boulevard, Room 100 State Capitol
Oklahoma City, OK 73105-4801

Honorable Jeff McMahan:

Thank you for the service you have provided to the Oklahoma Capital Investment Board in the production of this performance audit.

The audit demonstrates:

- The Board has supported investment in professionally managed venture capital funds, which in turn have attracted \$99.8 million of venture capital to Oklahoma projects. You cited Oklahoma Equity Partners as one example of an effective investment.
- The Board's Oklahoma Capital Access Program has been effective in catalyzing a large volume of development loans to small businesses.
- The Board's commitment to the NBA Hornets has had a demonstrable impact on Oklahoma.
- The Board has accomplished its statutory requirement to mobilize at least \$2 for every \$1 it guarantees. To our knowledge, this is the highest statutory requirement of all State of Oklahoma economic development programs.
- The Board has implemented its programs at no out-of-pocket cost to the State, while holding all its assets for the benefit of the State. On its 6/30/05 balance sheet the Board carries a net contingent cost of only \$17.5 million.

During the course of the audit you recommended the Board consider combining the financial reporting of its funding vehicle, the Oklahoma Capital Formation Corporation (OCFC), with the financial reporting of the Board. This was a valuable suggestion and will help make our reporting more easily understood. The Board has taken this action and will begin reporting on a consolidated basis with this fiscal year.

Also during the course of the audit you recommended the Board create a way to report on the development impact of its programs. This was good advice. With the help of the Oklahoma City Chamber, the Board engaged the professional economic consulting firm, Applied Economics, to perform an analysis of the economic impact of the Board's programs on the Oklahoma economy. The results of this study demonstrated a total historical economic impact of \$881 million. This is a conservative estimate. It does not include the impact of the Hornets investment, or the impact of 429 companies that received OCAP loans but for which information was insufficient to conduct an analysis. This impact, relative to the actual cost and the contingent cost, is dramatic. In the future the Board will update this report on a regular basis.

OKLAHOMA CAPITAL INVESTMENT BOARD

You sought to compare the impact of OCIB programs with the risk to the State created by tax credits issued under two other tax credit programs, the Small Business Capital Formation Incentive Act and the Rural Venture Capital Formation Incentive Act. We were disappointed you were unable to gather the needed data to complete the comparison. A March 10, 2006 story in The Oklahoman reports these other programs, similar to CAPCO programs in some states, will cost the State \$66 million in calendar 2005, and apparently an even higher number in calendar 2006. These programs “designed to stimulate job growth [are] being abused by investors who are realizing millions of dollars in gains without providing the intended economic development benefits to Oklahoma, officials said Wednesday [March 10, 2006].”

You questioned whether the Board is subject to the Central Purchasing Act. We assert we are and are in compliance with the Act. You analyzed whether the current management contractor was selected appropriately and concluded the process was appropriate. You recommend the Board could benefit from more oversight. Throughout its life the Board has benefited from many forms of oversight from the Oklahoma Department of Commerce, Oklahoma Futures, the Office of State Finance, and the Economic Development Committees of the Senate and House. The Board has undergone full financial audits since inception. The Board has been managed with great care by its trustees, all appointed by a Governor and confirmed by the Senate. We appreciate thoughtful oversight and welcome continued oversight in the future.

You acknowledge OCIB has been adopted as a model by at least eight other states. In our experience this has been good for Oklahoma and demonstrates the vision, creativity, and discipline of State leaders dating back to the Board’s inception.

We look forward to implementing your valuable suggestions and to continuing our important service to the State of Oklahoma.

Regards,



The Trustees of the Oklahoma Capital Investment Board

1. Jenkins, Ron, "Officials Say Oklahoma Investment Tax Credit Being Abused," The Oklahoman, (March 10, 2006).

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